

CONSOLIDATED FINANCIAL STATEMENTS



FOR THE YEAR ENDED
31 DECEMBER 2021

**Grow
Stronger**

بنك أبوظبي الأول
FAB
First Abu Dhabi Bank

The audited Consolidated Financial Statements are subject to approval of the Central Bank of UAE and adoption by Shareholders at the Annual General Meeting.

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Independent auditors' report

To the Shareholders of First Abu Dhabi Bank P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Abu Dhabi Bank P.J.S.C. (the "Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISA'). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code') together with the ethical requirements that are relevant to our audit of the consolidated 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.

Key Audit Matters

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

Impairment of loans, advances and Islamic financing

See Note 8 and 33 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
<p>The Group recognized allowances for credit losses on its consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL.</p> <p>Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors.</p> <p>Furthermore, and where applicable, the COVID-19 pandemic continues to pose challenges to businesses thus increasing the level of judgment needed in determining the ECL.</p> <p>This is considered a key audit matter, as the determination of ECL involves significant management judgement, use of complex models and this has a material impact on the consolidated financial statements of the Group.</p>	<p>Our audit procedures in this area include the following, among others:</p> <ul style="list-style-type: none"> Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, and our business understanding. Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the entity's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Updating our understanding of the ECL end-to-end processes, including assessing the design, implementation, and operating effectiveness of selected relevant controls. Involving our Financial Risk Management ("FRM") specialists to review the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and governance over the application of expert credit judgment to determine the ECL. This included challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, recovery rates, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends including the impact of COVID-19, as applicable.

Key Audit Matters (continued)

Impairment of loans, advances and Islamic financing (continued)

See Note 8 and 33 to the consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> • Testing the completeness and accuracy of the data used within the ECL calculation. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process. • Re-performing key aspects of the Group's SICR determinations and selecting samples of loans, advances and Islamic financing to determine whether a SICR event was appropriately identified including assessing the additional judgements made for the borrowers who have been granted payment deferrals. • Evaluating the reasonableness of and testing a sample of post model adjustments and management overlays that continue to exist on account of COVID-19, as applicable. • Involving our valuation specialists on a sample basis to assess the reasonableness of the valuation of real estate collaterals held by the Group, relating to the determination of ECL, including the impact of the COVID-19 pandemic, as applicable. • Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation for a sample of borrowers. • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report but does not include the Bank's consolidated financial statements and our auditors' report thereon ('the Annual report'). The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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



Report on Other Legal and Regulatory Requirements

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Chairman's statement is consistent with the books of account of the Group;
- v) as disclosed in notes 5 and 9 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2021
- vi) note 41 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 (as amended) or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2021; and
- viii) note 32 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2021.

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

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates
26 January 2022

Consolidated statement of financial position

As at

Assets	Note	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Cash and balances with central banks	4	258,778,449	227,872,592
Investments at fair value through profit or loss	5	45,572,252	21,266,243
Due from banks and financial institutions	6	19,325,594	27,357,639
Reverse repurchase agreements	7	46,260,645	44,069,241
Derivative financial instruments	38	24,273,766	32,558,881
Loans, advances and Islamic financing	8	410,154,614	386,643,996
Non-trading investments	9	145,475,390	131,573,762
Investment properties	10	6,962,576	7,603,230
Property and equipment	11	5,748,574	4,867,126
Intangibles	12	19,440,403	19,296,864
Other assets	13	18,351,114	15,950,958
Total assets		1,000,343,377	919,060,532
Liabilities			
Due to banks and financial institutions	14	56,985,180	57,632,476
Repurchase agreements	15	55,074,494	56,005,314
Commercial paper	16	39,664,252	31,174,128
Derivative financial instruments	38	28,395,085	38,832,004
Customer accounts and other deposits	17	614,459,265	540,882,472
Term borrowings	18	71,643,816	62,437,103
Subordinated notes	19	448,908	470,805
Other liabilities	20	20,842,804	22,587,238
Total liabilities		887,513,804	810,021,540
Equity			
Share capital	21	10,920,000	10,920,000
Share premium		53,557,581	53,538,584
Treasury shares		(6,430)	(8,980)
Statutory and special reserves		10,920,000	10,920,000
Other reserves	21	3,569,185	2,882,421
Tier 1 capital notes	22	10,754,750	10,754,750
Share based payment	23	249,816	249,816
Retained earnings		22,849,243	19,418,076
Total equity attributable to shareholders of the Bank		112,814,145	108,674,667
Non-controlling interest		15,428	364,325
Total Equity		112,829,573	109,038,992
Total liabilities and equity		1,000,343,377	919,060,532

To the best of our knowledge, the financial statements present fairly in all material respects the financial condition, financial performance, and cash flows of the Group as of, and for, the periods presented therein.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 26 January 2022 and signed on its behalf:

Chairman

Group Chief Executive Officer

Group Chief Financial Officer

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 7.

Consolidated statement of profit or loss

For the year ended

	Note	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Interest income	24	16,240,568	17,958,417
Interest expense	25	(5,561,216)	(6,585,674)
Net interest income		10,679,352	11,372,743
Income from Islamic financing and investing products	26	1,843,179	2,143,026
Distribution on Islamic deposits	27	(864,399)	(1,259,291)
Net income from Islamic financing and investing products		978,780	883,735
Total net interest income and income from Islamic financing and investing products		11,658,132	12,256,478
Fee and commission income	28	4,894,369	4,354,473
Fee and commission expense	28	(1,859,821)	(1,442,393)
Net fee and commission income		3,034,548	2,912,080
Net foreign exchange gain	29	692,339	1,240,355
Net gain on investments and derivatives	30	6,484,786	951,027
Other operating income	31	(188,550)	1,213,971
Operating income		21,681,255	18,573,911
General, administration and other operating expense	32	(5,836,474)	(5,060,265)
Profit before net impairment charge and taxation		15,844,781	13,513,646
Net impairment charge	33	(2,658,237)	(2,619,940)
Profit before taxation		13,186,544	10,893,706
Income tax expense	34	(644,272)	(341,198)
Profit for the year		12,542,272	10,552,508
Profit attributable to:			
Shareholders of the Bank		12,531,111	10,555,229
Non-controlling interests		11,161	(2,721)
		12,542,272	10,552,508
Basic earnings per share (AED)	40	1.12	0.93
Diluted earnings per share (AED)	40	1.12	0.93

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 7.

Consolidated statement of other comprehensive income

For the year ended

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Profit for the year	12,542,272	10,552,508
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Exchange difference on translation of foreign operations	(503,745)	3,008
Net change in fair value reserve during the year (including ECL)	85,685	(110,984)
Items that will not be reclassified to profit or loss		
Equity Investments at fair value through other comprehensive income – net change in the fair value	118,863	(74,286)
Re-measurement of defined benefit obligations	17,229	(18,825)
Board of Directors' remuneration	(48,000)	(48,000)
Other comprehensive (loss) for the year	(329,968)	(249,087)
Total comprehensive income for the year	12,212,304	10,303,421
Comprehensive income attributable to:		
Shareholders of the Bank	12,547,716	10,279,940
Non-controlling interest	(335,412)	23,481
Total comprehensive income for the year	12,212,304	10,303,421

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 7.

Consolidated statement of changes in equity

For the year ended

	Share capital AED'000	Share premium AED'000	Treasury shares AED'000	Statutory and special reserves AED'000	Other reserves AED'000	Tier 1 capital notes AED'000	Share based payment AED'000	Retained earnings AED'000	Equity attributable to share-holders of the Group AED'000	Non-controlling interest AED'000	Total AED'000
Balance at 1 Jan 2021	10,920,000	53,538,584	(8,980)	10,920,000	2,882,421	10,754,750	249,816	19,418,076	108,674,667	364,325	109,038,992
Profit for the year	-	-	-	-	-	-	-	12,531,111	12,531,111	11,161	12,542,272
Other comprehensive income / (loss) for the year	-	-	-	-	47,376	-	-	(30,771)	16,605	(346,573)	(329,968)
<u>Transactions with owners of the Group</u>											
Zakat	-	-	-	-	-	-	-	1,013	1,013	-	1,013
Treasury shares movement (note 23)	-	18,997	2,550	-	-	-	-	-	21,547	-	21,547
Dividend for the year (net of treasury shares)	-	-	-	-	-	-	-	(8,074,594)	(8,074,594)	(13,485)	(8,088,079)
Payment on Tier 1 capital notes (note 22)	-	-	-	-	-	-	-	(356,204)	(356,204)	-	(356,204)
IFRS 9 reserve movement	-	-	-	-	646,110	-	-	(646,110)	-	-	-
Realised gain on sale of FVOCI investment	-	-	-	-	(6,722)	-	-	6,722	-	-	-
Balance at 31 Dec 2021	10,920,000	53,557,581	(6,430)	10,920,000	3,569,185	10,754,750	249,816	22,849,243	112,814,145	15,428	112,829,573
Balance at 1 Jan 2020	10,920,000	53,434,461	(18,864)	10,920,000	2,474,032	10,754,750	249,816	18,872,367	107,606,562	430,474	108,037,036
Movements during the year	-	-	-	-	(280,601)	-	-	(551,735)	(832,336)	-	(832,336)
Profit for the year	-	-	-	-	-	-	-	10,555,229	10,555,229	(2,721)	10,552,508
Other comprehensive income / (loss) for the year	-	-	-	-	(208,464)	-	-	(66,825)	(275,289)	26,202	(249,087)
<u>Transactions with owners of the Group</u>											
Zakat	-	-	-	-	-	-	-	(306)	(306)	-	(306)
Treasury shares movement (note 23)	-	104,123	9,884	-	-	-	-	-	114,007	-	114,007
Dividend for the year (net of treasury shares)	-	-	-	-	-	-	-	(8,066,947)	(8,066,947)	(89,630)	(8,156,577)
Issuance of Tier 1 capital (note 22)	-	-	-	-	-	2,754,750	-	-	2,754,750	-	2,754,750
Payment on Tier 1 capital notes (note 22)	-	-	-	-	-	(2,754,750)	-	(426,253)	(3,181,003)	-	(3,181,003)
IFRS 9 reserve movement	-	-	-	-	905,088	-	-	(905,088)	-	-	-
Realised gain on sale of FVOCI investment	-	-	-	-	(7,634)	-	-	7,634	-	-	-
Balance at 31 Dec 2020	10,920,000	53,538,584	(8,980)	10,920,000	2,882,421	10,754,750	249,816	19,418,076	108,674,667	364,325	109,038,992

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 7.

Consolidated statement of cash flows

For the year ended

	Note	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Cash flows from operating activities			
Profit before taxation		13,186,544	10,893,706
Adjustments for:			
Depreciation and amortization	11,12	934,564	768,584
Loss on revaluation of investment properties	10	750,000	248,485
Gain on sale of investment property		(6,130)	(457,071)
Gain on sale of fixed assets		(501,268)	(737,371)
Net impairment charges	33	2,938,953	2,861,675
Accreted interest		120,683	699,253
Foreign currency translation adjustment		(887,909)	723,971
		16,535,437	15,001,232
Changes in:			
Investments at fair value through profit or loss		(24,355,369)	(1,167,062)
Due from central banks, banks and financial institutions		14,209,574	19,334,009
Reverse repurchase agreements		(1,708,406)	(19,409,967)
Loans, advances and Islamic financing		(19,203,953)	18,530,367
Other assets		(2,038,757)	3,944,696
Due to banks and financial institutions		(799,643)	21,624,601
Repurchase agreements		(934,175)	17,183,466
Customer accounts and other deposits		52,246,001	21,720,850
Derivative financial instruments		(3,984,476)	3,602,005
Other liabilities		(2,931,215)	(1,146,246)
		27,035,018	99,217,951
Income tax paid, net of recoveries		(589,806)	(243,760)
Directors' remuneration paid		(48,000)	(54,750)
		26,397,212	98,919,441
Net cash from operating activities			
Cash flows from investing activities			
Net purchase of non-trading investments		(7,095,554)	(17,111,196)
Cash and cash equivalents of subsidiary acquired		5,596,549	-
Cash paid for acquisition of subsidiary		(2,203,800)	-
Net movement in investment property		(103,216)	81,610
Purchase of property and equipment, net of disposals		(741,465)	(343,502)
		(4,547,486)	(17,373,088)
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of shares under share based payment		21,547	36,972
Dividend paid to shareholders of the bank	21	(7,688,098)	(7,891,730)
Dividend paid to minority shareholders		(13,485)	(89,630)
Net movement of commercial paper		8,490,124	9,937,173
Issue of term borrowings	18	17,148,833	16,692,127
Repayment of term borrowings	18	(5,827,560)	(11,960,709)
Payment on Tier 1 capital notes	22	(356,204)	(3,181,003)
Issuance of Tier 1 capital notes	22	-	2,754,750
		11,775,157	6,297,950
Net cash from financing activities			
Net increase in cash and cash equivalents		33,624,883	87,844,303
Cash and cash equivalents at 1 Jan		239,189,237	151,344,934
Cash and cash equivalents at 31 Dec	35	272,814,120	239,189,237

The notes 1 to 48 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 7.

Notes to the consolidated financial statements

1 Legal status and principal activities

On 7 December 2016, Shareholders of National Bank of Abu Dhabi PJSC (“NBAD”) and First Gulf Bank PJSC (“FGB”) approved the merger of the two banks pursuant to Article 283(1) of UAE Federal Law No. 2 of 2015 Concerning Commercial Companies (the Law). The merger was effected through the issuance of 1.254 new NBAD shares for every 1 share in FGB on close of business 30 March 2017, subsequent to which FGB shares were delisted from Abu Dhabi Securities Exchange. On 25 April 2017, NBAD shareholders approved the proposal to change the name of the combined bank to ‘First Abu Dhabi Bank’ (the “Bank”) and have its registered office in FAB Building, Khalifa Business Park 1 Al Qurum P. O. Box 6316 Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2021 comprises the Bank and its subsidiaries (together referred to as the “Group”). The Group is primarily engaged in corporate, retail, private and investment banking activities, payment services, management services, Islamic banking activities, real estate activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in the United Arab Emirates, Bahrain, Brazil, Cayman Islands, China, Egypt, France, Hong Kong, India, Indonesia, Jordan¹, Kingdom of Saudi Arabia, Kuwait, Lebanon¹, Libya, Oman, Qatar², Singapore, South Korea, Switzerland, the United Kingdom and the United States of America.

The Group’s Islamic banking activities are conducted in accordance with Islamic Sharia’a laws issued by the Internal Shariah Supervision Committee (“ISSC”).

The Group is listed on the Abu Dhabi Securities Exchange (Ticker: FAB).

The consolidated financial statements of the Group as at and for the year ended 31 December 2021 are available upon request from the Group’s registered office or at <http://www.bankfab.com>

¹ Under closure.

² The Bank has notified the Qatar Financial Centre Regulatory Authority (“QFCRA”) that it will relinquish its Qatar Financial Centre (“QFC”) branch license and permanently close its QFC branch.

2 Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements have been prepared on going concern basis in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”) and comply with the requirements of applicable laws in the UAE. IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”)

The Group is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended. On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015 (as amended). The Group has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

These consolidated financial statements were authorised for issue by the Board of Directors on 26 January 2022.

(b) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a ‘concentration test’ that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Notes to the consolidated financial statements *(continued)*

2 Basis of Preparation *(continued)*

(b) Business combinations

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Acquisition-related costs are expensed as incurred and included in general, administration and other operating expenses, except if related to the issue of debt or equity securities.

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

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred or in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

(c) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following material items, which are measured on the following basis:

Items	Measurement basis
Investments at fair value through profit or loss	Fair value
Derivative financial instruments	Fair value
Debt and equity instruments designated at fair value through other comprehensive income	Fair value
Investment properties	Fair value
Recognised assets and liabilities designated as hedged items in qualifying hedge relationships	Adjusted for changes in fair value attributable to the risk being hedged
Non-financial assets acquired in settlement of Loans, advances and Islamic financing	Lower of their fair value less costs to sell and the carrying amount of the loans, advances and Islamic financing

Notes to the consolidated financial statements *(continued)*

2 Basis of Preparation *(continued)*

(d) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate.

(e) Use of estimates and judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements are described in note 44.

3 Significant accounting policies

(a) New and Amended standards and interpretations adopted

The following amendments to existing standards and framework have been applied by the Group in preparation of these consolidated financial statements. The adoption of the below did not result in changes to previously reported net profit or equity of the Group.

Description	Effective from
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	1 January 2021

Interest Rate Benchmark Reform:

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2). IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an Interbank offered rate ("IBOR") to an alternative risk-free benchmark reference rate ("RFR").

The first phase of amendments i.e. 'Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7' (IBOR reform Phase 1), which provided temporary reliefs to enable hedge accounting to continue during the period of uncertainty before the replacement of an IBOR with RFR, were adopted for the year ended 31 December 2020 (refer Note 3(a) in the 2020 Annual financial statements) and continue to be in force until uncertainty over the cash flows of both the hedged item and hedging instrument no longer exist.

The effective date of the IBOR reform Phase 2 amendments is for periods beginning on or after 1 January 2021. The requirements must be applied retrospectively. The Group has adopted the IBOR reform Phase 2 amendments in its financial statements for the year ended 31 December 2021 and has provided the required disclosures in the notes to the financial statements (refer to Notes 3, 38, 44 and 45 (c)). The Phase 2 amendments have been applied retrospectively. However, in accordance with exceptions provided in the Phase 2 amendments, the Group has elected not to restate the prior period to reflect the application of these amendments, including not providing additional disclosures for 2020. There is no impact on opening equity balances as a result of retrospective application.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(a) New and Amended standards and interpretations adopted *(continued)*

Interest Rate Benchmark Reform *(continued)*

As per the Phase 2 amendments, changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient 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. This may include the addition of a fixed spread to compensate for a basis difference between the existing IBOR benchmark and alternative RFR, changes to reset period, reset dates or number of days between coupon payment dates that are necessary to effect reform of an IBOR benchmark and the addition of any fallback provision to the contractual terms of a financial instrument that allow any of the above changes to be made. Any other change to contractual terms would be assessed under the Group's accounting policies for financial assets modifications, including an assessment of whether derecognition of the original instrument is required.

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group 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. A hedge designation may be modified more than once, each time a relationship is affected as a direct result of IBOR reform.

The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Group reasonably expects the RFR to become separately identifiable within 24 months. The 24-month period begins individually for each benchmark, but if it is subsequently assessed that the alternative RFR is no longer expected to be separately identifiable within 24 months of the first hedge designation of a benchmark, then all hedges for that benchmark are discontinued prospectively.

For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

(b) Basis of consolidation

(i) Subsidiaries

IFRS 10 governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

- (a) the investor has power over an investee;
- (b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
- (c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Generally, it is presumed that a majority of voting rights results in control. However, in individual circumstances, the Group may still exercise control with a less than 50% shareholding, or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Bank considers all relevant facts and circumstances, including:

- (a) The purpose and design of the investee.
- (b) The size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.
- (c) potential voting rights held by the Bank.
- (d) The relevant facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made (including voting patterns at previous shareholders' meetings) and whether the Bank can direct those activities.
- (e) Contractual arrangements such as call rights, put rights and liquidation rights.
- (f) Whether the Bank is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(b) Basis of consolidation (continued)

(i) Subsidiaries (continued)

Subsidiaries are entities that are controlled by the Group. The Group controls the investee if it meets the control criteria set out above. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance.

The consolidated financial statements comprise the financial statements of the Group and those of its following subsidiaries:

Legal Name	Country of incorporation	Principal activities	Holding % 2021
First Abu Dhabi Bank USA N.V.	Curacao	Banking	100%
FAB Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties Pvt. JSC	United Arab Emirates	Property Management	100%
FAB Private Bank (Suisse) SA	Switzerland	Banking	100%
First Abu Dhabi Islamic Finance PJSC	United Arab Emirates	Islamic Finance	100%
Abu Dhabi Securities Brokerage Egypt ¹	Egypt	Brokerage	96%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
SAS 10 Magellan	France	Real Estate Brokerage	100%
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
FAB Global Markets (Cayman) Limited	Cayman Islands	Financial Institution	100%
Nawat Management Services - One Man Company LLC	United Arab Emirates	Services	100%
Mismak Properties Co. LLC (Mismak)	United Arab Emirates	Real estate investments	100%
Moora Properties Co. LLC (Subsidiary of Mismak)	United Arab Emirates	Real estate investments	67%
First Merchant International LLC (FMI)	United Arab Emirates	Real estate investments	100%
FAB Employment Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Resourcing Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Sukuk Company Limited	Cayman Islands	Special purpose vehicle	100%
First Gulf Libyan Bank ²	Libya	Banking services	50%
FAB Properties LLC	United Arab Emirates	Management and brokerage of real estate properties	100%
First Gulf Information Technology LLC (FGIT)	United Arab Emirates	IT Services	100%
FAB Investment KSA (single Shareholder LLC)	Kingdom of Saudi Arabia	Financial Institution	100%
FAB Global Business Services Limited (Subsidiary of FGIT)	India	IT Services	100%
Magnati Sole Proprietorship LLC	United Arab Emirates	Payment services	100%
Bank Audi SAE	Egypt	Banking	100%

¹ Under liquidation.

² Although the Bank owns 50% of the outstanding shares of First Gulf Libyan Bank, the investment has been classified as a subsidiary as the Bank exercises control over the investee because it casts the majority of the votes on the board of directors.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(ii) Structured entities

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds in which it act as an agent is set out below, these funds are included as part of investments.

Type of Structured Entity	Nature and purpose	Interest held by the Group
Investment Funds managing assets	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 4,642 thousand (2020: AED 4,293 thousand)

(iii) Joint Arrangements and Investments in Associates

An Associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investment in associates is accounted under the equity method of accounting.

A joint arrangement is an arrangement between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement and, thus, are accounted under the equity method of accounting.

Under the equity method, the investment in an associate is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of income. The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement of income.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(iv) Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss. If the Group retains any interest in the former subsidiary, then such interest is measured at fair value when control is lost.

(vi) Transactions eliminated on consolidation

The carrying amount of the Group's investment in each subsidiary and the equity of each subsidiary are eliminated on consolidation. All significant intra-group balances, transactions and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Financial assets and liabilities

(i) Recognition and initial measurement

The Group initially recognised loans, advances and Islamic financing, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (excluding regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI").

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

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

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

All other financial assets are classified as measured at FVTPL.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(ii) Classification *(continued)*

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how much cash flows are realised.

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

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

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangement); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(ii) Classification *(continued)*

Reclassifications

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

Financial liabilities

The Group classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (see also 3(iv)), or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all of the risks and rewards of ownership of such assets.

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

The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

(iv) Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(iv) Modifications of financial assets and financial liabilities *(continued)*

Financial assets *(continued)*

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

In the context of IBOR reform, the Group's assessment of whether a change to a financial asset is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate as described in Note 3(t). Under the Phase 2 Interest Rate Benchmark Reform amendments to IFRS 9, changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform are treated as changes to a floating interest rate to that instrument, provided that the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis.

Where the instrument is measured at amortized cost or FVOCI, this results in a change in the instrument's effective interest rate, with no change in the amortized cost value of the instrument. If the change to the instrument does not meet these criteria, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognized and a new financial instrument is recognized. If the changes are not substantial, the Group continues to carry the financial instrument at its current carrying value with the difference adjusted in revised effective interest rate on prospective basis. adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised effective interest rate.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(iv) Modifications of financial assets and financial liabilities *(continued)*

Financial liabilities *(continued)*

In the context of IBOR reform, the Group's assessment of whether a change to a financial liability is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate as described in Note 3(t). Under the Phase 2 Interest Rate Benchmark Reform amendments to IFRS 9, changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform are treated as changes to a floating interest rate to that instrument, provided that the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis.

Where the instrument is measured at amortized cost, this results in a change in the instrument's effective interest rate, with no change in the amortized cost value of the instrument. If the change to the instrument does not meet these criteria, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognized and a new financial instrument is recognized. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised effective interest rate.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

(vi) 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, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. When one is available, the Group 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 on-going basis.

If there is no quoted price in an active market, then the Group uses the valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vi) Fair value measurement *(continued)*

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Impairment

The Bank recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- due from banks and financial institutions;
- reverse repurchase agreements;
- financial assets that are debt instruments;
- loans, advances and Islamic financing;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

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

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (see Note 45(a)).

