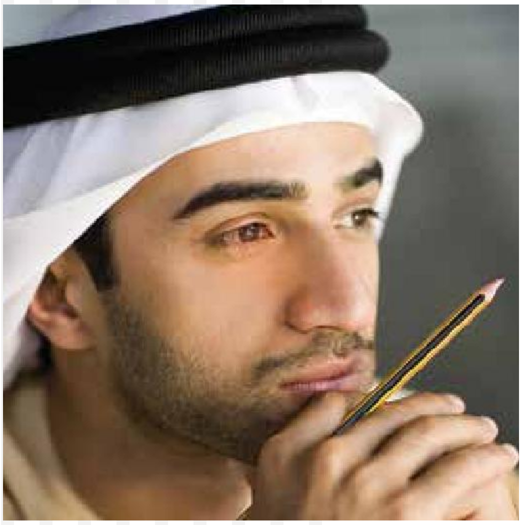
ANNUAL REPORT 2021



بنك أم القيوين
NBQ

His Highness Sheikh

SAUD BIN RASHID AL-MUALLA

Member of the Supreme Council of the United Arab Emirates

&

Ruler of Umm Al Qaiwain

His Highness Sheikh

RASHID BIN SAUD BIN RASHID AL-MUALLA

Crown Prince of Umm Al Qaiwain


CONTENT


Umm Al Qaiwain Branches

NBQ Building (Head Office)
King Faisal Street
P.O. Box 800 Umm Al Qaiwain

Falaj Al Mualla Branch
NBQ Building
Shaikh Zayed Street
P.O. Box 11074 Falaj Al Mualla

Al Salama Branch
Al Itihad Road
P.O. Box 800 Umm Al Qaiwain

Dubai Branches

Dubai Main Branch
NBQ Building
Khalid Bin Al Waleed Street
P.O. Box 9175 Dubai

Deira Branch
Opposite Dubai Police Head Quarters
Al Ittihad Street
P.O. Box 9175 Dubai

Sheikh Zayed Branch
Sheikh Zayed Road,
Gold & Diamond Park, Building 4,
Al Quoz Industrial Area Number 3
P.O. Box 9175 Dubai

Abu Dhabi Branches

Abu Dhabi Branch Al Hashimi
Tower,
Shk. Rashid Bin Saeed Street,
P.O. Box 3915 Abu Dhabi

Al Ain Branch
Al Remal Mall
on the junction of Khalid Bin Sultan
Street and Hessa Bint Mohammed Street
P.O. Box 17888 Al Ain

Sharjah Branch

Sharjah Branch
King Faisal Street
P.O. Box 23000 Sharjah

Ajman Branches

Masfout Branch
NBQ Building
Main Street
P.O. Box 12550 Masfout, Ajman

Fujairah Branch

Fujairah Branch
Awtad Tower, Shop 1,
Hamad Bin Abdulla Road
P.O. Box 1444, Fujairah

Ras Al Khaimah Branch

RAK Mall, Khuzam
Street in Al Qarm Area
P.O. Box 32253
Ras Al Khaimah

بنك أم القيوين
NBQ

Board of Directors

H.H. Sheikh Rashid Bin Saud Al Mualla
Chairman of the Board

Shk. Nasser Rashid AbdulAziz Al Moalla
Vice Chairman of the Board

Shaikh Sager Saud Rashed Ahmed Al Mualla
Director

Mr. Marwan Abdulla Hassan Al Rostamani
Director

Mr. Abdulla Mohamed Salih Al Zarooni
Director

Mr. Ali Rashed Sultan AlKaitoob Al Nuaimi
Director

Mr. Ahmed Mohamed Dhaen Shaheen Al Nuaimi
Director

Senior Management

Mr. Adnan Al Awadhi
Chief Executive Officer

بنك أم القيوين
NBQ

Chairman's Report

On behalf of the Board of Directors, I am pleased to welcome you all to the 39th Annual General Meeting of the bank and present the annual report of the Board of Directors for the year ended 31 December 2021. NBQ was successful in delivering resilient financial performance despite the economic challenges and severe competition in the UAE Banking Sector.

The Bank has achieved net profit of AED 264.17 million, which is 25% more than the net profit compared to last year. Our total revenue reached AED 392.68 million and operating income stood at AED 256.11 million for the year ended 31 December 2021.Total assets reached AED 13.14 billion. Loans and advances were at AED 6.59 billion, while customer deposits stood at AED 7.70 billion. The Bank holds collateral and specific provision to the tune of 198% of the non-performing loans, which reflects prudent management and effective monitoring of our loans and advances portfolio. The Bank has consistently maintained high level of liquidity as in the past and liquidity ratio as of 31 December 2021 stands at 43.53%. Cost to income ratio is 34.81%.

Shareholders' equity amounted to AED 5.05 billion as at 31 December 2021. We continue to maintain one of the highest capital adequacy ratio in the banking industry which stands at 44.66% and is far higher than the minimum prescribed levels stipulated by Central Bank of the UAE. This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability, when needed. Tier 1 ratio is recorded at 44.03%, which is also substantially higher than the prescribed limits stipulated by the regulatory authorities.

Payment of cash dividend of 8% of the share capital for the year ending 31st December 2021 has been approved by the UAE Central Bank.

UAE ended the year 2021 with a gradual recovery as GDP was expected to grow by 2.2% after a 6.1% contraction in 2020 as per IMF projections. UAE's non-oil GDP growth is expected to exceed 3% in 2021. Vaccination roll out and booster doses roll out for all residents continued, while contingency health plans are already in place to respond to any recurrent virus outbreaks. Oil prices recovered sharply in 2021, rising more than 60% on average compared with 2020, boosting sentiments and allowing GCC governments to narrow their 2020 budget deficits significantly. Stock markets in the Gulf ended 2021 on a higher note with ADX registering its best year since 2005 with more than 68% gain y-o-y.

UAE Central Bank has projected 4.2% growth for 2022 with 5% growth for the oil sector and 3.9% for the non-oil sector. Other than higher oil prices, non-oil sectors such as travel and tourism, real estate, hospitality, aviation, and manufacturing which have performed better in 2021 are expected to push economy higher in 2022.

While the outlook for 2022 remains broadly constructive, there is still a high degree of uncertainty especially with regards to the evolution of the coronavirus pandemic. The recently identified Omicron variant appears to be much more easily transmitted and has led to a surge in Covid-19 cases globally that far exceeds previous peaks.

Another potential risk to the outlook for 2022 relates to the withdrawal of the exceptional stimulus injected into the global economy in 2020, which could likely lead to heightened volatility in financial markets and provide a further headwind to growth. The COVID 19 crisis has put borrowers under immense pressure but banking system in UAE and particularly NBQ remains well capitalized and the deterioration in asset quality and profitability have been relatively modest.

On behalf of the Board of Directors, we would like to express our gratitude to His Highness Sheikh Saud Bin Rashid Al Mualla – Ruler of Umm Al-Qaiwain and Member of the Supreme Council of the United Arab Emirates – for the continued support for the development of the Bank and in framing our strategies.

Chairman's Report

We would also like to state our sincere and whole-hearted appreciation for the on-going initiatives and support provided by Central Bank of the UAE to regulate the country's financial sector and for their helpful and continuing guidance to the Bank during this year.

We would like to express our sincere appreciation and gratitude to our shareholders, customers and correspondent banks for achieving our objectives and maintaining continued success in our operations. We have a good team of talented management officials and staff members who are committed and remain loyal to the Bank and we value their contribution.

RASHID BIN SAUD AL MUALLA
Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF NATIONAL BANK OF UMM AL-QAIWAIN (PSC)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) (the "Bank") and its subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with 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.

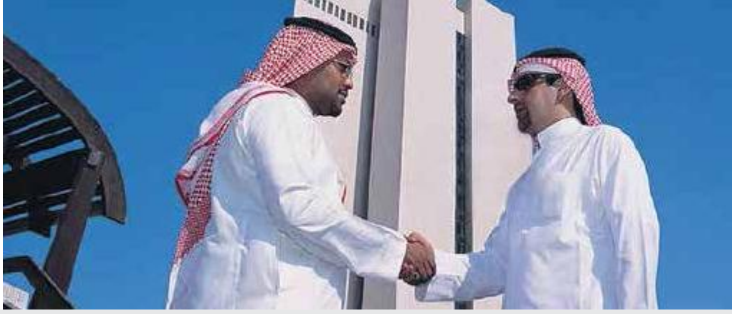
Key audit matter

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 year. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	**How our audit addressed the key audit matter**
Expected credit losses ("ECL") for loans and advances and Islamic financing receivables *Refer to note 6 of the consolidated financial statements.* The balance of loss allowances on loans and advances and Islamic financing receivables represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). Management first assesses whether the credit risk of loans and advances and Islamic financing receivables to customers has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. For loans and advances and Islamic financing receivables classified in stage 1 (no significant increase in credit risk) and stage 2 (with	We have obtained an understanding of management's assessment of impairment of loans and advances and Islamic financing receivables, the Group's internal rating model, the Group's credit impairment provision policy and the ECL modelling methodology. We have performed process walkthroughs to identify the controls over ECL process. We have tested design and operational effectiveness of the following internal controls relating to the measurement of ECL: • Review and approval of classification of loans and advances and Islamic financing receivables facilities. • The management is regular monitoring of: 1) Staging and ECL for loans and advances and Islamic financing receivables 2) Identification of loans displaying indicators of impairment (including more than 90 days past due) under stage 3

Independent Auditor’s Report
(continued)



Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default and discount rates. For loans and advances and Islamic financing receivables in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the loans. Management has also applied significant level of judgement in areas noted above in determining the impact of COVID-19 on the allowances for credit losses by considering the following: • Forward looking information, including variables used in macroeconomic scenarios and their associated weightings, • Stress in specific sectors and industries, and • Impact of Government support measures. We considered ECL for loans and advances and Islamic financing receivables as a key audit matter as the determination of ECL involves significant management judgement such as categorization of loans and advances and Islamic financing receivables into stages 1,2 or 3, assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc. These judgments have a material impact on the consolidated financial statements of the Group.	3) Macroeconomic variables and forecast 4) Performance of ECL models • The review and approval of management overlays and the governance process around such overlays. • The independent model validation function. We have performed the following substantive audit procedures: • Reviewed the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling. This typically included challenging key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates and discount rate. • For selected samples, we performed procedures to determine whether significant increase in credit risk have been correctly identified. • For forward-looking measurements, reviewed management’s selection of economic indicators, scenarios and application of weightings; assessed the reasonableness of the prediction of economic indicators and performed sensitivity analysis. • We have reviewed the impact on expected credit losses on account of COVID 19 with specific focus on reassessment of macroeconomic weights, impact of financial stress on various industries and the consideration of Government support measures. • For selected samples, we examined key data inputs into the ECL models. • We re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy. • We assessed the appropriateness of disclosures in the consolidated financial statements against the requirements of IFRS.

Other information
Management is responsible for the other information. Other information consists of the information included in the Bank’s 2021 Annual Report, other than the consolidated financial statements and our auditor’s report thereon. We obtained the Chairman’s report, prior to the date of our auditor’s report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor’s report.

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

Independent Auditor's Report
(continued)

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, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

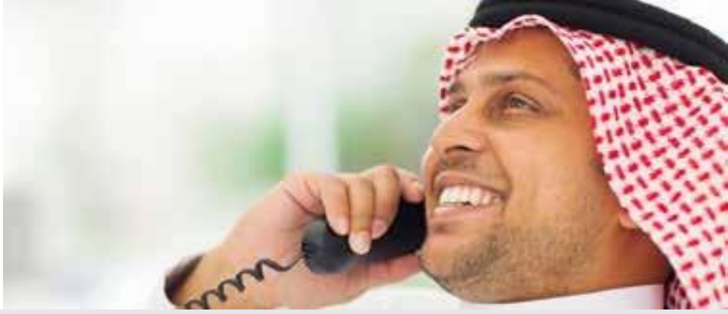
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Independent Auditor's Report
(continued)



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

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

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

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

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

Report on other legal and regulatory requirements

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

- The Group has maintained proper books of account;

- We have obtained all the information and explanations we considered necessary for the purposes of our audit;

- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Law No. (2) of 2015;

- The financial information included in the Directors' report is consistent with the books of account and records of the Group;

- Investments in shares and stocks during the year ended 31 December 2021 are disclosed in note 7 to the consolidated financial statements;

- Note 27 reflects the disclosures relating to related party transactions and the terms under which they were conducted;

- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended 31 December 2021, any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Memorandum and Articles of Association which would materially affect its activities or its consolidated financial position as at 31 December 2021; and

- Note 37 reflects the social contributions made during the year.

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

For Ernst & Young
Signed by:
Ashraf Abu Sharkh Partner
Registration No: 690
9 February 2022
Sharjah, United Arab Emirates

Management Report 2021

Financial Overview

NBQ was successful in delivering a sound financial performance despite the economic challenges and severe competition across the UAE banking sector. The Bank achieved a net profit of AED 264.17 million, a 25% increase compared to last year. Total revenues reached AED 392.68 million and operating income stood at AED 256.11 million, for the year ended 31 December 2021. Total assets were AED 13.14 billion; loans and advances were at AED 6.59 billion, and customer deposits stood at AED 7.70 billion.

The Bank holds collateral and specific provision of 198% of the non-performing loans, reflecting the prudent management and effective monitoring of its loans and advances portfolio. The Bank continued to maintain a high level of liquidity – its liquidity ratio stood at 44.03% as of 31 December 2021 and its cost to income ratio 34.81%.

Shareholders' equity totalled AED 5.05 billion as of 31 December 2021. The Bank continues to maintain a high capital adequacy ratio of 44.66%, considerably higher than the minimum prescribed levels of 13% stipulated by the Central Bank of the UAE (CBUAE). This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability when needed. Tier 1 ratio at 44.03% is also substantially higher than regulator prescribed limits.

Economic Overview:

According to the latest forecast by the International Monetary Fund (IMF), the global economy is projected to have grown by 5.9% in 2021 and is forecast to grow by 4.4% in 2022. It has projected overall real GDP growth for the GCC region of 2.5% for 2021, while non-oil GDP is expected to grow by 3.8% due to successful vaccine programs, easing of containment measures and supportive policies from the GCC governments. Despite rapid progress in GCC vaccination efforts, the risk of new virus strains emerging pose downside risks to the economic outlook. This could, potentially, have negative effects on oil prices and travel restrictions. However, the UAE's strong reform momentum provides upside risk to growth. Non-oil GDP growth is expected to improve further in the medium term, while oil GDP will continue to grow with increased production and higher oil prices. Furthermore, continued supportive macroeconomic policies and a rebound in tourism and domestic activity related to the delayed Expo 2020 that started in October 2021 could start to feed through.

The Central Bank of the United Arab Emirates (CBUAE) expects the UAE's economy to have grown by 2.1% in 2021 and by 4.2% in 2022. The UAE economy benefited from a successful vaccination drive, recovery in global travel and a pick-up in domestic and external demand. The real estate market, which is a vital economic sector in the country, has also registered growth during the year. A combination of higher oil prices, economic recovery and more targeted fiscal support by some countries will improve the GCC overall fiscal deficit to -1.8% of GDP in 2021 and is expected to reach a surplus by 2023.

*During the fourth quarter of 2021, central banks globally initiated the unwinding of ultra-loose monet*ary policies as inflation began to rise as supply chain disruptions continued and energy prices rose steeply. However, any tightening of monetary policies in response could result in reversal of capital flows, drive sovereign spreads higher and squeeze public financing. The pandemic has put borrowers under immense pressure but the banking system across the GCC region remains well capitalised and the deterioration in asset quality and profitability has been relatively modest.

Management Report 2021

Stock markets in the Gulf ended 2021 on a higher note, with the ADX registering its best year since 2005 with a 68% gain y-o-y. In November, Dubai also announced the plans to launch an AED 2 billion market maker-fund and IPOs of 10 state-backed companies, as part of plans to boost activity on the local bourse. Stock markets are expected to see more upside, albeit moderate, in 2022 due to better than expected earnings growth as supply shocks ease and consumer spending habits return to normal.

Treasury, Investments and Institutional Banking:

The time-tested prudent investment policies and strategies of the Bank have yielded positive returns globally interest rates near zero levels. The Bank adopted a fresh strategy, booking short-term syndicated and bilateral Loans at decent yields and investing in high yielding securities for shorter tenors (with an eye on higher interest rates once the pandemic effects subside). This strategy helped the Bank generate a decent level of interest income from the bonds/syndicated/bilateral loan portfolio. Holding its existing equity portfolio ensured a steady dividend income stream too.

Wholesale Banking:

Wholesale Banking Division (WBD) closely monitored its existing client base to ensure the health of its portfolio remained intact during a challenging year for the UAE banking sector. It meticulously analysed accounts that needed special attention and concessions under TESS Scheme were strictly sanctioned only for those whose issues were directly connected to the pandemic.

Owing to the concentration of real estate advances and regulatory restrictions, the WBD did not extend any fresh real estate advances. Indeed, in light of the prevailing market conditions, WBD was cautious onboarding new relationships, despite declining overall advances, the Bank did not compromise the credit quality of the advances it approved.

During the year the Bank entered into a partnership with Emirates Development Bank (EDB). Its credit guarantee scheme will provide a solution to target small and medium-sized businesses (SMEs).

Department is cautiously optimistic for the year 2022. The business is equipped with a healthy pipeline a systematic strategy for business development, resource allocation and harnessing of technology.

Retail Banking Division

Retail Banking Division provides individual customers with a wide range of options, offering enhanced products and services as well as competitive pricing.

During the period under review, the Bank modernised many of its branches to provide a better experience for its customers. This is in addition to digital banking, such as mobile and online banking services, that allows customers to carry out their banking requirements anytime and anywhere. The Bank has taken utmost efforts and all precautionary actions to follow UAE Government regulations to keep its customers and staff safe during the pandemic.

In light of prevailing market conditions, the Bank continued to be prudent in the assessment of customer requests for loans and exercised caution and care across all segments of customers. Profitability of retail asset products was a key focus area while considering lending proposals for long-term sustainability. Furthermore, the Bank continued to be compliant with CBUAE regulations and offered a TESS scheme to eligible customers with the utmost needs.

Management Report 2021

Information Technology and Operation:

The period under review was a transformational year for the Bank's information technology landscape. Many of the applications were either replaced or upgraded to ensure that the Bank was able to support the current and foreseeable future requirements of customers. They included the replacement of the clearing application, the reconciliation application, the enterprise document management application and the CBUAE Direct debit system. Multiple business applications also went through an upgrade process to ensure continued support, compliance and enhanced business functions.

