Al Hilal Bank PJSC

Consolidated financial statements

31 December 2021

Principal business address:
Al Hilal Bank PJSC
P O Box: 63111
Abu Dhabi
UAE

Al Hilal Bank PJSC
Consolidated financial statements
Year ended 31 December 2021

Contents

Annual Report of the Internal Shari'ah Supervision Committee of Al Hilal Bank

Issued on Wednesday, 23rd Jumada Al Akhirah 1443 AH, corresponding to 26th Jan 2022

To: Shareholders of Al Hilal Bank ("the Bank")

After greetings,
Pursuant to the requirements stipulated in the relevant laws, regulations and standards ("Regulatory Requirements"), the Internal Shari'ah Supervision Committee of the bank ("ISSC") presents to you its Annual Report for the financial year ending on 31 December 2021 ("Financial Year").

1. **Responsibility of the ISSC**
   In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:
   Undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Bank; and the Bank's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Bank's Activities") and issue Shari'ah resolutions in this regard, and to determine Shari'ah parameters necessary for the Bank's Activities, and the Bank's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ("HSA") to ascertain compliance of the Bank with Islamic Shari'ah.

   The senior management is responsible for compliance of the Bank with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'ah") regarding the Bank's Activities, and the Board bears the ultimate responsibility in this regard.

2. **Shari'ah Standards**
   In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Bank's Activities without exception.

3. **Works Undertaken by the ISSC During the Financial Year**
   The ISSC undertook Shari'ah supervision of the Bank's Activities through review of those Activities, and monitoring through Internal Shari'ah Control Division and Internal Shari'ah Audit Division in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:
   a. Convening ten meetings during the financial year.
   b. Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the Bank's Activities.
   c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Bank and its subsidiaries to the ISSC for approval. Note that the

committee is still in the process of verifying the compliance of products and services in Al Hilal Islamic Bank in Kazakhstan with the Shari'ah standards.

d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders with parameters set by the ISSC.
e. Supervision through internal Shari'ah supervision department and internal Shari'ah Audit of the Bank's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
f. Providing direction to relevant parties of the Bank and its subsidiaries to rectify (where possible) findings cited in the reports submitted by internal Shari'ah supervision department and internal Shari'ah audit, and issuance of resolutions to set aside revenue derived from transactions in which non-compliance were identified to be disposed towards charitable purposes.
g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.
h. Specifying the amount of Zakat due on each of the Bank's share.
i. Specifying the amount of Zakat due on the depositor's reserves.
j. Monitoring charity account sources and payments.
k. Communicating with the Board, and the senior management of the Bank concerning compliance of the Bank with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Bank is compliant with Islamic Shari'ah.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Bank. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Bank

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Bank's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also issued directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee

Prof. Jassim Ali Alshamsi	Chairman	
Dr. Ibrahim Ali Almansoori	Deputy Chairman	
Dr. Salim Ali Al Ali	Member	

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Al Hilal Bank PJSC (the "Bank") and its subsidiaries (collectively referred to as 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 for opinion
We have 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 Codes of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Estimation uncertainty with respect to measurement of allowances for expected credit losses for Islamic Financing and Ijara	
Description of the Key Audit Matter	**How the matter was addressed in the audit**
The Group has gross outstanding receivables from Islamic Financing and Ijara amounting to AED 7,873,113 thousand and the Group holds an allowance for expected credit losses ("ECL") amounting to AED 219,218 thousand as at 31 December 2021 out of which AED 25,899 thousand has been recognised in the current year. Receivables from Islamic Financing and Ijara represent approximately 56% of the total assets of the Group. Determination of the allowance for expected credit losses on receivables from Islamic Financing and Ijara is a process which requires significant judgements, estimates and inputs. Management first assesses whether the credit risk of receivables from Islamic Financing and Ijara has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. For receivables from Islamic Financing and Ijara classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default (PD), loss given default (LGD), exposure at default (EAD), discount rates and macro-economic inputs.	Our procedures mainly included, but were not limited to the following: ▪ We obtained an understanding of the overall controls surrounding the ECL assessment including controls related to governance, policies review, IT controls and models validation; ▪ We obtained an understanding of management's assessment of impairment of receivables from Islamic Financing and Ijara, the Group's credit impairment provision policy and the ECL modelling methodology; ▪ We performed process walkthroughs to identify the controls over the ECL process. We tested the design and operational effectiveness of the following internal controls relating to the measurement of ECL: o Review and approval of classification of receivables from Islamic Financing and Ijara; o Management's regular monitoring of: ▪ staging and ECL for receivables from Islamic Financing and Ijara; ▪ identification of receivables from Islamic Financing and Ijara displaying indicators of impairment under stage 3; ▪ macro-economic variables and forecasts; ▪ performance of ECL models; o The review and approval of management overlays; o The model validation function. ▪ We also tested the completeness and accuracy of the data used for computation of allowances for expected credit losses on a sample basis; ▪ We involved our risk and modelling team to review the ECL models used by the Group which included testing of assumptions and forward-looking factors used to determine the exposure at default, loss given default and probability of default; ▪ We involved our internal IT specialists for the purpose of testing IT application controls relating to applications used in the computation of the ECL. We evaluated system-based and manual controls over the recognition and measurement of the ECL;