The Group considers the above financial instruments to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Measurement of ECL

The key inputs into the measurement of ECL are:

- Probability of default ("PD");
- Exposure at default ("EAD")
- Loss given default ("LGD");

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

These parameters are generally derived from statistical models and other historical data. They are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust ECL for factors not available in the model.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset. If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition.
- This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of Loans, advances and Islamic financing by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(c) Financial assets and liabilities *(continued)*

(vii) Impairment *(continued)*

Purchased or Originally Credit Impaired ("POCI") financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision reported under other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'net impairment charge' in the statement of profit or loss. Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BS/2018/458 dated 30 April 2018, clause 6.4, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the Retained earnings. This impairment reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

(d) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise cash, unrestricted balances with central banks and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

(e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(f) Investments at fair value through profit or loss

These are securities that the Group acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the consolidated statement of financial position. All changes in fair values are recognised as part of profit or loss.

(g) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a fixed price on a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(h) Loans, advances and Islamic financing

'Loans, advances and Islamic financing' captions in the statement of financial position include:

- loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method; and
- finance lease receivables.
- Islamic financing and investing contracts.

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

These are derecognised when either the borrower repays its obligations or the loan are sold or written-off.

Islamic financing and investing contracts

The Group engages in Sharia'a compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala.

(i) Definitions

Ijara

Ijara consists of Ijara muntahia bitamleek.

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(h) Loans, advances and Islamic financing *(continued)*

Islamic financing and investing contracts *(continued)*

(i) Definitions *(continued)*

Murabaha

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

(ii) Revenue recognition

Ijara

Income from Ijara is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha

Income from Murabaha is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib.

Wakala

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

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(i) Non-trading investments

The 'non-trading investments' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI;
- equity investment securities designated as at FVOCI; and
- Investment in associate and joint venture

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

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

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

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Fair value gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(j) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement under 'other income' in the year in which they arise.

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

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(k) Property and equipment

(i) Recognition and measurement

All items of property and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within other operating income in the consolidated statement of profit or loss.

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

(ii) Depreciation

Depreciation is calculated to reduce the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Freehold Land and Capital work in progress is not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings and villas	20 to 50 years
Office furniture and equipment	5 to 10 years
Fit-out leased premises	3-10 years
Safes	10 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at every reporting date at each reporting date and adjusted if appropriate.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(k) Property and equipment *(continued)*

(iii) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

(iv) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or group of CGUs that are expected benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less cost to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of any other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

(l) Intangible assets

Goodwill arises on the acquisition represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill and license acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill and license impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(l) Intangible assets *(continued)*

The Group's intangible assets other than goodwill include intangible assets arising out of business combinations. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other intangible assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The estimated useful lives of the intangible assets for the calculation of amortisation are as follows:

Customer relationships	7.5 – 15 years
Core deposits	2.5 years – 15 years
Brand	20 years

(m) Collateral pending sale

Real estate and other collateral may be acquired as the result of settlement of certain loans, advances and Islamic financing and are recorded as assets held for sale and reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loans, advances and Islamic financing (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(n) Due to banks and financial institutions, Customer accounts and other deposits and Commercial Paper

Due to banks and financial institutions, customer deposits and Commercial Paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

(o) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a fixed price on a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(p) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(p) Term borrowings and subordinated notes *(continued)*

Term borrowing which are designated at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; and
- the impact on profit or loss of expected changes in fair value of the related instruments.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

Term borrowings and subordinated notes without conversion option and that are at fair value through profit or loss are financial liabilities which are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

(q) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

(r) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

(s) Share based payment

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

(t) Interest income and expense

Effective interest rate

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

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

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

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

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(t) Interest income and expense *(continued)*

Effective interest rate *(continued)*

The Group has adopted IBOR reform Phase 2 for its 2021 year end, which allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

Amortised cost and gross carrying amount

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

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

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

For information on when financial assets are credit-impaired, see Note 3(c)(vii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

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

Interest expense presented in the statement of profit or loss and OCI includes:

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

Interest income and expense on financial assets and financial liabilities at FVTPL are presented as in interest income or interest expense from financial instruments at FVTPL.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(u) Income from Islamic financing activities

Ijara income is recognised on a time-proportion basis over the lease term.

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding. Mudaraba income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

(v) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala and mudaraba deposits and recognised as expenses in the consolidated statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the wakala deposits and Sharia'a principles.

(w) Fee and commission income and expense

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed;
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

Customer loyalty programme

The Group operates loyalty programs, which allow customers to accumulate points when they use the Bank's products and services that can then be redeemed for free or discounted products or services, subject to certain conditions. The loyalty programs give rise to separate performance obligations under the separate schemes. The fair value of issued points is generally estimated based on equivalent standalone prices for the mix of awards expected and is recognized in other liabilities until the points get redeemed or lapsed. Management judgment is involved in determining the redemption rate to be used in the estimate of points to be redeemed as evidenced by the Group's historical experience.

(x) Zakat

Zakat is only paid on behalf of shareholders in jurisdictions where zakat payment is made mandatory by the regulations of the jurisdictions. Such payment is made in accordance with the regulations of the jurisdictions.

(y) Net gain/loss on investments and derivatives

Net gain on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income. Net gain on investment at fair value through profit or loss includes changes in the fair value of financial assets and financial liabilities designated at fair value.

Gains and losses arising from changes in fair value of FVOCI assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of ECL, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss in case of debt instruments.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(y) Net gain/loss on investments and derivatives *(continued)*

Non-trading investment includes FVOCI and amortised cost instruments.

The Group also holds investments in assets issued in countries with negative interest rates. The Group discloses interest paid on these assets in the line where its economic substance of transaction is reflected (note 29).

Amortised cost investments, which are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

Dividend income is recognised when the right to receive payment is established.

(z) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on transaction are generally recognised in profit or loss. However, foreign currency differences arising from the transaction arising from the translation of the following item are recognised in OCI.

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations. The assets and liabilities of the foreign operations are translated into UAE Dirhams at rates of exchange at the reporting date. The income and expense of foreign operations are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to NCI.

If the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and recognised in OCI, and accumulated in the translation reserve in the equity.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(aa) Income tax expense

Income tax expense comprises of current and deferred tax. It is recognised in profit or loss except to the extent it relates to items recognised directly in equity or OCI.

Current tax is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on laws that have been enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow for all or part of the deferred tax asset to be utilised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest maybe due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(ab) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ab) Derivative financial instruments and hedging *(continued)*

Embedded derivatives *(continued)*

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the statement of financial position together with the host contract.

Hedge accounting

It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecasted transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Group must assume that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, the Group is not required to discontinue the hedging relationship if the economic relationship between the hedged item and the hedging instrument fails to exist, although any hedge ineffectiveness must be recognized in profit or loss, as normal.

The Group has adopted IBOR reform Phase 2 for its December 2021 year-end. IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend the hedge designations and hedge documentation and are set out in Note 3 (a).

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a clearing counterparty ("CCP") by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortization begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

IBOR reform Phase 2 provide relief for items within a designated group of items such as those forming part of the Group's fair value hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Group's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Group transfers them to sub-groups of instruments that reference RFRs as the hedged risk.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ab) Derivative financial instruments and hedging *(continued)*

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flow attributable to a particular risk associated with a recognised assets or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivatives is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows which affect profit or loss and in the same line in the statement of profit or loss and OCI.

If the hedging derivative expires is sold, terminated or exercised or the hedge, no longer meets the criteria for cash flow hedge accounting the hedge accounting is discounted prospectively. However if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

For interest rate benchmarks deemed in scope of IBOR reform, the Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges even though there is uncertainty arising from these reforms with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than IBOR reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

IBOR reform Phase 2 provides relief for items within a designated group of items such as those forming part of the Group's cash-flow hedging strategy, that are amended as a result of IBOR reform. The reliefs allow the Group's hedging strategy to remain and not be discontinued. As items within the hedged group transition at different times from IBORs to RFRs, the Group transfers them to sub-groups of instruments that reference RFRs as the hedged risk.

Net investments hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised under other comprehensive income is fully or partially reclassified to statement of profit or loss on disposal of the foreign operation or partial disposal of the foreign operation, respectively.

Other derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

(ac) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ad) Employees' end of service benefit

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

With respect to its UAE national employees, the Group makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Group to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ae) Directors' remuneration

Pursuant to Article 169 of the UAE Companies of 2015 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation and reserves.

(af) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Group as they are only held in trust where the Group acts as a custodian on customers' behalf. The Group has no liability or obligations towards the customer on these assets held in trust. Accordingly, these assets are not included in these consolidated financial statements.

(ag) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of convertible notes and share options granted to staff.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ah) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive, being the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance for which discrete financial information is available. Segment results that are reported to the Group Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(ai) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. 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 and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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 interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(ai) Leases *(continued)*

(i) Group acting as a lessee *(continued)*

Where the basis for determining future lease payments changes as required by interest rate benchmark reform the Group remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(aj) Settlement date accounting

Purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group settles the purchase or sale of an asset.

(ak) Taxes

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

(al) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

Notes to the consolidated financial statements (continued)

3 Significant accounting policies (continued)

(a) Financial guarantees (continued)

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

Financial guarantees are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans, advances and Islamic financing. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

(am) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16).
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Annual Improvements to IFRS Standards 2018–2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter (Annual improvements to IFRS 1)
- Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities (Annual improvements to IFRS 9)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

4 Cash and balances with central banks

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Cash on hand	1,903,157	1,933,356
Central Bank of the UAE		
cash reserve deposits	19,278,099	8,249,013
certificates of deposits	-	15,996,096
other balances	21,000,000	25,000,000
Balances with other central banks	216,753,723	176,830,683
	258,934,979	228,009,148
Less: expected credit losses	(156,530)	(136,556)
	258,778,449	227,872,592

As per the new UAE regulations, the bank is allowed to draw their balances held in the UAE reserve account, while ensuring that they meet the reserve requirements over 14 days period. Balances with other central banks includes mandatory reserves which are available for day-to-day operations only under certain specified conditions.

Notes to the consolidated financial statements (continued)

5 Investments at fair value through profit or loss

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Investments in managed funds	12,480	6,347
Investment in private equities	2,165,377	1,759,231
Investments in equities	6,744,044	106,879
Debt securities	36,650,351	19,393,786
	<u>45,572,252</u>	<u>21,266,243</u>

6 Due from banks and financial institutions

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Current, call and notice deposits	9,082,272	16,227,447
Margin deposits	5,595,337	7,655,394
Fixed deposits	4,705,697	3,547,951
	<u>19,383,306</u>	<u>27,430,792</u>
Less: expected credit losses	(57,712)	(73,153)
	<u>19,325,594</u>	<u>27,357,639</u>

7 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third party transfers financial assets to the Group for short term financing.

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Reverse repurchase with banks and others	42,609,120	41,096,158
Reverse repurchase with central banks	3,678,885	2,992,598
	<u>46,288,005</u>	<u>44,088,756</u>
Less: expected credit losses	(27,360)	(19,515)
	<u>46,260,645</u>	<u>44,069,241</u>

At 31 Dec 2021, the fair value of financial assets accepted as collateral that the Group is permitted to sell re-pledge in the absence of default was AED 47,413 million (31 Dec 2020: AED 49,154 million).

At 31 Dec 2021, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 24,907 million (31 Dec 2020: AED 26,272 million). The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

Notes to the consolidated financial statements (continued)

8 Loans, advances and Islamic financing

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Gross loans, advances and Islamic financing	428,783,318	403,288,746
Less: interest suspended	(5,400,613)	(4,206,335)
Less: expected credit loss	(13,228,091)	(12,438,415)
Net loans, advances and Islamic financing	410,154,614	386,643,996

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
By counterparty:		
Government sector	41,254,574	38,889,069
Public sector	96,109,500	92,718,473
Banking sector	11,700,842	8,924,677
Corporate / private sector	201,714,735	189,101,082
Personal / retail sector	78,003,667	73,655,445
Gross loans, advances and Islamic financing	428,783,318	403,288,746

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
By product:		
Overdrafts	28,249,912	27,234,278
Term loans	332,506,838	314,852,218
Trade related loans	29,252,435	23,197,489
Personal loans	31,004,047	31,790,101
Credit cards	5,458,971	4,871,801
Vehicle financing loans	2,311,115	1,342,859
Gross loans, advances and Islamic financing	428,783,318	403,288,746

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such lending is AED 20,802 million (31 Dec 2020: AED 14,025 million) and the fair value of instruments held as collateral against such loans is AED 43,460 million (31 Dec 2020: AED 24,303 million). During the year, the Group has liquidated insignificant amount of collateral due to fall in the coverage ratio.

Notes to the consolidated financial statements (continued)

8 Loans, advances & Islamic financing (continued)

Islamic financing

Included in the above loans, advances and Islamic financing are the following Islamic financing receivables:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Ijara	11,553,264	11,132,417
Murabaha	24,864,303	19,593,084
Others	485,158	315,953
Total Islamic financing contracts	36,902,725	31,041,454
Less: expected credit loss	(1,053,769)	(891,527)
Less: suspended profit	(154,038)	(132,885)
	35,694,918	30,017,042

9 Non-trading investments

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Fair value through other comprehensive income:		
- with recycle to profit or loss (Debt Investments)	139,980,556	127,609,415
- without recycle to profit or loss (Equity Investments)	927,584	557,508
Amortised cost	4,492,104	3,352,977
Investment in associates and joint venture	75,745	54,207
	145,475,989	131,574,107
Less: expected credit losses	(599)	(345)
	145,475,390	131,573,762

An analysis of non-trading investments by type at the reporting date is shown below:

	31 Dec 2021 AED'000			31 Dec 2020 AED'000		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equity investments	722,426	280,903	1,003,329	534,846	76,869	611,715
Debt investments	143,488,689	983,971	144,472,660	129,844,660	1,117,732	130,962,392
	144,211,115	1,264,874	145,475,989	130,379,506	1,194,601	131,574,107
Less: expected credit losses	(597)	(2)	(599)	(336)	(9)	(345)
	144,210,518	1,264,872	145,475,390	130,379,170	1,194,592	131,573,762

Debt instruments under repurchase agreements included in non-trading investments at 31 Dec 2021 amounted to AED 30,956 million (31 Dec 2020: AED 32,840 million).

Notes to the consolidated financial statements (continued)

9 Non-trading investments (continued)

The non-trading investments include the following investments in associates of the Group:

	Percentage of holding	
	31 Dec 2021	31 Dec 2020
Midmak Properties LLC	16%	16%
Emirates Digital Wallet LLC	23%	23%
Mercury Payment Services LLC	30%	30%

Midmak Properties LLC ("Midmak") is a limited liability company incorporated in the Emirate of Abu Dhabi. Midmak is involved in real estate activities. Although the Group owns 16% of the outstanding shares of Midmak, the investment has been classified as an associate as the Group exercises significant influence due to representation of the Board of Directors.

Emirates Digital Wallet LLC, established in 2017, is jointly owned by 16 of the leading UAE national banks, supported by the UAE Central Bank.

Mercury Payment Services LLC is a limited liability company incorporated in the Emirate of Abu Dhabi to carry on business of investments and payment service schemes.

10 Investment properties

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
As at the beginning of year	7,603,230	7,956,854
Additions / transfer from PPE / other adjustments	134,081	472,211
Disposals / transfer to PPE	(24,735)	(577,350)
Fair value adjustment	(750,000)	(248,485)
As at the year end	<u>6,962,576</u>	<u>7,603,230</u>

Amounts recognised in the consolidated statement of income in respect of net rental income of investment properties are as follows:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Rental income derived from investment properties	131,888	100,046
Operating expenses	(79,195)	(50,724)
Net rental income from investment properties	<u>52,693</u>	<u>49,322</u>

Investment properties are stated at fair value which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under prevailing market conditions at the measurement date.

The Group's investment properties consist of land, buildings and properties under development in Abu Dhabi and Dubai. Management determined that these investment properties consist of two classes of commercial and retail assets, based on the nature, characteristics and risks of each property.

As at 31 December 2021 and 2020, fair value of the properties is based on the valuations performed by third party valuers and all are level 3 under fair value hierarchy. The valuers are accredited with recognised and relevant professional qualifications and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation Standards.

Notes to the consolidated financial statements *(continued)*

10 Investment properties *(continued)*

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2021 and 2020:

	<i>Valuation technique</i>	<i>Significant unobservable inputs</i>
Buildings	Comparable and Residual Method Sales Comparison Method	Comparable transactions Current market price of similar assets
Land	Comparable and Residual Method	Cost of construction Developer's profit Financing cost
Properties under development	Discounted cash flow method	Discount rate Cash inflows Cash outflows

Notes to the consolidated financial statements (continued)

11 Property and equipment

	Land, buildings and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work -in- progress AED'000	Total AED'000
Cost					
As at 1 Jan 2020	2,862,788	2,506,732	514,928	904,259	6,788,707
Additions	262,488	869,693	92,275	1,896,629	3,121,085
Allocations from CWIP	7,716	12,578	(25,170)	4,876	-
Disposals, transfers and write offs ¹	(828,682)	(121,101)	(4,800)	(1,485,790)	(2,440,373)
At 31 Dec 2020	2,304,310	3,267,902	577,233	1,319,974	7,469,419
Business Combination transaction	160,300	158,530	84,199	148,678	551,707
Additions	120,474	719,579	96,321	1,320,221	2,256,595
Allocations from CWIP	(162)	(75)	(236)	473	-
Disposals, transfers and write offs ¹	(307,519)	(157,873)	(132,554)	(661,727)	(1,259,673)
At 31 Dec 2021	2,277,403	3,988,063	624,963	2,127,619	9,018,048
Accumulated depreciation and impairment losses					
As at 1 Jan 2020	725,191	1,091,998	352,532	-	2,169,721
Charge for the year	149,578	375,729	42,054	-	567,361
Disposals, transfers and write offs ¹	(183,220)	50,690	(2,259)	-	(134,789)
At 31 Dec 2020	691,549	1,518,417	392,327	-	2,602,293
Business Combination transaction	35,733	83,184	58,549	-	177,466
Charge for the year	169,254	515,273	51,178	-	735,705
Disposals, transfers and write offs ¹	(114,595)	(72,238)	(59,157)	-	(245,990)
At 31 Dec 2021	781,941	2,044,636	442,897	-	3,269,474
Carrying amounts					
At 31 Dec 2020	1,612,761	1,749,485	184,906	1,319,974	4,867,126
At 31 Dec 2021	1,495,462	1,943,427	182,066	2,127,619	5,748,574

¹ adjusted for foreign exchange translation impact

Notes to the consolidated financial statements (continued)

12 Intangibles

	Goodwill AED'000	Customer relationship AED'000	Core deposit AED'000	License AED'000	Brand AED'000	Total AED'000
Cost						
At 1 Jan 2020	17,370,249	1,774,716	593,335	368,700	22,000	20,129,000
Addition during the year	-	-	-	-	-	-
At 31 Dec 2020	<u>17,370,249</u>	<u>1,774,716</u>	<u>593,335</u>	<u>368,700</u>	<u>22,000</u>	<u>20,129,000</u>
Addition during the year	342,398	-	-	-	-	342,398
At 31 Dec 2021	<u><u>17,712,647</u></u>	<u><u>1,774,716</u></u>	<u><u>593,335</u></u>	<u><u>368,700</u></u>	<u><u>22,000</u></u>	<u><u>20,471,398</u></u>
Accumulated amortisation and impairment losses						
At 1 Jan 2020	-	482,916	139,913	-	8,084	630,913
Charge for the year	-	151,170	49,047	-	1,006	201,223
At 31 Dec 2020	<u>-</u>	<u>634,086</u>	<u>188,960</u>	<u>-</u>	<u>9,090</u>	<u>832,136</u>
Charge for the year	-	148,806	49,047	-	1,006	198,859
At 31 Dec 2021	<u><u>-</u></u>	<u><u>782,892</u></u>	<u><u>238,007</u></u>	<u><u>-</u></u>	<u><u>10,096</u></u>	<u><u>1,030,995</u></u>
Carrying amounts						
At 31 Dec 2020	<u>17,370,249</u>	<u>1,140,630</u>	<u>404,375</u>	<u>368,700</u>	<u>12,910</u>	<u>19,296,864</u>
At 31 Dec 2021	<u><u>17,712,647</u></u>	<u><u>991,824</u></u>	<u><u>355,328</u></u>	<u><u>368,700</u></u>	<u><u>11,904</u></u>	<u><u>19,440,403</u></u>

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGU's and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition.

For the purposes of impairment testing, goodwill is allocated to the Banks's revenue generating units - Corporate & Investment Banking, Global Markets and Consumer Banking CGUs. The recoverable amount for the CGUs have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the CGUs , assets and their ultimate disposal a discount rate of 8% and a terminal growth rate of 5% were used to estimate the recoverable amount.

No impairment losses were recognized during the year ended 31 December 2021 (31 Dec 2020: nil) because the recoverable amounts of the CGU's were determined to be higher than their carrying amounts.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of above CGUs to decline below the carrying amount.

Notes to the consolidated financial statements (continued)

13 Other assets

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Interest receivable	7,166,389	7,521,621
Acceptances	7,133,061	6,017,156
Sundry debtors and other receivables	4,042,010	2,401,952
Deferred tax asset	99,056	101,437
	<u>18,440,516</u>	<u>16,042,166</u>
Less: expected credit losses	(89,402)	(91,208)
	<u><u>18,351,114</u></u>	<u><u>15,950,958</u></u>

The Group does not perceive any significant credit risk on interest receivable and acceptances.

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

14 Due to banks and financial institutions

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Banks and financial institutions		
Current, call and notice deposits	1,097,344	2,477,281
Margin	4,401,542	4,745,820
Fixed deposits	16,136,321	16,981,767
	<u>21,635,207</u>	<u>24,204,868</u>
Central banks		
Current and call deposits	402,001	973,292
Margin Deposits	2,413	-
Fixed and certificate of deposits	34,945,559	32,454,316
	<u>35,349,973</u>	<u>33,427,608</u>
	<u><u>56,985,180</u></u>	<u><u>57,632,476</u></u>

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of -1 % to 1.75% (31 Dec 2020: -1% to 1.825%).

15 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Repurchase agreements with banks / financial institutions	55,072,110	49,252,314
Repurchase agreements with central banks	2,384	6,753,000
	<u>55,074,494</u>	<u>56,005,314</u>

Notes to the consolidated financial statements (continued)

15 Repurchase agreements (continued)

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 31,004 million (31 Dec 2020: AED 33,666 million) and their associated financial liabilities amounted to AED 55,074 million (31 Dec 2020: AED 56,005 million). The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 24,070 million (31 Dec 2020: shortage AED 22,339 million). The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements or through security borrowing arrangement from custodian.

16 Commercial Paper

The Bank has a Euro Commercial Paper programme with a limit of USD 3.5 billion and a US Dollar Commercial Paper programme with a limit of USD 10 billion.

The notes outstanding as at the end of the reporting date amounted to AED 39,664 million (31 Dec 2020: AED 31,174 million) and have maturity period of less than 12 months.

The Group has not had any defaults of principal, interests or other breaches with respect to its Commercial paper programmes during year ended 31 December 2021.

17 Customer accounts and other deposits

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
By account:		
Current accounts	273,830,659	211,229,768
Savings accounts	14,026,161	12,023,563
Margin accounts	2,926,361	2,671,889
Notice and time deposits	275,094,212	266,338,758
	<hr/>	<hr/>
	565,877,393	492,263,978
Certificates of deposit	48,581,872	48,618,494
	<hr/>	<hr/>
	614,459,265	540,882,472
	<hr/> <hr/>	<hr/> <hr/>
	31 Dec 2021 AED'000	31 Dec 2020 AED'000
By counterparty:		
Government sector	171,768,336	134,010,748
Public sector	93,421,723	114,402,974
Corporate / private sector	198,755,289	162,774,636
Personal / retail sector	101,932,045	81,075,620
	<hr/>	<hr/>
	565,877,393	492,263,978
Certificates of deposit	48,581,872	48,618,494
	<hr/>	<hr/>
	614,459,265	540,882,472
	<hr/> <hr/>	<hr/> <hr/>

Notes to the consolidated financial statements (continued)

17 Customer accounts and other deposits (continued)

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
By location:		
UAE	419,243,333	388,206,397
Europe	49,749,480	36,547,379
Arab countries	47,979,857	26,289,020
Americas	29,302,184	29,066,952
Asia	19,355,325	10,199,722
Others	247,214	1,954,508
	<hr/>	<hr/>
Certificates of deposit	565,877,393	492,263,978
	48,581,872	48,618,494
	<hr/>	<hr/>
	614,459,265	540,882,472
	<hr/>	<hr/>

Concentration by location is based on the residential status of the depositors.