Our continued focus on security and compliance ensured successful completion of prestigious PCI DSS standard certification, completion of SWIFT CSP certification and many other enhancements desired by the UAE NESA standards.

As part of these initiatives, multiple security solutions were brought in, integrated and additional processes were created which includes the data classification. The Bank also focused on enhancing the existing digital delivery channels. Its ATM fleet was replaced and they can now read Emirates ID cards. As part of the vision to enhance customer service, the Bank launched a faster direct cheque clearing facility through NBQ cheque deposit machines.

Human Resources:

The Bank undertakes strategic initiatives to manage the operations, mitigate the risks and industry challenges with a focus to improve performance and profitability.

Detailed evaluations of staff requirements are undertaken to utilise and optimise the human resources for strategic and operational requirements. They are also used to reward and retain talented people to improve operational efficiency and performance. The Bank maintains a high ratio of UAE nationals in its workforce and complies with the regulator's requirements to empower them in leadership and decision-making roles. Constant reviews of the Bank's internal policies and strategic vision are undertaken to maintain a motivated UAE national workforce.

Human Resources and Emiratization Department values training, talent identification, mentoring, career planning and succession planning as key objectives to motivate the workforce and to retain talent.

The Bank is considering upgrading or replacing its existing human resources system so that it can meet strategic requirements more efficiently and effectively, involving less manual input.

Retention of staff members in key positions is being handled with Emiratization as a focus to maintain the regulatory thresholds and maintain operations in a robust manner.

Corporate Governance

NBQ believes in maintaining good corporate governance, risk management principles, internal control systems and ethical standard commensurate with good governance industry practices, vision and mission of the Bank.

In line with regulations and standards on corporate governance published in 2019 by the CBUAE and Abu Dhabi Securities (ADX), NBQ's Board of Directors has revised the Board Charter and approved a three-year implementation plan to enhance its current corporate governance framework.

Management Report 2021

The Bank has taken all measures to enhance the concepts of internal controls, transparency, disclosures, insider trading, conflict of interest management, monitoring related party transactions, Sharia governance framework and charter by revising all related policies and procedures on corporate governance framework.

Transparency and disclosure requirements are key factors considered by the Board in its actions. They are fundamental to the compliance of governance practices and are communicated with the senior management via appropriate communication forums.

Governance Committees

Board Meetings are conducted as per the Board Charter, Memorandum and Articles of Association and as per the Federal and Company Law provisions. A minimum of six board meetings are held a year in line with requirements.

The Board decides the risk profile appropriate to the Bank's growth strategy. It approves risk management strategies, policies, standards, key operational limits and delegates risk and governance-related responsibilities to its Board Level committees, Executive Committee, Credit Committee, Audit Committee, Risk Committee and Nominations and Remunerations Committee. These committees discharge their duties based on the relevant charters approved by the Board.

Audit committee handles issues related to internal control and internal audit issues and concerns. It meets periodically with an agenda and for critical items. Membership includes three independent Directors, Chief Executive Officer, Deputy General Manager, Head of Internal Audit and Head of Risk.

Risk Committee ensures the effectiveness of the risk management process and oversees the functions of the Risk Departments. It meets periodically and the membership includes three Independent Non-Executive Directors, Chief Executive Officer, Deputy General Manager, Head of Risk and Head of Compliance.

Nomination and Remuneration Committee has been delegated to handle all the functions related to Board Nominations, their remuneration and fixing remunerations of Senior Management staff and other HR-related strategic decisions. This committee constitutes the Vice-Chairman and two Directors and the representatives of the Senior Management.

Executive Committee handles all the strategic and operational matters regularly. This committee meets regularly and decisions are taken, which are beyond the powers of the Senior Management. The meetings are attended by the Vice-Chairman, Nominated Director, one Board member, Chief Executive Officer, Deputy General Manager and Head of Risk.

Credit-related committees are framed to approve credit facilities on wholesale and retail based on the approval limits set against each committee.

Credit Committee constitutes three Directors of the Bank and meetings are attended by the CEO, Head of Risk and Senior Manager – Credit Approvals and Head of Commercial banking group. The Credit Sub Committee constitutes Vice Chairman/Nominated Director, CEO, HOR and Senior Manager-Credit Approvals and Head of Commercial banking group.

Management Report 2021

NBQ has an efficient team of Senior Management officials who are experienced and qualified in discharging key management functions. They manage the affairs of the Bank in a professional manner while managing the internal control, compliance, governance with a risk management focus. The Board through their committees, directs the Senior Management Team to apply due diligence and caution to protect the interests of the Bank and its shareholders.

The Bank has different management committees to handle its functions under the chairmanship of the Chief Executive Officer. These include:

- Asset Liability Committee
- Compliance Committee
- Operations Excellence Committee
- Pre-Audit Committee
- IT Steering Committee
- Human Resources Committee

Directors Remuneration

Each year, the remuneration of the Directors is approved at the Annual General Meeting and is paid after the close of the year and it is disclosed in the financial statements.

Information Security Framework

The Bank gives paramount importance to its information security by adhering to various compliance standards mandated by regulatory authorities. It ensures information assurance by implementing controls based on National Electronic Security Authority/ Information Assurance (NESA IA). The Bank is fully compliant with CI DSS and SWIFT CSP standards. High priority is given to implement security advisories and recommendations provided by CBUAE to ensure the organisation's data is safe. The Bank is using sophisticated tools, updated policies and processes to prevent detect and mitigate threats to information assets.

Internal Audit and Control Framework:

The Internal Audit Control Department (IACD) is the fourth line of defence after Front Offices, Risk Management and Operational Management/Compliance functions.

Internal Auditing and Internal Control is an independent, objective assurance and consulting activity designed to add value and improve the Bank's operations. It helps the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance.

Its objective is to help management with an analysis, recommendations and relevant comments concerning any phase of the business activity that will be of service in running the business more efficiently.

IACD conducts review and assesses the effectiveness of management of risk and internal controls in all areas covered by the audits by:

- Evaluating the Bank's internal controls
- Evaluating process performance
- Identifying deviations from management KPI's

Management Report 2021

• Recommendating for process and control improvements to achieve organisational goals
• Assessing business requirements and objectives
• Evaluating evidence in connection with any business issues

IACD provides management with the following assurances:
• Objectives are achieved
• Financial and operational information is reliable
• Operations and programs are effective and efficient, and assets are safeguarded
• Compliance with regulations, policies and procedures
• Risks are identified, appropriate risk responses selected, communicated and managed
• Assessing the availability of an action plan for rectification of identified issues

During the audit cycle, IACD may include a review of the following:
• Revenue management and recognition
• Procurement of goods and services
• Inventory management and supplier engagement
• Logistics
• Operational performance
• Financial management, reporting and KPI evaluation
• Administration

IACD adopted the following steps while performing all types of audits and checks: risk identification, risk assessment, risk prioritisation, response planning and risk monitoring. Two factors are used to assess the exposure to risk: loss frequency or probability and loss severity.

IACD is a continuous operation covering also the five components of the internal controls system:

1. Control environment
2. Risk assessment
3. Control activities
4. Information
5. Communication and Monitoring

IACD's scope does not end with the delivery of the findings report. Any critical observations are escalated to Management and Board Audit Committee to set further course of action. The aim of the Management team is for continuous improvement with the internal audit function being the basis against which this objective can be measured.

External Auditors:

Ernst and Young, Middle East was appointed as External Auditor of the NBQ group for the year 2021 at the Annual General Meeting. The appointment of the External Auditor is made in accordance with the Article of Association.

Risk Management:

In line with best practices, the Bank follows a well-defined organisational structure with Relationship Business Units as the front office, Centralised Approval and Credit Risk Units as the mid-office and Credit Administration and Operations unit as the back-office. These functions are segregated with clear reporting lines, providing a maximum level of risk assurance and management oversight to credit functions. The Bank has well laid out credit risk policies, which are followed at all levels. Risk policy manuals are updated on an ongoing basis as per regulatory and emerging business requirements. The Bank is undertaking steps to upgrade loan origination and rating solutions for both wholesale and retail.

As part of pro-active credit monitoring, tracking of early warning signals and independent physical inspection of projects are undertaken through the Risk Containment Unit. Management of stressed accounts and non-performing loans is centralised. Exposure monitoring including concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit. In addition, to ensure Corporate Governance, the Risk Function reports to the Risk Committee, which is a Board level Committee of Directors.

Market Risk:

Market risk refers to the potential losses resulting from changes in interest rates, foreign currency exchange rates and prices of securities, which can adversely affect the value of the Bank's on and/ or off-balance sheet positions. Volatility in market level of interest rates, foreign exchange rates and investment prices expose the Group's earnings and capital to risk.

Market Risk department addresses these risks to the Assets and Liability Committee (ALCO) regularly. The Committee takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk is the current and prospective risk that the Group will be unable to meet its current or future obligations as and when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades that may cause certain sources of funding to dry up immediately.

To guard against this risk, management endeavours to diversify funding sources continuously and manage assets with liquidity in mind. Day-to-day management of funds is carried out by Treasury to maintain a satisfactory position of liquid assets. The Bank's liquidity position is monitored and reported to senior management on a daily basis. ALCO committee has policies in place that measure and manage liquidity risk, and monitor gap limits for the Bank's structural liquidity position regularly. The Bank also monitors Eligible Liquid Assets Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR) in line with CBUAE's regulations for compliance with Basel III requirements.

The Bank's ability to meet its obligations and fund itself in a crisis scenario is critical and accordingly, liquidity stress tests are conducted under different scenarios at monthly intervals to assess the impact on liquidity to withstand stressed conditions. The Bank has also put in place Contingency Funding Plan (CFP) to manage liquidity in critical stress situations.

Interest Rate Risk: Interest rate risk is managed through gap analysis, whereby tolerance limits have been fixed for impact on net interest income (NII) due to adverse changes in interest rates. To measure the impact of interest rate changes on the Bank's equity, the economic value of equity (EVE) analysis is based on modified duration. The interest rate risk in the Banking Book (IRRBB) is also assessed and monitored by ALCO on monthly basis.

The Bank also undertakes Interest Rate Sensitivity analysis based on its internal scenarios and its impact on net interest income (NII) on monthly basis.

Basel Implementation:

The Bank adheres to the CBUAE's guidelines required for Basel compliance implementation including the annual submission of the Internal Capital Adequacy Assesment Process (ICAAP) report. The Bank also complies with the CBUAE norms for the standardised approach for the computation of capital adequacy ratios. During the year, CBUAE has adopted Basel III and published enhanced regulatory capital requirements guidelines and standards. CBUAE issued Basel III capital regulations and introduced minimum capital requirements at three levels, namely common equity Tier 1 (CET1), Additional Tier 1 (AT1) and Total Capital.

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

Stress tests are regularly carried out to assess credit risk, liquidity risk and interest rate risk in the banking book and equity price risk. Last year, test results revealed that the Bank is comfortably placed in line with the risk profile. There is a substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks as well.

Operations Risk

Operations Risk is defined as “the risk of loss resulting from inadequate or failed internal processes, people and systems or external events”. This definition includes all measurable risks, except market and credit risk. Operational Risk is inherent in all business activities and management of this risk is vital to the strategic objectives of the Bank.

The Bank has a policy and comprehensive framework for operational risk in monitoring, assessing, evaluating, controlling and mitigating risks arising out of regular banking operations. This framework is enhanced by strong compliance, monitoring and governance, which includes active participation of the Board of Directors, Executive Management and business line management in the risk management process.

Key controls and risk management strategies are as follows:

- Implementation of manuals and controls to prevent, detect and mitigate specific operational risks exposed by the Bank
- Regular risk and control assessment (RCSA) to assess key risks and controls for each business unit or department
- Incident management processes to identify, assess, record, report and manage actual operational or compliance events that have occurred through failed processes or events
- Issue management processes to identify, assess, record, report and manage weaknesses or gaps in controls and or provide information on controls to new processes or services
- Risks in change processes to effectively understand and manage risks from changes to business through automation projects or digital initiatives

The Bank has also set up a disaster recovery (DR) site to ensure that its regular functions are not disrupted in case of a crisis. DR site is located away from the main processing centre. A well-documented business continuity plan is in place with clearly defined recovery procedures, as well as preventive measures. Periodic testing of the DR functioning is undertaken for critical applications to test recovery efficacy. Emergency evacuation at Head Office has been tested and certified by concerned Civil Defense Authority.

Management Report 2021

The Bank maintains adequate insurance coverage for the operational losses, which includes unexpected events such as fraud, dishonest actions of the insiders. Focus is also provided to formulate business continuity contingency plans utilizing offsite storage and backup systems.

The regulatory risk capital charge concerning operational risk is computed on a basic indicator approach.

Operations Risk streamlined processes and improved the turnaround time using the suggestions initiated by business focus groups, business champions and the internal audit team.

Community Relations:

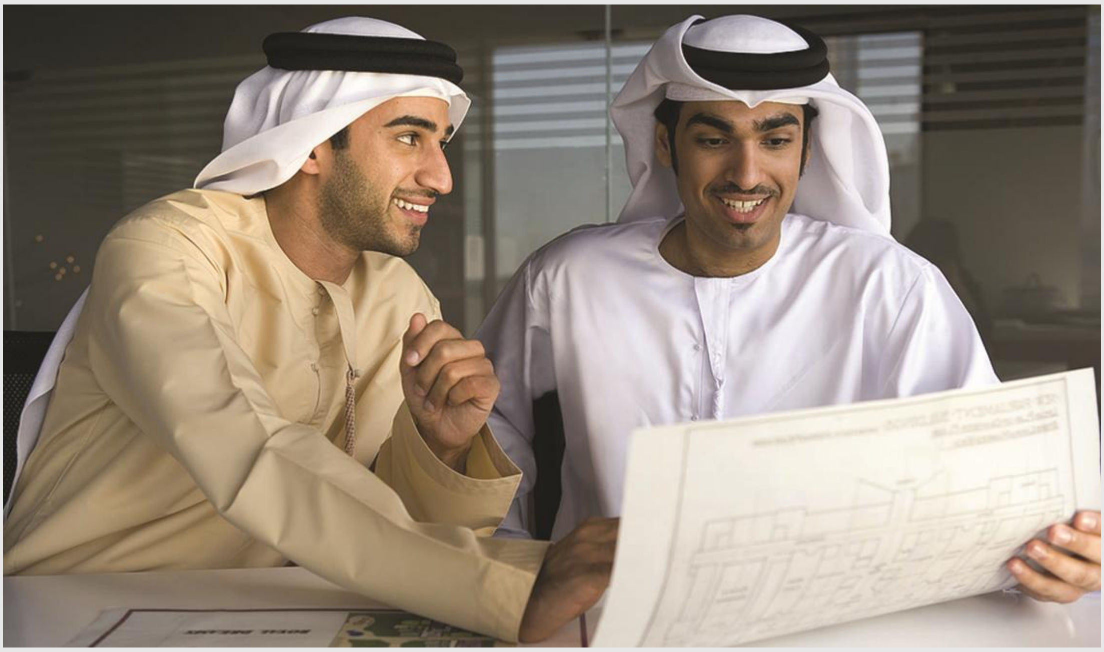
NBQ has been consistently supported and participating in social welfare measures in the emirate and taking valuable initiatives from a corporate social responsibility (CSR) perspective as well in addition to the sustainability agenda of the Bank. It has also provided valuable support to charitable, educational, social, sports and other recreational initiatives undertaken by Government and socio-cultural organisations.

Sustainability:

On sustainability, the Bank has initiated environmental, social and governance steps to maintain proper operational standards in the industry and to meet the global standards and UAE vision on the subject. The Board and Senior Management take sustainability measures seriously and proper disclosure of the initiatives will be presented in a separate report.

Conclusion:

The Board of Directors and Senior Management appreciate and thank our shareholders for their continued support and backing, our customers for their continued support, trust and the loyalty shown through their business relationships, and finally, the Management Team and all the staff members for their continued contribution, dedication, loyalty and commitment. The Bank also appreciates the guidance provided by the CBUAE in managing its affairs and in framing our strategies.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2021

	Notes	2021 AED'000	2020 AED'000
Assets			
Cash and balances with the U.A.E. Central Bank	4	1,451,384	1,510,911
Due from other banks	5	3,422,563	2,947,129
Loans and advances and Islamic financing receivables	6	6,588,554	7,639,656
Investment securities	7	1,132,621	943,354
Customers' acceptances		217,528	166,207
Investment in an associate	8	744	990
Property and equipment	9	85,528	86,362
Other assets	10	243,103	251,435
Total assets		**13,142,025**	13,546,044
Liabilities			
Due to other banks	11	-	198,585
Customers' deposits and Islamic customer deposits	12	7,700,120	8,224,858
Customers' acceptances		217,528	166,207
Other liabilities	13	173,642	258,972
Total liabilities		**8,091,290**	8,848,622
Shareholders' equity			
Share capital	14	1,848,000	1,848,000
Statutory reserve	15	1,019,266	1,019,266
General reserve		6,440	6,440
Impairment reserve -general	16	35,911	-
Cumulative change in fair values		372,617	135,632
Retained earnings		1,768,501	1,688,084
Total shareholders' equity		**5,050,735**	4,697,422
Total liabilities and shareholders' equity		**13,142,025**	13,546,044