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

Key audit matters continued

Estimation uncertainty with respect to measurement of allowances for expected credit losses for Islamic Financing and Ijara continued	
Description of the Key Audit Matter	**How our audit addressed the key audit matter**
For Islamic Financing and Ijara customers in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the Islamic Financing and Ijara provided to customers. Management has also applied significant level of judgements 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 macro-economic scenarios and their associated weightings; ➢ Stress in specific sectors and industries; and ➢ Impact of Government support measures. Due to the relative subjectivity involved in the estimation process for determination of the allowance for expected credit losses and the ongoing COVID-19 pandemic adding to further estimation uncertainty, the quantitative materiality of the receivables from Islamic Financing and Ijara, the use of specialised knowledge and the overall extent of effort spent on the audit, this was determined to be a key audit matter for the current year audit. Further information relating to this key audit matter is given in note 12 and 13 to the consolidated financial statements.	▪ For a sample of customers, we re-performed key elements of the ECL calculations and evaluated the model performance results for accuracy; ▪ We reviewed the impact on expected credit losses on account of COVID-19 with specific focus on reassessment of macro-economic weights, impact of financial stress on various industries and the consideration of Government support measures; and ▪ We reconciled the overall ECL numbers to the consolidated financial statements and assessed the appropriateness of disclosures made in the consolidated financial statements.

Other information
Other information consists of the information included in the Internal Shari'ah Supervision Committee Report, other than the consolidated financial statements and our auditor's report thereon. The Board of Directors and management are responsible for the other information.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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, 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 Memorandum and Articles of Association of the Bank and 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

Report on the Audit of the Consolidated Financial Statements continued

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

- 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.

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

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

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

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

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

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF AL HILAL BANK PJSC continued

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:

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

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

iii) the Group has maintained proper books of account;

iv) investments in shares and stocks are included in note 14 to the consolidated financial statements and include purchases and investments made by the Group during the year ended 31 December 2021;

v) note 37 reflects the disclosures relating to related party transactions and the terms under which they were conducted; and

vi) 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.

Further, as required by the Resolution of the Chairman of the Abu Dhabi Accountability Authority No. (1) of 2017 pertaining to *Auditing the Financial Statements of Subject Entities*, we report that based on the procedures performed and information provided to us, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material respects, with any of the provisions of the following as applicable, which would materially affect its activities or the consolidaed financial statements as at 31 December 2021:

i) Law of establishment; and
ii) relevant provisions of the applicable laws, resolutions and circulars organising the Bank's operations.

Signed by:
Anthony O' Sullivan
Partner
Ernst & Young
Registration No 687

14 February 2022
Abu Dhabi

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2021

	Notes	**2021 AED'000**	2020 AED'000
Assets			
Cash and balances with central banks	10	**1,365,370**	1,118,713
Deposits & balances due from banks, net	11	**404,230**	450,430
Receivables from Islamic financing activities	12	**5,969,556**	6,660,875
Ijara	13	**1,684,339**	2,096,046
Investment securities	14	**3,367,270**	3,066,999
Investment properties	15	**56,875**	58,875
Property and equipment, net	16	**545,889**	497,559
Investment in associates	17	**56,656**	53,884
Other assets	18	**174,960**	118,600
Total assets		**13,625,145**	14,121,981
Liabilities			
Deposits from customers	19	**8,236,050**	9,572,463
Wakala deposits from banks		**1,274,163**	474,537
Medium term financing	20	**1,918,045**	1,917,836
Islamic derivative financial instruments	34	**81,889**	157,583
Other liabilities	21	**402,954**	358,100
Total liabilities		**11,913,101**	12,480,519
Equity			
Share capital	22	**4,750,000**	4,750,000
Statutory reserve	22	**175,114**	170,280
Other reserves	23	**(148,409)**	(146,353)
Accumulated losses		**(3,064,661)**	(3,132,465)
Total equity		**1,712,044**	1,641,462
Total liabilities and equity		**13,625,145**	14,121,981