Islamic customer deposits

Included in the above Customer accounts and other deposits are the following Islamic deposits:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Current Account Deposits	2,433,099	1,561,620
Margin Deposits	69,629	65,668
Mudaraba Saving Deposits	2,730,993	1,945,811
Mudaraba Term Deposits	160,907	101,580
Wakala Deposits	2,337,779	3,774,864
	<hr/>	<hr/>
	7,732,407	7,449,543
	<hr/>	<hr/>

18 Term borrowings

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
At amortised cost	71,023,959	61,970,222
At fair value through profit or loss	619,857	466,881
	<hr/>	<hr/>
	71,643,816	62,437,103
	<hr/>	<hr/>

During the year, the Group has issued various fixed and floating rate notes. The values of the notes issued during the year are stated below:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
As at the beginning of year	62,437,103	55,751,819
New issuances	17,148,833	16,692,127
Redemptions	(5,827,560)	(11,960,709)
Fair valuation, exchange and other adjustments	(2,114,560)	1,953,866
	<hr/>	<hr/>
As at the end of year	71,643,816	62,437,103
	<hr/>	<hr/>

Notes to the consolidated financial statements (continued)

18 Term Borrowings (continued)

		31 Dec 2021						31 Dec 2020					
Currency	Interest	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 Years AED'000	Total AED'000
AED	Fixed rate of 4.00% to 4.20% p.a.	-	-	3,798	97,646	-	101,444	-	-	-	3,730	94,697	98,427
AUD	Fixed rate of 1.87% to 3.17% p.a.	-	-	-	168,699	-	168,699	-	86,397	-	-	-	86,397
AUD	3 Month AUD BBSW + upto 0.085% p.a.	66,561	-	-	1,415,981	79,806	1,562,348	-	-	71,129	1,089,438	86,864	1,247,431
CHF	Fixed rate of 0.07% to 0.625% p.a.	-	806,370	2,209,207	1,400,629	1,604,442	6,020,648	-	-	1,676,993	2,097,570	615,825	4,390,388
CNH	Fixed rate of 3 % to 4.8% p.a.	40,493	-	1,736,149	4,397,100	-	6,173,742	509,980	995,800	228,496	4,733,608	-	6,467,884
EUR	Fixed rate of 0.125% to 3.00% p.a.	-	-	102,075	3,469,870	228,214	3,800,159	-	-	-	599,962	278,672	878,634
GBP	Fixed rate of 0.875% to 2.205% p.a.	-	-	2,221,519	3,213,053	99,746	5,534,318	-	126,411	2,285,968	145,189	108,726	2,666,294
GBP	3 Month GBP LIBOR + till 0.006% p.a.	-	-	-	-	-	-	-	125,389	101,384	-	-	226,773
GBP	GBP SONIA CMP-5BD + 0.197 % p.a.	99,854	-	-	-	-	99,854	-	-	-	-	-	-
HKD	Fixed rate of 0.475% to 4.18% p.a.	223,593	300,386	697,116	940,310	194,157	2,355,562	76,186	-	1,035,001	587,710	249,521	1,948,418
JPY	Fixed rate of 0.235% to 2.60% p.a.	-	-	63,798	323,565	-	387,363	-	-	-	-	372,239	372,239
MXN	Fixed rate of 0.50% p.a.	-	-	-	-	7,434	7,434	-	-	-	-	6,424	6,424
PHP	Fixed rate of 3.80% p.a.	-	-	159,026	-	-	159,026	-	-	-	-	-	-
USD	Fixed rate up till 8.125% p.a.	6,993,272	498,150	11,964,749	6,507,704	6,280,335	32,244,210	610,015	3,256,479	13,493,360	9,892,511	4,958,527	32,210,892
USD	3 Month LIBOR + till 0.244% p.a.	495,855	4,109,023	5,860,341	1,983,468	183,650	12,632,337	-	514,220	6,308,558	4,830,474	183,650	11,836,902
USD	USD SOFR QRT OB SHIFT -5BD + 0.049 % to 0.058%	-	-	183,638	213,034	-	396,672	-	-	-	-	-	-
		<u>7,919,628</u>	<u>5,713,929</u>	<u>25,201,416</u>	<u>24,131,059</u>	<u>8,677,784</u>	<u>71,643,816</u>	<u>1,196,181</u>	<u>5,104,696</u>	<u>25,200,889</u>	<u>23,980,192</u>	<u>6,955,145</u>	<u>62,437,103</u>

Notes to the consolidated financial statements (continued)

18 Term borrowings (continued)

During the year, the Group has issued various fixed and floating rate notes. The Group hedges its currency and interest rate exposure on these notes. The nominal values of the notes issued during the year are stated below:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Fixed rate		
AUD	173,018	-
CHF	1,849,358	-
CNH	1,186,708	3,428,729
EUR	3,104,703	-
USD	4,747,037	8,150,038
GBP	3,194,350	2,249,361
HKD	550,525	497,421
JPY	63,798	-
PHP	159,884	-
Floating rate		
AUD	404,597	1,077,930
USD	1,718,964	1,231,413
GBP	-	102,322
	17,152,942	16,737,214

The Group has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedged are AED 57 billion (31 Dec 2020: AED 50 billion) and the risks being hedged have a net positive fair value of AED 896 million (31 Dec 2020: net negative fair value of AED 1,057 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2021 and 2020.

19 Subordinated notes

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
10 December 2012 issue (4.75 percent fixed rate maturing on 9 December 2027)	448,908	470,805

The Group has hedged the interest rate and foreign currency exposure on the subordinated notes. The Group has not had any defaults of principal, interests, or other breaches with respect to its subordinated notes during the year ended 31 December 2021.

20 Other liabilities

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Interest payable	5,013,652	5,833,330
Acceptances- net of discounting (note 13)	3,298,916	3,870,232
Provision employees' end of service benefits	429,976	464,604
Accounts payable, sundry creditors and other liabilities	11,713,020	12,122,067
Income tax	387,240	297,005
	20,842,804	22,587,238

Notes to the consolidated financial statements (continued)

20 Other liabilities (continued)

Employees end of service benefits

Defined benefit obligations

The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at December 31, 2021 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions (weighted average rates) were used to value the liabilities:

	31 Dec 2021	31 Dec 2020
Discount rate	2.30 % per annum	2.23 % per annum
Salary increase rate	2.37 % per annum	2.32 % per annum

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 9,771 thousand and AED 10,295 thousand respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 10,278 thousand and AED 9,850 thousand respectively.

The movement in the employees' end of service obligation was as follows:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Balance at the beginning of year	464,604	469,894
Net charge during the year	58,425	65,074
Remeasurement gains/losses in OCI	(17,229)	18,760
Paid during the year and other adjustments	(75,824)	(89,124)
Balance at the end of year	429,976	464,604

Defined contribution plan

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 108,715 thousand (2020: AED 87,314 thousand). As at the reporting date, pension payable of AED 10,515 thousand (2020: AED 14,950 thousand) has been classified under other liabilities.

Income tax

The Group has provided for income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Balance at the beginning of year	297,005	194,259
Charge for the year	644,272	341,198
Income tax paid, net of recoveries	(589,806)	(243,760)
Deferred tax movements	35,769	5,308
Balance at the end of year	387,240	297,005

Notes to the consolidated financial statements (continued)

21 Capital and reserves

Share Capital

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Authorised share capital	10,920,000	10,920,000
Ordinary shares of AED 1 each	10,920,000	10,920,000
Treasury shares of AED 1 each	6,430	8,980

At the Annual General Meeting (AGM) held on 28 February 2021, the shareholders of the Bank approved a cash dividend of AED 0.74 per ordinary shares amounting to AED 8,080 million (31 Dec 2019: AED 0.74 per ordinary share amounting to AED 8,080 million).

Statutory and special reserves

In accordance with the Bank's Articles of Association and the requirements of the Union Law No. (10) of 1980, a minimum of 10% of the annual net profit should be transferred to both statutory and special reserve until each of these reserves equal to 50% of the paid-up share capital. The Statutory and special reserve are not available for distribution to the shareholders. No transfers were made during the year because statutory and special reserve are equal to 50% of the paid-up share capital.

Dividends

The following dividends were paid by the Group during the year ended 31 December:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Dividend on ordinary shares paid during the year	7,688,098	7,891,730

Other reserves

Other reserves include the following:

	Fair value reserve AED'000	General reserve AED'000	Foreign currency translation reserve AED'000	Revaluati- on reserve AED'000	IFRS 9 reserve - specific AED'000	IFRS 9 reserve - collective AED'000	Total AED'000
As at 1 Jan 2021	1,168,389	228,265	(377,851)	-	1,220,996	642,622	2,882,421
Other comprehensive income for the year	204,548	-	(157,172)	-	-	-	47,376
IFRS 9 reserve movement	-	-	-	-	973	645,137	646,110
Realised gain on sale of FVOCI investment	(6,722)	-	-	-	-	-	(6,722)
As at 31 Dec 2021	1,366,215	228,265	(535,023)	-	1,221,969	1,287,759	3,569,185

Notes to the consolidated financial statements (continued)

21 Capital and reserves (continued)

Other reserves (continued)

	Fair value reserve AED'000	General reserve AED'000	Foreign currency translation reserve AED'000	Revaluati- on reserve AED'000	IFRS 9 reserve – specific AED'000	IFRS 9 reserve – collective AED'000	Total AED'000
As at 1 Jan 2020	1,361,293	228,265	(354,657)	280,601	315,908	642,622	2,474,032
Other comprehensive income for the year	(185,270)	-	(23,194)	-	-	-	(208,464)
Transfer during the year	-	-	-	(280,601)	-	-	(280,601)
IFRS 9 reserve movement	-	-	-	-	905,088	-	905,088
Realised gain on sale of FVOCI investment	(7,634)	-	-	-	-	-	(7,634)
As at 31 Dec 2020	1,168,389	228,265	(377,851)	-	1,220,996	642,622	2,882,421

(i) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of non-trading investments, until the investment is derecognised or impaired, and cash flow hedge reserve.

	Revaluation reserve – instruments at FVOCI AED'000	Hedging reserve – cash flow hedge AED'000	Total AED'000
As at 1 Jan 2021	1,168,324	65	1,168,389
Net fair value changes	1,145,697	(108,410)	1,037,287
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	(815,332)	-	(815,332)
Impact of ECL	(24,129)	-	(24,129)
As at 31 Dec 2021	1,474,560	(108,345)	1,366,215
As at 1 Jan 2020	1,376,357	(15,064)	1,361,293
Net fair value changes	473,457	15,129	488,586
Net cumulative realised gains recognised in the consolidated statement of profit or loss during the year	(653,246)	-	(653,246)
Impact of ECL	(28,244)	-	(28,244)
As at 31 Dec 2020	1,168,324	65	1,168,389

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions. During the year, there has been no significant transfer from cash flow hedge reserve to profit or loss.

Notes to the consolidated financial statements (continued)

21 Capital and reserves (continued)

Other reserves (continued)

(ii) General reserve

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors.

(iii) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations. During the year, there has been no significant transfer from foreign currency translation reserve to profit or loss.

(iv) IFRS 9 reserve

In accordance with CBUAE circular, during any period if provision under CBUAE guidance exceed provision calculated under IFRS 9, such excess is required to be apportioned from retained earnings to IFRS 9 reserve and this reserve shall not be adjusted for future excess provision. The details of the same as below:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Impairment reserve – Specific as at the year end		
Specific provisions under Circular 28/2010 of CBUAE	9,372,000	8,206,198
Less: Stage 3 provisions under IFRS 9	(8,620,212)	(6,985,202)
	<u>751,788</u>	<u>1,220,996</u>
Specific provision transferred to the impairment reserve	751,788	1,220,996
Balance carried forward from prior year	-	-
Closing balance	<u>1,221,969</u>	<u>1,220,996</u>
Impairment reserve – Collective as at the year end		
Collective provisions under Circular 28/2010 of CBUAE	7,159,746	6,617,775
Less: Stage 1 and Stage 2 provisions under IFRS 9	(5,871,987)	(6,616,462)
	<u>1,287,759</u>	<u>-</u>
Collective provision transferred to the impairment reserve	1,287,759	-
Balance carried forward from prior year	-	642,622
Closing balance	<u>1,287,759</u>	<u>642,622</u>

22 Tier 1 capital notes

		31 Dec 2021 AED'000	31 Dec 2020 AED'000
Government of Abu Dhabi Notes (6 month EIBOR plus 2.3 percent per annum)	AED	8,000,000	8,000,000
USD 750 million Notes (4.50 percent fixed rate per annum, thereafter reset on the First Date and every sixth anniversary thereafter on the basis of the aggregate of the Margin and the Relevant Six-Year reset on the relevant U.S. Securities Determination Date)	USD	2,754,750	2,754,750
		<u>10,754,750</u>	<u>10,754,750</u>

Notes to the consolidated financial statements (continued)

22 Tier 1 capital notes (continued)

Tier 1 capital notes are perpetual, subordinated, unsecured and carry coupons to be paid semi-annually in arrears. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Group ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

During the prior year, the Bank has repaid off AED 2,754,750 thousand (USD 750 million) of tier 1 notes and subsequently, in the month of October 2020, the Bank has issued new tier 1 capital notes amounting to AED 2,754,750 thousand (USD 750 million). During the year, tier 1 notes coupon payment election was made by the Bank in the amount of AED 356,204 thousand (31 Dec 2020: AED 426,253 thousand).

23 Share based payment

The Group had introduced in 2008 a share based payment scheme (the "Scheme") for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Group until the end of the vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group established a subsidiary to issue shares when the vested option is exercised by the employee. These shares are treated as treasury shares until exercised by the option holders.

During the year, 2,550 thousand shares (31 Dec 2020: 9,884 thousand) had been awarded, therefore reallocated from treasury shares held to share capital by AED 2,550 thousand (31 Dec 2020: AED 9,884 thousand) and share premium has been adjusted by AED 18,997 thousand (31 Dec 2020: AED 104,123 thousand) accordingly relating to this.

24 Interest income

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Interest from:		
Central banks	512,261	425,554
Banks and financial institutions	1,472,703	1,455,822
Reverse repurchase agreements	354,637	454,407
Investments at fair value through profit or loss	243,751	168,416
Non-trading investments	3,187,850	2,665,833
Loans, advances and Islamic financing	10,469,366	12,788,385
	16,240,568	17,958,417

25 Interest expense

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Interest to:		
Banks and financial institutions	1,459,460	1,305,392
Repurchase agreements	225,801	443,837
Commercial paper	70,294	176,129
Customer accounts and other deposits	2,295,403	3,204,427
Term borrowings	1,489,083	1,434,902
Subordinated notes	21,175	20,987
	5,561,216	6,585,674

Notes to the consolidated financial statements (continued)

26 Income from Islamic financing and investing products

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Murabaha	586,552	668,485
Ijara	420,157	451,221
Sukuk Investments	711,741	781,190
Others	124,729	242,130
	1,843,179	2,143,026

27 Distribution on Islamic customers' deposits

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Wakala Deposits	397,557	680,935
Mudaraba Saving and term deposits	49,900	28,297
Islamic Sukuk Notes	409,979	520,832
Others	6,963	29,227
	864,399	1,259,291

The Group maintains an investment risk reserve which represents a portion of the depositors' share of profits set aside as a reserve for AED 5,124 thousand (2020: AED 3,537 thousand).

28 Net fee and commission income

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Fee and commission income		
Trade finance	879,286	875,266
Collection services	19,885	12,856
Brokerage income	49,540	40,903
Asset management and investment services	75,063	57,898
Investments, derivatives and risk participation	2,555	1,875
Retail and corporate lending	1,704,228	1,511,005
Cards and e-services	1,731,185	1,499,029
Accounts related services	46,285	38,360
Commission on transfers	107,810	93,587
Others	278,532	223,694
Total fee and commission income	4,894,369	4,354,473
Fee and commission expense		
Brokerage commission	51,310	51,860
Credit card charges	1,451,005	1,068,938
Retail and corporate lending	320,176	279,731
Others	37,330	41,864
Total fee and commission expense	1,859,821	1,442,393
Net fee and commission income	3,034,548	2,912,080

Notes to the consolidated financial statements (continued)

29 Net foreign exchange gain

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Trading and retranslation (loss) / gain on foreign exchange and related derivatives ^{1,2}	(72,144)	592,846
Dealings with customers	764,483	647,509
	<u>692,339</u>	<u>1,240,355</u>

¹ Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments (note 30).

² Includes negative interest income of AED 479 million (31 Dec 2020: AED 420 million) arising from placement with ECB.

30 Net gain on investments and derivatives

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	5,639,133	291,447
Net gain from sale of non-trading investments	815,332	653,246
Dividend income	30,321	6,334
	<u>6,484,786</u>	<u>951,027</u>

31 Other Operating Income

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Investment property (loss) / income	(743,360)	208,997
Leasing related income	111,773	110,853
Gain on sale of property and equipment	501,268	737,371
Other (loss) / gain ¹	(58,231)	156,750
	<u>(188,550)</u>	<u>1,213,971</u>

¹ During the prior year, the Bank disposed of its legacy license held by First Gulf Bank which had earlier been held at zero value. The sale was finalized in December 2020 and a gain of AED 200 million is included within Other Income relating to this.

Notes to the consolidated financial statements (continued)

32 General, administration and other operating expenses

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Staff costs	3,004,906	2,783,567
Other general and administration expenses	1,836,611	1,438,797
Depreciation (note 11)	735,705	567,361
Amortisation of intangibles (note 12)	198,859	201,223
Sponsorships and donations	60,393	69,317
	<u>5,836,474</u>	<u>5,060,265</u>

33 Net impairment charge

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Impairment charge on		
loans, advances and Islamic financing	2,595,358	2,629,156
other financial assets	4,852	26,787
unfunded exposure	94,172	107,087
other non-financial instruments	-	1,071
Recoveries	(280,716)	(241,735)
Write-off of impaired financial assets	244,571	97,574
	<u>2,658,237</u>	<u>2,619,940</u>

34 Income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year was as follows:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Charge for the year	<u>644,272</u>	<u>341,198</u>

Reconciliation of Group's tax on profit based on accounting and profit as per the tax laws is as follows:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Profit before taxation	<u>13,186,544</u>	<u>10,893,706</u>
Effect of higher tax rates in Overseas jurisdictions	520,220	285,240
Tax effects of:		
- Income not subject to tax	3,240	-
- Expenses not deductible for tax purpose	(4,978)	(11,049)
- Utilisation of previously unrecognised deferred tax	9,079	18,082
- Prior year adjustments – Corporation Tax	3,815	9,229
- Prior year adjustments – Deferred Tax	4,889	1,433
- Withholding tax deducted at source	84,007	25,126
- Mandatory remittance tax	24,000	13,137
	<u>644,272</u>	<u>341,198</u>

Notes to the consolidated financial statements (continued)

35 Cash and cash equivalents

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Cash and balances with Central Banks	258,934,979	228,009,148
Due from banks and financial institutions	19,383,306	27,430,792
	<u>278,318,285</u>	<u>255,439,940</u>
Less: Balances with Central Banks maturing after three months of placement	(5,384,239)	(16,103,734)
Less: Due from banks and financial institutions maturing after three months of placement	(119,926)	(146,969)
	<u>272,814,120</u>	<u>239,189,237</u>

36 Leases

The Group leases a number of branch and office premises. The leases typically run for a period of 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below :

Leases as lessee

Right-of-use assets

The movement during the year of right-of-use is as follows:

	31 Dec 2021 AED '000	31 Dec 2020 AED '000
Balance as at the beginning of year	240,571	217,181
Net increase during the year	59,117	67,883
Depreciation and other adjustments	(70,003)	(44,493)
Balance as at the end of year	<u>229,685</u>	<u>240,571</u>

Lease liabilities

	31 Dec 2021 AED '000	31 Dec 2020 AED '000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	140,591	105,644
One to five years	337,843	309,477
More than five years	13,828	26,513
Total undiscounted lease liabilities at the end of year	<u>492,262</u>	<u>441,634</u>

Notes to the consolidated financial statements (continued)

36 Leases (continued)

Amounts recognised in profit or loss

	31 Dec 2021 AED '000	31 Dec 2020 AED '000
Interest on lease liabilities	17,057	11,238
Depreciation charge for the year	86,566	71,525
Expenses relating to short-term leases and low-value assets	58,441	44,942
	<u>162,064</u>	<u>127,705</u>

37 Commitments and contingencies

The Group, in the ordinary course of business, enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

There were no other significant changes in contingent liabilities and commitments during the year other than those arising out of normal course of business.

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Letter of credit	63,589,462	61,406,469
Letters of guarantees	101,353,201	105,216,467
Financial guarantees	293,459	129,940
Trade contingencies	<u>165,236,122</u>	<u>166,752,876</u>

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Undrawn commitment to extend credit	51,407,472	74,582,341
Commitments for future capital expenditure	946,604	819,667
Commitments for future private equity investments	1,291,544	536,571
	<u>53,645,620</u>	<u>75,938,579</u>
Total commitments and contingencies	<u>218,881,742</u>	<u>242,691,455</u>

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 45(a) are neither past due nor impaired.

Letters of credit and guarantee ("Trade contingencies") commit the Group to make payments on behalf of customers' contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

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

Financial guarantee contracts includes credit default agreements entered with banks and financial institutions amounting to nil (31 Dec 2020: AED 74 million) which are primarily denominated in US Dollars.

Financial guarantee contracts mainly pertain to the banks and financial institutions.

Notes to the consolidated financial statements (continued)

37 Commitments and contingencies (continued)

Concentration by location:

	Undrawn loan commitments		Trade contingencies	
	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000
UAE	32,127,167	59,937,746	107,329,071	114,852,725
Europe	6,701,190	6,120,020	17,579,937	19,713,720
Arab countries	8,580,025	3,325,351	11,103,438	9,330,286
Americas	2,354,620	2,533,674	10,405,696	11,803,669
Asia	1,277,170	1,455,644	17,102,422	9,778,194
Others	367,300	1,209,906	1,715,558	1,274,282
	51,407,472	74,582,341	165,236,122	166,752,876

Concentration by location is based on the residential status of the customers.

Notes to the consolidated financial statements *(continued)*

38 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with banks and financial institutions.

Forwards and futures

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter (OTC).