Rashid Bin Saud Al Mualla
Chairman

Nasser Bin Rashid Al Moalla
Vice Chairman and
Chairman of Executive Committee

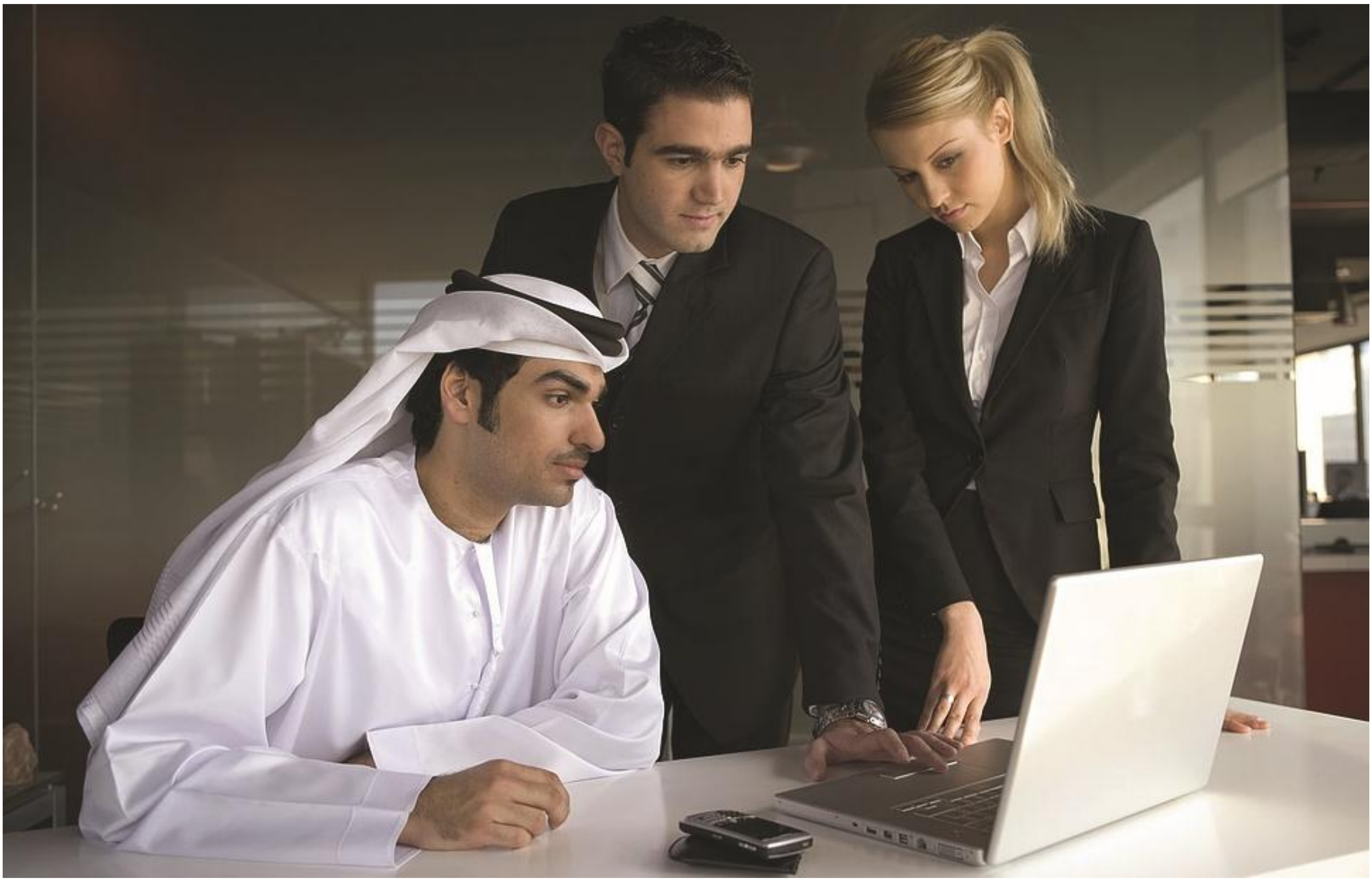
Adnan Al Awadhi
Chief Executive Officer

CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 AED'000	2020 AED'000
Interest income	18	298,653	389,161
Income from Islamic financing products		28,300	28,234
Total interest income and income from Islamic financing products		**326,953**	417,395
Interest expense	18	(49,476)	(87,090)
Distribution to depositors - Islamic products		(325)	(519)
Net interest income and income from Islamic products net of distribution to depositors		**277,152**	329,786
Net fees and commission income	19	43,782	73,743
Other operating income	20	37,838	29,706
Gross income		**358,772**	433,235
Operating expenses	21	(136,769)	(149,260)
Investment gains	22	34,104	40,239
Operating income		**256,107**	324,214
Share of loss from an associate	8	(197)	(510)
Profit for the year before impairment		**255,910**	323,704
Net impairment losses	24	8,258	(111,932)
Profit for the year		**264,168**	211,772
Basic and diluted earnings per share (AED)	25	**0.14**	0.11

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

	Notes	2021 AED'000	2020 AED'000
Profit for the year		**264,168**	211,772
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Net fair value gain/(loss)on investment securities carried at FVTOCI - equity	7	236,985	(81,068)
Other comprehensive income/(loss) for the year		**236,985**	81,068
Total comprehensive income for the year		**501,153**	130,704



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

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Impairment reserve AED'000	Investments Cumulative change in fair values AED'000	Retained earnings AED'000	Total AED'000
Balance at 31 December 2019	**1,848,000**	**1,019,266**	**6,440**	**16,385**	**211,976**	**1,667,929**	**4,769,996**
Profit for the year	-	-	-	-	-	211,772	211,772
Other comprehensive (loss) for the year	-	-	-	-	(81,068)	-	(81,068)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(81,068)**	**211,772**	**130,704**
Excess provision under U.A.E Central Bank requirement over IFRS 9 requirement	-	-	-	(16,385)	-	16,385	-
Dividends paid (Note 26)	-	-	-	-	-	(203,278)	(203,278)
Other movements of FVTOCI equity investments	-	-	-	-	4,724	(4,724)	-
Balance at 31 December 2020	**1,848,000**	**1,019,266**	**6,440**	**-**	**135,632**	**1,688,084**	**4,697,422**
Profit for the year	-	-	-	-	-	264,168	264,168
Other comprehensive income for the year	-	-	-	-	236,985	-	236,985
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**236,985**	**264,168**	**501,153**
Provision under U.A.E Central Bank requirement over IFRS 9 requirement (Note 16)	-	-	-	35,911	-	(35,911)	-
Dividends paid (Note 26)	-	-	-	-	-	(147,840)	(147,840)
Total comprehensive income for the year	**1,848,000**	**1,019,266**	**6,440**	**35,911**	**372,617**	**1,768,501**	**5,050,735**

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 AED'000	2020 AED'000
Profit for the year		**264,168**	211,772
Cash flows from operating activities			
Profit for the year		264,168	211,772
Adjustments for:			
Provision for expected credit losses		(11,996)	103,678
Depreciation of property and equipment	9	15,785	10,358
Depreciation of right of use asset		1,729	
Provision for Impairment of inventory	24	3,738	8,254
Provision for employee end of service benefits	13.1	1,397	2,654
Decrease in fair value of investment in securities		1,361	3,069
Discount amortised on investment securities	7	892	(29)
Dividend income	22	(36,358)	(42,929)
Loss on disposal of property and equipment		25	119
Share of loss/(profit) from an associate	8	197	510
Finance cost on lease liability		137	-
Operating cash flows before changes in operating assets and liabilities		**241,075**	297,456
Decrease /(Increase) in certificate of deposits with original maturity greater than 3 months		(427,965)	(125,000)
(Increase) /Decrease in statutory deposit with U.A.E. Central Bank		(33,721)	225,259
Decrease in loans and advances		1,065,357	524,833
Payment of employee end of service benefits	13.1	(3,397)	(2,275)
Decrease /(Increase) / in other assets		4,594	(156,650)
(Decrease) in customers' deposits		(524,738)	(810,250)
Increase in other liabilities		(87,702)	(19,376)
Net cash generated from operating activities		**233,503**	(66,003)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

	Notes	2021 AED'000	2020 AED'000
Cash flows from investing activities			
Purchase of property and equipment		(10,078)	(6,168)
Proceeds from disposal of property and equipment		437	94
Purchase of investment securities	7	(121,964)	(165,285)
Proceeds from maturity and disposal of investment securities	7	165,451	238,746
Dividend received from investment securities	22	36,358	42,929
Dividend received from investment in an associate	8	49	-
Net cash generated from investing activities		**70,253**	110,316
Cash flows from financing activities			
Dividends paid	26	(147,840)	(203,278)
Lease payments		(1,964)	-
Net cash flows used in financing activities		**(149,804)**	(203,278)
Net increase/ (decrease) in cash and cash equivalents		153,952	(158,965)
Cash and cash equivalents at the beginning of the year		3,474,094	3,633,059
Cash and cash equivalents at the end of the year	28	**3,628,046**	3,474,094

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION

National Bank of Umm Al-Qaiwain (PSC) (the “Bank”) is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain (“UAQ”) in the United Arab Emirates (“U.A.E.”) by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982.

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

The Group comprises National Bank of Umm Al-Qaiwain (PSC), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.-SO), Dubai (see Note 3.3). The address of the Bank’s registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.

The Group is engaged in providing retail and corporate banking services through a network of 12 branches in U.A.E.

The Group carries out Islamic banking operations through Islamic banking window established in 2005 across all its branch network.

Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Group is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSS”)

2.1 Standards, amendments and interpretations that are effective for the Group’s accounting period beginning on 01 January 2021

Interbank offered rates (“IBORs) reform disclosure – Phase 2

In August 2020, the IASB issued IBOR reform - Phase 2, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

IBOR Reform Phase 2 provides temporary reliefs that allow the Bank’s hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Bank 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. For the retrospective assessment of hedge effectiveness, the Bank may elect on a hedge by hedge basis to reset the cumulative fair value change to zero. The Bank 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. The Group has assessed the impact of Phase 2 and concluded that it is not material to the Group’s consolidated financial statements.

IBORs, such as the London Interbank Offered Rate (“LIBOR”), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Uncertainty surrounding the integrity of IBOR rates has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted. Progress in the transition to these new benchmarks has resulted in significant uncertainty in the future of IBOR benchmarks beyond 1 January 2022.

Interbank offered rates ("IBORs) reform disclosure – Phase 2

The majority of LIBOR and other IBORs are to be discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 01 January 2021 that would be expected to have a material impact on the Group's condensed consolidated interim financial information.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates.

Along with these consolidated financial statements, the Group has presented Basel III disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III guidelines has impacted the type and amount of disclosures made in these consolidated financial statements but has no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel III, the Group has provided full comparative information.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Arab Emirates Dirhams (AED) (in thousands, except where noted), which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

The Group presents its consolidated statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and non-financial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 31 of these consolidated financial statements.

3.3 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (PSC) and Subsidiary (the “Group”) incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary).

Control is achieved when the Bank:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank’s voting rights in an investee are sufficient to give it power, including:

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

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of income and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Bank and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiary to bring their accounting policies into line with the Group’s accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2021 is as follows:

Name of subsidiary	Proportion of ownership interest	Country of Incorporation	Principal activity
Twin Towns Marketing Management (L.L.C.-SO)	100%	U.A.E.	Marketing management

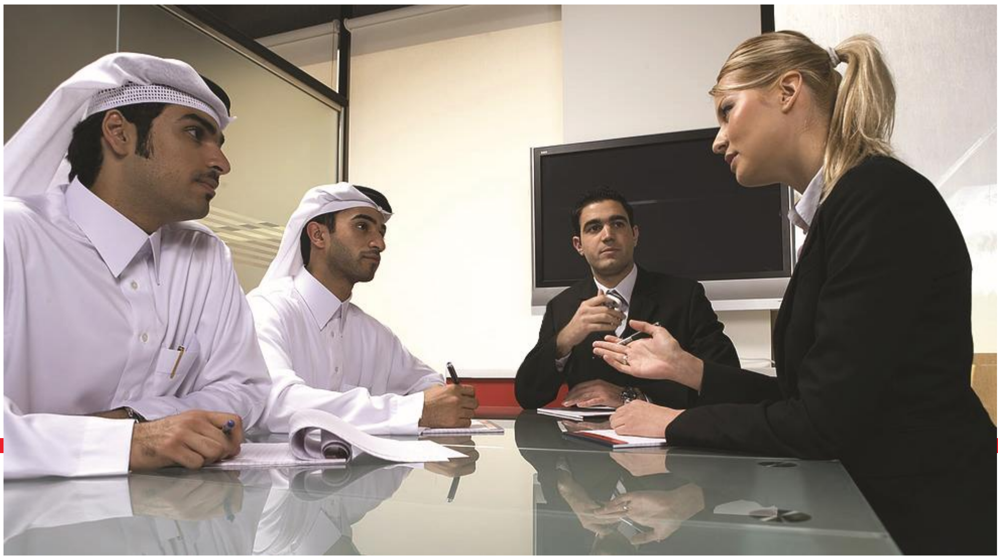
3.4 Investment in an associate

An associate is an entity over which the Bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of an associate is incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated statement of income in the period in which the investment is acquired.

The requirements of IFRS are applied to determine whether it is necessary to recognise any impairment loss with respect to the Bank's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

3.5 Financial Instruments

Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified and measured: at amortised cost, Fair Value Through Other Comprehensive Income (FVTOCI) or Fair Value Through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

• The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

• The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

• The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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.

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 FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

In both the current period and prior period, financial liabilities are classified as other financial liabilities and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

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

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 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;
- 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 cash flows are realised.

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

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

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

Reclassifications

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

Derecognition

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

MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Investment securities

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

- Quoted debt instruments 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;
- Equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss; and
- Equity securities designated as at FVTOCI.

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

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

Financial liabilities

All financial liabilities are measured at amortised cost unless designated at FVTPL.

IMPAIRMENT

Measurement of ECL

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

• Deposits and balances and due from banks;
• Debt investment securities carried at amortised cost;
• Loans and advances to customers;
• Customer acceptances and other financial assets;
• Loan commitments; and
• Financial guarantees and contracts

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

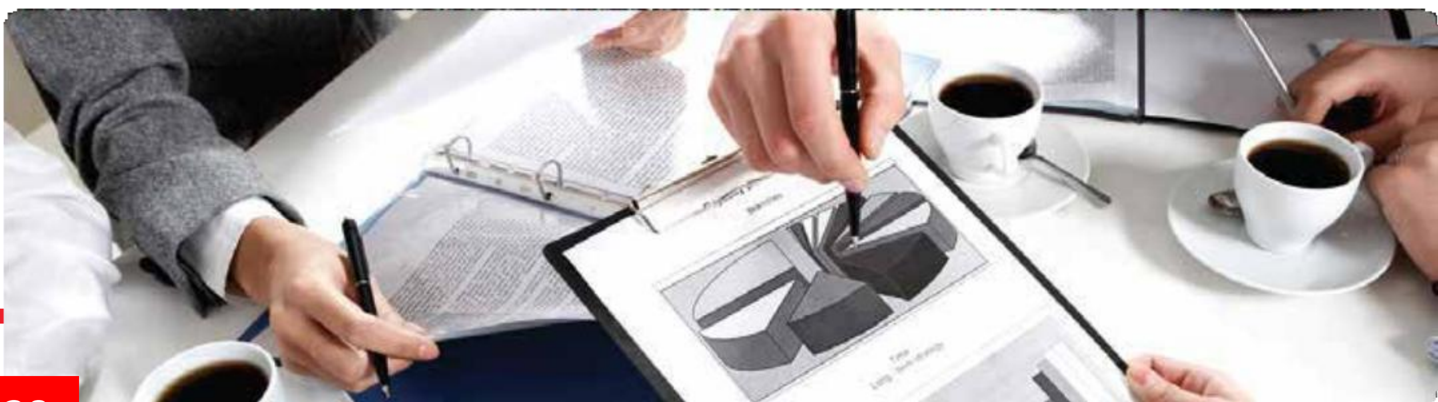
- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial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

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

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

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

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



Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component;(b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Credit-impaired financial assets

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The disappearance of an active market for a security because of financial difficulties; or
- The purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

Significant increase in credit risk

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

As a result the Group monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

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

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

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Group considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- Internal risk grade;
- External credit rating (as far as available);
- Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- Actual or expected significant changes in the operating results of the customer;
- Significant changes in the expected performance and behavior of the customer, including changes in the payment status of customers in the Group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Group relies on a broad range of forward looking information as economic inputs along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in Customer PDs models on a timely basis.

However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Quantitative factors

Stage	Corporate and Institutional Banking portfolio	Retail portfolio	Due from banks and Investments portfolio
1 » 2	•Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition • Restructured • DPD 31-90 days	• Restructuredportfolio • DPD 30-89 days (inclusive)	•Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition •Credit rating of Caa1 to Caa3 to be classified as Stage 2
1 » 3	• Credit impaired portfolio	• Credit impaired portfolio	•Credit rating of C and below to be classified as Stage 3
2 » 3	• DPD greater than 90 days	• DPD ≥ 90 days	

The Stage assessment indicators, as prescribed by the IFRS 9 standards are detailed below. These are indicative and may be considered by the Bank based on maturity of data availability and assessment process.

1. Change in internal credit spread (or risk premium)
2. Actual or expected change in Internal Credit Rating
3. Actual or expected significant change in operating results of borrower
4. Regulatory, economic, or technological environment of the borrower
5. Quality of guarantee
6. Expected change in loan documentation (covenant waiver, collateral top-up, payment holiday etc.)
7. Changes in bank's credit management approach (or appetite) in relation to the financial instrument
8. Significant difference in rates or terms of newly issued similar contracts
9. Actual or expected change in External Credit Rating
10. Existing or forecast adverse changes in business, financial or economic conditions
11. Significant increase in credit risk on other financial instruments of the same borrower
12. Reductions in financial support from parent entity or credit enhancement quality
13. Significant changes in the expected performance and behaviour or borrower or group

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Curing Criteria - upward ECL stage movement

The curing criteria is in line with UAE Central Bank IFRS 9 guidelines and is considered based on the combination of the following qualitative factors:

- DPD movement
- Probationary period
- Notches of ratings upward movement

From stage 2 (Lifetime ECL) to stage 1 (12-month ECL)

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 2 to stage 1.
- DPD shall be ≤ 30 days over the last 12 month period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

From stage 3 (Lifetime ECL – credit impaired) to stage 2 (Lifetime ECL – not credit impaired)

- An exposure cannot be upgraded from Stage 3 to 1 directly and should be upgraded to Stage 2 after observing a cooling period of 12 months under Stage 3 and thereafter follow the probation period of 12 months in stage 2 before upgrading to Stage 1. So, an account will have 24 months of cooling period from stage 3 to 1.
- Movement from Stage 3 to Stage 2 or Stage 1 is assessed based on reversal of the original conditions that had led to migration to Stage 3, and such improved performance conditions sustaining for the 'Cure Period' of 12 months.

Purchased or originated credit-impaired (POCI) financial assets

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

Restructured or Modified financial assets

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

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

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group.

If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss as “Other income”.

Financial guarantee contracts

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

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

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

Financial guarantee contracts not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the remeasurement is presented in other revenue.

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

3.6 Due from other banks

Amounts due from other banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amounts due from other banks is assessed as outlined in the accounting policy on financial instruments in note 3.5 above.

3.7 Property and equipment

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use. Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	20
Computer and equipment	1 - 5
Furniture and fixtures	5
Leasehold improvements	3 - 5
Motor vehicles	5

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the fair value less costs to sell and value in use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

3.8 Inventory

Inventory represents property acquired in settlement of debt, stated at lower of cost or net realisable value. Directly attributable cost incurred in the acquisition of inventory is included as part of the cost of the asset. Net realisable value is the estimated selling price in the ordinary course of business, based on market prices at the reporting date.