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Ala'a Eraiqat	Abdul Shakeel Aidaroos	Rajesh Arora
Chairman	Chief Executive Officer	Head of Finance

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME
Year ended 31 December 2021

	Notes	*2021* *AED'000*	*2020* *AED'000*
Profit income			
Income from Islamic financing activities, net	24	403,340	450,890
Income from Ijara, net	25	78,219	103,998
Investment income		120,230	123,329
Loss from Wakala investments		(31,588)	(14,991)
Total profit income		570,201	663,226
Depositors' and sukuk holders' share of profits	31	(153,988)	(239,386)
Net profit income		416,213	423,840
Fees and commission income, net	26	32,038	31,485
Trading income, net	27	10,782	6,952
Other operating income	28	25,038	17,588
		67,858	56,025
Operating income		484,071	479,865
Operating expenses	29	(360,679)	(382,005)
Depreciation	16	(62,752)	(63,143)
Operating income before impairment charges		60,640	34,717
Impairment charges, net	30	(15,756)	(9,964)
Share in profit of associates		3,695	4,283
Operating income from continuing operations		48,579	29,036
Discontinued operations			
Net loss from discontinued operations		-	(15,563)
Net profit for the year		48,579	13,473

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2021

	2021 *AED'000*	*2020* *AED'000*
Net profit for the year	**48,579**	13,473
Other comprehensive income / (loss)		
Items that will not be reclassified subsequently to the consolidated statement of income		
Remeasurement of defined benefit liability	-	(1,220)
	-	(1,220)
Items that may be reclassified subsequently to the consolidated statement of income		
Net fair value changes on investment in securities designated at FVTOCI	**3,133**	(4,217)
Exchange difference on translation of foreign operations	**(5,189)**	(16,147)
Other comprehensive loss for the year	**(2,056)**	(21,584)
Total comprehensive income (loss) for the year	**46,523**	(8,111)

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2021

	Share capital AED'000	*Statutory reserve AED'000*	*Translation reserve AED'000*	*Fair value reserve AED'000*	*Accumulated losses AED'000*	*Total AED'000*
Balance at 1 January 2021	**4,750,000**	**170,280**	**(215,724)**	**69,371**	**(3,132,465)**	**1,641,462**
Profit for the year	-	-	-	-	**48,579**	**48,579**
Other comprehensive (loss) / income						
Change in fair value of investment securities designated at fair value through other comprehensive income	-	-	-	**3,133**	-	**3,133**
Exchange difference on translation of foreign operations	-	-	**(5,189)**	-	-	**(5,189)**
Remeasurement of defined benefit liability	-	-	-	-	-	-
Total comprehensive (loss) / income for the year	-	-	**(5,189)**	**3,133**	**48,579**	**46,523**
Transaction with owner of the Bank						
Zakaat	-	-	-	-	**24,059**	**24,059**
Transfer to statutory reserve	-	**4,834**	-	-	**(4,834)**	-
	-	**4,834**	-	-	**19,225**	**24,059**
Balance as at 31 December 2021	**4,750,000**	**175,114**	**(220,913)**	**72,504**	**(3,064,661)**	**1,712,044**

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued
Year ended 31 December 2021

	Share capital AED'000	Statutory reserve AED'000	Translation reserve AED'000	Fair value reserve AED'000	Accumulated losses AED'000	Total AED'000
Balance at 1 January 2020	4,750,000	168,938	(199,577)	73,588	(3,119,317)	1,673,632
Profit for the year	-	-	-	-	13,473	13,473
Other comprehensive (loss) / income						
Change in fair value of investment securities designated at fair value through other comprehensive income	-	-	-	(4,217)	-	(4,217)
Exchange difference on translation of foreign operations	-	-	(16,147)	-	-	(16,147)
Remeasurement of defined benefit liability	-	-	-	-	(1,220)	(1,220)
Total comprehensive (loss) / income for the year	-	-	(16,147)	(4,217)	12,253	(8,111)
Transaction with owner of the Bank						
Zakaat	-	-	-	-	(24,059)	(24,059)
Transfer to statutory reserve	-	1,342	-	-	(1,342)	-
	-	1,342	-	-	(25,401)	(24,059)
Balance as at 31 December 2020	4,750,000	170,280	(215,724)	69,371	(3,132,465)	1,641,462