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

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

Notes to the consolidated financial statements (continued)

38 Derivative financial instruments (continued)

31 Dec 2021

	Notional amounts by term to maturity							
	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
<i>Interest rate derivatives</i>								
Swaps	17,145,820	18,081,118	1,487,616,721	149,683,975	218,911,217	414,748,177	265,151,917	439,121,435
Forwards & Futures	10,797	7,259	53,971,707	18,414,126	26,487,199	8,996,922	73,460	-
Options & Swaptions	61,219	122,336	1,381,555,808	344,265,157	894,234,822	129,852,936	5,645,190	7,557,703
<i>Foreign exchange derivatives</i>								
Forwards	3,277,262	1,848,698	337,153,079	202,324,818	102,866,699	28,956,060	2,962,293	43,209
Options	337,157	244,222	56,380,928	35,859,138	14,291,461	6,230,329	-	-
<i>Other derivatives contracts</i>	1,473,721	1,412,905	52,509,341	2,163,817	7,451,597	12,600,024	28,608,514	1,685,389
	<u>22,305,976</u>	<u>21,716,538</u>	<u>3,369,187,584</u>	<u>752,711,031</u>	<u>1,264,242,995</u>	<u>601,384,448</u>	<u>302,441,374</u>	<u>448,407,736</u>
Held as fair value hedges:								
<i>Interest rate derivatives</i>								
Swaps	1,955,276	6,588,341	158,522,703	9,121,007	10,263,304	39,197,714	42,100,283	57,840,395
	<u>1,955,276</u>	<u>6,588,341</u>	<u>158,522,703</u>	<u>9,121,007</u>	<u>10,263,304</u>	<u>39,197,714</u>	<u>42,100,283</u>	<u>57,840,395</u>
Held as cash flow hedges								
<i>Interest rate derivatives</i>								
Swaps	12,514	90,109	5,466,840	-	1,000,000	-	-	4,466,840
<i>Foreign exchange derivatives</i>								
Forwards	-	97	91,735	91,735	-	-	-	-
	<u>12,514</u>	<u>90,206</u>	<u>5,558,575</u>	<u>91,735</u>	<u>1,000,000</u>	<u>-</u>	<u>-</u>	<u>4,466,840</u>
Total	<u>24,273,766</u>	<u>28,395,085</u>	<u>3,533,268,862</u>	<u>761,923,773</u>	<u>1,275,506,299</u>	<u>640,582,162</u>	<u>344,541,657</u>	<u>510,714,971</u>

Notes to the consolidated financial statements (continued)

38 Derivative financial instruments (continued)

31 Dec 2020

	Notional amounts by term to maturity							
	Positive market value	Negative market value	Notional amount	Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<i>Held for trading:</i>								
<i>Interest rate derivatives</i>								
Swaps	25,182,835	25,928,742	1,457,039,482	181,895,692	246,303,523	406,721,160	261,036,759	361,082,348
Forwards & Futures	5,826	12,384	106,439,606	23,930,835	67,829,857	14,513,630	165,284	-
Options & Swaptions	124,048	176,464	280,868,236	107,780,270	169,372,394	3,617,669	97,903	-
<i>Foreign exchange derivatives</i>								
Forwards	2,517,378	2,716,509	290,992,042	176,764,134	71,268,392	38,047,766	4,450,177	461,573
Options	362,710	246,448	77,414,426	29,935,411	42,218,354	5,260,661	-	-
<i>Other derivatives contracts</i>	1,621,643	638,177	32,107,295	2,332,441	3,329,787	5,602,985	19,847,064	995,018
	<u>29,814,440</u>	<u>29,718,724</u>	<u>2,244,861,087</u>	<u>522,638,783</u>	<u>600,322,307</u>	<u>473,763,871</u>	<u>285,597,187</u>	<u>362,538,939</u>
<i>Held as fair value hedges:</i>								
<i>Interest rate derivatives</i>								
Swaps	2,739,073	8,990,274	183,150,369	13,959,701	31,160,472	30,699,701	43,147,149	64,183,346
	<u>2,739,073</u>	<u>8,990,274</u>	<u>183,150,369</u>	<u>13,959,701</u>	<u>31,160,472</u>	<u>30,699,701</u>	<u>43,147,149</u>	<u>64,183,346</u>
<i>Held as cash flow hedges</i>								
<i>Interest rate derivatives</i>								
Swaps	5,341	18,989	2,475,030	-	1,007,730	1,000,000	-	467,300
<i>Foreign exchange derivatives</i>								
Forwards	27	104,017	17,978,502	17,978,502	-	-	-	-
	<u>5,368</u>	<u>123,006</u>	<u>20,453,532</u>	<u>17,978,502</u>	<u>1,007,730</u>	<u>1,000,000</u>	<u>-</u>	<u>467,300</u>
Total	<u><u>32,558,881</u></u>	<u><u>38,832,004</u></u>	<u><u>2,448,464,988</u></u>	<u><u>554,576,986</u></u>	<u><u>632,490,509</u></u>	<u><u>505,463,572</u></u>	<u><u>328,744,336</u></u>	<u><u>427,189,585</u></u>

Notes to the consolidated financial statements (continued)

38 Derivative financial instruments (continued)

The positive / negative fair value in respect of derivatives represents the gain/loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans, advances and Islamic financing, non-trading investments, term borrowings and subordinated notes.

As at December 31, 2021, the Group received cash collateral of AED 6,482 million (31 Dec 2020: AED 6,472 million) against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 13,802 million (31 Dec 2020: AED 7,800 million) against the negative fair value of derivative liabilities.

Derivative related credit risk

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

Derivatives held for trading

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans, advances and Islamic financing, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge

The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship

Impact of IBOR reform

Uncertainty arising from IBOR reform

The Group has concluded that as at 31 December 2021 its fair value and cash flow hedging relationships were no longer subject to uncertainty driven by IBOR reform.

Accordingly, the Group:

- ceased to apply the assumptions that the hedged benchmark interest rate, the cash flows of the hedged item and/or hedging instrument are not altered as a result of IBOR reform when the uncertainty arising from IBOR reform was no longer present.
- amended the formal hedge documentation of these hedging relationship to reflect the changes required by IBOR reform by the end of the reporting period during which the changes occurred and amended the description of the hedging instrument in the formal hedge documentation when a fallback provision inserted in a hedging instrument was triggered. These changes in the
- formal hedge documentation did not cause a discontinuation of the hedging relationship.
- remeasured the cumulative changes in the hedged cash flows and the hedging instrument based on new alternative benchmark rates – i.e. SOFR or SONIA – when the uncertainty arising from IBOR reform was removed. For the purpose of remeasuring the cumulative changes in the hedged cash flows, the Group amended the terms of the hypothetical derivative to reflect the changes required by IBOR reform in the hedged item.

Notes to the consolidated financial statements *(continued)*

39 Segmental information

The operating structure consists of four key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance.

During the year, the Group has reorganized its business model so that Corporate & Investment Banking and Personal Banking groups have been re-segmented into four distinct business lines: Investment Banking, Corporate & Commercial Banking, Consumer Banking and Private Banking. This will reposition the Group's businesses to be more customer centric and enable specialist product and service propositions aligned to the respective customer bases the Group services to drive competitive advantage and enhance revenue generation capabilities.

Business segments

Investment Banking ("IB")

IB offers banking and financing solutions, including corporate & Islamic finance, capital markets, transaction banking, trade, liquidity and cash management services along with a broad range of risk management solutions across credit, rates, FX and money market products. Focused on Institutional clients, IB team enhances product delivery and specialization across various customer sectors which includes Government, Sovereign & Public Sector, Sovereign Wealth Fund & Financial Sponsors, Natural Resources, Global Diversified Industrials, Financial Institutions Group & Global Subsidiaries.

Corporate & Commercial ("CCB")

CCB focuses on large corporates, medium and small entities with diversified products offering across sub segments which includes Corporate Banking, Contracting, Commercial Banking and Privileged Client Group.

Consumer Banking ("CB")

The business targets consumer & elite segment across conventional and Islamic sector. The products' ranges offered include everyday banking products such as current accounts, deposits, credit cards, loans, wealth products etc. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches, direct sales agents and through its banking subsidiaries namely and First Abu Dhabi Islamic Finance.

Global Private Banking ("GPB")

The business targets affluent and high net-worth customers across conventional and Islamic sector. The products' ranges offered include everyday banking products plus sophisticated investment solutions, brokerage and securities services. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches, relationship managers and through its banking subsidiaries including mainly FAB Securities.

Head office

The Group provides centralized human resources, information technology, operations, finance, strategy, investor relations, risk management, credit management, corporate communications, legal & compliance, internal audit, procurement, treasury operations and administrative support to all of its business units.

HO also includes a diversified business model supported by complementary offerings provided across real estate, property management services through subsidiaries partially or fully owned by the Group, namely FAB Properties, Abu Dhabi National Properties and Mismak.

Geographic segments

The Group is managing its various business segments through a network of branches, subsidiaries and representative offices within the two defined geographic segments which are UAE and International.

Notes to the consolidated financial statements (continued)

39 Segmental information (continued)

For the year ended 31 Dec 2021

Net interest income and income from Islamic financing and investing products
Net non-interest income

Operating income

General administration and other operating expenses

Net impairment charge

Profit before taxation

Income tax expense

Net profit for the period

As at 31 Dec 2021

Segment total assets

Inter segment balances

Total assets

Segment total liabilities

Inter segment balances

Total liabilities

	Business Segment						Geographic Segment		
	Investment Banking	Corporate and commercial Banking Group	Consumer Banking	Global Private Banking	Head Office	Total	UAE	International	Total
Net interest income and income from Islamic financing and investing products	4,505,387	2,255,693	4,024,366	725,021	147,665	11,658,132	8,682,127	2,976,005	11,658,132
Net non-interest income	7,886,101	1,224,408	850,507	226,855	(164,748)	10,023,123	9,201,646	821,477	10,023,123
Operating income	12,391,488	3,480,101	4,874,873	951,876	(17,083)	21,681,255	17,883,773	3,797,482	21,681,255
General administration and other operating expenses	1,517,782	924,872	2,303,508	339,819	750,493	5,836,474	4,380,416	1,456,058	5,836,474
Net impairment charge	180,122	1,490,490	831,090	40,236	116,299	2,658,237	2,267,875	390,362	2,658,237
Profit before taxation	10,693,584	1,064,739	1,740,275	571,821	(883,875)	13,186,544	11,235,482	1,951,062	13,186,544
Income tax expense	394,945	61,813	1,262	46,813	139,439	644,272	98,086	546,186	644,272
Net profit for the period	10,298,639	1,002,926	1,739,013	525,008	(1,023,314)	12,542,272	11,137,396	1,404,876	12,542,272
Segment total assets	683,905,131	115,318,255	76,554,780	31,139,050	118,921,583	1,025,838,799	766,487,574	377,872,991	1,144,360,565
Inter segment balances						(25,495,422)			(144,017,188)
Total assets						1,000,343,377			1,000,343,377
Segment total liabilities	587,367,888	140,184,652	61,903,047	24,871,405	98,682,234	913,009,226	677,313,819	354,217,173	1,031,530,992
Inter segment balances						(25,495,422)			(144,017,188)
Total liabilities						887,513,804			887,513,804

Notes to the consolidated financial statements (continued)

39 Segmental information (continued)

	Business Segment						Geographic Segment		
	Investment Banking AED'000	Corporate and commercial Banking Group AED'000	Consumer Banking AED'000	Global Private Banking AED'000	Head Office	Total AED'000	UAE AED'000	International	Total AED'000
<i>For the year ended 31 Dec 2020</i>									
Net interest income and income from Islamic financing and investing products	4,535,037	2,907,103	4,041,802	762,844	9,692	12,256,478	9,918,963	2,337,515	12,256,478
Net non-interest income	2,805,555	1,060,663	1,097,595	217,068	1,136,552	6,317,433	5,643,259	674,174	6,317,433
Operating income	<u>7,340,592</u>	<u>3,967,766</u>	<u>5,139,397</u>	<u>979,912</u>	<u>1,146,244</u>	<u>18,573,911</u>	<u>15,562,222</u>	<u>3,011,689</u>	<u>18,573,911</u>
General administration and other operating expenses	1,350,612	931,451	2,206,558	336,794	234,850	5,060,265	3,942,254	1,118,011	5,060,265
Net impairment charge	<u>518,345</u>	<u>694,983</u>	<u>1,380,452</u>	<u>51,041</u>	<u>(24,881)</u>	<u>2,619,940</u>	<u>1,784,921</u>	<u>835,019</u>	<u>2,619,940</u>
Profit before taxation	<u>5,471,635</u>	<u>2,341,332</u>	<u>1,552,387</u>	<u>592,077</u>	<u>936,275</u>	<u>10,893,706</u>	<u>9,835,047</u>	<u>1,058,659</u>	<u>10,893,706</u>
Income tax expense	<u>290,038</u>	<u>(23,607)</u>	<u>17</u>	<u>43,162</u>	<u>31,588</u>	<u>341,198</u>	<u>28,043</u>	<u>313,155</u>	<u>341,198</u>
Net profit for the period	<u>5,181,597</u>	<u>2,364,939</u>	<u>1,552,370</u>	<u>548,915</u>	<u>904,687</u>	<u>10,552,508</u>	<u>9,807,004</u>	<u>745,504</u>	<u>10,552,508</u>
<i>As at 31 Dec 2020</i>									
Segment total assets	<u>685,871,378</u>	<u>102,904,063</u>	<u>65,168,026</u>	<u>32,875,242</u>	<u>95,000,988</u>	<u>981,819,697</u>	<u>714,550,645</u>	<u>318,691,769</u>	<u>1,033,242,414</u>
Inter segment balances						<u>(62,759,165)</u>			<u>(114,181,882)</u>
Total assets						<u>919,060,532</u>			<u>919,060,532</u>
Segment total liabilities	<u>527,413,800</u>	<u>107,193,785</u>	<u>75,041,279</u>	<u>24,645,874</u>	<u>138,485,967</u>	<u>872,780,705</u>	<u>643,831,611</u>	<u>280,371,811</u>	<u>924,203,422</u>
Inter segment balances						<u>(62,759,165)</u>			<u>(114,181,882)</u>
Total liabilities						<u>810,021,540</u>			<u>810,021,540</u>

Notes to the consolidated financial statements (continued)

40 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

	31 Dec 2021	31 Dec 2020
Basic earnings per share:		
Net profit for the year (AED'000)	12,531,111	10,555,229
Less: payment on Tier 1 capital notes (AED'000)	(356,204)	(426,253)
Net profit after payment of Tier 1 capital notes (AED'000)	12,174,907	10,128,976
Weighted average number of ordinary shares:		
Number of shares issued / deemed to be outstanding from the beginning of the year ('000)	10,911,020	10,901,136
Weighted average number of shares exercised under the share options scheme ('000)	1,256	4,554
Weighted average number of ordinary shares ('000)	10,912,276	10,905,690
Basic earnings per share (AED)	1.12	0.93
Diluted earnings per share:		
Net profit for the year for calculating diluted earnings per share (AED'000)	12,174,907	10,128,976
Weighted average number of ordinary shares ('000)	10,912,276	10,905,690
Weighted average number of dilutive shares under share options scheme ('000)	650	1,172
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	10,912,926	10,906,862
Diluted earnings per share (AED)	1.12	0.93

Notes to the consolidated financial statements (continued)

41 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholder, directors and key management personnel of the Group. Key management personnel comprise those executive committee members "EXCO" of the Group who are involved in the strategic planning and decision making of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

FAB operates in a market dominated by entities directly or indirectly controlled by the Government of Abu Dhabi through its government authorities, agencies, affiliations and other organizations, collectively referred to as government-related entities. FAB has transactions with other government-related entities and these transactions are conducted in the ordinary course of FAB's business on terms agreed by the Board.

	31 Dec 2021				31 Dec 2020
	BOD AED'000	Major shareholders AED'000	Senior management AED'000	Total AED'000	Total AED'000
Balances with related parties at the reporting date are shown below:					
Financial assets	9,857,273	24,386,743	38,626	34,282,642	40,441,781
Financial liabilities	24,648,459	33,087,174	43,932	57,779,565	64,709,360
Contingent liabilities	5,040,271	16,662,275	-	21,702,546	17,020,801

Transactions carried out during the year ended with related parties are shown below:

	31 Dec 2021				31 Dec 2020
Interest & Other income	138,670	654,576	335	793,581	1,322,791
Interest expense	285,031	30,474	429	315,934	562,296

The details of the key management personnel remuneration is as below:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Salaries and other benefits	53,589	53,026

No ECL has been charged during the year on the related party balances.

42 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 Dec 2021 amounting to AED 8,453 million (31 Dec 2020: AED 6,786 million). Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

Notes to the consolidated financial statements (continued)

43 Special Purpose Entity

The Group has created a Special Purpose Entity (SPE) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPE are not controlled by the Group and the Group does not obtain benefits from the SPE operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPE assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPE is as follows:

Legal name	Activities	Country of incorporation	Holding 2021
One share PLC	Investment Company	Republic of Ireland	100%

44 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

Key sources of estimation uncertainty

(a) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(b) Impairment charge on financial assets

Impairment losses are evaluated as described in accounting policy 3(c)(vii).

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

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

The Group's internal credit grading model, which assigns PDs to the individual grades

- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It is the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Notes to the consolidated financial statements *(continued)*

44 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

(c) Impairment charge on property and equipment

Impairment losses are evaluated as described in accounting policy note 3(c)(vii).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(d) Contingent liability arising from litigations

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

(e) Share option scheme

The fair value of the share option scheme is determined using the Black-Scholes model. The model inputs comprise of share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

(f) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 46.

Further, as a result of IBOR Reform, when financial instruments transition to RFRs, any change to the referenced interest rate affects the cash flows of the financial instrument and therefore its fair value. The transition may also result in a change to the interest rate used for the purpose of discounting the cash flows, which also affects the financial instrument's fair value. Therefore, for measuring fair values of financial instruments using net present value and discounted cash flow models, the Group applies judgement to select the discount rate which is most appropriate for the financial instrument as IBOR reform affects the different possible interest rate benchmarks that could be selected.

(g) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions is disclosed in note 20.

Notes to the consolidated financial statements *(continued)*

44 Use of estimates and judgements

Critical accounting judgements in applying the Group's accounting policies include:

(h) Financial asset and liability classification

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances. The classification criteria is mentioned in policy 3(c) (ii).

(i) Qualifying hedge relationships

In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging relationship.

(j) Determination of fair value hierarchy of financial instruments

The Group's determination of fair value hierarchy of financial instruments is discussed in note 46.

(k) Structured entities

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as an agent for the investors in these funds, and therefore has not consolidated these funds.

(l) Operating segments

In preparation of the segment information disclosure, management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 39.

(m) Effective Interest Rate (EIR) method

The Group's EIR method, as explained in Note 3 (t), recognises interest income using a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset; or the amortised cost of the financial liability along with recognising the impact of transaction costs and fees and points paid or received that are an integral part of the effective interest rate. This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to the base rate and other fee income/expense that are integral parts of the instrument.

During the year, the Group has adopted IBOR reform Phase 2, which requires as a practical expedient for changes to the basis for determining contractual cash flows that are necessary as a direct consequence of IBOR reform, to be treated as a change to a floating rate of interest provided the transition from IBOR to RFR takes place on a basis that is economically equivalent. For changes that are not required by IBOR reform, the Group applies judgment to determine whether they result in the financial instrument being derecognised or adjust its carrying value as described below in 44 (n). Therefore, as financial instruments transition from IBOR to RFRs, the Group applies judgment to assess whether the transition has taken place on an economically equivalent basis. In making this assessment, the Group considers the extent of any changes to the contractual cash flows as a result of the transition and the factors that have given rise to the changes, with consideration of both quantitative and qualitative factors.

Notes to the consolidated financial statements *(continued)*

44 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Critical accounting judgements in applying the Group's accounting policies include *(continued)*:

(n) Derecognition of financial instruments

As explained in Note 3(c) (iv), the Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended during 2021 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition. For financial instruments measured at amortized cost and FVOCI, the Group first applies the practical expedient as described in Note 44 (m) above, to reflect the change in the referenced interest rate from an IBOR to an RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

(o) Hedge accounting

The Group has designated hedge relationships as both fair value and cash flow hedges. The Group's hedged items and hedging instruments (that have not transitioned) continue to be indexed to IBOR benchmark rates, which are mainly GBP Sterling and US Dollar LIBOR. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual. The Group's cash flow hedging relationships of sterling LIBOR and US dollar LIBOR risks extend beyond the anticipated cessation dates for both LIBORs. The Group expects that sterling LIBOR and US dollar LIBOR will be replaced by SONIA and SOFR, respectively, but there is uncertainty over the transition of and timing of transitioning the Group's hedged items and hedging instruments and over the amount of replacement rate cash flows. Such uncertainty may impact the hedging relationship – e.g. its effectiveness assessment and highly probable assessment.

During the year, the Group has adopted IBOR reform Phase 2, which provides temporary reliefs to enable the Group's hedge accounting to continue upon the replacement of an IBOR with an RFR. Under one of the reliefs, the Group may elect for individual RFRs designated as hedging the fair value or cash flows of the hedged item for changes due to a non-contractually specified component of interest rate risk, to be deemed as meeting the IFRS 9 requirement to be separately identifiable. For each RFR to which the relief has been applied, the Group judges that both the volume and market liquidity of financial instruments, that reference the RFR and are priced using the RFR, are already sufficient and will increase during the 24- month period with the result that, the hedged RFR risk component is separately identifiable in the change in fair value or cash flows of the hedged item.

Notes to the consolidated financial statements (continued)

45 Financial risk management

Introduction and overview

Risk management framework

The primary objective of the Group is to manage risk and provide risk adjusted returns to the shareholders in line with the accepted risk profile. In the course of doing its regular business activities, the Group gets exposed to multiple risks notably credit risk, market risk, liquidity and funding risk, interest rate risk, operational risk and other risks like compliance risk, strategic risk, reputation risk, environment social governance (ESG) risk, information security risk and business continuity. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Group. The Risk management tone is set right at the top from the Board of Directors ("BOD") and gets implemented through a well-defined risk management structure and framework.

Composition of Board

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Group. The BOD has delegated authority to specialist committees who support the Board in execution of its responsibilities. The day-to-day management of the Group is conducted by the Group Chief Executive Officer ("GCEO") and the Group Executive Committee as delegated by the Board. The BOD has overall responsibility for the Group including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. According to the Group Articles of Association, the BOD should comprise of eleven members, currently it comprises ten members, a member will be considered for election in 2021 General Assembly. Each Director holds his position for three years, which may then be renewed for a further three year term. The Board of Directors of the Bank's subsidiaries has the same fiduciary responsibilities towards their respective entities as the Group's Directors have towards the Bank.

Corporate Governance Framework

The Group has a comprehensive Corporate Governance Framework that puts in place rules, processes and policies through which BOD and Senior Management manages the Group. The BOD drives the implementation of the corporate governance standards and in accordance with its charter has oversight responsibility for the Group's corporate governance framework. The Group's corporate governance standards bind its signatories to the highest standards of professionalism and due diligence in the performance of their duties. The Group Chief Risk Officer ("GCRO") is the custodian of the Corporate Governance Framework document.

Risk Management Structure

The BOD approves risk management plans for the Bank, its subsidiaries, its associates and international offices including representative offices and overseas branches. Under authority delegated by the BOD, the Board Risk and Compliance Committee ("BRCC") through its separately convened risk management meetings formulates high-level enterprise risk management policy, exercises delegated risk authorities and oversees the implementation of risk management framework and controls. The GCRO functionally reports to this Committee.

Board Level Committees within the Group

Board Management Committee ("BMC")

The BMC approves and oversees execution of the FAB Group's business plan per the strategy approved by the Board and oversees and reviews material aspects of the business of the FAB Group. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BMC charter.

Board Risk and Compliance Committee ("BRCC")

The BRCC provides oversight and advice to the Group Board in relation to current and potential future risk and compliance exposures of the FAB Group. It also considers and helps direct future risk strategy, including determination of risk appetite and tolerance as well as promote a risk and compliance awareness culture among the Group. The Committee meets quarterly or more frequently as deemed necessary. The bank's risk management function has a direct reporting line to the BRCC through the Group Chief Risk Officer. Compliance has a direct reporting line on compliance related matters through the Head of Compliance. The composition, guiding principles and detailed roles and responsibilities are covered in the BRCC charter.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

Risk management framework (continued)

Board Level Committees within the Group (continued)

Board Audit Committee ("BAC")

BAC ensures oversight of the effectiveness of the internal control systems and the quality and integrity of financial statements and financial reporting. In addition, it reviews, approves and oversees the internal and external audit programs and ensures coordination between internal and external auditors. The Group Chief Audit Officer ("GCAO") provides reports to the Committee on internal controls and the Head of Compliance reports direct to the BAC on compliance related matters such as whistleblowing. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BAC charter.

Remuneration and Nomination Committee ("REMCO")

The REMCO recommends and oversees the appointment and termination of Group Board Directors and succession planning for the Group Executive Committee members. This includes an assessment of the skills, knowledge and expertise needed to ensure they are positioned to discharge their responsibilities in the interests of the shareholders and FAB Group. The Committee also reviews and recommends to the Board FAB's reward policy framework, approves and oversees reward design and ensures it is appropriate and consistent with the FAB Group's culture, values, business performance and risk strategy. The Committee meets at least twice a year or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO charter.