3.9 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.10 Due to other banks and customer deposits

Due to banks and customer deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently, these are measured at amortised cost using the effective interest method except where the Group chooses to carry the liabilities at fair value through the consolidated statement of income. Amortised cost is calculated by taking into account any discount or premium on settlement.

3.11 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Group and the expected basic salary at the date of leaving the service.

3.12 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation. When a provision is measured using the cash flows estimated to settle the present obligations, its amount is the present value of those cash flows (when the effect of the time value of money is material.

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

3.13 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3.14 Foreign currencies

Items included in the consolidated financial statements of the Group are measured in AED which is the functional currency of the primary economic environment in which the Group operates. Foreign currency transactions are translated into AED at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

3.15 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

3.16 Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently unless re-priced.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Income from Islamic financing products

The Group's policy for recognition of income from Islamic financing products is described in Note 3.22.

3.17 Fees and commission income

The Group earns fee income from a diverse range of services it provides to its customers. Fee income can be divided principally into the following two categories:

- Fee income earned from services that are provided over a certain period of time; and
- Fee income earned from providing transaction services.

The Group earns commission income from issue of documentary credits and letters of guarantee. The commission income is recognised on a straight-line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is affected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

3.18 Rental and dividend income

Rental income is recognised on a straight-line basis over the term of the relevant lease. Dividend income is recognised when the Group's right to receive the payment is established.

3.19 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.

3.20 Acceptances

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

3.21 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

3.22 Islamic financing products

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

All Islamic banking products are accounted for in conformity with the accounting policies described below:

DEFINITIONS

The following terms are used in Islamic financing:

Murabaha

A sales agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired and the customer will pay the commodity price on an instalment basis over a specific period. The selling price comprises the cost of the commodity and an agreed profit margin.

Mudaraba

A profit sharing agreement between the Group and the customer whereby the customer provides the funds and the Group invests the funds in a specific enterprises or activity and any profits generated are distributed accordingly to the terms and conditions of the profit sharing agreement. The customer bears the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba.

Wakala (Investment agency)

An agreement whereby the customer appoints the Group to invest a certain sum of money according to the terms and conditions of the Wakala in return for a certain fee and any profit exceeding the expected profit. The Group will bear any loss as a result of the misconduct, negligence or violation of the terms and conditions of the Wakala.

Accounting policy

Islamic financing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income, if any.

The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.5). Islamic financing and investing products are written off only when all possible course of action to achieve recovery have proven unsuccessful.

REVENUE RECOGNITION POLICY

Income from Islamic financing and investing assets are recognised in the consolidated statement of income using the effective profit method.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the principal amounts outstanding.

Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) represents the share of income allocated to depositors of the Group. The distributions are calculated, allocated and distributed according to the Islamic Banking unit's standard procedures and are approved by the Islamic Banking unit's Sharia'a Supervisory Board.

3.23 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Business model assessment

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

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account. qualitative and quantitative reasonable and supportable forward-looking information. A significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

Establishing groups of assets with similar credit risk characteristics

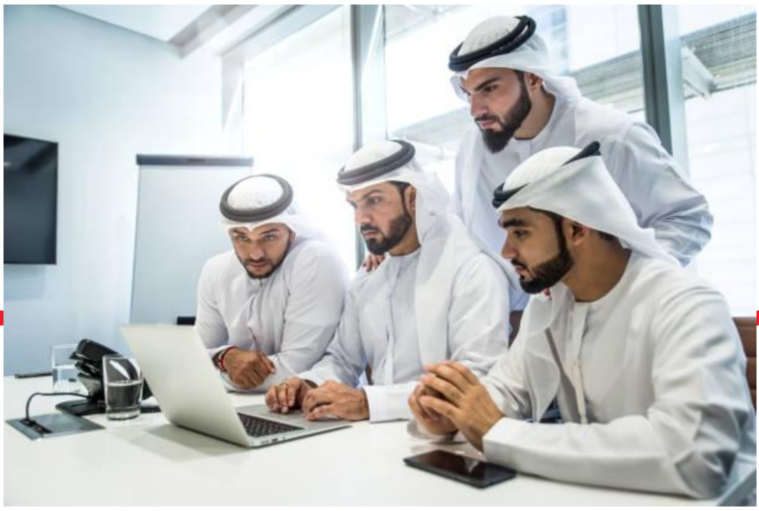
When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. product type). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required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

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

When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default

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



Loss Given Default

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

Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. The level of estimation uncertainty has increased since 31 December 2020 as a result of the economic disruption and consequential impact of the COVID-19 pandemic. This includes significant judgements relating to:

- The selection and weighting of macro-economic scenarios;
- The effect of government and other support measures put in place to mitigate the negative economic impact;
- The uncertainty over the duration and severity of the effect of the pandemic as well as the timing and duration of the recovery;
- Determination of the impact of the macro-economic scenarios on ECL and whether the required parameters can be modelled given the unavailability of historical information for a similar event; and
- Identification and assessment of significant increases in credit risk and impairment especially for customers who have received support under the various government and bank support schemes.

The Group incorporated the latest available macroeconomic inputs into the ECL model to reflect the change in the macroeconomic forecast with details covered in notes (31) of these consolidated financial statements.

3.24 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. The operating results of each operating segment are reviewed regularly by the Executive Committee of the Bank (referred to as the "ExCo") to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3.25 Lease

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

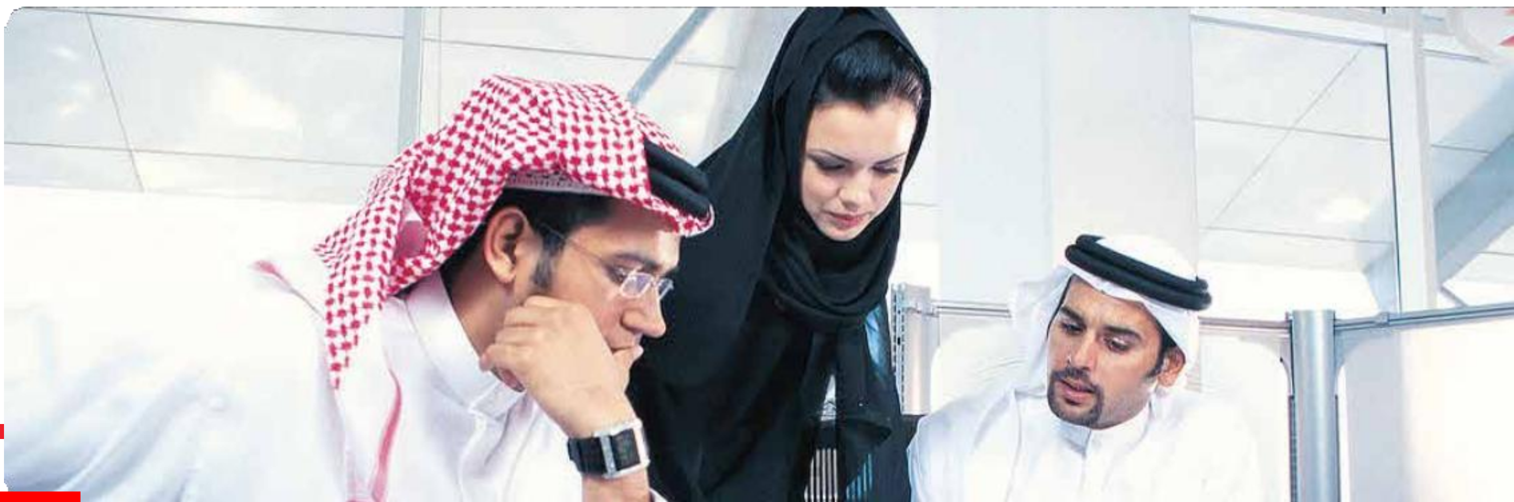
At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Group has the option, under some of its leases to lease the assets for an additional term. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

4. CASH AND BALANCES WITH THE U.A.E. CENTRAL BANK

	2021 **AED'000**	2020 AED'000
Balances with the U.A.E. Central Bank:		
Current account	34,104	12,912
Statutory cash reserve deposit	345,635	311,914
Monetary Bills	349,957	-
Overnight deposits	625,000	610,000
Certificates of deposits	-	475,000
	1,354,696	1,409,826
Cash in hand	96,688	101,085
	1,451,384	1,510,911

The statutory deposit with the U.A.E. Central Bank is not available to finance the day to day operations of the Group.

5. DUE FROM OTHER BANKS

	2021 **AED'000**	2020 AED'000
Term deposits	2,642,634	2,756,204
Demand deposits	29,663	27,193
Loans to financial institutions	752,965	165,285
Total due from other banks	**3,425,262**	2,948,682
Provision for expected credit loss	(2,699)	(1,553)
Net due from other banks	**3,422,563**	2,947,129

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

	2021 AED'000	2020 AED'000
Gross amounts due from other banks by geographical area		
Within U.A.E.	2,756,497	2,921,489
Within GCC	180,675	1,037
Other countries	488,090	26,156
Net due from other banks	**3,425,262**	2,948,682

	2021 AED'000	2020 AED'000
Gross amounts due from other banks by currency		
AED	1,695,000	2,145,000
USD	1,723,810	783,433
SAR	140	229
Others	6,312	20,020
	3,425,262	2,948,682

An analysis of due from other banks based on external credit ratings is as follows:

	2021 AED'000	2020 AED'000
AA−	12,501	208,231
A+	150,203	1,618,893
A	1,071,997	848,316
A−	467,529	270,528
BBB+	1,081,280	229
BBB	2,216	-
BBB− and below	639,536	2,485
	3,425,262	2,948,682

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

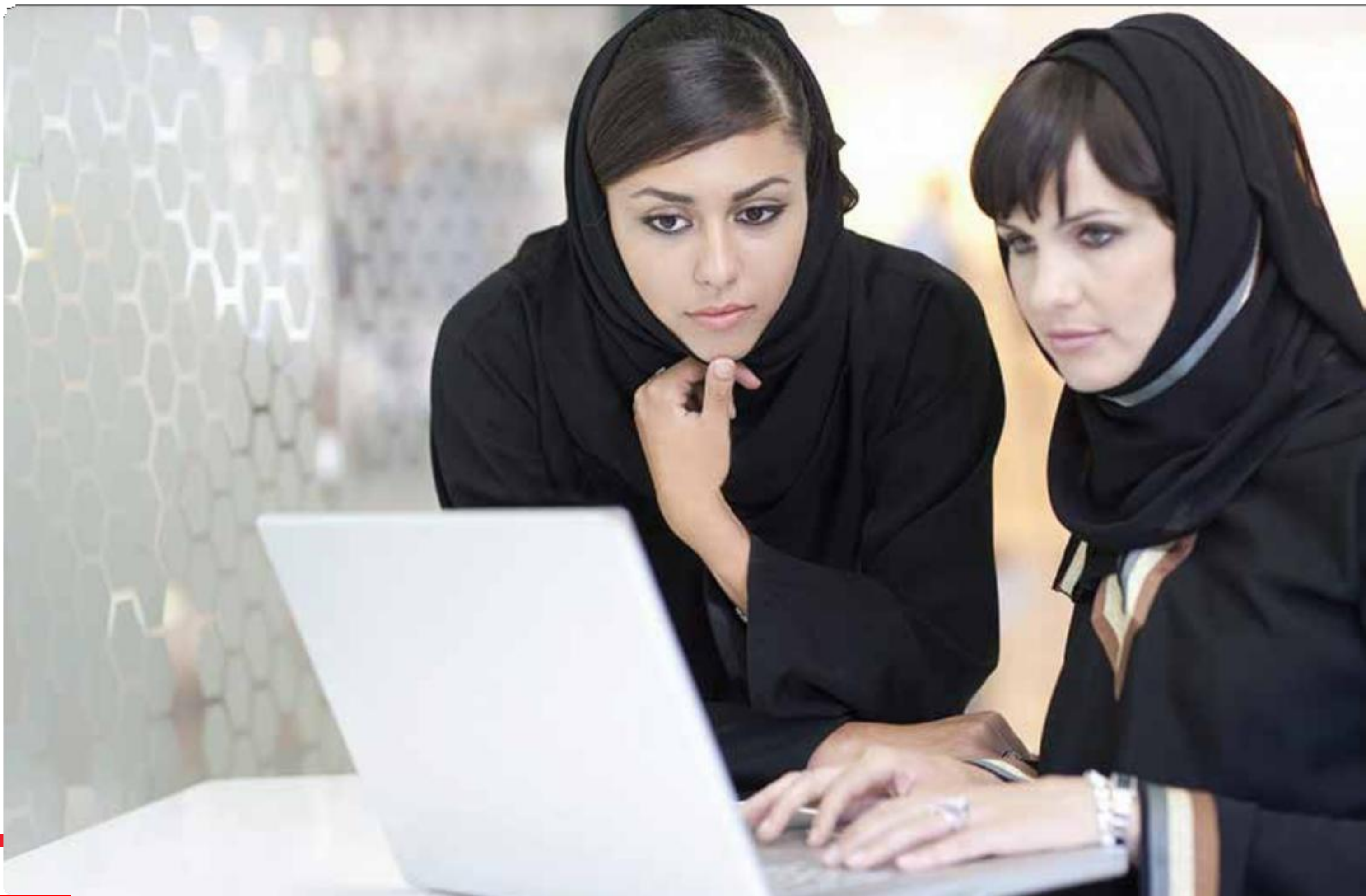
Due from banks stage-wise analysis

The following table contains an analysis of the credit risk exposure of due from other banks. The gross carrying amount of due from other banks, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

	31 December 2021			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Outstanding balance	3,425,262	-	-	3,425,262
Provision for expected credit loss	(2,699)	-	-	(2,699)
Carrying amount	**3,422,563**	-	-	3,422,563

	31 December 2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Outstanding balance	2,948,682	-	-	2,948,682
Provision for expected credit loss	(1,553)	-	-	(1,553)
Carrying amount	**2,947,129**	-	-	2,947,129

All the due from other banks are in stage 1 throughout the period and therefore have insignificant ECL. Accordingly, there have been no movements between stages in respect of these financial assets.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

6. LOANS AND ADVANCES AND ISLAMIC FINANCING RECEIVABLES

	2021 AED'000	2020 AED'000
Loans	5,663,834	6,224,681
Overdrafts	853,482	1,401,570
Islamic financing products	195,095	232,859
Loans against trust receipts	129,420	108,087
Other	48,282	24,636
Total loans and advances and Islamic financing receivables	**6,890,113**	7,991,833
Provision for expected credit loss	(301,559)	(352,177)
Net loans and advances and Islamic financing receivables	**6,588,554**	7,639,656

	2021 AED'000	2020 AED'000
By Economic Sector		
Wholesale and retail trade	876,137	1,099,471
Real estate and construction	3,369,736	2,488,031
Personal loans and other	404,080	485,427
Manufacturing	411,704	387,166
Agriculture and allied activities	1,175	1,213
Transport and communication	164,120	232,786
Financial institutions	332,896	535,042
Services and other	1,330,265	2,762,697
Total loans and advances and Islamic financing receivables	**6,890,113**	7,991,833

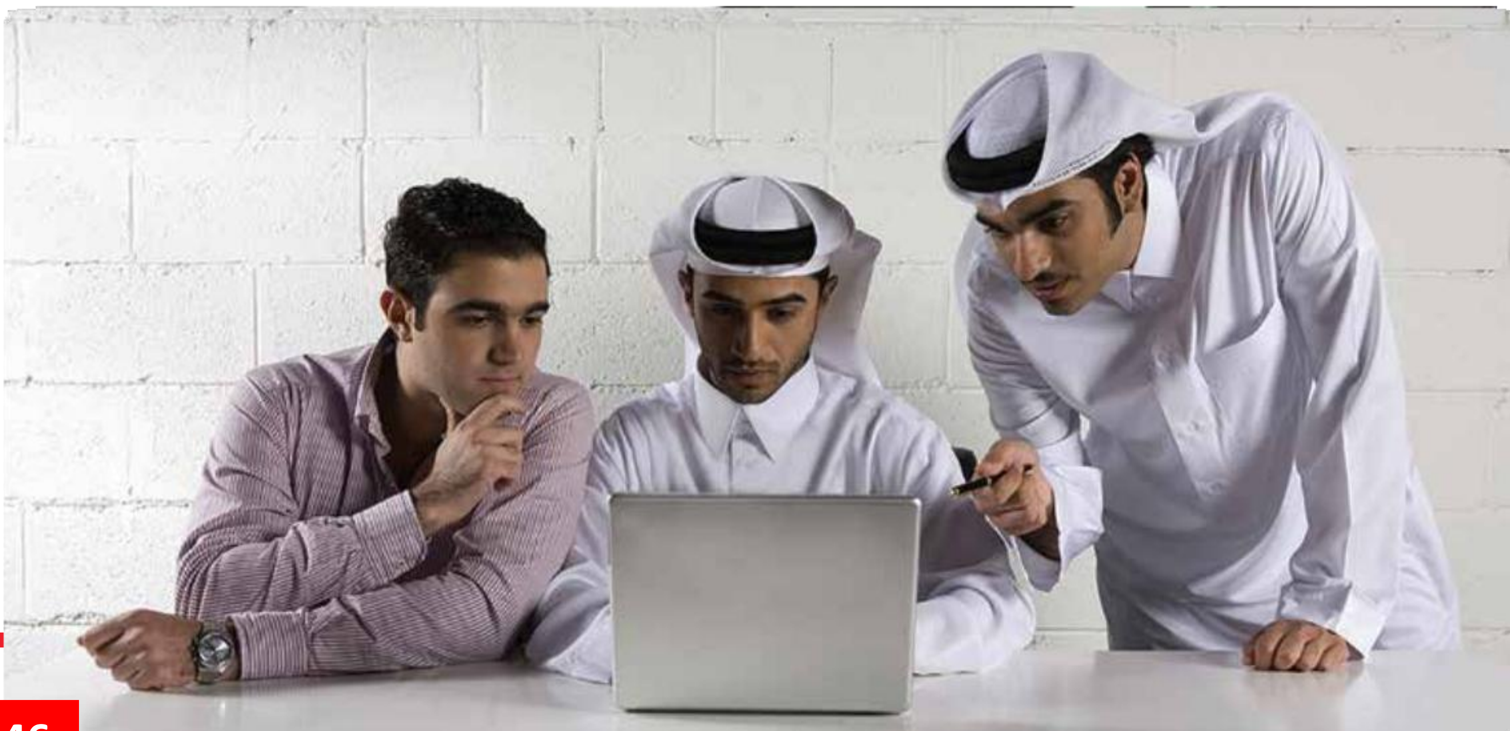
All loans and advances and Islamic financing receivables are from customers within U.A.E.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Movement in the gross balances of loans and advances and Islamic financing receivables