The attached notes 1 to 41 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2021

	2021 AED'000	2020 AED'000
OPERATING ACTIVITIES		
Profit for the year	**48,579**	13,473
Adjustments for:		
Depreciation	**62,752**	63,143
Share in profit of associate	**(3,695)**	(4,283)
Impairment charges	**78,990**	51,870
Fair value loss from investment property	**2,000**	1,875
Unwinding on renegotiated financings	**(8,259)**	(9,698)
Net loss from disposal of subsidiary	**-**	15,593
Cash flows from operating activities before changes in operating assets and liabilities	**180,367**	131,973
Changes in:		
Deposits & balances due from banks with maturities over three months	**-**	(44)
Receivables from Islamic financing activities	**634,454**	681,763
Ijara	**387,694**	520,375
Islamic derivative financial instruments	**(75,694)**	74,264
Other assets	**(56,360)**	8,837
Deposits from customers	**(1,336,413)**	(3,494,770)
Wakala deposits from banks	**-**	2
Other liabilities	**72,388**	(145,488)
Net cash flows used in operating activities	**(193,564)**	(2,223,088)
INVESTING ACTIVITIES		
Net acquisition of property and equipment	**(111,082)**	(26,372)
Acquisition of investment securities	**(634,693)**	(149,956)
Proceeds from sale of investment securities	**338,822**	423,624
Proceeds from investment in associates	**923**	50,061
Investment in subsidiary disposed during the year	**-**	(50,000)
Net cash outflow on disposal of a subsidiary	**-**	(18,904)
Net cash flows (used in) / from investing activities	**(406,030)**	228,453
FINANCING ACTIVITIES		
Issuance / (Repayment) of medium term financing	**209**	(482,956)
Net cash flows from / (used in) financing activities	**209**	(482,956)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(599,385)**	(2,477,591)
Cash and cash equivalents at the beginning of the year	**1,094,938**	3,572,529
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 32)	**495,553**	1,094,938

The attached notes 1 to 41 form part of these consolidated financial statements.

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Al Hilal Bank PJSC (the "Bank") was incorporated in Abu Dhabi, United Arab Emirates ("UAE") on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The Bank's registered office address is Al Bahr Towers, P. O. Box 63111, Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2021 comprise the Bank and its subsidiaries set out in (Note 36) (together referred to as the "Group"). The Group is primarily involved in Islamic retail and corporate activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan.

On 29 January 2019, the Board of Directors of Abu Dhabi Commercial Bank PJSC ("ADCB") and the erstwhile Board of Directors of Union National Bank PJSC ("UNB") approved and recommended to their respective shareholders a merger of the two banks and acquisition of 100% of the issued share capital of the Bank by the combined bank (i.e. combined after erstwhile ADCB and UNB).

On 21 March 2019, the shareholders of ADCB and UNB approved the proposed merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015, through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders own approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank has retained ADCB's legal registrations.

The shareholders of ADCB also approved the issuance by ADCB of a mandatory convertible bond ("bond") to the shareholder of the Bank as the acquisition price to acquire the entire issued share capital of the Bank. This bond was converted into 117,647,058 ADCB shares. Post acquisition, ADCB holds 100% of the share capital of the Bank.

The effective date of above merger and acquisition was 1 May 2019.

As a part of strategic balance sheet management, the Bank entered into a Master Transfer Agreement with ADCB for the transfer and/or assignment of certain assets and liabilities of the Bank. Based on this agreement, the Bank transferred and/or assigned to ADCB certain portfolio assets which were identified by the Bank and ADCB together, with all of the Bank's rights, title, interests, duties and obligations (as applicable) under and in respect of the client agreements for such portfolio assets including, without limitation, the amounts owing to the Bank under any client agreements for the portfolio assets and all claims, suits, causes of action and any other rights of the Bank with respect to the portfolio assets. (refer to notes 12, 19, and 30 for further details).

The consolidated financial statements were authorized and approved for issue by the Board of Directors on 14 February 2022.