Management Level Committees within the Group

Management committees are responsible for implementing the Risk management framework. The major functions of the nine management committees are listed below:

Group Executive Committee ("EXCO")

The Group Executive Committee ("Group EXCO") is FAB Group's senior most management level committee and it operates under a delegated authority from the FAB Board. It is responsible for identifying matters required or appropriate for escalation to the Group Board or Board Committees. The Group EXCO also supports the Group CEO to determine and implement the Bank's strategy as approved by the FAB Board.

The key responsibilities of the Committee include decisions on the Bank's strategy, annual budgets, capital management, risk management and FAB's more material policies and procedures. The Group EXCO may delegate certain authorities and powers to management committees and individuals, but the Group EXCO reserves the authority to deal with strategy, annual budget and structure; financial reporting and controls; capital management; risk and internal control; contracts; corporate governance matters; executive remuneration and human resources policies, and group policies generally and any other matters in its discretion other than matters reserved to the Board. EXCO consists of the executive management team and is chaired by the GCEO. The composition, guiding principles and detailed roles and responsibilities of EXCO are covered in the EXCO charter.

Group Credit Committee ("GCC")

GCC assists in the development and implementation of the Bank's credit, investment strategy and the related policies and procedures. The aim of GCC is to have an overall credit oversight of the Group and decide on credit policy and governance related matters. The composition, guiding principles and detailed roles and responsibilities of GCC are covered in the GCC Charter.

Group Risk Committee ("GRC")

GRC assists BRCC and EXCO in overseeing the Group-wide risk strategy and exposures to enable integrated risk management in an effective manner. The primary objective of GRC is to define, develop and periodically monitor the Group's risk appetite along with its related methodology, parameters, targets and tolerances taking into account the Bank's strategy and business planning. GRC reports relevant matters to the EXCO and BRCC as appropriate, advising and informing them on the Group's risk appetite and framework. The composition, guiding principles and detailed roles and responsibilities of GRC are covered in the GRC charter.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

Introduction and overview *(continued)*

Risk management framework *(continued)*

Management Level Committees within the Group *(continued)*

Group Compliance Committee ("GCC")

Group Compliance Committee assists the BRCC in fulfilling its objective of overseeing the Bank's regulatory responsibilities as well as ensuring the Bank's compliance with the applicable laws and regulations issued by various regulatory authorities across the Group. The Committee also oversees that the relevant policies and procedures, including, but not limited to the Group Code of Ethics are complied with across the Group. The composition, guiding principles and detailed roles and responsibilities of Group Compliance Committee are covered in the Group Compliance Committee charter.

Group Asset Liability Management Committee ("GALCO")

The G-ALCO is the driving force and key decision maker behind the structure and quality of the balance sheet. It is directly accountable to the BRCC for ensuring that the risks within the Group's asset and liability position are prudently managed. The composition, guiding principles and detailed roles and responsibilities of G-ALCO are covered in the G-ALCO charter.

Human Resources Steering Committee ("HRSC")

HRSC assists the Group EXCO and the REMCO to implement strategic and operational HR initiatives to deliver the Group's long-term shareholder value. The Committee will be the formal sponsor of all material HR initiatives across the Bank in line with the Bank's Employee Value Proposition ("EVP"). The composition, guiding principles and detailed roles and responsibilities of HRSC are covered in the HRSC charter.

Group Operational & Fraud Risk Committee ("GO&FRC")

GO&FRC assists the Group EXCO and the Board Risk and Compliance Committee ("BRCC") in fulfilling the Bank's Operational and Fraud Risk Management. The key responsibilities of this committee are to define guidelines to identify and manage Operational & Fraud risks in all new products, processes, and activities, defining scope, policy, objectives, assumptions, and roles / responsibilities of the Group's Operational & Fraud Risk Management Policies. The composition, guiding principles and detailed roles and responsibilities of GO&FRC are covered in the GO&FRC charter.

Group Technology Risk and Information Security Committee ("GTRISC")

GTRISC assists the Group EXCO and the BRCC in fulfilling their objectives of overseeing, reviewing and taking decisions on Technology, Information Security, Data Privacy and Business Continuity Management (BCM) related risk management status and health, including its alignment to the risk appetite of the FAB Group. The composition, guiding principles and detailed roles and responsibilities of GTRISC are covered in the GTRISC charter.

Group ESG Committee ("G-ESGC")

G-ESGC is the senior authority at management level for decision making on all ESG related matters of the Group. The primary objective of the G-ESGC is to promote and oversee the ESG strategy, culture, and awareness across FAB Group. The composition, guiding principles and detailed roles and responsibilities of G-ESGC are covered in the G-ESGC charter.

Group Risk Management

The Group has a centralized Risk Management functions led by the GCRO. The Risk Management function comprises Enterprise Risk, ESG Risk, Credit Risk, Operational Risk, Fraud Risk and Investigations, Market and Liquidity Risk Management Unit, Information Security and Business Continuity Management unit and Corporate Governance function.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

Risk management framework (continued)

Enterprise Risk Management Policy Framework

FAB's Enterprise Risk Management Policy ("ERMP") framework aims to accomplish its core values and purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across FAB including local and international branches, subsidiaries, associates and foreign representative offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BOD that the risks threatening FAB's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system. The ERMP framework consists of specific policy documents covering all material risks across FAB; which include ERM policy, Risk Appetite Policy, Corporate and Investment Banking Credit Policy, Personal Banking Credit Policy, IFRS 9 Impairment Policy, ESG Risk Policy and framework, Market and Liquidity Risk related policies, Operational Risk Management Policy, Fraud Risk Policy, Compliance Risk related policies, Information Security risk related policies, BCM Policy, Internal Capital Adequacy Assessment Process ("ICAAP") Policy, New Products Approval policy, Outsourcing Policy, Model Risk Management Policy, Strategic Risk Management Policy, Reputational Risk Management Policy, Corporate Governance Framework etc. In addition to these risk management policies, the Group has also put in place detailed operational policies, procedures and programs wherever needed.

FAB manages risks using three lines of defense comprising of business units and enabling functions, control units and Internal Audit. Business units and enabling functions, as the first line of defense, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Group Credit, Group Risk and Legal and Group Compliance, as the second line of defense, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defense. The Group Chief Risk Officer ("GCRO") has a direct reporting line to the BRCC to ensure the independence of Group Risk from business. Internal audit, as the third line of defense, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defense. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

(a) Credit risk

Credit risk is the risk that a customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the Group's loans, advances and Islamic financing, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

Management of credit risk

Credit risk identification and assessment at FAB Group is carried out through a comprehensive mechanism comprising three levels of defense. The first level of defense lies with the business units and is responsible for maintaining a sound credit quality of Assets in line with the approved business strategy and credit risk appetite. The second level of defense is with the Group Credit Unit that assesses the risk on a customer and facility level and ensures proper documentation of customer, facility and security documents along with Group Risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defense with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Group. The unit also reviews the policy documents on a regular basis.

As a part of credit risk monitoring and control framework, regular risk monitoring at both individual and portfolio levels is carried out along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation (CRM) include netting agreements, collaterals, guarantees, credit derivatives and Stand by Letter of Credit (SBLC). The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by appropriate authority and have appropriate legal opinions to verify and ensure its enforceability.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

Risk management framework (continued)

(a) Credit risk (continued)

COVID-19 and Expected Credit Loss (ECL)

On 11 March 2020, the World Health Organization ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty and governments and authorities have instigated a host of measures to contain or delay the spread of the virus.

On 27 March 2020, the IASB issued a guidance note, advising that both the assessment of Significant Increase in Credit risk ("SICR") as explained below in note 45 (a) and the measurement of Expected Credit Losses ("ECLs") are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. It is difficult at this time to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis.

In line with other global regulators, the Central Bank of the UAE, under the Targeted Economic Support Scheme ("TESS"), had facilitated the provision of temporary relief from the payments or deferral of principal and/or interest / profit on outstanding loans for all affected private sector corporates, SMEs and individuals with specific conditions. Additionally, the program seeks to facilitate additional lending and liquidity capacity of banks, through the relief of existing capital and liquidity buffers, which have been further elaborated on in the sections below.

A key element in determining the ECL is the assessment of whether a SICR has occurred or not, and hence whether a lifetime Probability of Default (PD) or a 12-month PD is applied. UAE government's support measures including the Central Bank's TESS program, have been considered for SICR assessment which include both quantitative and qualitative criteria and are subject to management judgment due to the rapidly-changing dynamics of COVID-19. The Group continues to closely monitor the impact of COVID-19 on the Bank's portfolio.

CBUAE has recently phased out the deferrals under TESS by end of 31 December 2021, however, it has extended the relief granted under TESS for capital, liquidity and stable funding requirements, to all banks operating in the UAE, from 31 December 2021 to 30 June 2022. FAB, however on selective basis continues to support clients through deferrals in line with the relief measures announced earlier.

In addition to the management of credit risk described above, the Group has undertaken preemptive measures in response to the COVID-19 outbreak. These include significantly reduced underwriting to companies in affected sectors, payment holidays on a case by case basis in the Private sector and SME segment, in line with CBUAE relief program and depending on their underlying credit assessment.

Currently, there are no deferral relief considered under TESS programme as of Dec 2021, however, CBUAE has extended the relief granted under TESS whereby Banks and finance companies may offer new working capital loans, bridge loans, or any other new financing to private sector corporates, SMEs, and individuals in the UAE under the TESS recovery program to facilitate provision of relief and recovery of their corresponding customers negatively affected by COVID-19 repercussions until June 2022. Currently, the Group does not have any new exposures granted under the TESS Recovery programme as of Dec 2021.

Further, the Group has undertaken comprehensive review of its clients which are susceptible to macroeconomic conditions and accordingly have taken preemptive action identifying clients benefitting from deferrals under two main categories as required by Central bank:

Group 1: are the customers who are not expected to face substantial change in their creditworthiness beyond liquidity issue caused by the COVID-19 crisis.

The clients in this sub segment could originally be in Stage 1 or in Stage 2, prior to being subject to deferrals. These clients are expected to remain in their original stage as long as the pandemic has an effect on their business, unless factors unrelated to Covid-19 trigger a credit deterioration. These accounts are not considered to have significant deterioration in credit quality to trigger a stage migration and the staging maybe retained at the same level.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk

COVID-19 and Expected Credit Loss (ECL) (continued)

Group 2: customers that are significantly expected to be impacted by COVID-19.

Clients in this sub segment could originally be in Stage 1 or in Stage 2, prior to being subject to deferrals. This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. For these customers, the deterioration in credit risk maybe so significant that it may trigger a migration to stage 2 in the month following the one that deferrals are processed. In exceptional circumstances the migration to Stage 3 would be triggered due to liquidation / bankruptcy caused by non-financial events or significant disruptions threatening the long-term sustainability of clients' business models.

The Grouping of the client is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Bank.

Macro economic factors

The bank uses a range of macro-economic factors in ECL assessment relevant to multiple jurisdictions of operations which are disclosed in the subsequent notes to this section. The bank periodically reviews and updates selected economic series and applies judgment in determining what constitutes reasonable and forward-looking estimates.

To reflect the current uncertain economic environment, the Group has updated its macro-economic forecast accordingly and taken the impact arising on the ECL calculation and hence management overlays were not required.

Clients benefiting from deferrals by Segment:

Table 1: Deferrals information as at 31st Dec 2021.

Segment	Stage	Group	Payment deferrals AED'000	Exposure at Default AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	66,029	1,600,845	12,560
		Group 2	1,901	14,743	275
	Stage 2	Group 1	200	3,482	351
		Group 2	1,424	63,145	1,967
	Stage 3	Group 2	36	789	660
Total			69,590	1,683,004	15,813
Wholesale banking	Stage 1	Group 1	3,705,786	14,003,319	100,722
		Group 2	29,366	273,172	15,715
	Stage 2	Group 1	1,626,236	3,171,582	623,417
		Group 2			
	Stage 3	Group 2	23,965	67,268	31,809
Total			5,385,353	17,515,341	771,663

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

COVID-19 and Expected Credit Loss (ECL) (continued)

Clients benefiting from deferrals by Segment (continued):

Table 2: ECL change (flow) since beginning of year to date

	Non-credit impaired		Credit impaired	
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Retail banking				
ECL allowance as at 1 Jan 2021	35,605	905	147	36,657
Credit card	(10)	-	-	(10)
Housing loan	(24)	269	-	245
Personal loan	(21,790)	318	513	(20,959)
Auto loan	(1,077)	12	-	(1,065)
Others	131	814	-	945
	<u>12,835</u>	<u>2,318</u>	<u>660</u>	<u>15,813</u>
ECL allowance as of 31 Dec 2021				

	Non-credit impaired		Credit impaired	
	Stage 1	Stage 2	Stage 3	Total
	AED'000	AED'000	AED'000	AED'000
Wholesale banking				
ECL allowance as at 1 Jan 2021	110,221	237,746	4,648	352,615
Emirates government	(98)	-	-	(98)
GRE (Govt. ownership >50%)	214	-	-	214
Other Corporates	7,568	401,355	888	409,811
High net worth Individuals	(3,081)	-	-	(3,081)
SMEs	(14,102)	31	26,273	12,202
	<u>100,722</u>	<u>639,132</u>	<u>31,809</u>	<u>771,663</u>
ECL allowance as at 31 Dec 2021				

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

COVID-19 and Expected Credit Loss (ECL) (continued)

Clients benefiting from deferrals by Segment (continued):

	Non-credit impaired				Credit impaired				Total	
	Stage 1		Stage 2		Stage 3		POCI			
	Exposure at Default	Impairment allowance	Exposure at Default	Impairment allowance	Exposure at Default	Impairment allowance	Exposure at Default	Impairment allowance	Exposure at Default	Impairment allowance
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Retail banking										
As of 1 Jan 2021	1,378,966	35,605	70,570	905	222	147	-	-	1,449,758	36,657
Transfers from stage 1 to stage 2	(7,384)	(297)	7,384	297	-	-	-	-	-	-
Transfers from stage 2 to stage 1	13,266	465	(13,266)	(465)	-	-	-	-	-	-
Transfers from stage 1&2 to stage 3	(524)	(41)	-	-	524	41	-	-	-	-
Transfers from stage 3 to stage 1&2	222	147	-	-	(222)	(147)	-	-	-	-
Other movements	231,042	(23,044)	1,939	1,581	265	619	-	-	233,246	(20,844)
As of end of at 31 Dec 2021	1,615,588	12,835	66,627	2,318	789	660	-	-	1,683,004	15,813
Wholesale banking										
As of 1 Jan 2021	15,774,424	110,221	3,043,399	237,746	21,054	4,648	-	-	18,838,877	352,615
Transfers from stage 1 to stage 2	(588,012)	(23,797)	588,012	23,797	-	-	-	-	-	-
Transfers from stage 2 to stage 1	29,701	662	(29,701)	(662)	-	-	-	-	-	-
Transfers from 1&2 to stage 3	(42,406)	(1,255)	(30,037)	(2,293)	72,443	3,548	-	-	-	-
Transfers from stage 3 to stage 1&2	-	-	3,637	-	(3,637)	-	-	-	-	-
Other movements	(1,170,388)	14,891	(130,556)	380,544	(22,592)	23,613	-	-	(1,323,536)	419,048
As of end of at 31 Dec 2021	14,003,319	100,722	3,444,754	639,132	67,268	31,809	-	-	17,515,341	771,663

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, and FVOCI debt investments without taking into account collateral or other credit enhancement. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

As of 31 Dec 2021	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired ⁴		Total	
	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000
Balances with central banks	255,536,059	38,466	1,495,763	118,064	-	-	-	-	257,031,822	156,530
Due from banks and financial institutions	18,508,590	17,075	874,716	40,637	-	-	-	-	19,383,306	57,712
Reverse repurchase agreements	46,288,005	27,360	-	-	-	-	-	-	46,288,005	27,360
Loans, advances and Islamic financing ¹	387,958,280	1,624,630	18,324,871	3,397,499	16,807,188	7,358,566	5,692,979	847,396	428,783,318	13,228,091
Non-trading investments										
Amortised cost	4,492,104	599	-	-	-	-	-	-	4,492,104	599
FVOCI Debt ²	139,907,615	101,389	72,941	7,522	-	-	-	-	139,980,556	108,911
Other assets ³	13,158,761	87,781	344,746	1,222	667	399	-	-	13,504,174	89,402
Unfunded exposure	210,751,733	154,456	4,694,926	246,568	1,188,949	417,425	7,986	5,147	216,643,594	823,596
	<u>1,076,601,147</u>	<u>2,051,756</u>	<u>25,807,963</u>	<u>3,811,512</u>	<u>17,996,804</u>	<u>7,776,390</u>	<u>5,700,965</u>	<u>852,543</u>	<u>1,126,106,879</u>	<u>14,492,201</u>

¹The exposure represents gross loans, advances and Islamic financing.

²The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.

³On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

⁴The Group, from an internal credit quality point of view, considers AED 5,563 million as par to non-performing loans, advances and Islamic financing.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

As of 31 Dec 2020	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired ⁴		Total	
	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000
Balances with central Banks	222,634,395	15,889	3,441,397	120,667	-	-	-	-	226,075,792	136,556
Due from banks and financial institutions	26,700,399	35,828	730,393	37,325	-	-	-	-	27,430,792	73,153
Reverse repurchase Agreements	44,088,756	19,515	-	-	-	-	-	-	44,088,756	19,515
Loans, advances and Islamic financing ¹	362,778,965	2,592,811	20,275,910	3,136,473	15,166,539	6,013,657	5,067,332	695,474	403,288,746	12,438,415
Non-trading investments										
Amortised cost	3,352,977	345	-	-	-	-	-	-	3,352,977	345
FVOCI Debt ²	127,455,847	111,872	153,568	21,168	-	-	-	-	127,609,415	133,040
Other assets ³	10,758,453	90,301	25,221	451	709	456	-	-	10,784,383	91,208
Unfunded exposure	234,823,309	284,365	5,379,356	130,290	1,132,552	294,777	-	-	241,335,217	709,432
	<u>1,032,593,101</u>	<u>3,150,926</u>	<u>30,005,845</u>	<u>3,446,374</u>	<u>16,299,800</u>	<u>6,308,890</u>	<u>5,067,332</u>	<u>695,474</u>	<u>1,083,966,078</u>	<u>13,601,664</u>

¹The exposure represents gross loans, advances and Islamic financing¹.

²The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.

³On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

⁴The Group, from an internal credit quality point of view, considers AED 4,885 million as par to non-performing loans, advances and Islamic financing.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

The movement of gross exposure is as follows:

Loans, advances and Islamic financing	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 Jan 2021	362,778,965	20,275,910	15,166,539	5,067,332	403,288,746
Increase due to acquisition	5,774,324	1,221,716	-	432,786	7,428,826
Transfers:					
Transfer from Stage 1 to Stage 2	(3,994,898)	3,994,898	-	-	-
Transfer from Stage 1 to Stage 3	(1,852,162)	-	1,852,162	-	-
Transfer from Stage 2 to Stage 1	4,829,791	(4,829,791)	-	-	-
Transfer from Stage 2 to Stage 3	-	(3,031,690)	3,031,690	-	-
Transfer from Stage 3 to Stage 2	-	872,279	(872,279)	-	-
Transfer from Stage 3 to Stage 1	75,247	-	(75,247)	-	-
	<u>(942,022)</u>	<u>(2,994,304)</u>	<u>3,936,326</u>	<u>-</u>	<u>-</u>
Net non-stage movements	20,368,101	(139,181)	8,409	340,121	20,577,450
Net amounts written-off	(21,088)	(39,270)	(2,304,086)	(147,260)	(2,511,704)
Balance as at 31 Dec 2021	387,958,280	18,324,871	16,807,188	5,692,979	428,783,318

Unfunded exposure					
Balance as at 1 Jan 2021	234,823,309	5,379,356	1,132,552	-	241,335,217
Increase due to acquisition	842,918	113,613	-	7,934	964,465
Transfers:					
Transfer from Stage 1 to Stage 2	(2,082,209)	2,082,209	-	-	-
Transfer from Stage 1 to Stage 3	(17,761)	-	17,761	-	-
Transfer from Stage 2 to Stage 1	630,618	(630,618)	-	-	-
Transfer from Stage 2 to Stage 3	-	(266,546)	266,546	-	-
Transfer from Stage 3 to Stage 2	-	56,791	(56,791)	-	-
Transfer from Stage 3 to Stage 1	12	-	(12)	-	-
	<u>(1,469,340)</u>	<u>1,241,836</u>	<u>227,504</u>	<u>-</u>	<u>-</u>
Net non-stage movements	(23,445,154)	(2,039,879)	(171,107)	52	(25,656,088)
Balance as at 31 Dec 2021	210,751,733	4,694,926	1,188,949	7,986	216,643,594

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

The movement of gross exposure is as follows:

Loans, advances and Islamic financing	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 Jan 2020	385,583,423	19,642,585	11,768,567	4,735,753	421,730,328
Transfers:					
Transfer from Stage 1 to Stage 2	(6,517,957)	6,517,957	-	-	-
Transfer from Stage 1 to Stage 3	(2,179,515)	-	2,179,515	-	-
Transfer from Stage 2 to Stage 1	1,847,825	(1,847,825)	-	-	-
Transfer from Stage 2 to Stage 3	-	(2,763,611)	2,763,611	-	-
Transfer from Stage 3 to Stage 2	-	459,887	(459,887)	-	-
Transfer from Stage 3 to Stage 1	55,338	-	(55,338)	-	-
	(6,794,309)	2,366,408	4,427,901	-	-
Net non-stage movements	(16,000,156)	(1,714,666)	151,699	441,006	(17,122,117)
Net amounts written-off	(9,993)	(18,417)	(1,181,628)	(109,427)	(1,319,465)
Balance as at 31 Dec 2020	362,778,965	20,275,910	15,166,539	5,067,332	403,288,746
Unfunded exposure					
Balance as at 1 Jan 2020	200,490,346	5,341,218	1,532,564	-	207,364,128
Transfers:					
Transfer from Stage 1 to Stage 2	(1,393,006)	1,393,006	-	-	-
Transfer from Stage 1 to Stage 3	(50,211)	-	50,211	-	-
Transfer from Stage 2 to Stage 1	916,478	(916,478)	-	-	-
Transfer from Stage 2 to Stage 3	-	(210,722)	210,722	-	-
Transfer from Stage 3 to Stage 2	-	6,861	(6,861)	-	-
Transfer from Stage 3 to Stage 1	-	-	-	-	-
	(526,739)	272,667	254,072	-	-
Net non-stage movements	34,859,702	(234,529)	(654,084)	-	33,971,089
Balance as at 31 Dec 2020	234,823,309	5,379,356	1,132,552	-	241,335,217

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

The external ratings for trading securities and non-trading investments are disclosed below:

	Non-trading investments		Investments at fair value through profit or loss	
	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000
AAA	30,281,925	19,851,021	722,673	565,421
AA to A	79,096,748	81,811,445	17,189,979	10,291,770
BBB to B	32,402,191	26,047,880	17,725,908	6,648,558
CCC and below	142,508	77,676	82,479	-
Unrated	3,552,617	3,786,085	9,851,213	3,760,494
	145,475,989	131,574,107	45,572,252	21,266,243
Less: expected credit losses	(599)	(345)	-	-
	145,475,390	131,573,762	45,572,252	21,266,243

Unrated investments primarily consist of investments in Private equities and investments in equities which doesn't carry credit risk. Investments at fair value through profit or loss are neither past due nor impaired.

Collateral held and other credit enhancements

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation ("CRM") include netting agreements, collaterals, guarantees, credit derivatives and Stand by Letters of Credits ("SBLC"). The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by the appropriate authority and have appropriate legal opinions to verify and ensure its enforceability.