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount as at 31 December 2020	6,813,529	382,877	795,427	7,991,833
New assets originated or purchased	374,306	364	-	374,670
Assets derecognised or repaid	(1,034,295)	(199,009)	(211,725)	(1,445,029)
Transfer to Stage 1	5,689	(5,689)	-	-
Transfer to Stage 2	(254,256)	260,675	(6,419)	-
Transfer to Stage 3	(30,820)	(14,995)	45,815	-
Write off	-		(31,361)	(31,361)
Carrying amount	**5,874,153**	**424,223**	**591,737**	**6,890,113**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross carrying amount as at 31 December 2019	7,114,324	773,830	752,678	8,640,832
New assets originated or purchased	249,312	1,052	-	250,364
Assets derecognised or repaid	(528,672)	(227,093)	(19,432)	(775,197)
Transfer to Stage 1	309,111	(309,111)	-	-
Transfer to Stage 2	(118,034)	185,893	(67,859)	-
Transfer to Stage 3	(212,512)	(41,694)	254,206	-
Write off	-	-	(124,166)	(124,166)
As at 31 December 2020	**6,813,529**	**382,877**	**795,427**	**7,991,833**



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Movement in the provision for expected credit loss of loans and advances and Islamic financing receivables:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowances as at 31 December 2020	112,318	39,523	200,336	352,177
Net impairment charged during the period	(28,834)	(6,289)	26,246	(8,877)
Recoveries	-	-	(5,380)	(5,380)
Transfer to Stage 1	223	(223)	-	-
Transfer to Stage 2	(4,028)	4,028	-	-
Transfer to Stage 3	(382)	(798)	1,180	-
Written off	-	-	(36,361)	(36,361)
Closing Balance as at 31 December 2021	**79,297**	**36,241**	**186,021**	**301,559**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowances as at 31 December 2019	97,146	48,909	231,508	377,563
Net impairment charged during the period	3,161	6,812	97,159	107,132
Recoveries	-	-	(8,352)	(8,352)
Transfer to Stage 1	15,047	(15,047)	-	-
Transfer to Stage 2	(1,469)	1,469	-	-
Transfer to Stage 3	(1,567)	(2,620)	4,187	-
Written off	-	-	(124,166)	(124,166)
As at 31 December 2020	**112,318**	**39,523**	**200,336**	**352,177**

Grading of loans and advances and Islamic financing receivables along with stages:

	31 December 2021			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-8)	5,874,153	231,097	-	6,105,250
Performing Watchlist (9-12)	-	193,126	-	193,126
Sub Standard (Grade 13)	-	-	110,608	110,608
Doubtful (Grade 14)	-	-	448,187	448,187
Loss (Grades 15)	-	-	32,942	32,942
Total gross carrying amount	**5,874,153**	**424,223**	**591,737**	**6,890,113**
Expected credit loss	(79,297)	(36,241)	(186,021)	(301,559)
Carrying amount	**5,794,856**	**387,982**	**405,716**	**6,588,554**

	31 December 2021			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-12)	6,813,528	382,878	-	7,196,406
Sub Standard (Grade 13)	-	-	187,688	187,688
Doubtful (Grade 14)	-	-	578,608	578,608
Loss (Grades 15)	-	-	29,131	29,131
Total gross carrying amount	**6,813,528**	**382,878**	**795,427**	**7,991,833**
Expected credit loss	(112,318)	(39,523)	(200,336)	(352,177)
Carrying amount	**6,701,210**	**343,355**	**595,091**	**7,639,656**

The non-performing loans as at 31 December 2021 amounted to AED 591.74 million (2020: AED 795.43 million). Provisions for impairment in relation to such loans amounted to AED 186.02 million as at 31 December 2021 (2020: AED 200.34 million) (see Note 31).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

7. INVESTMENT SECURITIES

Investment securities comprise the following:

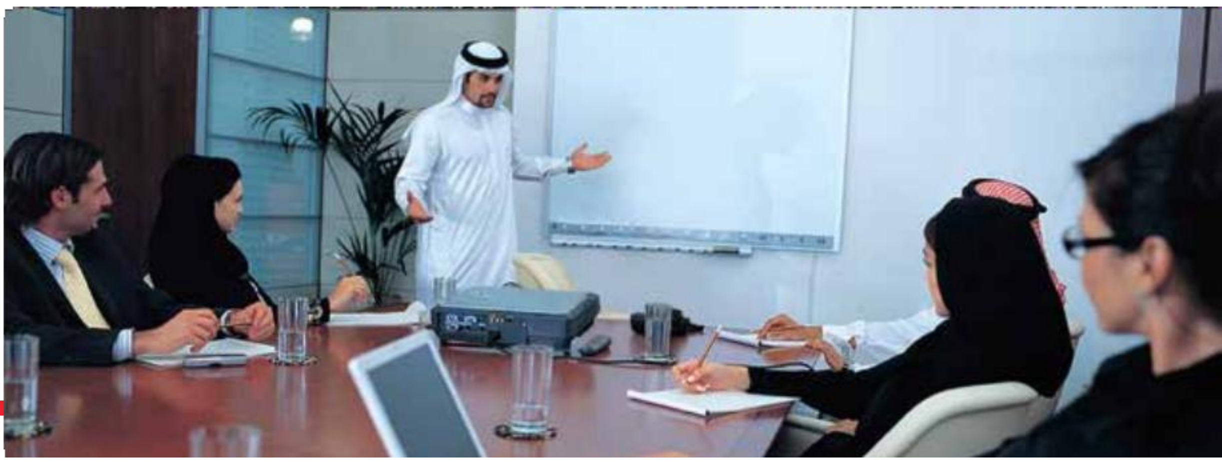
	2021 AED'000	2020 AED'000
Securities at FVTPL		
Quoted equity securities	16,366	17,730
Discretionary funds managed by third parties		
- quoted equity securities	250	248
	16,616	17,978
Securities at FVTOCI		
Quoted equity securities	996,581	759,593
Unquoted equity securities	1,194	747
	997,775	760,340
Securities at amortised cost		
Quoted debt instruments	120,457	165,285
Total Investment Securities	**1,134,848**	943,603
Provision for expected credit loss	(2,227)	(249)
Net Investment Securities	**1,132,621**	943,354

Gross investment securities by geographical area

	2021 AED'000	2020 AED'000
Within U.A.E.	933,928	865,038
Within GCC	166,536	44,152
Other countries	34,384	34,413
	1,134,848	943,603

All debt investment are classified as Stage 1 (31 December 2020: Stage 1) with corresponding ECL of AED 2.23 million (31 December 2020: AED 249 thousand).

Quoted debt securities aggregating AED 120.46 million (2020: AED 165.29 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices of which are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions.



Grading of loans and advances and Islamic financing receivables along with stages:

	2021 AED'000	2020 AED'000
Movement in investment securities:		
Balance at 1 January	943,603	1,101,172
Purchase of investment securities	121,964	165,285
Disposal and maturity of investment securities	(165,451)	(238,746)
Net fair value loss on investment securities at FVTPL	(1,364)	(3,069)
Net discount amortised on investment securities at amortised cost	(892)	29
Foreign exchange revaluation	3	-
Net fair value gain on investment securities at FVTOCI	236,985	(77,619)
Other movement in investments	-	(3,449)
Balance at 31 December	**1,134,848**	943,603

An analysis of the investment based on external credit ratings is as follows:

	2021		
	Debt securities AED'000	**Other Equity investments AED'000**	**Total AED'000**
AA-	-	457,364	457,364
A+	-	36,119	36,119
A	-	174,972	174,972
A-	-	113,196	113,196
BBB+	-	79,442	79,442
BBB- and below	120,457	153,298	273,755
Less: Provision for expected credit loss	(2,227)	-	(2,227)
Balance at 31 December	**118,230**	**1,014,391**	**1,132,621**

	2020		
	Debt securities AED'000	**Other Equity investments AED'000**	**Total AED'000**
AA-	-	324,034	324,034
A+	-	143,123	143,123
A	165,285	62,057	227,342
A-	-	79,344	79,344
BBB+	-	66,287	66,287
BBB- and below	-	103,473	103,473
Less: Provision for expected credit loss	(249)	-	(249)
Balance at 31 December	**165,036**	**778,318**	**943,354**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Debt investments stage-wise analysis

The following table contains an analysis of the credit risk exposure of debt investments and Islamic instruments. The gross carrying amount of debt investments, including accrued interest / profit, represents the Group's maximum exposure to credit risk on these assets:

	31 December 2021			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Outstanding balance	120,457	-	-	120,457
Provision for expected credit loss	(2,227)	-	-	(2,227)
Carrying amount	**118,230**	**-**	**-**	**118,230**

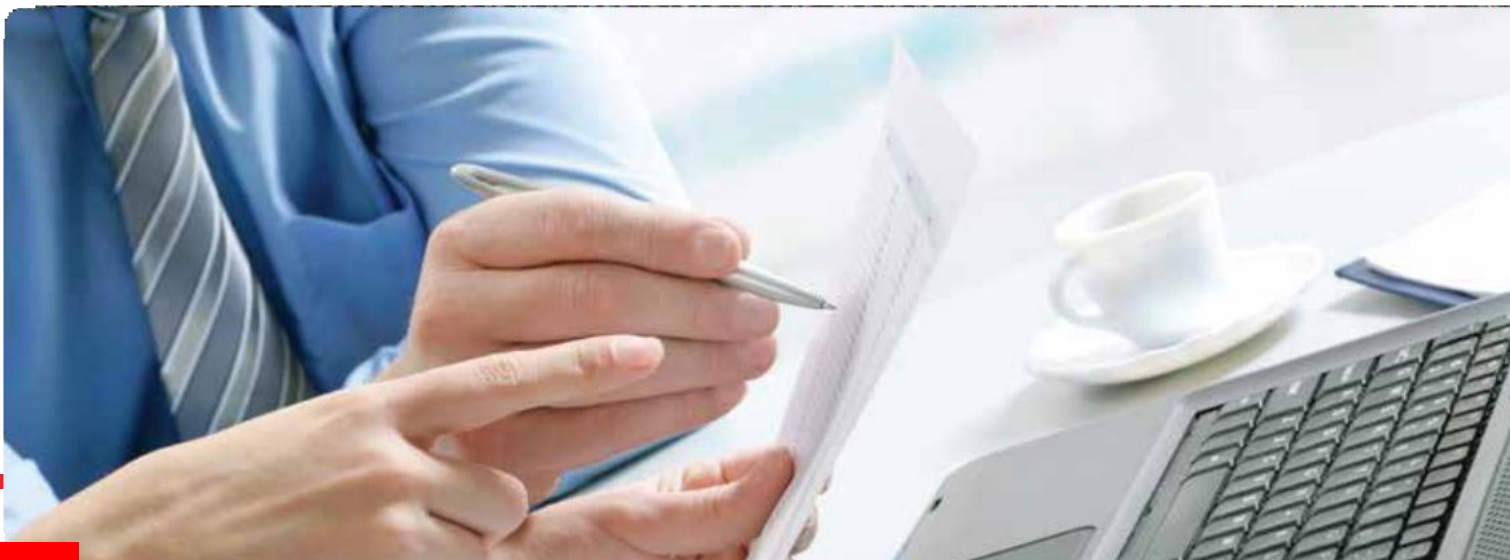
	31 December 2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Outstanding balance	165,285	-	-	
Provision for expected credit loss	(249)	-	-	
Carrying amount	**165,036**	**-**	**-**	**165,036**

Debt investments are in stage 1 throughout the period and therefore have insignificant ECL. Accordingly, there have been no significant movements between stages in respect of these financial assets.

8. INVESTMENT IN AN ASSOCIATE

The details of associate is as follows:

Name of the associate	Principal activity	Place of incorporation	Ownership (%)	2021 AED'000	2020 AED'000
Tasareeh Business Men Center LLC	Providing visa application and renewal services, other business men services.	Dubai, UAE	30%	744	990



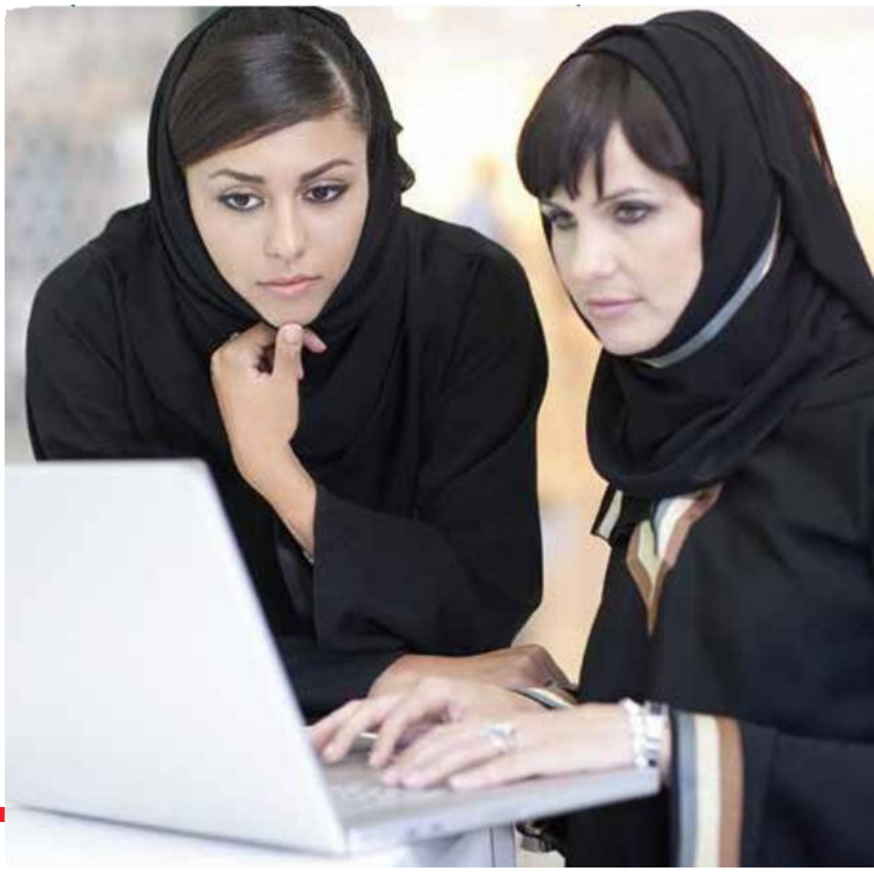
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Movement in the investment in an associate for the year:

	2021 AED'000	2020 AED'000
Balance at 1 January	990	1,500
Share of losses from an associate	(197)	(510)
Dividend received from an associate	(49)	-
Balance at 31 December	**744**	990

Summarised financial information in respect of the Group's associate which is accounted by equity method is set out below:

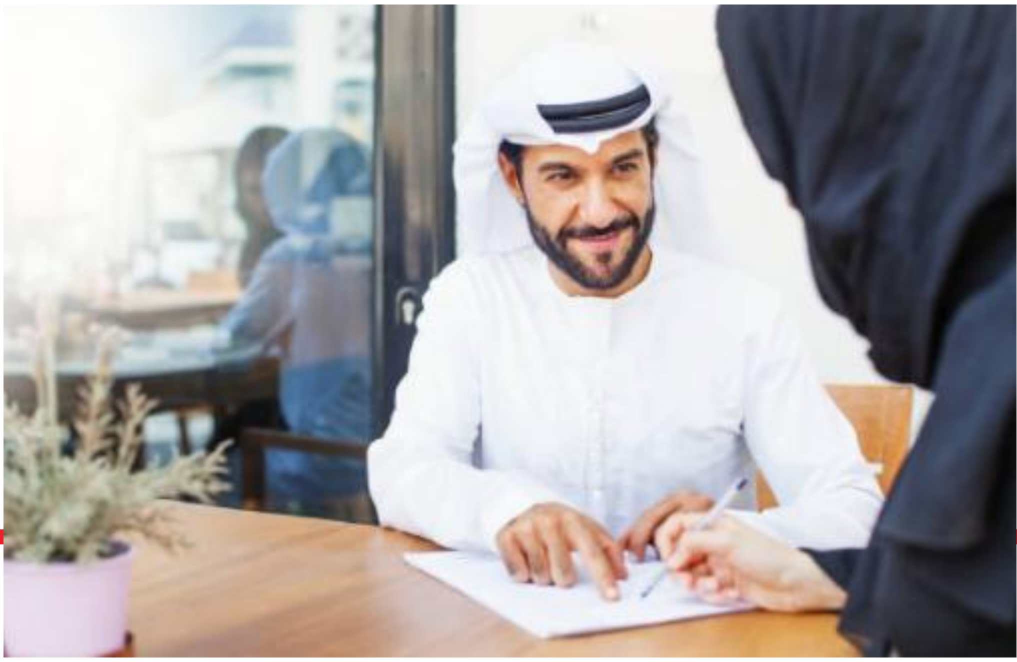
	2021 AED'000	2020 AED'000
Total assets	7,961	6,514
Total liabilities	5,481	3,214
Net assets	**2,480**	3,300
Group's share of associate's net assets	**744**	990
Total revenue	**10,697**	10,245
Net loss for the year	**(657)**	(1,700)
Share of associate's net loss for the year	**(197)**	(510)



9. PROPERTY AND EQUIPMENT

	Land and Buildings AED '000	Computers and equipment AED '000	Furniture and fixtures AED '000	Right use assets and Leasehold Improvements AED '000	Motor vehicles AED '000	Capital work in progress AED '000	Total AED '000
Cost							
31 December 2019	109,930	109,179	5,947	8,970	974	16,316	251,316
Additions	27,849	3,109	4	-	-	3,055	34,017
Disposals	(161)	(187)	(94)	(1,258)	(162)	(77)	(1,939)
Transfers	-	12,193	35	47	-	(12,275)	-
31 December 2020	**137,618**	**124,294**	**5,892**	**7,759**	**812**	**7,019**	**283,394**
Additions	39	2,006	27	7,069	-	8,006	17,147
Disposals	(8)	(7,169)	(150)	(899)	(263)	(355)	(8,844)
Transfers	154	11,025	3	474	-	(11,656)	-
31 December 2020	**137,803**	**130,156**	**5,772**	**14,403**	**549**	**3,014**	**291,697**
Accumulated depreciation							
31 December 2019	74,796	100,383	5,555	7,128	538	-	188,400
Charge for the year	4,950	4,332	235	727	114	-	10,358
Eliminated on disposals	(128)	(170)	(94)	(1,169)	(165)	-	(1,726)
31 December 2020	**79,618**	**104,545**	**5,696**	**6,686**	**487**	**-**	**197,032**
Charge for the year	5,269	9,775	133	2,253	88	-	17,518
Eliminated on disposals	(6)	(7,150)	(136)	(899)	(190)	-	(8,381)
31 December 2020	**84,881**	**107,170**	**5,693**	**8,040**	**385**	**-**	**206,169**
Net carrying amount 31 December 2021	**52,922**	**22,986**	**79**	**6,363**	**164**	**3,014**	**85,528**
31 December 2020	**58,000**	**19,749**	**196**	**1,073**	**325**	**7,019**	**86,362**

Land and buildings include land costing AED 22.9 million (2020: AED 22.9 million) which is not depreciated. Capital work in progress represents expenditure incurred on land and buildings, computer and equipment, furniture and fixtures and leasehold improvements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

10. OTHER ASSETS

	2021 AED'000	2020 AED'000
Inventory*	178,362	63,726
Interest receivable	32,620	39,105
Prepayments and deposits	28,004	19,157
Others**	4,117	129,447
	243,103	251,435

*Inventory represents properties acquired in settlement of debt. During 2021, the Group has recorded an impairment on its inventory amounting to AED 3.74 million (2020: AED 8.25 million)

**Others include amount of Nil (2020: 124.87 million) deposited with the U.A.E courts for auctions made by the bank

11. DUE TO OTHER BANKS

	2021 AED'000	2020 AED'000
Borrowing from the U.A.E. Central Bank *	-	198,560
Demand deposits	-	25
	-	198,585

BY GEOGRAPHICAL AREA

	2021 AED'000	2020 AED'000
Within U.A.E.	-	198,560
Other countries outside U.A.E.	-	25

* Represents zero cost funding ("ZCF") availed from the U.A.E. Central Bank under the Targeted Economic Support Scheme ("TESS").