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

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2021. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

- Covid-19-Related Rent Concessions beyond 30 June 2021: Amendments to IFRS 16
- Profit Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

During the current year, the Group has applied the amendments to IFRS 9, IFRS 7, IFRS 4, and IFRS 16 along with amendments with respect to Profit Rate Benchmark Reforms – Phase 2 issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2021. This has resulted in additional disclosures as described below.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). Changes to the basis for determining contractual cash flows as a result of profit rate benchmark reform are required as a practical expedient to be treated as changes to a floating profit rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis. IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing profit rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. The Group may designate profit rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the profit rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price financings and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Group reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

Impact on accounting policies & judgements

Recognition of profit income

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

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

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

SPPP Test

In the context of IBOR reform, as financial assets transition from IBOR to RFRs, if a change is substantial, the old instrument will be derecognised and a new one recognised. The Group will need to apply judgement to determine whether following transition, the asset's amended contractual cash flows continue to represent solely payments of profit and principal. Also, the Group must assess when financial instruments transition, whether the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Derecognition of financial assets and liabilities

In the context of IBOR reform, the Group's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating profit rate.

The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, certain financial instruments have already been amended or will be amended during coming years as they transition from IBORs to RFRs. In addition to the profit rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition. For financial instruments measured at amortised cost, the Group first applies the practical expedient to reflect the change in the referenced profit rate from an IBOR to a RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EPR.

Hedge accounting

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing profit rate benchmark with an RFR.

The Group applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing profit rate benchmark with an alternative nearly risk-free profit rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform.

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

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

Impact on profit rate risk management

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has ascertained the transition for any of its contracts that could be affected.

The Group is confident that it has the operational capability to process the large volume of transitions to RFRs that will be necessary during coming years for those profit rate benchmarks that will cease to be available such as USD LIBOR and so will be replaced by SOFR (Secured Overnight Financing Rate). For other benchmark profit rates that have been reformed and can therefore continue, financial instruments referencing those rates will not need to transition. IFRS 7.24H(c) IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

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

The table below shows the Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future, e.g., the table excludes exposures to IBOR that will expire before transition is required. The hedging derivative instruments nominal provide a close approximation to the extent of the risk exposure the Group manages through hedging relationships.

	Non-derivative financial assets Carrying value AED'000	Hedging derivatives Nominal amount AED'000
31 December 2021		
USD LIBOR 6 month	16,082	1,082,433
USD LIBOR 12 month	153,595	-
	169,677	1,082,433

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2021.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

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

As of 31 December 2021, the Bank's current liabilities exceed its current assets by AED 6,789,771 thousand (2020: AED 6,779,941 thousand), and as of that date it had accumulated losses amounting to AED 3,064,661 thousand (2020: AED 3,132,465 thousand) which exceeded 50% of its share capital. The consolidated financial statements have been prepared on a going concern basis as the Shareholder of the Group has agreed to provide the Bank with sufficient financial support to enable it to meet its financial liabilities and commitments for the foreseeable future. The Shareholder of the Group has met and resolved not to dissolve the Group in accordance with the requirements of Federal Law No. 2/2015.

3.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following:

Item	*Measurement basis*
Islamic derivative financial instruments	Fair value
Financial assets at fair value through profit or loss	Fair value
Financial assets at fair value through other comprehensive income	Fair value
Investment property	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships	Amortised cost adjusted for changes in fair value attributable to the risk being hedged
Asset held for sale	Lower of carrying amount and fair value less cost to sell

3.3 Functional and presentation currency

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Group's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

3.4 Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 6.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.5 Islamic financial receivables

i) Murabaha
Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank purchases the goods only after a customer has made a promise to purchase them from the Bank.

ii) Ijara Muntahia Bittamleek
A form of leasing contract which includes a promise by a lessor to transfer the ownership of the leased property to the lessee at the end of the term of the Ijara period.

iii) Wakala
A contract between the Bank and customers whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the Muwakkil.

iv) Mudaraba
Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

v) Sukuk
Certificates which are equal in value and represent common shares in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

vi) Musharaka
Musharaka is an agreement between two or more parties to combine their assets or to merge their services or obligations and liabilities with the aim of making profit. Profit in Musharaka is shared as per the agreed ratio whereas loss is distributed in proportion to the contribution of each partner.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.6 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. 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 a company has less than a majority of voting rights of an investee, still 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;
- 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 the decision needs 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. Income and expenses of a subsidiary acquired or disposed off 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 owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank.