The Group holds collateral and other credit enhancements against certain of its credit exposures. An estimate of the collateral coverage (after the application of haircuts) against net credit-impaired loans, advances and Islamic financing is shown below:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Collateral value cover		
0 – 50%	11,205,953	10,025,681
51 – 100%	3,999,618	4,199,749
Above 100%	1,763,711	1,619,624
Total net credit impaired loans, advances and Islamic financing	16,969,282	15,845,054

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

While the Group might not have repossessed significant amount of collateral in 2020 and 2021, maintaining repossession rights assist the Group in the restructuring and settlement of credit-impaired loans, advances and Islamic financing.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Derivatives, reverse sale-and-repurchase agreements and securities borrowing

The Group mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

Derivative transactions are transacted on exchanges, with clearing counterparties ("CCPs") or entered into under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed as per the jurisdiction netting rules and the amount (due or payable) in settlement with the counterparty. The Group usually executes a credit support annex in conjunction with the ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

The Group's sale-and-repurchase, and reverse sale-and-repurchase, transactions and securities borrowing and lending are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

Loans, advances and Islamic financing to customers

The general credit worthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loans, advances and Islamic financing extended to it. However, collateral provides additional security and the Group generally requests that corporate borrowers provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Because of the Group's focus on corporate customers' creditworthiness, valuation of property collateral are conducted once in two years and more frequently for credit-impaired assets.

Off-balance sheet

The Group applies the same risk management policies for off- balance sheet risks as it does for its on- balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans, advances and Islamic financing. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

See accounting policy 3(c)(vii).

Significant increase in credit risk

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

For non-retail exposure, objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- Probability of default at origination adjusted for the loan maturity
- Probability of default at current reporting date adjusted for the remaining life of the loan

Similarly, for retail portfolio, the current and historical performance of the account is used estimate whether a significant increase in credit risk has occurred.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Significant increase in credit risk *(continued)*

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. These assessments usually reflect in placement of such exposures under certain categories, for example watch list. In these cases, PD gets calculated on lifetime basis.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured based on 12-month PD. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. The Group is also complying with all probation period requirements in relevant jurisdictions stipulated by local central banks.

In addition to the quantitative test based on movement of PD, the Group also applies expert credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

Credit risk rating

The Group allocates each Corporate exposure a credit risk rating based on variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk ratings are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk ratings are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates down the curve.

Each exposure is allocated to a credit risk rating on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk rating.

Definition of default

The Group considers a financial asset to be in default when:

- For non-retail segment, a default shall be considered to have occurred with regard to a particular obligor when FAB Group considers that the obligor is unlikely to pay its credit obligations to itself in full, without recourse by it to actions such as realizing security (if held).

Some off balance sheet exposures such as bank guarantees, letters of credit etc. should be treated as impaired if the bank believes it is likely they will be called upon and the customer will not be able to meet these commitments. Where the off balance sheet exposure is in the form of a Global Market contracts and there is doubt that all contractual future cash flows will be received from the counterparty, the bank should assess the net marked to market exposure to the counterparty taking into account any enforceable netting arrangements in place. The net position (if due from) thus arrived will be considered impaired.

- For retail, a facility or any material credit obligation to the Group is more than 90 days past due;

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes (see 45(e)).

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Incorporation of forward-looking information

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at 31 December 2021 included the following key indicators for the years ending 31 December 2022 to 2026.

Region	Macro Variable ^{1,2}	Scenario	2022	2023	2024	2025	2026
MENA	Oil Price	Base	-11.15%	3.35%	1.47%	4.18%	3.11%
		Upside	-7.25%	3.58%	1.44%	3.99%	3.02%
		Downside	-36.77%	33.95%	6.08%	8.21%	4.56%
	UAE GDP	Base	2.01%	2.59%	2.67%	2.75%	2.66%
		Upside	5.63%	3.13%	2.02%	2.45%	2.28%
		Downside	-6.00%	2.75%	5.46%	5.15%	4.53%
	UAE Housing Price Index	Base	-0.33%	0.69%	2.20%	2.97%	3.20%
		Upside	2.41%	2.65%	0.95%	0.21%	0.92%
		Downside	-9.50%	-3.54%	5.16%	7.67%	7.07%
	Egypt GDP	Base	6.51%	5.00%	4.52%	4.52%	4.45%
		Upside	8.54%	4.73%	4.05%	4.37%	4.45%
		Downside	4.68%	5.50%	5.51%	5.31%	4.88%
	Egypt Equity Index	Base	3.33%	4.06%	5.02%	5.43%	4.87%
		Upside	6.03%	2.39%	4.56%	2.70%	4.02%
		Downside	-6.21%	18.24%	9.23%	6.92%	4.55%
UK	UK GDP	Base	4.05%	2.84%	1.34%	0.99%	1.31%
		Upside	5.43%	1.93%	1.23%	0.97%	1.10%
		Downside	0.54%	5.11%	2.20%	1.52%	1.34%
	UK Equity Index	Base	-3.02%	0.75%	3.16%	3.85%	3.31%
		Upside	3.28%	-3.05%	0.17%	2.16%	3.42%
		Downside	-8.56%	8.94%	8.15%	5.63%	3.31%

(1) Represents the average annualized increase / decrease over the period.

(2) There are additional macro variables factors used for other regions which are relevant to their market.

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 3(c)(iv).

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

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

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Modified financial assets (continued)

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Group's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Group's ability to collect interest and principal and the Group's previous experience of similar forbearance action. As part of this process, the Group evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (see Note 3(c)(vii)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. The Group determines the twelve-month period to commence from the date of signing of the agreement for restructuring. As at the reporting date, the Group has renegotiated the following exposures:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Loans with renegotiated terms		
Gross carrying amount	11,221,153	11,465,052
Impaired amount	3,277,389	2,841,479
Allowance for impairment	2,612,235	2,889,749

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Measurement of ECL

The key inputs into the measurement of ECL are:

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

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

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical models tailored to the various categories of counterparties and exposures. These statistical models are based on internal data comprising both quantitative and qualitative factors and market data (where available). PDs are estimated considering the contractual maturities of exposures and estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD term structure based on current collateral, counterparty industry, country of risk and recovery costs that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios incorporating the impact of change in oil prices, equity index and other parameters.

EAD represents the expected exposure at the time of default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contractual obligations. For undrawn commitments and unfunded facilities such as letter of credit and letter of guarantees, EAD represents the amount of exposure when the facility becomes payable and the funded conversion is based on factors provided by Basel.

However, for credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over contractual period and EAD is computed using internal model. Though the Group can cancel the limits with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level.

Modelling of a parameter is carried out on a collective basis wherein the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- historical performance;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in the Group's accounting policy; see Note 3(c)(vii).

	Stage 1 ¹ AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 Jan 2021	3,150,926	3,446,374	6,308,890	695,474	13,601,664
Increase due to acquisition	51,636	129,844	-	285,747	467,227
Transfers:					
Transfer from Stage 1 to Stage 2	(109,271)	109,271	-	-	-
Transfer from Stage 1 to Stage 3	(71,619)	-	71,619	-	-
Transfer from Stage 2 to Stage 1	141,390	(141,390)	-	-	-
Transfer from Stage 2 to Stage 3	-	(445,836)	445,836	-	-
Transfer from Stage 3 to Stage 2	-	185,139	(185,139)	-	-
Transfer from Stage 3 to Stage 1	13,647	-	(13,647)	-	-
	(25,853)	(292,816)	318,669		
Impact of change in provision	(1,123,060)	553,062	3,246,413	17,967	2,694,382
Write-offs and other adjustments	(1,893)	(24,952)	(2,097,582)	(146,645)	(2,271,072)
Balance as at 31 Dec 2021	2,051,756	3,811,512	7,776,390	852,543	14,492,201

¹On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Amounts arising from ECL (continued)

Loss allowance (continued)

	Stage 1 ¹ AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 Jan 2020	2,203,599	3,488,863	4,885,931	1,478,975	12,057,368
Transfers:					
Transfer from Stage 1 to Stage 2	(75,265)	75,265	-	-	-
Transfer from Stage 1 to Stage 3	(60,949)	-	60,949	-	-
Transfer from Stage 2 to Stage 1	152,032	(152,032)	-	-	-
Transfer from Stage 2 to Stage 3	-	(507,951)	507,951	-	-
Transfer from Stage 3 to Stage 2	-	243,199	(243,199)	-	-
Transfer from Stage 3 to Stage 1	18,233	-	(18,233)	-	-
	34,051	(341,519)	307,468	-	-
Impact of change in provision	913,751	302,739	2,225,884	(679,344)	2,763,030
Write-offs and other adjustments	(475)	(3,709)	(1,110,393)	(104,157)	(1,218,734)
Balance as at 31 Dec 2020	3,150,926	3,446,374	6,308,890	695,474	13,601,664

¹On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

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

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	Gross maximum exposure 31 Dec 2021 AED'000	Gross maximum exposure 31 Dec 2020 AED'000
Balances with Central Bank	4	257,031,822	226,075,792
Investments at fair value through profit or loss	5	36,650,351	19,393,786
Due from banks and financial institutions	6	19,383,306	27,430,792
Reverse repurchase agreements	7	46,288,005	44,088,756
Loans, advances and Islamic financing	8	428,783,318	403,288,746
Non-trading investments	9	144,472,660	130,962,392
Other assets excluding prepayments		18,125,859	15,793,737
Total		950,735,321	867,034,001
Derivatives held for trading	38	22,305,976	29,814,440
Derivatives held for hedging	38	1,967,790	2,744,441
Total		24,273,766	32,558,881
Contingent liabilities	37	165,236,122	166,752,876
Commitment	37	51,407,472	74,582,341
Total		216,643,594	241,335,217
Total credit risk exposure		1,191,652,681	1,140,928,099

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

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Concentrations by industry sector

	Loans, advances and Islamic financing		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Agriculture	1,533,714	727,782	-	-	-	-	63	-
Energy	37,916,788	39,706,125	7,696,822	13,252,053	-	-	17,905,281	15,084,441
Manufacturing	23,584,325	21,952,423	1,066,722	1,281,092	-	-	3,216,565	4,126,708
Construction	11,992,473	11,151,070	376,120	463,657	-	-	1,415,292	952,842
Real estate	93,387,686	88,477,802	1,576,742	1,610,072	-	-	7,224,316	8,386,588
Trading	25,374,643	22,435,927	120,681	132,731	-	-	1,229,184	1,919,410
Transport and communication	37,330,136	37,845,095	4,514,107	5,606,050	-	-	4,706,375	1,853,348
Banks	11,700,842	8,924,677	32,524,247	36,633,986	37,678,291	36,569,950	-	91,825
Other financial institutions	40,076,241	39,335,644	11,418,091	11,343,128	2,970,536	4,625,639	8,396,129	8,391,313
Services	26,628,229	20,187,687	6,264,309	35,660	-	-	2,856,405	3,755,836
Government	41,254,574	38,889,069	125,490,400	82,481,921	5,639,178	2,893,167	4,391,362	30,000,000
Personal – Loans and Credit cards	52,740,445	51,419,609	-	-	-	-	66,500	6,878
Personal - Retail Mortgage	25,263,222	22,235,836	-	-	-	-	-	13,152
	428,783,318	403,288,746	191,048,241	152,840,350	46,288,005	44,088,756	51,407,472	74,582,341

The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.
Included within investments are equity instruments where the credit risk is not applicable.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Concentration by location:

As at 31 Dec 2021

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
Cash and balances with central banks	41,960,159	76,500,164	23,080,192	117,307,999	86,465	-	258,934,979
Investments at fair value through profit or loss	16,989,613	3,061,200	16,220,924	2,467,166	6,120,215	713,134	45,572,252
Due from banks and financial institutions	360,164	15,595,686	1,973,668	550,678	724,995	178,115	19,383,306
Reverse repurchase agreements	2,571,436	11,772,481	21,792,403	48,350	6,906,115	3,197,220	46,288,005
Derivative financial instruments	3,439,468	17,806,558	1,764,170	159,507	932,912	171,151	24,273,766
Loans, advances and Islamic financing	298,881,132	40,962,981	47,101,250	20,208,219	18,238,829	3,390,907	428,783,318
Non trading investments	42,706,022	24,043,688	30,590,091	18,045,215	28,060,049	2,030,924	145,475,989
	<u>406,907,994</u>	<u>189,742,758</u>	<u>142,522,698</u>	<u>158,787,134</u>	<u>61,069,580</u>	<u>9,681,451</u>	<u>968,711,615</u>

As at 31 Dec 2020

Cash and balances with central banks	51,083,313	98,253,359	12,912,882	65,645,017	105,685	8,892	228,009,148
Investments at fair value through profit or loss	2,046,352	4,339,068	5,612,563	1,889,944	6,499,642	878,674	21,266,243
Due from banks and financial institutions	173,709	24,726,420	1,356,056	789,798	235,993	148,816	27,430,792
Reverse repurchase agreements	2,355,652	13,822,582	22,893,875	960,494	3,854,139	202,014	44,088,756
Derivative financial instruments	5,929,823	19,678,895	3,669,924	311,997	2,515,722	452,520	32,558,881
Loans, advances and Islamic financing	276,349,253	45,163,517	38,039,690	19,982,880	18,874,483	4,878,923	403,288,746
Non trading investments	40,989,353	26,566,919	26,039,327	14,742,175	20,669,329	2,567,004	131,574,107
	<u>378,927,455</u>	<u>232,550,760</u>	<u>110,524,317</u>	<u>104,322,305</u>	<u>52,754,993</u>	<u>9,136,843</u>	<u>888,216,673</u>

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any. Concentration by location for undrawn commitments is stated in note 37 of these consolidated financial statements.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(a) Credit risk (continued)

Classification of investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Government sector	93,954,390	68,001,252	28,835,932	11,538,832
Supranational	634,136	879,774	2,065,942	2,062,063
Public Sector	15,337,453	24,330,758	737,753	524,140
Banking sector	28,062,492	31,621,387	4,461,755	5,012,599
Corporate / private sector	7,487,518	6,740,936	9,470,870	2,128,609
	145,475,989	131,574,107	45,572,252	21,266,243
Less: allowance for impairment (expected credit loss) on amortised cost securities	(599)	(345)	-	-
	145,475,390	131,573,762	45,572,252	21,266,243

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(b) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term. FAB ensures that all liabilities can be met as they fall due under both businesses as usual and stress conditions without incurring undue cost.

Management of liquidity risk

The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months. . The risk appetite is supported by a comprehensive risk management framework that includes Group ALCO approved limits for key funding and liquidity metrics, stress testing and a contingency funding plan.

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators, and aligned to support the Group's external credit rating objectives.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR"). FAB has been complying with UAE regulation on Basel III LCR and has been reporting the same for a considerable period of time. Accordingly, FAB has invested heavily in ensuring systems and controls framework is in place to comply with all the qualitative and quantitative aspects of Basel III. In addition the Group also ensures that it is compliant with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. Similarly International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

Exposure to liquidity risk

The contractual asset and liability maturity mismatch report without considering the Group's retention history is detailed below.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of the assets and liabilities as at 31 Dec 2021

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	258,778,449	255,556,017	3,222,432	-	-	-	-
Investments at fair value through profit or loss	45,572,252	17,872,472	16,644,493	708,418	569,670	855,298	8,921,901
Due from banks and financial institutions	19,325,594	19,325,594	-	-	-	-	-
Reverse repurchase agreements	46,260,645	26,767,419	12,391,846	7,101,380	-	-	-
Derivative financial instruments ¹	24,273,766	2,771,235	2,189,976	4,636,977	4,311,473	10,364,105	-
Loans, advances and Islamic financing	410,154,614	82,519,253	68,757,723	98,885,465	69,208,966	90,783,207	-
Non-trading investments	145,475,390	25,147,215	14,398,777	32,004,532	27,405,793	45,515,744	1,003,329
Investment properties	6,962,576	-	-	-	-	-	6,962,576
Property and equipment	5,748,574	-	-	-	-	-	5,748,574
Intangibles	19,440,403	-	-	-	-	-	19,440,403
Other assets	18,351,114	13,763,339	4,587,775	-	-	-	-
	<u>1,000,343,377</u>	<u>443,722,544</u>	<u>122,193,022</u>	<u>143,336,772</u>	<u>101,495,902</u>	<u>147,518,354</u>	<u>42,076,783</u>
Liabilities and equity							
Due to banks and financial institutions	56,985,180	52,205,866	4,772,923	6,391	-	-	-
Repurchase agreements	55,074,494	46,317,898	284,728	8,471,868	-	-	-
Commercial Paper	39,664,252	21,479,026	18,185,226	-	-	-	-
Derivative financial instruments ¹	28,395,085	1,691,560	1,710,320	4,696,275	5,171,017	15,125,913	-
Customer accounts and other deposits	614,459,265	531,510,596	73,129,309	8,472,464	909,736	437,160	-
Term borrowings	71,643,816	7,919,628	5,713,929	25,201,416	24,131,059	8,677,784	-
Subordinated notes	448,908	-	-	-	-	448,908	-
Other liabilities	20,842,804	15,632,103	5,210,701	-	-	-	-
Equity	112,829,573	-	-	-	-	-	112,829,573
	<u>1,000,343,377</u>	<u>676,756,677</u>	<u>109,007,136</u>	<u>46,848,414</u>	<u>30,211,812</u>	<u>24,689,765</u>	<u>112,829,573</u>
Undrawn commitments to extend credit	51,407,472	10,937,310	38,176,095	2,101,434	59,415	133,218	-
Trade contingencies	165,236,122	81,281,035	33,185,536	17,935,163	16,586,906	16,247,482	-

¹The Group has the option to liquidate the derivatives at any point of time.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(b) Liquidity risk (continued)

The maturity profile of the assets and liabilities as at 31 Dec 2020:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	227,872,592	223,905,913	3,966,679	-	-	-	-
Investments at fair value through profit or loss	21,266,243	10,213,641	4,867,090	3,239,471	297,517	776,067	1,872,457
Due from banks and financial institutions	27,357,639	27,355,628	-	2,011	-	-	-
Reverse repurchase agreements	44,069,241	26,708,963	17,360,278	-	-	-	-
Derivative financial instruments ¹	32,558,881	2,353,427	2,650,672	6,583,610	6,086,367	14,884,805	-
Loans, advances and Islamic financing	386,643,996	84,642,731	57,178,448	94,851,592	65,678,038	84,293,187	-
Non-trading investments	131,573,762	12,577,929	13,267,198	19,747,489	30,533,782	54,835,649	611,715
Investment properties	7,603,230	-	-	-	-	-	7,603,230
Property and equipment	4,867,126	-	-	-	-	-	4,867,126
Intangibles	19,296,864	-	-	-	-	-	19,296,864
Other assets	15,950,958	11,963,218	3,987,740	-	-	-	-
	<u>919,060,532</u>	<u>399,721,450</u>	<u>103,278,105</u>	<u>124,424,173</u>	<u>102,595,704</u>	<u>154,789,708</u>	<u>34,251,392</u>
Liabilities and equity							
Due to banks and financial institutions	57,632,476	52,023,025	5,609,451	-	-	-	-
Repurchase agreements	56,005,314	41,709,010	8,731,590	5,564,714	-	-	-
Commercial Paper	31,174,128	20,173,640	11,000,488	-	-	-	-
Derivative financial instruments ¹	38,832,004	2,502,075	2,328,898	6,854,523	6,386,747	20,759,761	-
Customer accounts and other deposits	540,882,472	397,719,777	108,900,672	32,944,781	321,792	995,450	-
Term borrowings	62,437,103	1,196,181	5,104,696	25,200,889	23,980,192	6,955,145	-
Subordinated notes	470,805	-	-	-	-	470,805	-
Other liabilities	22,587,238	16,940,428	5,646,810	-	-	-	-
Equity	109,038,992	-	-	-	-	-	109,038,992
	<u>919,060,532</u>	<u>532,264,136</u>	<u>147,322,605</u>	<u>70,564,907</u>	<u>30,688,731</u>	<u>29,181,161</u>	<u>109,038,992</u>
Undrawn commitments to extend credit	74,582,341	35,615,793	34,905,831	2,329,407	1,637,894	93,416	-
Trade contingencies	166,752,876	74,801,994	26,546,608	27,543,244	10,687,371	27,173,659	-

¹The Group has the option to liquidate the derivatives at any point of time.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(b) Liquidity risk (continued)

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

Liabilities	Total AED'000	Gross nominal cash flows AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000
As at 31 Dec 2021							
Due to banks and financial institutions	56,985,180	57,002,596	52,214,756	4,781,266	6,574	-	-
Repurchase agreements	55,074,494	55,214,952	46,349,403	287,733	8,577,816	-	-
Commercial Paper	39,664,252	39,818,327	21,682,683	18,135,644	-	-	-
Customer accounts and other deposits	614,459,265	618,329,655	539,657,098	71,718,355	5,474,224	964,402	515,576
Term borrowings ¹	71,643,816	90,841,451	9,007,797	6,403,681	27,685,532	25,862,568	21,881,873
Subordinated notes	448,908	566,468	-	21,054	41,822	41,879	461,713
	<u>838,275,915</u>	<u>861,773,449</u>	<u>668,911,737</u>	<u>101,347,733</u>	<u>41,785,968</u>	<u>26,868,849</u>	<u>22,859,162</u>
Undrawn commitments to extend credit ²	51,407,472	51,407,472	10,937,310	38,176,095	2,101,434	59,415	133,218
Trade contingencies	165,236,122	165,236,122	81,281,035	33,185,536	17,935,163	16,586,906	16,247,482
	<u><u>1,054,919,509</u></u>	<u><u>1,078,416,043</u></u>	<u><u>761,130,082</u></u>	<u><u>172,709,364</u></u>	<u><u>61,822,565</u></u>	<u><u>82,514,170</u></u>	<u><u>139,359,658</u></u>
As at 31 Dec 2020							
Due to banks and financial institutions	57,632,476	57,702,161	52,079,562	5,622,599	-	-	-
Repurchase agreements	56,005,314	56,112,668	41,745,847	8,741,442	5,625,379	-	-
Commercial Paper	31,174,128	31,192,115	20,176,417	11,015,698	-	-	-
Customer accounts and other deposits	540,882,472	545,721,598	400,535,450	109,374,427	34,327,755	376,834	1,107,132
Term borrowings ¹	62,437,103	78,204,322	1,543,887	6,380,000	28,314,872	25,119,209	16,846,354
Subordinated notes	470,805	608,287	-	21,684	43,427	43,368	499,808
	<u>748,602,298</u>	<u>769,541,151</u>	<u>516,081,163</u>	<u>141,155,850</u>	<u>68,311,433</u>	<u>25,539,411</u>	<u>18,453,294</u>
Undrawn commitments to extend credit ²	74,582,341	74,582,341	35,615,793	34,905,831	2,329,407	1,637,894	93,416
Trade contingencies	166,752,876	166,752,876	74,801,994	26,546,608	27,543,244	10,687,371	27,173,659
	<u><u>1,089,937,515</u></u>	<u><u>1,110,876,446</u></u>	<u><u>626,499,050</u></u>	<u><u>192,608,289</u></u>	<u><u>98,184,084</u></u>	<u><u>37,264,680</u></u>	<u><u>139,720,369</u></u>

¹Includes borrowings with callable feature for which the undiscounted contractual cash flows based on final contractual maturity are presented above without consideration of the call option.

²Calculated as per the contractual maturity profile.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk

Market risk is the risk that the Group's income or capital will fluctuate on account of changes in the value of a financial instrument because of movements in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

Management of market risk

The Group separates its exposure to market risk between trading, investment and non-trading portfolios. Trading and investment portfolios are held by the Global Markets Division and are managed on a fair value basis.

Investment Management Committee ("IMCO") is responsible for oversight and guidance to Global Markets' trading and investment activities. It ensures effective management of market risks in accordance with the principles laid down in the market risk management policy. IMCO acts as a sub-committee of Group Asset and Liabilities ("G-ALCO") which has the overall authority and responsibility to manage market risks.

Market Risk Group is responsible for the development and implementation of detailed market risk appetite, risk management methodologies and policies including the control framework that is reviewed by IMCO and submitted to G-ALCO and BRCC for approval.