12. CUSTOMERS' DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	2021 AED'000	2020 AED'000
Time deposits	4,499,220	5,307,100
Current accounts	2,891,856	2,616,166
Savings deposits	171,459	191,898
Islamic customers' deposits	84,721	80,274
Margin deposits	52,864	29,420
	7,700,120	**8,224,858**

All customers' deposits are from customers within U.A.E.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

13. OTHER LIABILITIES

	2021 AED'000	2020 AED'000
Accounts payable	26,625	25,638
Interest payable	12,514	26,588
Provision for employees' end of service benefits (Note 13.1)	18,873	20,873
Other staff benefits	1,284	761
Dividend payable	10,619	10,619
Provision for expected credit loss on acceptance	394	421
Provision for expected credit loss on commitments and contingencies (Note 17)	6,341	7,177
Cheques on Selves	74,049	144,481
Lease Liability	5,235	-
Other	17,708	22,414
	173,642	258,972

13.1 Movement in provision for employees' end of service benefits:

	2021 AED'000	2020 AED'000
Balance at 1 January	20,873	20,494
Provision made during the year (Note 23)	1,397	2,654
Payments made during the year	(3,397)	(2,275)
Balance at 31 December	**18,873**	20,873

14. SHARE CAPITAL

	2021 AED'000	2020 AED'000
Issued and fully paid : 1,848 million ordinary shares of AED 1 each	1,848,000	1,848,000

15. STATUTORY RESERVE

In accordance with the UAE Federal Law No (2) of 2015, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Group. This reserve is not available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

16. GENERAL RESERVE

The Group maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Group at an Ordinary General Meeting.

Impairment Reserve under the U.A.E Central Bank("CBUAE")

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE (the "Guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2021 AED'000	2020 AED'000
Impairment Reserve: General		
General Provisions under Circular 28/2010 of CBUAE	151,449	149,022
Less: Stage 1 & Stage 2 provisions under IFRS 9*	(115,538)	151,841
General Provision transferred to impairment reserve	**35,911**	-
Impairment Reserve: Specific		
Specific Provisions under Circular 28/2010 of CBUAE	186,021	200,336
Less: Stage 3 provisions under IFRS 9	(186,021)	(200,336)
Specific Provision transferred to impairment reserve	**-**	-

* Contains Stage 1 and Stage 2 provision for loans and advances and Islamic financing receivables only.

17. COMMITMENTS AND CONTINGENCIES

a) The contractual amounts of the Group's commitments and contingencies are as follows:

	2021 AED'000	2020 AED'000
Guarantees	1,805,349	2,362,293
Letters of credit	139,816	72,171
Commitments to extend credit	1,131,723	956,972
Other	457,028	259,193
At 31 December	**3,533,916**	3,650,629

	2021 AED'000	2020 AED'000
By geographical area		
Within the U.A.E.	3,454,044	3,632,460
Outside the U.A.E.	79,872	18,169
	3,533,916	3,650,629

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Guarantees, which represent irrevocable assurances that the Group will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not quantifiable, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards.

While there is some risk associated with the remainder of commitments, the risk is viewed as low-modest, since it results firstly from the possibility of the unused portion of loan authorizations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Group monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

The provision for expected credit loss against the off-balance sheet items disclosed above amounting to AED 6.34 million (2020: 7.18 million) is classified under other liabilities (Note 17.b).

b) Capital commitments

At 31 December 2021, the Group has capital commitments of AED 4.79 million (2020: AED 4.40 million).

OFF BALANCE SHEET EXPOSURES STAGE-WISE ANALYSIS

The following table contains an analysis of the credit risk of relevant off balance sheet exposures and the related ECL. The gross carrying amount of off balance sheet exposures below represents the Group's maximum exposure to credit risk on these assets:

	31 December 2021			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	1,896,963	3,867	49,748	1,950,578
Allowances for impairment (ECL)	(6,334)	(7)	-	(6,341)
Carrying amount	**1,890,629**	**3,860**	**49,748**	**1,944,237**

	31 December 2020			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Outstanding balance	2,382,538	2,252	49,674	2,434,464
Allowances for impairment (ECL)	(7,171)	(6)	-	(7,177)
Carrying amount	**2,375,367**	**2,246**	**49,674**	**2,427,287**

17. Commitments and contingent liabilities (continued)

Movement in the provision for impairment of commitment and contingencies:

ECL – AED' 000	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowances - 31 December 2020	**7,171**	**6**	**-**	**7,177**
Transferred from Stage 1	**3,629**	**-**	**-**	**3,629**
Net impairment charged during the period	**(4,466**	**1**	**-**	**(4,465)**
ECL allowances – 31 December 2021	**6,334**	**7**	**-**	**6,341**

The provision for ECL against the off-balance sheet exposures disclosed above, amounting to AED 6.34 million, (2020: AED 7.18 million) is classified under other liabilities.

Grading of commitment and contingencies along with stages:

	31 December 2021			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-8)	**1,896,963**	**1,271**	**-**	**1,898,234**
Performing watch list (Grades 9-12)	**-**	**2,597**	**-**	**2,597**
Sub Standard (Grade 13)	**-**	**-**	**359**	**359**
Doubtful (Grade 14)	**-**	**-**	**10,765**	**10,765**
Loss (Grades 15)	**-**	**-**	**38,623**	**38,623**
Total gross carrying amount	**1,896,963**	**3,868**	**49,747**	**1,950,578**
Expected credit loss	6,334	7	-	6341
Carrying amount	**1,890,629**	**3,861**	**49,747**	**1,944,237**

	31 December 2020			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Performing (Grades 1-8)	2,382,538	-	-	2,382,538
Performing watch list (Grades 9-12)	-	2,252	-	2,252
Sub Standard (Grade 13)	-	-	285	285
Doubtful (Grade 14)	-	-	10,765	10,765
Loss (Grades 15)	-	-	38,624	38,624
Total gross carrying amount	**2,382,538**	**2,252**	**49,674**	**2,434,464**
Expected credit loss	(7,171)	(6)	-	(7,177)
Carrying amount	**2,375,367**	**2,246**	**49,674**	**2,427,287**

18. Interest income and expense

	2021 AED'000	2020 AED'000
Interest income		
Loans and receivables		
Loans and advances	**287,236**	348,019
Deposits with the U.A.E. Central Bank	**2,047**	3,947
Other banks	**6,071**	27,021
Investment in debt securities	**3,299**	10,174
	298,653	389,161
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**49,488**	86,984
Borrowings from other banks	**(12)**	106
	49,476	87,090

19. Net fees and commission income

	2021 AED'000	2020 AED'000
Fees and commission income	**45,496**	75,154
Fees and commission expenses	**(1,714)**	(1,411)
Net fees and commission income	**43,782**	73,743

20. Other operating income

	2021 AED'000	2020 AED'000
Rental income	**4,558**	4,679
Foreign exchange income, net	**3,402**	3,432
Other	**29,878**	21,595
	37,838	29,706

21. Operating expenses

	2021 AED'000	2020 AED'000
Staff costs (Note 23)	**73,126**	75,686
Occupancy costs	**8,647**	11,880
Depreciation (Note 9)	**17,518**	10,358
Staff benefits (Note 23)	**6,779**	7,732
Other	**30,699**	43,604
	136,769	149,260

22. Investment gains

	2021 AED'000	2020 AED'000
Dividend income:		
Investment securities at FVTOCI	**36,154**	42,961
Investment securities at FVTPL	**204**	103
Fair value loss on investment securities at FVTPL	**(1,364)**	(3,069)
Foreign exchange revaluation	**2**	215
Net discount amortised on debt securities	**(892)**	29
	34,104	40,239

23. Staff costs

	2021 AED'000	2020 AED'000
Staff costs		
Salaries and allowances	**70,939**	73,451
Staff training	**517**	417
Housing and medical	**1,670**	1,818
	73,126	75,686
Staff benefits		
Pension	**3,659**	3,467
End of service benefits	**1,397**	2,654
Other	**1,723**	1,611
	6,779	7,732

24. Net impairment losses

	2021 AED'000	2020 AED'000
Loans and advances and Islamic financing receivables	**14,257**	(98,780)
Due from other banks	**(1,146)**	(1,109)
Investment securities	**(1,978)**	(94)
Acceptances and off-balance sheet items	**863**	(3,695)
Impairment of asset acquired in settlement of debt	**(3,738)**	(8,254)
	8,258	(111,932)

25. Basic and diluted earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year.

	2021	**2020**
Profit for the year in AED	**264,168,000**	211,772,000
Average number of shares in issue	**1,848,000,015**	1,848,000,015
Basic earnings per share in AED	**0.14**	0.11

There were no potentially dilutive shares as at 31 December 2021 and 2020.

26. Dividend per share

Payment of cash dividend of 8% of the share capital amounting to AED 147.84 million for year ending 31 December 2021 has been approved by the UAE Central Bank. (2020: AED 147.84 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

27. Related party transactions

The Group carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in the Group, and all Directors of the Group and companies in which such shareholders and Directors have a significant interest and key management personnel of the Group.

During the year, the Group entered into the following significant transactions with related parties in the ordinary course of business.

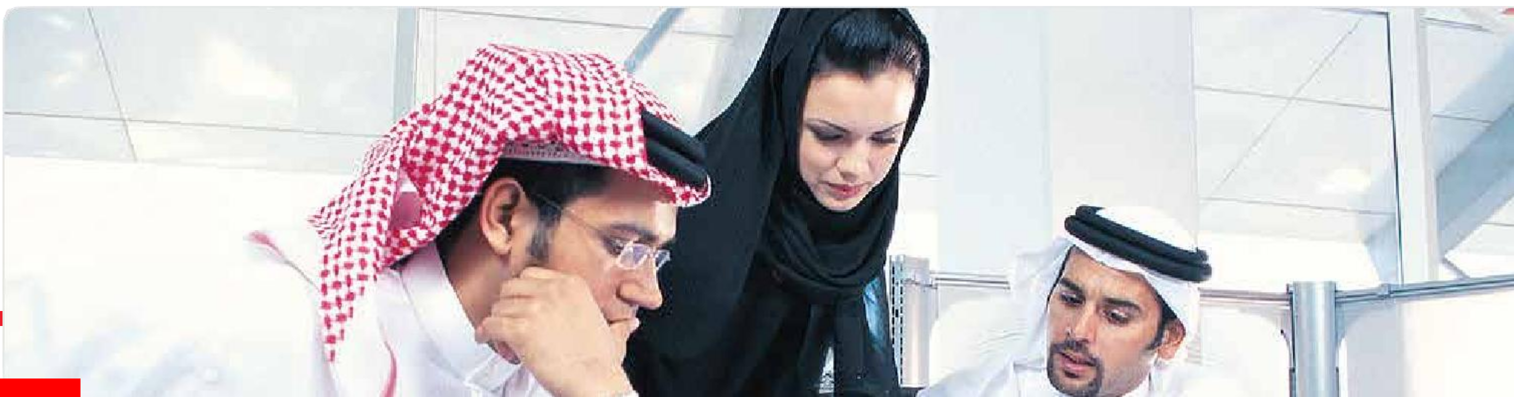
	2021 AED'000	2020 AED'000
Interest income	**2,151**	4,768
Interest expense	**28,560**	48,951
Other income	**81**	93
Directors' fees	**2,800**	3,000
Remuneration of key management personnel		
Salaries and other short-term benefits	**5,598**	1,996
Employee end of service benefits	**113**	78

The Group has entered into transactions with related parties which were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with third parties.

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

Related parties (excluding key management)	2021 AED'000	2020 AED'000
Loans and advances and Islamic financing receivables	**82,996**	82,798
Customer deposits and Islamic customer deposits	**2,750,770**	2,728,217
Irrevocable commitments and contingent liabilities	**205,706**	260,229
Key Management		
Loans and advances and Islamic financing receivables	**-**	534
Customer deposits and Islamic customer deposits	**822**	412

The loans and advances and Islamic financing receivables given to related parties have been secured against collateral amounting to AED 61.15 million (2020: AED 61.15 million). All loans and advances to related parties are classified as Stage 1 (31 December 2020: Stage 1) with corresponding ECL of AED 1.91 million (31 December 2020: AED 1.88 million).



28. Cash and cash equivalents

	2021 AED'000	2020 AED'000
Cash and balances with the U.A.E. Central bank (Note 4)	**1,451,384**	1,510,911
Due from other banks (Note 5)	**3,425,262**	2,948,682
	4,876,646	4,459,593
Statutory deposits	**(345,635)**	(311,914)
Certificates of deposits with original maturity over 3 months	**(902,965)**	(475,000)
Due to other banks (Note 11)	**-**	(198,585)
	3,628,046	3,474,094

29. Business segments

The Group is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages.Corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and investments - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Others- Other consists of assets, liabilities, income and expenses attributable to either head office or not directly related to business segments.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the condensed consolidated statement of financial position items.

29. Business segments (continued)

Primary segment information

31 December 2021	Retail and corporate banking AED'000	Treasury and investments AED'000	Others AED'000	Total AED'000
Net interest income and income from Islamic products net of distribution to depositors	**261,338**	**15,814**	**-**	**277,152**
Net fees and commission income	**43,975**	**-**	**(193)**	**43,782**
Other operating income	**17**	**3,411**	**34,410**	**37,838**
Gross income	**305,330**	**19,225**	**34,217**	**358,772**
Operating expenses	**(34,326)**	**(2,065)**	**(100,378)**	**(136,769)**
Investment gains	**-**	**34,104**	**-**	**34,104**
Share of loss from an associate	**-**	**-**	**(197)**	**(197)**
Provision for impairment on financial assets and non-financial assets	**15,120**	**(3,125)**	**(3,737)**	**8,258**
Segment result	**286,124**	**48,139**	**(70,095)**	**264,168**
Segment assets	**6,834,666**	**5,569,045**	**738,314**	**13,142,025**
Segment liabilities and equity	**7,917,828**	**-**	**5,224,197**	**13,142,025**

31 December 2020	Retail and corporate banking AED'000	Treasury and investments AED'000	Others AED'000	Total AED'000
Net interest income and income from Islamic products net of distribution to depositors	293,809	35,977	-	329,786
Net fees and commission income	69,523	3,183	1,037	73,743
Other operating income	1,340	101	28,265	29,706
Gross income	364,672	39,261	29,302	433,235
Operating expenses	(42,558)	(2,092)	(104,610)	(149,260)
Investment gains	-	40,239	-	40,239
Share of profits from an associate	-	-	(510)	(510)
Provision for impairment on financial assets and non-financial assets	(107,035)	(1,203)	(3,694)	(111,932)
Segment result	215,079	76,205	(79,512)	211,772
Segment assets	7,843,937	4,990,260	711,847	13,546,044
Segment liabilities and equity	8,139,668	450,665	4,955,711	13,546,044

30. Classification and fair value of financial and non-financial instruments

Assets **31 December 2021**	**At amortised cost AED'000**	**At FVTPL AED'000**	**At FVTOCI AED'000**	**Non-financial instruments AED'000**	**Total AED'000**
Cash and balances with the					
U.A.E. Central Bank	**1,451,384**	**-**	**-**	**-**	**1,451,384**
Due from other banks	**3,422,563**	**-**	**-**	**-**	**3,422,563**
Loans and advances and Islamic	**6,588,554**	**-**	**-**	**-**	**6,588,554**
financing receivables	**118,230**	**16,616**	**997,775**	**-**	**1,132,621**
Investment securities	**217,528**	**-**	**-**	**-**	**217,528**
Customers' acceptances	**-**	**-**	**-**	**744**	**744**
Investment in an associate	**-**	**-**	**-**	**85,528**	**85,528**
Property and equipment	**32,620**	**-**	**-**	**210,483**	**243,103**
Other assets					
Total assets	**11,830,879**	**16,616**	**997,775**	**296,755**	**13,142,025**

Assets **31 December 2020**	**At amortised cost AED'000**	**At FVTPL AED'000**	**At FVTOCI AED'000**	**Non-financial instruments AED'000**	**Total AED'000**
Cash and balances with the					
U.A.E. Central Bank	1,510,911	-	-	-	1,510,911
Due from other banks	2,947,129	-	-	-	2,947,129
Loans and advances and Islamic					
financing receivables	7,639,656	-	-	-	7,639,656
Investment securities	165,036	17,978	760,340	-	943,354
Customers' acceptances	166,207	-	-	-	166,207
Investment in an associate	-	-	-	990	990
Property and equipment	-	-	-	86,362	86,362
Other assets	39,105	-	-	212,330	251,435
Total assets	**12,468,044**	**17,978**	**760,340**	**299,682**	**13,546,044**

Liabilities **31 December 2021**	**At amortised cost AED'000**	**Non-financial Instruments AED'000**	**Total AED'000**
Customers' deposits and Islamic customer deposits	**7,700,120**	**-**	**7,700,120**
Customers' acceptances	**217,528**	**-**	**217,528**
Other liabilities	**153,485**	**20,157**	**173,642**
Total liabilities	**8,071,133**	**20,157**	**8,091,290**
31 December 2020			
Due to other banks	198,585	-	198,585
Customers' deposits and Islamic customer deposits	8,224,858	-	8,224,858
Customers' acceptances	166,207	-	166,207
Other liabilities	237,338	21,634	258,972
Total liabilities	8,826,988	21,634	8,848,622

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

Fair value measurements

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. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value of financial instruments measured at amortised cost

The fair value of the quoted debt instruments at amortised cost at 31 December 2021 amounted to AED 120.28million (31 December 2020: AED 165.90 million). The fair value determination of the quoted debt instruments will fall under level 1 category wherein fair value is determined based on inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Except as detailed above, the management considers that the carrying amounts of financial assets and liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2020.