When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of income and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained profit and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary, at the date when control is lost, is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture. The subsidiaries consolidated in the Group financial statement are listed in note 36.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.7 Foreign currency

i) Foreign currency transactions
Transactions in foreign currencies are translated into the respective functional currency of Group entities at the spot exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective profit and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the initial transaction. Foreign currency differences arising on translation are recognised in the consolidated statement of income, except for foreign currency differences arising from the translation of non-monetary items carried at fair value through other comprehensive income which are recognised in other comprehensive income.

ii) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into AED at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into AED at the average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income, and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non-controlling interest.

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

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

3.8 Property and equipment

i) Recognition and measurement
Property and equipment are stated at historical cost less accumulated depreciation, amortization and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of related equipment is capitalized as part of equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gains and losses on disposal of an item of property and equipment is recognised in the consolidated statement of income.

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.8 Property and equipment continued

iii) Depreciation and amortisation
Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Building	**40 years**
Leasehold improvements	**7-10 years**
Computer systems	**4 years**
Furniture and fixtures	**4-6 years**

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.9 Capital work in progress

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

3.10 Qard hasan

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

3.11 Swap transactions

Currency and profit rate swaps are promises to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps). The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligations.

3.12 Impairment of non-financial assets

Assets that have indefinite useful life (for example, land, goodwill or intangible assets not ready for use) are not subject to amortization or depreciation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised if the carrying amount of an asset or cash-generating units exceeds its recoverable amount.

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.13 Cash and cash equivalents

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

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

3.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are recognised as deductions from equity.

3.15 Fair value reserve

The fair value reserve is related to revaluation of investment securities classified at fair value through other comprehensive income, the policy of which is set out in Note 3.17.

3.16 Deposit from customers and wakala deposits from banks

Deposit from customers and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

3.17 Financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Cash and balances with central banks
- Deposits and balances due from banks;
- Receivables from Islamic financing activities;
- Ijara;
- Investment securities and
- Shariah compliant derivatives.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or at fair value.

i) Recognition

All financial assets are recognised and derecognised on settlement date basis (other than Islamic derivative contracts which are recognised and derecognised on trade date basis) where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Settlement date is the date that the Group physically receives or transfers the assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

i) Recognition continued

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

ii) Classification

Financial assets at amortised cost
Financial assets are subsequently measured at amortised cost, if both the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order 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 profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss ("FVTPL")
Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

A financial asset is FVTPL if:
- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of identified financial instrument that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a Shariah compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets that are designated as FVTPL on initial recognition is not allowed.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

Financial assets at fair value through other comprehensive income ("FVTOCI")
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

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

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

iii) Measurement

Financial assets or financial liabilities carried at amortised cost
Financial assets at amortised cost including receivables from Islamic financing activities, Ijara and investment in sukuk securities are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Financial assets at fair value through profit or loss ("FVTPL")
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

iii) Measurement continued

Financial assets at fair value through other comprehensive income ("FVTOCI")
Investments in equity securities for which the Group has made an irrevocable election to designate as FVTOCI and sukuk instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed off, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed off, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to the consolidated income statement.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

Impairment of financial assets

Measurement of Expected Credit Losses (ECL):
The impairment of financial assets is calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including receivables from Islamic financing activities, Ijara and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Group has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group developed a statistical model and for other portfolios judgmental models were developed.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

iii) Measurement continued

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

When 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 finance customer, 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 exiting 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 profit rate of the existing financial asset. The difference between the revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new financing is considered to be originated credit impaired.

Purchased or originated credit impaired assets (POCI)
The Group measures expected credit loss on a lifetime basis for purchased or originated credit impaired financial assets (POCI) throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative changes as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and impairment loss where the expected credit losses are greater).

Covered card facilities
The Group's product offering includes a variety of covered cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Group's expectations of the customer behavior, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Write-off
Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.17 Financial instruments continued

iii) Measurement continued

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

iv) De-recognition

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

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

v) Offsetting of financial instruments

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

3.18 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective profit rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.19 Fair value measurement

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that takes into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

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

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

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account into pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or a liability nor based on valuation technique that uses only data from observable markets, the instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, the difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

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

Different levels of fair value hierarchy based on the inputs to valuation techniques are discussed in Note 7. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.20 Hedge accounting

In order to manage profit rate risks, the Group enters into Shariah compliant arrangements including profit rate swaps. These financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shariah compliant derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges
When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in the consolidated statement of income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of income and other comprehensive income as the hedged item).

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

Changes in the fair value of Islamic derivatives not designated as hedges are recorded in the consolidated statement of income.

Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting. At that point of time, in the case of a cash flow hedge, any cumulative gain or loss on the hedging instrument that has been previously recognised in the consolidated statement of comprehensive income remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated statement of income.