Exposure to market risks – trading portfolios

The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

The Group uses VaR limits for foreign exchanges, interest rates, credit spread and equities. The overall structure of Trading VaR limits is subject to review and approval by the IMCO and then ratified at G-ALCO. VaR limits are then cascaded down to trading desks.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation the VaR is further supplemented with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management. The VaR is as follows:

	31 Dec 2021				31 Dec 2020
	AED'000	AED'000	AED'000	AED'000	AED'000
	As at	Average	Max	Min	As at
<u>VaR – Trading Book</u>					
All	71,793	67,540	102,425	50,797	67,417
Interest rate	66,738	60,682	93,610	39,666	40,300
Credit	49,273	37,759	100,567	21,455	27,531
Foreign Exchange	25,429	19,517	27,530	11,357	14,045
Equity	558	1,589	5,699	268	1,606
Commodity	13	1,010	7,405	13	204
Diversification Benefit	(70,218)	(53,017)	(132,386)	(21,962)	(16,269)

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Exposure to market risk – banking portfolios

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arise primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate and credit spread. The overall structure of Banking VaR limits is subject to review and approval by IMCO and then ratified by G-ALCO. VaR limits are then cascaded to different Investment desks. The investment risk VaR is as follows:

	31 Dec 2021				31 Dec 2020
	AED'000	AED'000	AED'000	AED'000	AED'000
	As at	Average	Max	Min	As at
<u>VaR – Banking Book</u>					
All	521,783	517,181	607,180	430,650	483,064
Interest rate	123,169	74,282	130,899	26,325	31,676
Credit	543,064	485,521	549,289	429,835	451,288
Foreign Exchange	7,944	8,921	16,675	7,326	16,675
Equity	20,331	17,923	20,704	15,472	15,472
Diversification Benefit	(172,725)	(69,466)	(110,387)	(48,308)	(32,047)

Foreign exchange risk

Foreign exchange risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currency	Net spot position	Forward position	Total	Total
	(short)/long AED'000	(short)/long AED'000	31 Dec 2021 (short)/long AED'000	31 Dec 2020 (short)/long AED'000
US Dollar	(8,096,034)	44,131,826	36,035,792	53,089,049
UK Sterling Pound	(2,936,366)	2,763,058	(173,308)	(219,015)
Euro	29,681,838	(28,504,576)	1,177,262	529,888
Kuwaiti Dinar	(922,720)	738,262	(184,458)	139,706
Saudi Riyal	7,821,997	(6,216,212)	1,605,785	(1,154,645)
Japanese Yen	5,156,323	(4,979,452)	176,871	(55,698)
Swiss Franc	(5,778,987)	5,755,665	(23,322)	(4,474)
Bahraini Dinar	5,659,444	(2,709,651)	2,949,793	34,942
Egyptian Pound	11,263,576	(11,534,347)	(270,771)	172,010
Indian Rupees	2,105,547	(340,838)	1,764,709	1,036,059
Libyan Dinar	146,099	-	146,099	225,434
Others	(721,458)	1,157,682	436,224	(272,903)

As AED, SAR and BHD are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2021 and 2020 on its monetary assets, liabilities and net derivatives forward position. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	EUR	GBP	JPY	INR
Assumed change in exchange rates	1%	1%	1%	1%
Impact on net income in exchange rate:				
31 Dec 2021 (AED'000)	±11,773	± 1,733	±1,769	± 17,649
31 Dec 2020 (AED'000)	±5,299	± 2,190	± 557	± 10,361

At 31 December 2021 and 2020, the effect of the assumed changes in exchange rates on equity is insignificant.

Equity price risk

FAB is exposed to equity price risk on equity investments, either through holding of equities of another entity or through equity derivatives such as forward contracts, options or swaps. The fair value of these instruments will fluctuate due changes in the market price of the underlying equity instruments. The Group manages this risk through setting Equity Delta, Vega and Gamma limits. The Group also enforces diversification of investments in terms of geographical distribution and industry concentration.

The following table estimates the sensitivity to a possible change in equity markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	Impact on net income 31 Dec 2021 AED'000	Impact on net income 31 Dec 2020 AED'000
Investments at fair value through profit or loss			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	340,222	1,045
Dubai Financial Market Index	5%	2,053	2,221
Net asset value of managed funds and private equities	5%	108,893	88,279
Other equity exchanges	5%	1,219	2,078
		452,387	93,623

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2021 and 2020, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	Impact on net Income 31 Dec 2021 AED'000	Impact on net Income 31 Dec 2020 AED'000
Non-trading investments (excluding investment in associates and joint ventures)			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	14,787	8,780
Dubai Financial Market Index	5%	-	1,411
Other equity exchanges	5%	21,335	16,552
Unquoted	5%	10,258	1,133
		46,380	27,876

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 38.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points (31 Dec 2020: 50 basis points) and uses its internal models / management view to estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		Equity	
	31 Dec 2021 AED'000	31 Dec 2020 AED'000	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Fluctuation in yield	±578,325	±519,145	±1,091,348	±1,456,459

The interest rate sensitivities set out above are based on AED 776,343 million (31 Dec 2020: AED 723,379 million) interest bearing assets and AED 570,703 million (31 Dec 2020: AED 575,855 million) interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity as given in the table below is based on the sensitivity of interest bearing assets and liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2021 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with central banks	258,778,449	232,251,417	51,935	-	-	-	26,475,097
Investments at fair value through profit or loss	45,572,252	25,467,500	15,872,160	637,619	569,670	855,298	2,170,005
Due from banks and financial institutions	19,325,594	19,325,594	-	-	-	-	-
Reverse repurchase agreements	46,260,645	26,771,159	12,388,106	7,101,380	-	-	-
Derivative financial instruments	24,273,766	24,273,766	-	-	-	-	-
Loans, advances and Islamic financing	410,154,614	305,416,294	59,568,350	23,587,659	16,642,502	4,939,809	-
Non-trading investments	145,475,390	29,108,369	14,194,777	30,531,426	27,227,146	44,022,340	391,332
Investment properties	6,962,576	-	-	-	-	-	6,962,576
Property and equipment	5,748,574	-	-	-	-	-	5,748,574
Intangible assets	19,440,403	-	-	-	-	-	19,440,403
Other assets	18,351,114	8,255,742	3,397,637	69,707	47,266	24,325	6,556,437
	<u>1,000,343,377</u>	<u>670,869,841</u>	<u>105,472,965</u>	<u>61,927,791</u>	<u>44,486,584</u>	<u>49,841,772</u>	<u>67,744,424</u>
Liabilities and equity							
Due to banks and financial institutions	56,985,180	52,205,865	4,772,924	6,391	-	-	-
Repurchase agreements	55,074,494	46,317,898	284,728	8,471,868	-	-	-
Commercial Paper	39,664,252	21,479,026	18,185,226	-	-	-	-
Derivative financial instruments	28,395,085	28,395,085	-	-	-	-	-
Customer accounts and other deposits	614,459,265	297,455,801	71,110,043	7,472,014	238,102,643	318,764	-
Term borrowings	71,643,816	20,811,593	1,600,825	18,980,943	20,916,204	9,334,251	-
Subordinated notes	448,908	-	-	-	-	448,908	-
Other liabilities	20,842,804	5,797,258	2,286,369	304,548	249,662	305,181	11,899,786
Equity	112,829,573	-	-	-	-	-	112,829,573
	<u>1,000,343,377</u>	<u>472,462,526</u>	<u>98,240,115</u>	<u>35,235,764</u>	<u>259,268,509</u>	<u>10,407,104</u>	<u>124,729,359</u>
On statement of financial position gap		198,407,315	7,232,850	26,692,027	(214,781,925)	39,434,668	(56,984,935)
Off statement of financial position gap		31,844,732	(2,603,095)	(1,205,064)	(14,763,453)	(13,273,120)	-
Total interest rate sensitivity gap		230,252,047	4,629,755	25,486,963	(229,545,378)	26,161,548	(56,984,935)
Cumulative interest rate sensitivity		230,252,047	234,881,802	260,368,765	30,823,387	56,984,935	-

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2020 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with central banks	227,872,592	208,131,076	3,966,679	-	-	-	15,774,837
Investments at fair value through profit or loss	21,266,243	10,834,708	4,044,281	1,902,859	297,517	2,521,220	1,665,658
Due from banks and financial institutions	27,357,639	24,119,805	-	2,011	-	-	3,235,823
Reverse repurchase agreements	44,069,241	26,708,963	17,360,278	-	-	-	-
Derivative financial instruments	32,558,881	32,558,881	-	-	-	-	-
Loans, advances and Islamic financing	386,643,996	289,762,759	63,617,202	10,813,336	7,155,974	15,294,725	-
Non-trading investments	131,573,762	18,186,859	12,732,103	17,627,238	29,003,412	53,599,815	424,335
Investment properties	7,603,230	-	-	-	-	-	7,603,230
Intangibles	19,296,864	-	-	-	-	-	19,296,864
Property and equipment	4,867,126	-	-	-	-	-	4,867,126
Other assets	15,950,958	7,171,349	4,184,785	93,032	51,474	3,629,168	821,150
	<u>919,060,532</u>	<u>617,474,400</u>	<u>105,905,328</u>	<u>30,438,476</u>	<u>36,508,377</u>	<u>75,044,928</u>	<u>53,689,023</u>
Liabilities and equity							
Due to banks and financial institutions	57,632,476	48,853,769	5,277,182	-	-	-	3,501,525
Repurchase agreements	56,005,314	39,503,091	8,731,590	7,770,633	-	-	-
Commercial Paper	31,174,128	20,173,640	11,000,488	-	-	-	-
Derivative financial instruments	38,832,004	38,832,004	-	-	-	-	-
Customer accounts and other deposits	540,882,472	268,754,062	109,585,308	32,415,109	128,752,664	1,375,329	-
Term borrowings	62,437,103	15,212,334	798,691	8,741,667	14,075,719	23,608,692	-
Subordinated notes	470,805	-	-	-	-	470,805	-
Other liabilities	22,587,238	5,818,950	3,313,808	536,231	344,156	-	12,574,093
Equity	109,038,992	-	-	-	-	-	109,038,992
	<u>919,060,532</u>	<u>437,147,850</u>	<u>138,707,067</u>	<u>49,463,640</u>	<u>143,172,539</u>	<u>25,454,826</u>	<u>125,114,610</u>
On statement of financial position gap		180,326,550	(32,801,739)	(19,025,164)	(106,664,162)	49,590,102	(71,425,587)
Off statement of financial position gap		31,844,732	(2,603,095)	(1,205,064)	(14,763,453)	(13,273,120)	-
Total interest rate sensitivity gap		<u>212,171,282</u>	<u>(35,404,834)</u>	<u>(20,230,228)</u>	<u>(121,427,615)</u>	<u>36,316,982</u>	<u>(71,425,587)</u>
Cumulative interest rate sensitivity		<u>212,171,282</u>	<u>176,766,448</u>	<u>156,536,220</u>	<u>35,108,605</u>	<u>71,425,587</u>	<u>-</u>

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest Rate Benchmark Reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some IBORs with ARRS. The Group has significant exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives.

IBORs, such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, Loans, advances and Islamic financing, and as parameters in the valuation of financial instruments.

On 05 March 2021, FCA has announced the future cessation or loss of representativeness dates of all LIBOR tenors across all currencies. FCA concluded that all Non-USD LIBOR (GBP, JPY, CHF and EUR) and selected tenors of USD LIBOR (1-week and 2-month) will either cease to exist or become non-representative after 31 December 2021, while remaining USD LIBOR tenors will continue till 30 June 2023. Global regulators have recommended Banks to cease issuance of new LIBOR linked products (including USD LIBOR) after 31 December 2021.

The Financial Conduct Authority (FCA) announced on 16 November 2021 that it will require the ICE Benchmark Administration (IBA) to continue to publish the 1-, 3- and 6-month LIBOR rates for GBP and JPY on a synthetic basis for a period of 12 months starting on the 1 January 2022, to avoid disruption to legacy contracts and allow market participants more time to complete transition. The synthetic LIBOR rates can be used in all legacy contracts, apart from cleared derivatives. The synthetic rates will not be available for use in any new contracts. The FCA has indicated that the publication of the synthetic JPY rates will cease at the end of 2022 but has not ruled out the possibility of the GBP rates being published beyond this.

LIBOR is primarily replaced by overnight Risk Free Rates (RFRs), administered by local rate administrators. With the exception of SARON and ESTR (an overnight replacement rates for CHF LIBOR and EUR LIBOR), term rates are available for all other RFRs.

The transition process away from IBORs, including the transition of legacy contracts that reference IBORs, exposes the Group to material execution risks, and increases some financial and non-financial risks which the project team is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses. Further, financial risks resulting from the discontinuation of IBORs and the development of market liquidity in RFRs will also affect the Group throughout transition. The differences in IBOR and RFR interest rates will create a basis risk that will be managed actively through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available; and
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

As the IBOR transition project progresses into the execution phase, resilience and operational risks are heightened. This is due to an expected increase in the number of new RFRs products being rolled out, transition of legacy IBOR contracts and the extensive systems and process changes required to facilitate both new products and the transition. Regulatory compliance, legal and conduct risks may also increase as a result of the co-existence of LIBORs and ARRS for limited period.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest Rate Benchmark Reform (continued)

FAB's approach towards IBOR Transition

Loans, Bonds and other On Balance Sheet exposures

FAB initiated its IBOR transition project in 2019. The Project is sponsored by the Group CFO and is being led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. The Group has maintained its momentum in tracking its exposure to IBORs, preparing its IT systems to accommodate the incoming Risk-Free Rates, amending, or preparing contractual templates and communicating its progress with both the Regulators and its clients. The Project provides monthly progress updates to the Project sponsors. The Group has successfully achieved the readiness to transition a significant portion of its IBOR exposure to RFRs and has in place detailed plans, processes, and procedures to support the transition of the IBOR exposures prior to the Benchmark cessation. The Bank has successfully transitioned part of LIBOR referencing loans and is on track to complete the transition for most of the non-USD LIBOR referencing loans by the first reset date in 2022. Loans referencing USD LIBOR will be transitioned prior to the benchmark cessation date.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the Group has established policies to amend the contractual terms. These amendments include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate.

The Group has been applying a policy to require that retail products, such as its residential mortgage portfolio, are amended in a uniform way, and bespoke products, such as loans and advances to corporates, are amended in bilateral negotiations with the counterparties.

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the total amounts of contracts that have yet to transition to an alternative benchmark rate and the amounts of such contracts that include an appropriate fallback clause. The Group considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR.

As at 31 December 2021, the IBOR reform in respect of currencies to which the Group has exposure has been largely completed. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

Currency	Benchmark before Reform	Benchmark after Reform	31 Dec 2021	31 Dec 2020
GBP	GBP LIBOR	SONIA	Completed	In progress
USD	USD LIBOR	SOFR	In progress	In progress
EURO	EONIA	€STR	Completed	In progress
EURO	EURIBOR	EURIBOR reformed	Completed	Completed

In line with the regulatory guidance, FAB will continue to actively transition LIBOR products to suitable alternatives where possible. However, if this is not achieved, those products will use synthetic LIBOR where applicable and until they are transitioned.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest Rate Benchmark Reform (continued)

FAB's approach towards IBOR Transition (continued)

Changes to the contractual terms of financial assets indexed to sterling LIBOR and certain US dollar LIBOR to incorporate new benchmark rates are completed as of 31 December 2021. All of our global businesses have actively developed and implemented system and operational capabilities for alternative rates, such as base or prime rates and RFR products during 2021. Several key RFR product transactions were undertaken within the Investment Banking, Corporate and Commercial Banking Group, Consumer Banking and Private Banking segments.

The Group continues to have IBOR derivatives, loan and bond exposures maturing beyond the above mentioned cessation or non-representativeness dates but will cease the issuance of new LIBOR linked products after 31 December 2021.

Our global businesses have implemented commercial strategies that include active client engagement and communication. Concerning Group's legacy bond issuances referencing IBORs that may cease to exist, the Group will transition those issuances on or before the relevant benchmark cessation or non-representativeness event. The success of these transition plans will depend on the participation and engagement of third-party market participants. For those bonds where Group is the paying agent, there remains dependence on the engagement of third-party market participants in the transition process of their issued debt.

As at 31 December 2021, the Group:

- amended existing contracts indexed to IBOR to incorporate new benchmark rates for contracts originally indexed to GBP LIBOR and USD LIBOR; and
- inserted fallback provisions into all remaining US dollar LIBOR indexed exposures.

The table below represents the exposures to interest rate benchmark reform by balance sheet account, which have yet to transition. The exposure disclosed is for positions with contractual maturities referencing:

- non-USD LIBOR, USD 1W and USD 2M LIBOR after 31 December 2021; and
- USD LIBOR (other than USD LIBOR 1W and 2M tenors) after 30 June 2023

Balances reported at amortized cost are disclosed at their gross carrying value and do not include any expected credit losses that may be held against them. Balances reported at fair value are disclosed at their fair value on the balance sheet date.

	USD LIBOR AED'000	GBP LIBOR AED'000	CHF LIBOR AED'000	JPY LIBOR AED'000	Others AED'000	Total AED'000
Non-derivative financial assets						
Cash and balances with central banks	117,059	-	-	-	-	117,059
Investments at fair value through profit or loss	3,230,307	-	-	-	-	3,230,307
Due from banks and financial institutions	2,010,402	1,743	2,071	-	722	2,014,938
Reverse repurchase agreements	26,119,831	-	-	-	-	26,119,831
Loans, advances and Islamic financing	141,475,944	23,421,135	-	631,867	980	165,529,926
Non-trading investments	4,189,569	-	-	-	3,837,547	8,027,116
Non-derivative financial assets	177,143,112	23,422,878	2,071	631,867	3,839,249	205,039,177
Non-derivative financial liabilities						
Due to banks and financial institutions	33,140,344	1,035,131	30	24,050	21,772	34,221,327
Repurchase agreements	52,805,507	-	-	-	-	52,805,507
Commercial paper	17,645,838	-	-	-	-	17,645,838
Customer accounts and other deposits	249,823,025	231,447	68,940	5,896	102,774	250,232,082
Term borrowings	19,830,020	99,854	-	-	-	19,929,874
Non-derivative financial liabilities	373,244,734	1,366,432	68,970	29,946	124,546	374,834,628

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest Rate Benchmark Reform (continued)

FAB's approach towards IBOR Transition (continued)

In the table below are exposures at 31 December 2021 that were not transitioned from IBORs to RFRs on 1 January 2022 and still present a risk arising from IBOR reform. Instruments referenced to LIBOR USD (3 months) will transition no later than immediately after 30 June 2023.

	USD LIBOR AED'000	GBP LIBOR AED'000	CHF LIBOR AED'000	JPY LIBOR AED'000	Others AED'000	Total AED'000
Non-derivative financial assets						
Cash and balances with central banks	117,059	-	-	-	-	117,059
Investments at fair value through profit or loss	3,230,307	-	-	-	-	3,230,307
Due from banks and financial institutions	2,010,402	-	2,071	-	722	2,013,195
Reverse repurchase agreements	26,119,831	-	-	-	-	26,119,831
Loans, advances and Islamic financing	141,475,944	-	-	-	980	141,476,924
Non-trading investments	4,189,569	-	-	-	3,837,547	8,027,116
Non-derivative financial assets	177,143,112	-	2,071	-	3,839,249	180,984,432
Non-derivative financial liabilities						
Due to banks and financial institutions	33,140,344	-	30	-	21,772	33,162,146
Repurchase agreements	52,805,507	-	-	-	-	52,805,507
Commercial paper	17,645,838	-	-	-	-	17,645,838
Customer accounts and other deposits	249,823,025	-	68,940	-	102,774	249,994,739
Term borrowings	19,830,020	-	-	-	-	19,830,020
Non-derivative financial liabilities	373,244,734	-	68,970	-	124,546	373,438,250

Derivatives and hedge accounting

The Group holds derivatives for trading and risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate and cross-currency swaps have floating legs that are indexed to various IBORs.

ISDA has reviewed its definitions in light of IBOR reform and issued an IBOR fallbacks supplement on 23 October 2020. This sets out how the amendments to new alternative benchmark rates (e.g. SOFR, SONIA) in the 2006 ISDA definitions will be accomplished. The effect of the supplement is to create fallback provisions in derivatives that describe what floating rates will apply on the permanent discontinuation of certain key IBORs or on ISDA declaring a non-representative determination of an IBOR. The Group has adhered to the protocol to implement the fallbacks to derivative contracts that were entered into before the effective date of the supplement. If derivative counterparties also adhere to the protocol, then new fallbacks will be automatically implemented in existing derivative contracts. The supplement came into effect on 25 January 2021. From that date, all new derivatives that reference the ISDA definitions will also include the fallbacks. Consequently, the Group is monitoring whether its counterparties will also adhere to the protocol and, if there are counterparties that will not, then the Group plans to negotiate with them bilaterally about inclusion of new fallback clauses.

For the derivatives exposures, Group have adhered to the adoption of the International Swaps and Derivatives Association ('ISDA') protocol as a fallback provision, which came into effect in January 2021, and the successful changes made by clearing houses to discount derivatives using the euro short-term rate ('€STR') and SOFR, to reduce the risk of a disorderly transition of the derivatives market.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest Rate Benchmark Reform (continued)

Derivatives and hedge accounting (continued)

The table below represents the derivative exposures to interest rate benchmark reform, which have yet to transition. The exposure disclosed is for positions with contractual maturities after the respective LIBOR cessation dates. Derivatives are reported by using the notional contract amount and where derivatives have both pay and receive legs with exposure to benchmark reform such as cross currency swaps, the notional contract amount is disclosed for both legs.

	USD LIBOR AED'000	GBP LIBOR AED'000	CHF LIBOR AED'000	JPY LIBOR AED'000	Others AED'000	Total AED'000
Exchange traded interest rate options and swaptions	835,618,519	-	-	-	-	835,618,519
OTC interest rate swaps	1,102,682,144	16,633,197	855,610	-	28,553,163	1,148,724,114
OTC interest rate options and swaptions	2,846,575	-	-	-	-	2,846,575
OTC other derivative contracts	13,315,853	-	-	-	-	13,315,853
Derivative notional contract amount	1,954,463,091	16,633,197	855,610	-	28,553,163	2,000,505,061

In the table below are derivative exposures at 31 December 2021 that were not transitioned from IBORs to RFRs on 1 January 2022 and still present a risk arising from IBOR reform. Instruments referenced to LIBOR USD (3 months) will transition no later than immediately after 30 June 2023.

	USD LIBOR AED'000	GBP LIBOR AED'000	CHF LIBOR AED'000	JPY LIBOR AED'000	Others AED'000	Total AED'000
Exchange traded interest rate options and swaptions	835,618,519	-	-	-	-	835,618,519
OTC interest rate swaps	1,102,682,144	4,499,461	845,942	-	28,553,163	1,136,580,710
OTC interest rate options and swaptions	2,846,575	-	-	-	-	2,846,575
OTC other derivative contracts	13,315,853	-	-	-	-	13,315,853
Derivative notional contract amount	1,954,463,091	4,499,461	845,942	-	28,553,163	1,988,361,657

Further, the Group evaluated the extent to which its fair value and cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly Sterling and US Dollar LIBOR. These IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

The Group's cash flow hedging relationships of sterling LIBOR and US dollar LIBOR risks extend beyond the anticipated cessation dates for both LIBORs. The Group expects that sterling LIBOR and US dollar LIBOR will be replaced by SONIA and SOFR, respectively, but there is uncertainty over the timing and amount of the replacement rate cash flows. Such uncertainty may impact the hedging relationship – e.g. its effectiveness assessment and highly probable assessment. For the purposes of these assessments, the Group assumes that the hedged benchmark interest rate, the cash flows of the hedged item and/or the hedging instrument will not be altered as a result of IBOR reform.

If a hedging relationship impacted by uncertainty about IBOR reform has not been highly effective throughout the financial reporting period, then the Group evaluates whether the hedge is expected to be highly effective prospectively and whether the effectiveness of the hedging relationship can be reliably measured. The hedging relationship will not be discontinued as long as it meets all criteria for hedge accounting, with the exception of the requirement that the hedge was actually highly effective.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

Interest Rate Benchmark Reform (continued)

Derivatives and hedge accounting (continued)

Hedging relationships impacted by uncertainty about IBOR reform may experience ineffectiveness attributable to market participants' expectations of when the shift from the existing IBOR benchmark rate to an alternative benchmark interest rate will occur. This transition may occur at different times for the hedged item and the hedging instrument, which may lead to hedge ineffectiveness.

The table below represents the notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Group that is expected to be directly affected by market-wide IBOR reform.