30. Classification and fair value of financial and non-financial instruments (continued)

Fair value measurements (continued)

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

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determine

Financial assets	Fair value as at 31 December 2021 AED'000	31 December 2020 AED'000	Fair value hierarchy
Financial assets at FVTPL			
Quoted equity securities	**16,366**	17,730	Level 1
Discretionary funds managed by third parties – quoted equity securities	**250**	248	Level 1
Financial assets at FVTOCI			
Quoted equity securities	**962,197**	725,279	Level 1
Unquoted equity securities	**34,384**	35,061	Level 3
Positive fair value of Derivative	**63**	211	Level 2
Negative fair value of Derivative	**288**	4	Level 2

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

31. Financial risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance. The Group's exposure can be broadly categorized into the following defined Material Risks:

- Credit risk
- Liquidity risk
- Market risk (includes currency risk and interest rate risk)
- Operational risk (includes risks arising from Group's processes, personnel, technology, legal, regulatory requirements and information security risks)

Reputational and strategic business risks are interrelated to the above defined Material Risks. These risks are considered through the Bank's strategic planning and general risk management activities. NBQ risk management strategy is focused on ensuring awareness, measurement and appropriate oversight to these defined material risks.

31. Financial risk management (continued)

The Group remains focused to further develop its enterprise risk management culture, practices and processes proactively on an ongoing basis.

The Group has complied with the new 'Capital Adequacy Regulations' issued by the UAE Central Bank during 2017, which is in accordance with the revised rules outlined by the Basel Committee on Banking Supervision in 'Basel III: A global regulatory framework for more resilient banks and banking systems.' Relevant information / details have been disclosed in note 35.

Credit risk

The Group assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities measured at amortized cost. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralized in the Credit Risk Department with the following objectives:

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Portfolio & Rating unit, Remedial Unit and Risk Containment Unit. Internal risk rating systems are implemented to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk containment units are functioning to prevent accretion of non-performing assets through timely action and maximize recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarize the Group's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Group in case of default. Such mitigant are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Group are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Market risk

Market risk for the Group refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus, the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Group's earnings and capital to risk.

The market risk department of the Group addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Group's internal market risk policies and strategic business directions.

31. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Group's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly.

As part of the ICAAP, the Bank assesses the impact on capital adequacy of liquidity risk including concentrations by carrying out stress tests. In preparation for compliance with Basel III requirements, the Group has implemented a system for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with the UAE Central Bank's regulations and is working on strengthening processes and qualitative requirements proactively.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Group as a whole. Although interest-rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest-rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Group manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Group analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Group. It is controlled through the limit prescribed for the same. Note 33summarizes the Group's exposure to interest rate risk.

During the year ended 31 December 2021, the effective interest rate on

- Due from other banks was 0.43% (2020: 1.05%)
- Certificate of deposits with Central Bank was 0.4% (2020: 0.64%)
- Loans and advances was 4.15% (2020: 4.70%)
- Investment securities at amortised cost was 2.63% (2020: 0.99%)
- Customers' deposits was0.63% (2020: 1.03%)
- Due to other banks was 0.01% (2020: 0.07%).

Interest rate benchmark reform

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Group has "limited" exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is an uncertainty over the timing and the methods of transition. The Group anticipates that IBOR reform will have "limited" operational, risk management and accounting impacts across all of its business lines. The Group has negligible exposure on LIBOR linked financial instruments and their impact on group's financial position during the transition phase is expected to be insignificant.

31. Financial risk management (continued)

Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 34summarizes the Group's exposure to foreign currency exchange risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Group. While operational risk cannot be fully eliminated, management endeavor to minimize the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organization.

Continuous progress is being made to enhance our risk governance, driving risk culture across the Group, reinforcing business ownership of risk outcomes and elevate the status of risk management We continue to invest in our operational risk capabilities (in particular cybersecurity, data management, enterprise wide fraud management) to ensure they evolve in response to Group's changing operative environment A comprehensive Business Contingency and Continuity Plan is also in place to anticipate stress situations and mitigate the risk associated with them is under implementation along with regular disaster recovery site testing programs.

The role of the Internal Audit Function within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature and are generally performed at the specific request of the Senior Management. It is led by the Head of Internal Audit who reports to the Audit Committee of the Board, with administrative reporting line to the general manager. To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

UAE Central Bank during the year has issued a number of standards and regulations on the various elements of overall Risk Management and Capital Management Framework. The standards and regulations includes but not limited to financial reporting, external audit, internal controls, compliance & internal audit, operational, country and transfer risk, market risk and interest rate and rate of return risk which were effected in 2021. The Group had taken measures to adhere to the aforementioned new standards and regulations to ensure compliance from the effective implementation date.

The Group has implemented under noted processes aimed at monitoring and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.

31. Financial risk management (continued)

Significant increase in credit risk (continued)

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

Internal credit risk ratings

To assess the creditworthiness of the borrowers, the Group has in place an internal credit risk rating system. The Group's credit risk grading framework comprises 15 categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

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

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Changes in business, financial and economic conditions;
- Information obtained by periodic review of customer files including audited financial statements review

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The table below provides a mapping of the Group's internal credit risk grades.

Group's credit risk grades	Grade	Description
1	AAA	Substantially Risk Free
2	AA+	Low Risk
3	AA	Minimal Risk
4	AA-	Modest Risk
5	A+	Average Risk
6	A	Above Average Risk
7	A-	Medium Risk
8	BBB	Medium to High Risk
9	BB+	Moderately High Risk
10	BB	Significant Risk
11	B+	Significantly High Risk
12	B	Watchlist
13	C	Substandard
14	D	Doubtful
15	E	Loss

31. Financial risk management (continued)

Significant increase in credit risk (continued)

Internal credit risk ratings (continued)

The Group analyses all data collected using statistical models and estimates the lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, Real Estate prices, oil prices, occupancy rates etc. The Group generates a ‘base case’ scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

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

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group engage experts who use external and internal information to generate a ‘base case’ scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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Predicted relationships between the macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 7 years except for credit cards where 5 years of historical data was used.

Measurement of ECL

The key inputs used for measuring ECL are:

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

These elements are derived from internally developed statistical models based on historical data and data available from reliable sources. They are adjusted to reflect probability-weighted forward-looking information.

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 rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors.

31. Financial risk management (continued)

Significant increase in credit risk (continued)

Measurement of ECL (continued)

LGD is an estimate of the magnitude of loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral. LGD models for unsecured assets consider time of recovery & recovery rates. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD represents the expected exposure at a future default date. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortisation and payment of principal and interest. The EAD of a financial asset will be the gross carrying amount at default. For lending commitments and financial guarantees, the EAD will consider the amount drawn, as well as potential future amounts that may be drawn or repaid under the contract, which will be estimated based on credit conversion factors.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis where the financial instruments are grouped based on product type risk characteristics.

Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts.

The most significant period-end assumptions used for ECL estimate as at 31 December 2021 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables:

Macroeconomic variables	Scenario	Assigned probabilities	2022	2023	2024	2025	2026
Real Non Oil GDP	Base case	40%	3.9%	3.6%	3.4%	3.2%	3.1%
	Upside	20%	4.3%	3.9%	3.8%	3.6%	3.5%
	Downside	40%	3.5%	3.2%	3.0%	2.8%	2.7%
Dubai stock Market Index	Base case	40%	2,714	2,843	3,004	3,154	3,312
	Upside	20%	2,995	3,137	3,315	3,481	3,655
	Downside	40%	2,459	2,576	2,722	2,858	3,001
Abu Dhabi Stock Market Index	Base case	40%	5,784	6,035	6,374	6,701	7,036
	Upside	20%	6,008	6,259	6,598	6,925	7,260
	Downside	40%	5,560	5,811	6,150	6,477	6,812
Inflation, average consumer price index	Base case	40%	1.25%	2.00%	2.00%	2.00%	2.00%
	Upside	20%	0.95%	1.70%	1.70%	1.70%	1.70%
	Downside	40%	1.55%	2.30%	2.30%	2.30%	2.30%

31. Financial risk management (continued)

Significant increase in credit risk (continued)

Measurement of ECL (continued)

Sensitivity analysis

If the prevalent new COVID variant strain tends to persist, this will have a negative impact on the macroeconomic variables due to restriction imposed on the movements, eventually effecting global supply chain. In such scenario, bank has changed the downturn scenario weights to 60% and 70% to reflect the negative impact. Weight to the Upturn scenario maintained at 0%. The impact on stage 1 and stage 2 ECL is given in the below table.

Change in ECL	Downturn scenario 70%	Downturn scenario 60%
Stage 1	+4.14%	+3.30%
Stage 2	+2.09%	2.06%

The credit quality of the loans and advances and Islamic financing receivables is managed by the Group using internal credit ratings comprising 12 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Group's books are rated against a set of predetermined standards which are in line with the UAE Central Bank guidelines.

An analysis of the Group's credit risk exposure per class of financial asset and "stage" without taking into account the effects of any collateral or other credit enhancements along with a summary of the movement in provision for expected credit loss on financial instruments by categoryis provided note 6 for loans and advances and Islamic financing, note 5 for due from other banks, note 7 for investment securities and note 17 for commitments and contingencies.

Credit quality

COVID-19 and Expected Credit Losses (ECL)

The Bank actively participated CBUAE TESS program since the inception by providing deferrals to its customers affected by COVID 19 economic fallout. Under the program the Bank provided payment relief of AED819 million to 129 customers, who have come out of purview of TESS deferrals. The Bank is monitoring their business and repayments to address any significant increase in credit risk to ensure appropriate staging where warranted

31. Financial risk management (continued)

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

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 the counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are monitored and quantified as part of the Group's Credit Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement/ clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals in accordance with the approved credit framework.

Risk mitigation, collateral and credit enhancements

In line with Basel and IFRS 9 standards, the Credit Risk Management Framework (CRMF) outlines the basis pertaining to the eligibility, valuation, roles & responsibilities of various departments and overall management of collateral in order adopt effective credit risk mitigation mechanism and maximize the use of eligible collateral.

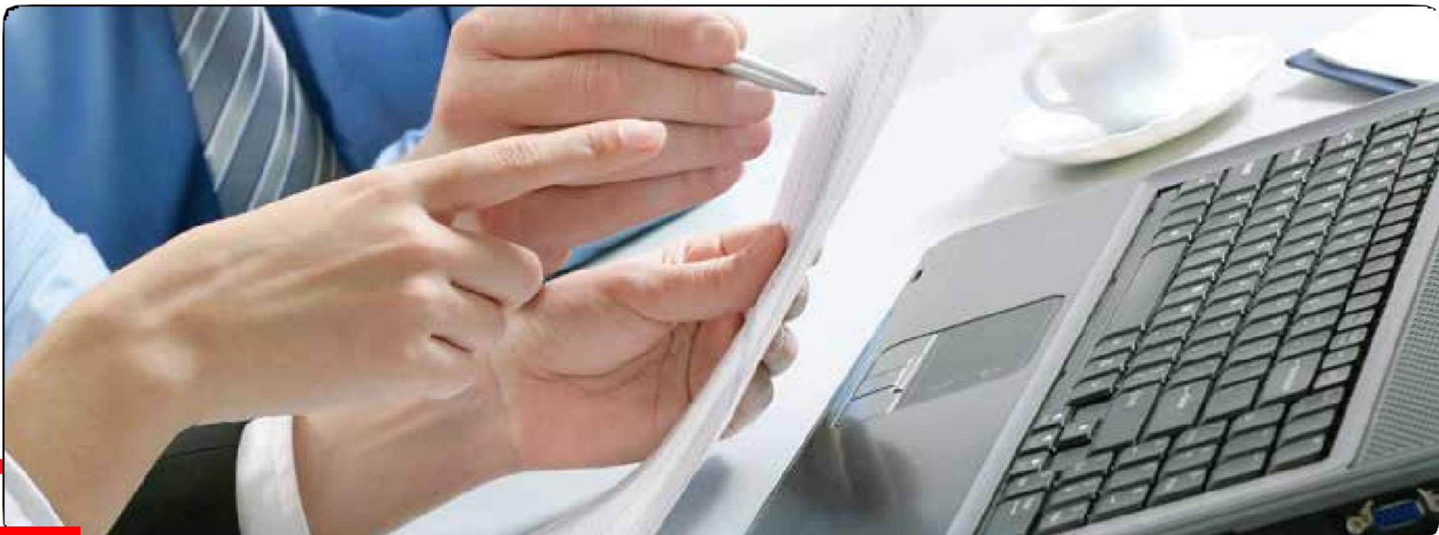
The eligible collateral under IFRS 9 helps in arriving at EAD and LGD for Expected Credit Loss (ECL) calculations. As for measuring ECL, the expected cash shortfalls will reflect via LGD the cash flows expected from collateral realization provided the same are as per contractual terms.

The Group manages credit exposure by obtaining security where appropriate, and in certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The amount and type of collateral depends on assessments of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees, pledge over listed shares and mortgage and liens over properties or other securities over assets. Pledged interests over vehicles, ships and equipment are also obtained. Collateral generally is not held against non-trading investments and due from banks and financial institutions.

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

Estimates of fair value are generally assessed on a periodic basis in accordance with the respective credit policiesan estimate of fair value of collateral and other security enhancements held against the loan and Islamic financing portfolio is shown on below:



31. Financial risk management (continued)

Risk mitigation, collateral and credit enhancements (continued)

2021	Funded balance AED'000	Non-funded balance AED'000	Immovable collateral AED'000	Other collateral AED'000	Total collateral AED'000
Stage 1	**6,910,354**	**1,078,288**	**10,279,480**	**1,628,621**	**11,908,101**
Stage 2	**424,225**	**3,867**	**816,504**	**1,675**	**818,179**
Stage 3	**591,737**	**49,748**	**978,597**	**18,988**	**998,258**
Total	**7,926,316**	**1,131,903**	**12,074,581**	**1,649,284**	**13,723,865**

2020	Funded balance AED'000	Non-funded balance AED'000	Immovable collateral AED'000	Other collateral AED'000	Total collateral AED'000
Stage 1	6,813,529	2,548,746	11,745,006	2,127,769	13,872,775
Stage 2	382,877	2,251	622,433	1,081	623,514
Stage 3	795,428	49,674	1,020,825	113,907	1,134,732
Total	7,991,834	2,600,671	13,388,264	2,242,757	15,631,021

Maximum exposure to credit risk before collateral held or other credit enhancements:

Credit risk exposures relating to; On-balance sheet	Maximum exposure	
	2021 AED'000	2020 AED'000
Due from other banks	**3,422,563**	2,948,682
Loans and advances and Islamic financing receivables	**6,588,554**	7,991,833
Customer acceptances	**217,528**	166,207
Investment securities	**120,457**	165,285
Other assets	**32,620**	39,105
Total	**10,381,722**	11,311,112
Off-balance sheet		
Loan commitments and other off balance sheet items	**1,950,578**	2,434,465
	12,332,300	13,745,577

Concentration risk

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

31. Financial risk management (continued)

Concentration risk (continued)

Credit exposures to individual customers or customer groups are controlled through a tiered hierarchy of delegated approval authorities. Approval is required from the UAE Central Bank for exposures which are likely to exceed single counterparty / group limit(s), keeping in view the regulatory capital base, in accordance with the regulations of monitoring of large exposure limits issued by the UAE Central Bank. The Group monitors concentrations of credit risk by industry, sector and geographic location. The Group has further defined portfolio caps for its specialized businesses like Marine and Energy and Precious metals segments.

Credit risk and risk weights

31 December 2021

			Credit Risk Mitigation (CRM)		
	Gross Outstanding AED'000	Exposure before CRM AED'000	CRM AED'000	Exposure after CCF AED'000	Risk Weighted Assets AED'000
Asset classes					
Claims on sovereigns	**849,276**	**849,276**	**-**	**849,276**	**119,203**
Claims on banks	**3,440,390**	**3,440,390**	**-**	**3,440,390**	**1,282,290**
Claims on Corporate and Government Related Enterprises (GRE's)	**4,825,639**	**4,825,639**	**312,897**	**3,741,178**	**3,332,638**
Claims included in the regulatory retail portfolio	**1,506,233**	**1,506,233**	**1,050,752**	**1,483,594**	**381,873**
Claims secured by commercial real estate	**3,255,010**	**3,255,010**	**73,441**	**3,164,514**	**3,091,073**
Past due loans	**442,834**	**442,834**	**-**	**442,834**	**586,973**
Other assets	**2,019,503**	**2,019,503**	**-**	**2,019,503**	**1,281,242**
Claims secured by Residential property	**3,013**	**3,013**	**-**	**3,013**	**2,881**
Higher risk category	**12,275**	**12,275**	**30,355**	**12,275**	**18,413**
Total claims	**16,354,173**	**16,354,173**	**1,467,445**	**15,156,577**	**10,096,586**
Total credit risk weighted assets					**10,096,586**

31 December 2020

			Credit Risk Mitigation (CRM)		
	Gross Outstanding AED'000	Exposure before CRM AED'000	CRM AED'000	Exposure after CCF AED'000	Risk Weighted Assets AED'000
Asset classes					
Claims on sovereigns	1,410,289	1,410,289	-	1,410,289	-
Claims on Corporate and Government related Enterprises (GRE)	3,118,923	3,118,923	235,542	3,118,912	679,745
Claims on banks	5,821,706	5,815,799	-	4,793,728	4,398,013
Claims included in the regulatory retail portfolio	2,418,201	2,414,016	1,484,203	1,605,307	758,549
Claims secured by commercial real estate	2,518,309	2,517,809	22,042	2,296,148	2,274,105
Past due loans	1,080,566	637,919	45,290	637,919	758,892
Other assets	1,179,055	1,179,055	-	1,179,055	1,059,992
Claims secured by Residential property	5,668	5,668	-	5,668	5,524
Total claims	17,552,717	17,099,478	1,787,077	15,047,026	9,934,820
Total credit risk weighted assets					9,934,820

31. Financial risk management (continued)

Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are loans and advances and Islamic financing receivables that have been rescheduled or restructured and where the Group has made concessions that it would not otherwise consider. Rescheduled loans are classified under stage 1 attracting 12-month ECL, whereas restructured loans are classified under Stage 2 attracting lifetime ECL – not credit impaired impact.