In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective profit rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Profit income
Profit income is recognised using the effective profit rate method.

The 'effective profit rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective profit rate, the Group estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses.

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

When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognised using the original effective profit rate.

ii) Dividend income
Dividend income is recognised when the right to receive the income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated at fair value through other comprehensive income are presented in other revenue in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

iii) Fees and commission income, net
The Group earns fee and commission income from a diverse range of services it provides to its customers.

Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Commitment fees for financings that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective profit rate on the financings. When it is unlikely that a finance will be drawn down, the finance commitment fees are recognised over the commitment period on a straight line basis.

Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.21 Revenue recognition continued

iv) Gain on sale of investments
Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

v) Net trading income
Net trading income includes all gains and losses from changes in fair value and the related profit income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

3.22 Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is recorded at its fair value at the consolidated statement of financial position date.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

Investment properties under development that are being constructed or developed for future use as investment property are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Subsequent to initial recognition, investment properties under development are measured at fair value. Gains and losses arising from changes in the fair value of investment property under development are included in the consolidated income statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.23 Leases

The Bank 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.

i) Bank as a lessee
The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

ii) Right-of-use assets
The Bank 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 remeasurement 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. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 16 Property and equipment and are subject to impairment in line with the Bank's policy as described in Note 3.12 - Impairment of non-financial assets.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.23 Leases continued

iii) Lease liabilities
At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental financing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the profit on the lease liability (using the effective profit method) and by reducing the carrying amount to reflect the lease payments made.

3.24 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.25 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.26 Employee benefits

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

Past-service costs are recognised immediately in income, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

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

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.26 Employee benefits continued

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

Pension contributions are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund for UAE citizens in accordance with UAE Federal Law No. 7 of 1999 and to respective pension authorities for other employees including GCC Nationals as per applicable laws.

iii) Staff terminal benefits
UAE nationals employed by the Group are registered in the scheme managed by the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal policies, which comply with the applicable laws.

3.27 Depositors' and sukuk holders share of profits

Profit distribution is an amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits, Mudaraba contracts, reverse Murabaha and sukuk financing instruments and are recognised as expenses in the consolidated statement of income. The amounts are calculated in accordance with agreed terms and conditions of the Wakala and Mudaraba deposits as per Shariah ruling and principles.

3.28 Financial guarantees and financing commitments

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

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

3.29 Takaful contracts

i) Classification
The Group issues contracts that transfer either Takaful risk or both Takaful and financial risks. The Group does not issue contracts that transfer only financial risks.

Contracts under which the Group accepts significant Takaful risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as Takaful contracts.

ii) Recognition and measurement
Gross written contributions, in respect of annual policies, are recognised in the consolidated statement of income at the inception of the policy. In respect to policies with a term of more than one year, the contributions are spread over the tenure of the policies on a straight line basis, and the unexpired portion of such contributions is included under "unearned contributions" in the consolidated statement of financial position.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.29 Takaful contracts continued

iii) Claims
Claims incurred comprise the settlement, the internal and external handling costs of paid and changes in the provisions for outstanding claims arising from events occurring during the year. Where applicable, deductions are made for salvage and recoveries.

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses and reduced by expected salvage and recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly by management.

iv) Gross claims paid
Gross claims paid are recognised in the consolidated statement of income when the claim amount payable to policyholders and third parties is determined as per the terms of the Takaful contracts.

v) Claims recovered
Claims recovered include amounts recovered from re-takaful companies in respect of the gross claims paid by the Group, in accordance with the re-takaful contracts held by the Group. It also includes salvage and claims recoveries.

vi) Gross outstanding and IBNR claims
Gross outstanding claims comprise the estimated costs of claims incurred but not settled at the consolidated statement of financial position date. Provisions for reported claims not paid as at the end of the reporting period are made on the basis of individual case estimates. This provision is based on the estimate of the loss, which will eventually be payable on each unpaid claim, established by management in the light of currently available information and past experience.

An additional net provision is also made for any claims incurred but not reported ("IBNR") at the end of the reporting period, on the basis of management estimates.