Hedging instrument impacted by IBOR reform	Hedging instrument						Notional amount
	Impacted by IBOR reform					Not impacted by IBOR reform	
	GBP LIBOR	USD LIBOR	EUR LIBOR	Others	Total		
	AED'000	AED'000	AED'000	AED'000	AED'000		
Fair value hedges	435,787	122,004,778	-	885,392	123,325,957	35,196,746	158,522,703
Cash flow hedges	-	3,599,540	-	-	3,599,540	1,959,035	5,558,575
At 31 Dec 2021	435,787	125,604,318	-	885,392	126,925,497	37,155,781	164,081,278

The objective of the majority of these hedges and consistent with the overall interest rate risk management strategy of FAB is to reduce fluctuations of the fair value of bonds purchased by FAB or its own issuances which pay a fixed rate and also reduce fluctuations from foreign exchange risk if these are denominated in another currency that is not AED or USD.

When the uncertainty arising from IBOR reform no longer exists The Group will cease to apply the assumptions that the hedged benchmark interest rate, the cash flows of the hedged item and/or hedging instrument will not be altered as a result of IBOR reform when the uncertainty arising from IBOR reform is no longer present. In addition, the Group will amend the formal hedge documentation of that hedging relationship to reflect the changes required by IBOR reform by the end of the reporting period during which the changes occur. When a fallback provision inserted in a hedging instrument is triggered, the Group will also amend the description of the hedging instrument in the formal hedge documentation by the reporting date. These changes in the formal hedge documentation will not cause a discontinuation of the hedging relationship. The Group will also remeasure the cumulative changes in the hedged cash flows and the hedging instrument based on new alternative benchmark rates – i.e. SOFR or SONIA – when the uncertainty arising from IBOR reform is removed. For the purpose of remeasuring the cumulative changes in the hedged cash flows, the Group will amend the terms of the hypothetical derivative to reflect the changes required by IBOR reform in the hedged item.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people and systems or from external events.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure these risks are managed and monitored, resides with the businesses within the Group. Group's businesses are supported by embedded risk resources and Group Operational Risk Management as 'second line of defense' to ensure robust risk management.

Group Operational Risk Management (GORM) reports to CRO who has an independent line to Board Risk Committee which is being apprised of the management of operational risk through periodic reporting. GORM provides tools, trainings and template to all business function to effectively identify, assess, manage, monitor and control operational risk.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defense'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Board Audit Committee.

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, and report and to manage risks and to notify, identify and resolve incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk transfer in the form of insurance.

Bank has adopted BASEL event categories to classify its operational risk events, which are:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices and workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the group
- Damage to physical assets: Risk of impact to the group due to natural disasters
- Clients, products and business practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business disruption and system failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across FAB Group. These responsibilities are delegated and exercised through the Group Operational Risk Committee, which is the senior management forum responsible for the oversight and management of Operational Risk.

Key responsibilities of Group Operational Risk Committee with regards to Operational risk include to ensure:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve the strategy and direction for Operational Risk across FAB Group.
- Establish an effective Governance structure across FAB Group.

(e) Capital management

CBUAE regulations govern regulatory capital requirements for the Group; in addition, the overseas branches and subsidiaries may be directly supervised by their local regulators. The capital management process for the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm's capital risk appetite. The Group conducts capital planning in conjunction with the financial budgeting exercise.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(e) Capital management *(continued)*

The Board and top management define the long-term strategic direction for the Group. This provides the framework for the development of a bottom up plan based on the projections from individual business units. The bottom up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and income statements for the next year, by considering the following key parameters:

- the short term (one year) goals
- risk appetite and strategy
- target growth rates
- target returns

The Group's capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the Group. The assessment of the various risks across the Group and their likely impact is carried out in conjunction with the ICAAP undertaken annually. As part of the ICAAP process, Group Risk function identifies the various risks the Group is exposed to as part of its day-to-day operations. Next, the Group assesses these risks against the existing policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Finally the Group determines the capital requirements for the material risk exposures.

The key objectives of the Group's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by CBUAE.
- Maintain sufficient capital to support Group's Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group's credit rating.

The Group conducts regular stress test exercises to assess the resilience of the group to adverse market developments under stress scenarios. The risk factors are shocked using the assumptions made under the respective scenarios and the corresponding impact on the capital adequacy is determined. The Group uses various macroeconomic and idiosyncratic stress tests in order to project capital need and capital levels under various stress scenarios. The stress testing is perceived as an important tool in internal capital planning. The stress test result during 2021 shows that the Group has adequate capital even under adverse scenarios.

During the year, the Bank implemented the Basel III Capital adequacy requirements in accordance with CBUAE Capital adequacy Standards issued vide notice no CBUAE/BSN/2020/4980. CBUAE has also introduced additional requirements with respect to leverage ratio which Domestic-Systemically Important Banks (D-SIBs) must maintain at least 3.5%. CBUAE also released a revised set of disclosures and reporting frequencies for Pillar III. These Standards are implemented in a phased manner from June 2021 to June 2022 as prescribed by the CBUAE.

Further, as part of the TESS relief provided by the UAE Central Bank in response to COVID-19, the Bank is able to fully utilise its 1.50 % D-SIB buffer and 60% of its capital conservation buffer without supervisory consequences until 31 December 2021.

As per the CBUAE standards regarding the capital definition, the expected / proposed dividends are to be deducted from CET1. Consequently, the Capital Adequacy ratio as computed below takes into account the impact of proposed dividend.

Notes to the consolidated financial statements (continued)

45 Financial risk management (continued)

(e) Capital management (continued)

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Tier 1 capital		
Ordinary share capital	10,920,000	10,920,000
Proposed scrip dividend ¹	2,293,200	-
Share premium	53,557,581	53,538,584
Retained earnings	22,638,219	18,980,989
Statutory and special reserve	10,920,000	10,920,000
General reserve and share option scheme	478,081	478,081
Fair value reserve	614,796	525,775
Non-controlling Interests	15,428	290,996
Foreign currency translation reserve	(535,023)	(377,851)
IFRS transitional arrangement: Partial addback of ECL	163,320	907,796
Less: Proposed dividend ¹	(7,644,000)	(8,080,800)
Eligible Tier 1 capital (a)	93,421,602	88,103,570
Deductions:		
Treasury shares	(6,430)	(8,980)
Deferred tax assets	(99,056)	(101,437)
Goodwill and Intangible assets	(21,120,888)	(20,765,636)
Other deductions	(199,911)	(219,197)
Total deductions	(21,426,285)	(21,095,250)
	71,995,317	67,008,320
Additional Tier 1		
Tier 1 capital notes	10,754,750	10,754,750
	82,750,067	77,763,070
Tier 2 capital		
Qualifying subordinated liabilities	269,345	282,483
Allowance for collective impairment	5,963,217	5,514,812
	6,232,562	5,797,295
Total regulatory capital base	88,982,629	83,560,365
Risk weighted assets:		
Credit risk	477,057,405	441,184,990
Market risk	69,423,094	28,419,038
Operational risk	32,514,765	35,735,719
Risk weighted assets	578,995,264	505,339,747
Ratios with transition impact:		
CET 1 ratio	12.4%	13.3%
Tier 1 capital ratio	14.3%	15.4%
Capital adequacy ratio	15.4%	16.5%

The Group and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

¹The above capital adequacy ratios have been calculated in line with Basel guidelines and proposed dividends are subject to share holders' approval at the Annual General Meeting.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(f) Country risk

Country risk is the likelihood of economic, social, and political events in a foreign country negatively influencing the willingness or ability of state owned and/or privately owned customers in that country to pay their debts on time.

The Group undertakes a detailed qualitative analysis pertaining to country risk as a part of the business decision process. These factors include economic, social and political stability in each country, the monetary policy, the foreign exchange control measure, the transparency of information, the financial and market structure, banking regulations and supervision, the legal system, and the accounting standards among others. Country risks are monitored and controlled using country limits set by the Group; these limits are in accordance with overall business strategy, capital adequacy and provisions for potential risks, risk rating of each country, acceptable level of risk, and business opportunities in each country.

(g) Strategic risk

Strategic risk refers to the risk of current or prospective impact on the Group's earnings, capital, reputation or standing arising from changes in the environment the Group operates in and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technological changes. It is a function of compatibility of Group's strategic goals, strategies developed to achieve those goals, resources deployed to meet those goals and the quality of implementation.

The Group uses several factors to identify and assess impact of strategic risk on its books, including level of integration of risk management policies and practices in the strategic planning process, aggressiveness of strategic goals and compatibility with developed business strategies, capital support for the strategic initiatives to take care of earnings volatility, effectiveness of communication and consistency of application of strategic goals, objectives, corporate culture, and behaviour throughout the Group.

Strategic risks are monitored and controlled as part of the strategic planning process wherein the Group reviews the progress on strategic initiatives vis-à-vis the plan and considers whether the progress is in line with the plan and the external business environment. The strategic plan is periodically reviewed and updated subject to an approval process which is also a part of the strategic planning process.

(h) Compliance risk

Compliance risk refers to the risk to earnings or capital or reputation or continued business existence arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards.

The Group, on a continuous basis, identifies and assesses such risks inherent in all new and existing "material" products, activities, processes and systems. This includes risk assessments on non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The Group Compliance function has a group-wide compliance unit that develops internal policies under which such risks are managed, and it is supported by the Risk Management, Internal Audit and Legal functions.

In order to monitor compliance and financial crime risks, the Group has developed and implemented due diligence processes, reviews of policies and procedures across the Group, implementation of integrated compliance and financial crime systems which manage name clearance, transaction monitoring, payment monitoring activities, assessment through compliance checklists etc.

Compliance risk is largely mitigated by way of focused policies and procedures, extensive checklist based and on-spot due diligence, annual risk assessments, monitoring and assurance, communications, and regular training sessions.

Notes to the consolidated financial statements *(continued)*

45 Financial risk management *(continued)*

(i) Reputational risk

Reputational risk is the risk to earnings or capital arising from negative public opinion. This can be due to external or internal events.

The Group identifies and assesses reputational risk by clearly defining types of risks to be captured, establishing key sources of reputational risk it may be exposed to, based on individual circumstances, describing the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to its reputation. The Group also refers to other relevant information for risk identification purposes. Such information may be sourced from media reports, stakeholder analysis reports, internal audit and compliance reports, management exception reports or other early warning indicators.

For reputational risks, apart from the regular monitoring of external and internal events that can result in possible reputational risks, the Group also has processes to track risks that may affect its reputation. These processes allow the BOD and senior management to take prompt corrective actions to address any anticipated reputational event in advance.

In order to manage reputational risks, the Group has set in place a mechanism that entails drawing up action plans to identify reputational risk events and facilitate subsequent monitoring of the progress made; for those risks that may be very difficult or too costly to eliminate entirely the mechanism requires development of contingency plans as response actions.

46 Financial assets and liabilities

(a) Valuation framework

The Group has an established control framework for the measurement of fair values. Several control functions support this framework (Valuation Control and Product Control within Finance and Market Risk Analytics within Risk functions) that are independent of Front Office Management. Specific controls include:

- Independent verification of market data used in the valuation process and valuation adjustments when significant deviations are observed;
- Review of significant unobservable and stale inputs and significant changes to the fair value measurement of Level 3 instruments;
- Measurement of exit valuation ('Bid Offer');
- Validation and approval process for new models and frequent review of existing models or when changes are performed;
- Quarterly calibration and back-testing of models against observed market transactions;
- Model adjustments when inputs are overly simplified or the model has limitations deriving the fair value of a position;
- Analysis and investigation of significant daily valuation movements.

When third party information, such as broker quotes or pricing services is used to measure fair value, Valuation Control assesses and documents the evidence obtained from the third parties to support the conclusion that the valuations meet the requirements of IFRS Standards. This includes:

- Verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then understanding how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Valuation and Audit Committees.

Notes to the consolidated financial statements *(continued)*

46 Financial assets and liabilities *(continued)*

(b) Valuation models

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

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- 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 market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable, and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices 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.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with determining fair values. The availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all the significant inputs into these models may not be observable in the market and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection of appropriate discount rates. In cases where inputs are deemed unobservable, additional provision may be required to cater for the higher valuation uncertainty.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa – e.g. interest rate swaps – fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants would take this into consideration in pricing the derivatives.

Model inputs and parameters are based on and calibrated to market observable prices, including broker quotes, current or recent transaction prices and market consensus, where available. In absence of market observable prices, empirical data and/or judgement may be required in model calibration process, which is inherently subjective and can yield range of possible inputs and estimates of fair value. Management uses prudent judgement to select the most appropriate point in the range.

Notes to the consolidated financial statements *(continued)*

46 Financial assets and liabilities *(continued)*

(b) Valuation models *(continued)*

OTC structured derivatives

As part of its trading activities, the Group enters OTC structured derivatives – primarily options indexed to credit spreads, equity prices, foreign exchange rates and interest rates – with customers and other banks. Some of these instruments are valued using models with significant unobservable inputs, principally expected long-term volatilities, and expected correlations between different underlyings.

Measurement on the basis of net exposures to risks

If the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures to market risks, then it applies judgement in determining appropriate portfolio-level adjustments such as bid-ask spreads. These adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio. Similarly, when the Group measures portfolios of financial assets and financial liabilities on the basis of net exposure to the credit risk of a particular counterparty, it takes into account any existing arrangements that mitigate the credit risk exposure – e.g. master netting agreements with the counterparty.

Credit and Debit Valuation Adjustments (“CVA” and “DVA”)

CVA and DVA are incorporated into derivative valuations to reflect the impact on fair value of counterparty credit risk and own credit quality respectively. These adjustments are calculated for both uncollateralised and collateralised derivatives across all asset classes. CVA and DVA are calculated using estimates of expected positive and negative exposures respectively, probability of default and recovery rates, at a counterparty level. Counterparties include (but are not limited to) financial institutions, corporates, sovereigns and sovereign agencies and supranationals. Expected exposure is generally estimated through the simulation of underlying risk factors through Monte Carlo simulation techniques.

Probability of default and recovery rate information is generally sourced from the CDS markets. Where this information is not available, or considered unreliable, alternative approaches are taken based on mapping the counterparty to a sector curve based on the rating, the region and the industry sector. Net adjustment for CVA and DVA remained constant at AED 84 million (31 Dec 2020: AED 136 million) during the year.

Model-related adjustments

Model related adjustments are applied when either model inputs are overly simplified or the model has limitations deriving the fair value of a position. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model review process

Notes to the consolidated financial statements (continued)

46 Financial assets and liabilities (continued)

(c) Fair value of financial instruments

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2021:

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	258,778,449	258,778,449
Investments at fair value through profit or loss	-	45,572,252	-	-	-	45,572,252
Due from banks and financial institutions	-	-	-	-	19,325,594	19,325,594
Reverse repurchase agreements	-	-	-	-	46,260,645	46,260,645
Derivative financial instruments	1,967,790	22,305,976	-	-	-	24,273,766
Loans, advances and Islamic financing	-	-	-	-	410,154,614	410,154,614
Non-trading investments	-	-	139,979,957	927,584	4,492,104	145,399,645
Other assets	-	-	-	-	18,036,457	18,036,457
	<u>1,967,790</u>	<u>67,878,228</u>	<u>139,979,957</u>	<u>927,584</u>	<u>757,047,863</u>	<u>967,801,422</u>
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	56,985,180	56,985,180
Repurchase agreements	-	-	-	-	55,074,494	55,074,494
Commercial Paper	-	-	-	-	39,664,252	39,664,252
Derivative financial instruments	6,678,547	21,716,538	-	-	-	28,395,085
Customer accounts and other deposits	-	-	-	-	614,459,265	614,459,265
Term borrowings	619,857	-	-	-	71,023,959	71,643,816
Other liabilities ¹	-	412,618	-	-	18,856,544	19,269,162
Subordinated notes	-	-	-	-	448,908	448,908
	<u>7,298,404</u>	<u>22,129,156</u>	<u>-</u>	<u>-</u>	<u>856,512,602</u>	<u>885,940,162</u>

¹ Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Management considers that the carrying amounts of Group's financial assets and liabilities do not materially differ from their fair values as at the year-end.

Notes to the consolidated financial statements (continued)

46 Financial assets and liabilities (continued)

(c) Fair value of financial instruments (continued)

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020:

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	227,872,592	227,872,592
Investments at fair value through profit or loss	-	21,266,243	-	-	-	21,266,243
Due from banks and financial institutions	-	-	-	-	27,357,639	27,357,639
Reverse repurchase agreements	-	-	-	-	44,069,241	44,069,241
Derivative financial instruments	2,744,441	29,814,440	-	-	-	32,558,881
Loans, advances and Islamic financing	-	-	-	-	386,643,996	386,643,996
Non-trading investments	-	-	127,609,070	557,508	3,352,977	131,519,555
Other assets	-	-	-	-	15,763,630	15,763,630
	<u>2,744,441</u>	<u>51,080,683</u>	<u>127,609,070</u>	<u>557,508</u>	<u>705,060,075</u>	<u>887,051,777</u>
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	57,632,476	57,632,476
Repurchase agreements	-	-	-	-	56,005,314	56,005,314
Commercial Paper	-	-	-	-	31,174,128	31,174,128
Derivative financial instruments	9,113,280	29,718,724	-	-	-	38,832,004
Customer accounts and other deposits	-	-	-	-	540,882,472	540,882,472
Term borrowings	466,881	-	-	-	61,970,222	62,437,103
Other liabilities ¹	-	336,420	-	-	20,630,429	20,966,849
Subordinated notes	-	-	-	-	470,805	470,805
	<u>9,580,161</u>	<u>30,055,144</u>	<u>-</u>	<u>-</u>	<u>768,765,846</u>	<u>808,401,151</u>

¹ Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Management considers that the carrying amounts of Group's financial assets and liabilities do not materially differ from their fair values as at the year-end.

Notes to the consolidated financial statements (continued)

46 Financial assets and liabilities (continued)

(c) Fair value of financial instruments (continued)

Financial instruments measured at fair value - hierarchy

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 Dec 2021				
Investment at fair value through profit or loss	9,022,529	27,921,612	8,628,111	45,572,252
FVOCI - with recycle to profit or loss	107,011,926	30,680,916	2,287,714	139,980,556
FVOCI - without recycle to profit or loss	722,426	-	205,158	927,584
Derivative financial instruments (Assets)	73,286	24,200,104	376	24,273,766
	<u>116,830,167</u>	<u>82,802,632</u>	<u>11,121,359</u>	<u>210,754,158</u>
Term borrowings	-	619,857	-	619,857
Derivative financial instruments (Liabilities)	103,193	28,267,427	24,465	28,395,085
	<u>103,193</u>	<u>28,887,284</u>	<u>24,465</u>	<u>29,014,942</u>
As at 31 Dec 2020				
Investment at fair value through profit or loss	9,921,320	5,292,365	6,052,558	21,266,243
FVOCI - with recycle to profit or loss	111,756,913	12,709,056	3,143,446	127,609,415
FVOCI - without recycle to profit or loss	534,846	-	22,662	557,508
Derivative financial instruments (Assets)	47,620	32,511,261	-	32,558,881
	<u>122,260,699</u>	<u>50,512,682</u>	<u>9,218,666</u>	<u>181,992,047</u>
Term borrowings	-	466,881	-	466,881
Derivative financial instruments (Liabilities)	108,153	38,720,806	3,045	38,832,004
	<u>108,153</u>	<u>39,187,687</u>	<u>3,045</u>	<u>39,298,885</u>

Notes to the consolidated financial statements (continued)

46 Financial assets and liabilities (continued)

(c) Fair value of financial instruments (continued)

The following table shows the transfer between the hierarchies:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 Dec 2021				
Investment at fair value through profit or loss				
Transfer from 1 to 2	-	90,262	-	90,262
Transfer from 2 to 1	17,795	-	-	17,795
Transfer from 3 to 1	4,736	-	-	4,736
Transfer from 3 to 2	-	534	-	534
Non-trading investments				
Transfer from 1 to 2	-	4,907,176	-	4,907,176
-Transfer from 2 to 1	774,414	-	-	774,414
Transfer from 3 to 1	37,820	-	-	37,820
Transfer from 3 to 2	-	707,758	-	707,758
	<u>834,765</u>	<u>5,705,730</u>	<u>-</u>	<u>6,540,495</u>
As at 31 Dec 2020				
Investment at fair value through profit or loss				
Transfer from 1 to 2	-	152,045	-	152,045
Transfer from 1 to 3	-	-	282,570	282,570
Transfer from 2 to 3	-	-	12,074	12,074
Non-trading investments				
Transfer from 1 to 2	-	5,161,377	-	5,161,377
Transfer from 2 to 1	3,538,569	-	-	3,538,569
Transfer from 2 to 3	-	-	113,088	113,088
	<u>3,538,569</u>	<u>5,313,422</u>	<u>407,732</u>	<u>9,259,723</u>

The following table shows a reconciliation of instruments measured at fair value (assets) and classified as Level 3:

	31 Dec 2021 AED'000	31 Dec 2020 AED'000
Balance as at the beginning of year	9,218,666	2,506,843
Additions / Transfers	4,315,518	6,922,464
Settlements and other adjustments	(2,412,825)	(210,641)
Balance as at the end of year	<u>11,121,359</u>	<u>9,218,666</u>

The Level 3 financial instruments includes private equity investments, and their valuations are based on the last net asset published by the fund manager. The effect of changes in its valuation is covered as part of equity price risk included in note 43(c). The remaining mainly comprise of debt instruments which are priced using last available prices.

Notes to the consolidated financial statements (continued)

47 Business Combination

On 28 April 2021, the Bank acquired 100% of the share capital of Bank Audi SAE (Egypt), Bank Audi's subsidiary in Egypt. The acquisition was effected through transfer of cash from the acquiror to the acquiree. The acquisition was effected to accelerate FAB Group's expansion in high-potential market. It will significantly increase the size, scale and experience of FAB Egypt, adding greater depth and reach to customers both locally and globally.

a. Purchase consideration

The purchase consideration paid for the acquisition of 100% shares is USD 600 million (equivalent to AED 2,203 million).

b. Integration related costs

The Group incurred integration related costs of AED 117 million till 31 Dec 21, including consultant and external legal fees and due diligence costs. These costs have been included in 'General, administrative and other operating expenses' in the consolidated financial statements of profit or loss.

c. Identifiable assets acquired and liabilities assumed

The following table summarises the fair value of assets acquired and liabilities assumed on the date of acquisition.

	28 Apr 2021 AED'000
Assets	
Cash and balances with central banks	5,596,549
Due from banks and financial institutions	3,251,214
Investment at fair value through profit or loss	7,398
Reverse repurchase agreement	490,843
Derivative financial instruments	30
Loans, advances and Islamic financing	7,000,479
Non-trading investments	6,706,384
Other assets	318,408
Property and equipment	374,241
Total assets	23,745,546
Liabilities	
Due to banks and financial institutions	79,567
Derivative financial instruments	3
Repurchase agreement	3,355
Customer accounts and other deposits	21,165,336
Other liabilities	635,883
	21,884,144
Net assets as at acquisition date attributable to its common equity holders	1,861,402

Notes to the consolidated financial statements (continued)

47 Business Combination (continued)

d. Goodwill and Intangibles

The Bank has assumed the carrying value of financial assets and liabilities as at 28 April 2021 not to be significantly different to their fair value for the purpose of calculating provisional goodwill:

	AED'000
Total consideration	2,203,800
Bank Audi SAE (Egypt) net assets value	1,861,402
	<hr/>
Provisional goodwill	342,398
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The Bank is in the process of undertaking a comprehensive purchase price allocation which is expected to be completed within twelve months from the acquisition date and will focus on, but is not limited to, the following:

- valuation of intangible assets;
- valuation of properties and equipment;
- valuation adjustments on other recognized financial and non-financial assets and liabilities; and
- initial adjustments to fair value of loans, advances and Islamic financing have been made, which will be completed in due course.

The goodwill is attributable mainly to the synergies expected to be achieved from acquisition in high potential market.

e. Impact on Group's results

From the date of acquisition until 31 December 2021, Bank Audi SAE (Egypt) contributed revenue and operating income of AED 597 million and a profit of AED 189 million to the Group's results. If the acquisition had occurred on 1 January 2021, management estimate that consolidated operating income and profit for the year would be AED 910 million and AED 244 million respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

48 Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation adopted in these consolidated financial statements.