When renegotiation happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

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

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset.

As a guideline, the criteria to differentiate between Restructured and Rescheduled accounts are defined in the Group respective risk policy.

The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 (Lifetime ECL – credit impaired) to Stage 2 (Lifetime ECL – not credit impaired) to Stage 1 (12 month ECL). This is only applicable for assets which have performed as per the new terms in accordance with the curing criteria as adopted by the Group.

Write-off policy

The Group writes off loans and advances and Islamic financing receivables balances (and any related allowances for impairment losses) when it has generally exhausted all possible efforts for collection and determines that the loans and advances and Islamic financing receivables are no longer collectible.

The Group may write-off financial assets that are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owed in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

32. Liquidity risk

The maturities of assets and liabilities have been determined on the basis of contractual maturity.The table below sets out the Group's assets, liabilities, equity at carrying amounts and off balance sheet items, categorised by the earlier of contractual repricing or maturity dates.

Maturity profile

Assets

31 December 2021

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	**1,005,768**	**99,982**	**-**	**345,634**	**-**	**-**	**1,451,384**
Due from other banks	**1,375,473**	**1,144,125**	**150,000**	**752,965**	**-**	**-**	**3,422,563**
Loans and advances and Islamic financing receivables	**226,755**	**261,488**	**685,451**	**3,688,303**	**1,726,557**	**-**	**6,588,554**
Investment securities	**304,317**	**-**	**728,559**	**99,745**	**-**	**-**	**1,132,621**
Customers' acceptances	**38,016**	**85,813**	**93,699**	**-**	**-**	**-**	**217,528**
Other financial assets	**32,620**	**-**	**-**	**-**	**-**	**-**	**32,620**
Non-financial assets	**-**	**-**	**-**	**-**	**-**	**296,755**	**296,755**
Total	**2,982,949**	**1,591,408**	**1,657,709**	**4,886,647**	**1,726,557**	**296,755**	**13,142,025**

31 December 2021

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Cash and balances with the U.A.E. Central Bank	823,996	275,000	100,000	311,915	-	-	1,510,911
Due from other banks	2,288,004	443,840	215,285	-	-	-	2,947,129
Loans and advances and Islamic financing receivables	207,609	258,885	694,603	4,347,238	2,131,321	-	7,639,656
Investment securities	233,496	-	709,858	-	-	-	943,354
Customers' acceptances	22,779	59,077	84,351	-	-	-	166,207
Other financial assets	39,105	-	-	-	-	-	39,105
Non-financial assets	-	-	-	-	-	299,682	299,682
Total	3,614,989	1,036,802	1,804,097	4,659,153	2,131,321	299,682	13,546,044

32. Liquidity risk (continued)

Maturity profile (continued)

Liabilities, equity and off balance sheet items (continued)

31 December 2021

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks							
Customers' deposits and Islamic customer deposits	**2,165,507**	**396,619**	**1,806,299**	**3,331,664**	**31**	**-**	**7,700,120**
Customers' acceptances	**38,017**	**85,811**	**93,700**	**-**	**-**	**-**	**217,528**
Other financial liabilities	**17,892**	**43,329**	**31,071**	**43,822**	**10,636**	**-**	**146,750**
Non-financial liabilities	**-**	**-**	**8,019**	**-**	**18,873**	**-**	**26,892**
Shareholders' equity	**-**	**-**	**-**	**-**	**-**	**5,050,735**	**5,050,735**
A. Total on-balance sheet items	**2,221,416**	**525,759**	**1,939,089**	**3,375,486**	**29,540**	**5,050,735**	**13,142,025**
Forward rate contracts	**224,608**	**201,453**	**4,198**	**-**	**-**	**-**	**430,259**
Spot / Split Sale	**1,392**	**-**	**-**	**-**	**-**	**-**	**1,392**
Guarantees	**4,579**	**-**	**13,737**	**-**	**-**	**-**	**18,316**
Unavailed limits	**620,994**	**33,050**	**436,029**	**-**	**-**	**-**	**1,090,073**
B. Total off-balance sheet items	**851,573**	**234,503**	**453,964**	**-**	**-**	**-**	**1,540,040**
Grand total [A+B]	**3,072,989**	**760,262**	**2,393,053**	**3,375,486**	**29,540**	**5,050,735**	**14,682,065**

31 December 2020

	Upto 1 month AED'000	1 month - 3 month AED'000	3 months - 1 year AED'000	1 year - 5 years AED'000	Over 5 years AED'000	With no contractual maturity AED'000	Total AED'000
Due to other banks	25	-	-	-	-	-	25
Customers' deposits and Islamic customer deposits	2,315,028	780,519	1,592,477	3,536,809	25	-	8,224,858
Customers' acceptances	22,779	59,077	84,351	-	-	-	166,207
Other financial liabilities	75,281	264,667	45,630	23,512	26,388	-	435,478
Non-financial liabilities	-	-	-	-	-	22,054	22,054
Shareholders' equity	-	-	-	-	-	4,697,422	4,697,422
A. Total on-balance sheet items	2,413,113	1,104,263	1,722,458	3,560,321	26,413	4,719,476	13,546,044
Forward rate contracts	92,675	-	165,285	-	-	-	257,960
Spot / Split Sale	386	-	13,737	-	-	-	14,123
Guarantees	4,579	-	-	-	-	-	4,579
Unavailed limits	508,089	42,124	366,809	-	-	-	917,022
B. Total off-balance sheet items	605,729	42,124	545,831	-	-	-	1,193,684
Grand total [A+B]	3,018,842	1,146,387	2,268,289	3,560,321	26,413	4,719,476	14,739,728

32. Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

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

31 December 2021	Carrying amount AED'000	Gross nominal outflows AED'000	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000
Financial liabilities							
Customers' deposits and Islamic customer deposits	7,700,120	(7,700,120)	2,562,126	1,806,299	3,331,372	292	31
	7,700,120	(7,700,120)	2,562,126	1,806,299	3,331,372	292	31
Letters of credit and guarantees	898,705	(898,705)	555,017	310,334	30,177	3,177	-

31 December 2020	Carrying amount AED'000	Gross nominal outflows AED'000	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years AED'000
Financial liabilities							
Due to other banks	25	(25)	(25)	-	-	-	-
Customers' deposits and Islamic	8,224,858	(8,020,855)	(3,095,547)	(1,592,477)	(3,332,500)	(308)	(23)
customer deposits	198,560	(198,560)	(198,560)	-	-	-	-
	8,423,443	(8,219,440)	(3,294,132)	(1,592,477)	(3,332,500)	(308)	(23)
Letters of credit and guarantees	2,434,464	(2,433,370)	(607,000)	(1,808,975)	(16,014)	(1,381)	-

The positive/ negative fair values of derivative financial instruments entered into by the Group, at the reporting date are as below:

	2021			2020		
	Positive fair value AED'000	Negative fair value AED'000	Notional Value AED'000	Positive fair value AED'000	Negative fair value AED'000	Notional Value AED'000
Derivatives						
Foreign currency forward contracts	63	288	428,900	211	2	257,674
	63	288	428,900	211	2	257,674

33. Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2021

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Financial assets					
Cash and balances with the U.A.E. Central bank	**974,957**	**-**	**-**	**476,427**	**1,451,384**
Due from other banks	**2,859,934**	**168,365**	**367,300**	**26,964**	**3,422,563**
Loans and advances and Islamic receivables	**3,735,305**	**126,492**	**2,717,811**	**8,946**	**6,588,554**
Investment securities		**18,485**	**99,745**	**1,014,391**	**1,132,621**
Customers' acceptances	**-**	**-**	**-**	**217,528**	**217,528**
Other financial assets	**-**	**-**	**-**	**32,620**	**32,620**
Total	**7,570,196**	**313,342**	**3,184,856**	**1,776,876**	**12,845,270**
Financial liabilities					
Due to other banks					
Customers' deposits and Islamic customer deposits	**3,416,205**	**1,769,294**	**768,345**	**1,746,276**	**7,700,120**
Customers' acceptances	**-**	**-**	**-**	**217,528**	**217,528**
Other financial liabilities	**-**	**-**	**-**	**159,826**	**159,826**
Total	**3,416,205**	**1,769,294**	**768,345**	**2,123,630**	**8,077,474**
On balance sheet interest rate sensitivity gap	**4,153,991**	**(1,455,952)**	**2,416,511**	**(346,754)**	**4,767,796**
Off balance sheet interest rate sensitivity gap	**-**	**-**	**-**	**(1,108,388)**	**(1,108,388)**
Cumulative interest rate sensitivity gap	**4,153,991**	**(1,455,952)**	**2,416,511**	**(1,455,142)**	**3,659,408**

At 31 December 2019

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Financial assets					
Cash and balances with the U.A.E. Central bank	985,000	100,000	-	425,911	1,510,911
Due from other banks	2,871,489	50,000	-	25,640	2,947,129
Loans and advances and Islamic receivables	4,212,775	118,153	3,299,740	8,988	7,639,656
Investment securities	-	165,036	-	778,318	943,354
Customers' acceptances	-	-	-	166,207	166,207
Other financial assets	-	-	-	39,105	39,105
Total	8,069,264	433,189	3,299,740	1,444,169	13,246,362

33. Interest rate risk (continued)

Financial liabilities					
Due to other banks	-	-	-	25	25
Customers' deposits and Islamic customer deposits	4,031,458	1,571,883	1,114,969	1,506,548	8,224,858
Customers' acceptances	-	-	-	166,207	166,207
Other financial liabilities	-	-	-	435,478	435,478
Total	4,031,458	1,571,883	1,114,969	2,108,258	8,826,568
On balance sheet interest rate sensitivity gap	4,037,806	(1,138,694)	2,184,771	(664,089)	4,419,794
Off balance sheet interest rate sensitivity gap	-	-	-	(935,338)	(935,338)
Cumulative interest rate sensitivity gap	4,037,806	(1,138,694)	2,184,771	(1,599,427)	3,484,456

Rate sensitivity analysis

Impact on net interest income and net income from Islamic financing and investment activities

	2021		2020	
	Upward shift	**Downward shift**	Upward shift	Downward shift
Bps				
200	**+67,733**	**-67,733**	+67,050	-67,050

Method and assumptions for sensitivity analysis

- Since interest rates are almost at the lower end of the interest rate cycles, hence rate sensitive analysis is undertaken
- If interest rates may go up or down by 200 bps. 200bps is taken as per Basel guidelines.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the midpoint of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity date.

34. Currency risk

Concentration of financial assets and liabilities by currency:

At 31 December 2021	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,450,781	603	-	1,451,384
Due from other banks	1,692,301	1,723,810	6,452	3,422,563
Loans and advances and Islamic receivables	6,588,554	-	-	6,588,554
Investment securities	931,701	154,841	46,079	1,132,621
Customers' acceptances	217,528	-	-	217,528
Other financial assets	28,935	3,685	-	32,620
Total financial assets	**10,909,800**	**1,882,939**	**52,531**	**12,845,270**
Financial liabilities				
Due to other banks				
Customers' deposits and Islamic customer deposits	7,539,933	141,047	19,140	7,700,120
Customers' acceptances	217,528	-	-	217,528
Other financial liabilities	146,503	90	157	146,750
Total financial liabilities	**7,903,964**	**141,137**	**19,297**	**8,064,398**
Net balance sheet position	**3,006,529**	**1,741,732**	**33,304**	**4,781,565**
Off balance sheet position	**3,077,095**	**430,822**	**31,411**	**3,539,328**

34. Currency risk (continued)

Concentration of financial assets and liabilities by currency: (continued)

At 31 December 2020	AED AED'000	USD AED'000	Other AED'000	Total AED'000
Financial assets				
Cash and balances with the U.A.E. Central Bank	1,510,424	487	-	1,510,911
Due from other banks	2,143,447	783,433	20,249	2,947,129
Loans and advances and Islamic receivables	7,637,422	2,234	-	7,639,656
Investment securities	699,503	199,699	44,152	943,354
Customers' acceptances	166,207	-	-	166,207
Other financial assets	37,469	244	1,392	39,105
Total financial assets	12,194,472	986,097	65,793	13,246,362
Financial liabilities				
Due to other banks	-	-	25	25
Customers' deposits and Islamic customer deposits	8,087,510	118,891	18,457	8,224,858
Customers' acceptances	166,207	-	-	166,207
Other financial liabilities	435,196	130	152	435,478
Total financial liabilities	**8,688,913**	**119,021**	**18,634**	**8,826,568**
Net balance sheet position	**3,505,559**	**867,076**	**47,159**	**4,419,794**
Off balance sheet position	**3,384,380**	**260,875**	**5,374**	**3,650,629**

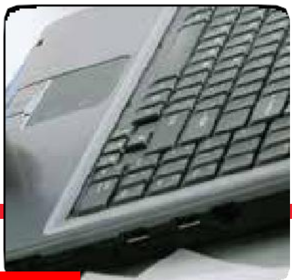
- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the Balance Sheet date.
- Exchange rate change of 2% in AED against the respective pegged foreign currencies and exchange rate change of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

34. Currency risk (continued)

Rate sensitivity analysis (continued)

Year 2021	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity AED'000
Pegged Currencies					
US Dollar	1,880,473	175,483	(411,378)	1,293,612	(25,872)
Saudi Riyal	45,855	-	-	45,855	(917)
Bahrain Dinar	186	-	-	186	(4)
Omani Riyal	161	-	(8,395)	(8,234)	165
Qatar Riyal	77	8	-	69	(1)
Other Currencies					
Kuwait Dinar	498	-	-	498	(50)
Great British Pound	2,362	16,225	13,873	10	(1)
Euro	2,756	2,927	187	16	(2)
Swiss Frank	229	4	(201)	24	(2)
Japanese Yen	323	42	(319)	(38)	4
Indian Rupee	20	-	-	20	(2)
Lankan Rupee	4	-	-	4	(0)
Jordanian Dinar	62	-	-	62	(6)
	1,933,006	**194,689**	**(406,233)**	**1,332,084**	
Total impact if foreign currency fluctuates against AED					**(26,688)**

Year 2020	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity AED'000
Pegged Currencies					
US Dollar	987,490	153,312	(256,834)	577,344	(11,547)
Saudi Riyal	43,854	-	-	43,854	(877)
Bahrain Dinar	216	-	-	216	(4)
Omani Riyal	274	-	-	274	(5)
Qatar Riyal	64	8	-	56	(1)
Other Currencies					
Kuwait Dinar	782	-	-	782	(78)
Great British Pound	16,211	16,174	-	37	(4)
Euro	2,363	2,243	(135)	(15)	2
Swiss Frank	148	6	(208)	(66)	7
Japanese Yen	392	47	(356)	(11)	1
Indian Rupee	-	25	36	11	(1)
Lankan Rupee	2	-	-	2	(0)
Jordanian Dinar	99	-	-	99	(10)
	1,051,895	171,815	(257,497)	622,583	
Total impact if foreign currency fluctuates against AED					+/-12,517



35. Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 20% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Group's:

- Consolidated statement of comprehensive income would have increased/decreased by AED 190.34million (2020: AED 152 million) and consolidated statement of income would have increased/decreased by AED 3.3million (2020: 3.6 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- As at the reporting date if equity prices are 20% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 20% change in equity prices has been used to give a realistic assessment as a plausible event.

36. Capital management

Group's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Group's future dividend policy. The Group also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Group had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 13%.

36. Capital management (continued)

Capital structure

The table below details the regulatory capital resources of the Group:

	2021 AED'000	2020 AED'000
Tier 1 Capital		
Share capital	**1,848,000**	1,848,000
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Fair value reserves on investment securities at FVTOCI	**167,678**	61,034
Retained earnings	**1,804,411**	1,551,915
Total Tier 1	**4,845,795**	4,486,655
Tier 2 Capital		
General reserves on loans and advances	**126,207**	124,185
Total Tier 2	**126,207**	124,185
Total Regulatory Capital	**4,972,002**	4,610,840
Risk weighted assets:		
Credit risk-weighted assets	**10,096,586**	9,934,820
Market risk-weighted assets	**89,939**	65,835
Operations risk-weighted assets	**945,779**	1,122,239
Total risk-weighted assets	**11,132,304**	11,122,894

BASEL III Capital Ratio

As per UAE Central Bank Regulation for Basel III, Minimum Capital Requirement including Capital Conservation Buffer is 13% for the year 2021.

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from 1 February 2020 (Primary reporting from Q4'2020 onwards) introducing minimum capital requirements at the three levels, namely Common Equity Tier 1 ('CET 1'), Tier 1 ('T1') and Total Capital.

The additional capital buffers Capital Conservation Buffer (CCB) maximum up to 2.5% and Countercyclical Capital Buffer (CCyB) maximum up to 2.5% introduced over and above the minimum CET1 requirements of 7%.

For year 2021, CCB will be required at 2.5% of the capital base. Countercyclical Capital Buffer (CCyB) is in the effect and is not required to be maintained for year 2021.

36. Capital management (continued)

The Capital Adequacy Ratio as per Basel III capital regulation is given below:

Capital ratio	2021 %	2020 %
Total capital adequacy ratio	**44.66**	41.45
Common equity Tier 1 capital ratio	**43.53**	40.34
Tier 1 capital ratio	**43.53**	40.34

Minimum capital required under each of the above items including CCB is as below;

Capital element	2021	2020
Minimum Common Equity Tier 1 (CET 1) ratio	**7%**	7%
Minimum tier 1 capital ratio	**8.5%**	8.5%
Minimum capital adequacy ratio	**10.5%**	10.5%
Capital conversion buffer (CCB)	**2.5%**	2.5%

37. Legal proceedings

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 (continued)

38. Social contributions

The social contributions (including donations and charity) made during the year to various beneficiaries amount to AED 0.16million (2020: AED 0.14million).

39. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these consolidated financial statements.

40. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 9th February 2021.