The re-takaful share of the gross outstanding claims is estimated and shown separately.

vii) Unearned contribution reserves
A provision is made for contribution deficiency arising from general Takaful contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the consolidated statement of financial position date exceeds the unearned contributions provision and already recorded claim liabilities in relation to such policies. The provision for contribution deficiency is calculated by reference to classes of business which are managed together.

viii) Re-takaful
The Group cedes re-takaful in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities, income and expense arising from ceded re-takaful contracts are presented separately from the assets, liabilities, income and expense from the related Takaful contracts because the re-takaful arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from re-takaful are accounted for in a manner consistent with the related contributions and is included in re-takaful assets.

Re-takaful assets are assessed for impairment at the end of each reporting period. A re-takaful asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the re-takaful operator. Impairment losses on re-takaful assets are recognised in the consolidated statement of income in the year in which they are incurred. Commissions in respect of re-takaful contracts are recognised on an accrual basis.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.29 Takaful contracts continued

ix) Takaful receivables and payables
Amounts due from and to policyholders, agents and re-takaful operators are financial instruments and are included in other assets and other liabilities, respectively, and not in Takaful contract provisions or re-takaful assets.

x) Liability adequacy test
At each reporting date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities using current estimates of future cash flows under Takaful contracts. In performing these, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets supporting such liabilities are used. Any deficiency in the carrying amounts is immediately charged to the consolidated statement of income by establishing a provision for losses arising from liability adequacy tests (the unexpired risk provision).
Where the liability adequacy test requires the adoption of new best estimate assumptions, such assumptions (without margins for adverse deviation) are used for the subsequent measurement of these liabilities.

3.30 Investment in associates

Associates are those entities in which the Group 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. Investment in associates are accounted for using the equity method and are recognised initially at cost. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Group'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) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the 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 the associate recognised at the date of acquisition is recognised as goodwill. Any goodwill is included within the carrying amount of the investment which is assessed for impairment, at least annually, as part of that investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognised immediately in profit or loss. Where a Group's subsidiary or other associate transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate

3.31 Assets held for sale

Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Assets designated as held for sale are held at lower of carrying amount at designation and fair value less costs to sell. Depreciation is not charged against property and equipment classified as held for sale.

3 SIGNIFICANT ACCOUNTING POLICIES continued

3.32 Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

3.33 Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the AAOIFI's Shariah Standard number 35 the Zakat is computed by the Bank and it is approved by the Internal Shariah Supervision Committee of the Bank.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 and Shariah Standard number 35, and the bank Internal Shariah Supervision Committee of the Bank Resolutions. The bank communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 40).

4 STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

The Group has not early adopted new and revised IFRSs that have been issued but are not yet effective.

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Amendments to IFRS 3 'Business Combinations' that update an outdated reference in IFRS 3 without significantly changing its requirements.	January 1, 2022
Amendments to IAS 16 'Property, Plant and Equipment' regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management.	January 1, 2022
Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous.	January 1, 2022
Annual improvements to IFRS Standards 2018–2020.	January 1, 2022
Amendments to IAS 1 'Presentation of Financial Statements' to address the classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	January 1, 2023
IFRS 17 'Insurance Contracts' requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 'Insurance Contracts' as of January 1, 2021.	January 1, 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges identified after IFRS 17 were published in 2017.	January 1, 2023
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments' so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.	January 1, 2023

4 STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED continued

New standards and significant amendments to standards applicable to the Group:	Effective for annual periods beginning on or after
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) which require that an entity disclose its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.	January 1, 2023
The IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	January 1, 2023
The amendments replace the definition of Accounting Estimates (Amendments to IAS 8) - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.	January 1, 2023

Management anticipates that these amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management.

5 FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Group's balance sheet.

Risk taking is core to the banking business and financial /operational risks are an inevitable consequence of such activities. 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 risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and procedures to reflect changes in regulations, markets, products and emerging best practice in order to keep financial risk at a minimum and acceptable level within agreed risk appetite parameters.

The Group has exposure to financial instruments which entails the following financial risks:

- Credit risk - The risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk - The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates and profit rates.
- Liquidity risk - The risk that the Group will be unable to fund assets and meet obligations as they become due;
- Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risk but excluding strategic or reputational risk.

5 FINANCIAL RISK MANAGEMENT continued

5.2 Risk Governance Framework

The risk management is integral to the operations and risk culture of the Group. The Board of Directors ("The Board") places significant importance on strong risk governance when shaping the Group's strategy and managing risks effectively. Risks are proactively managed within the Group with a clear framework of risk ownership by respective stakeholders. The Bank's Risk Governance framework is part of overall approach to corporate governance. The Risk Governance Framework provides guidance on the ongoing development, enhancement and implementation of the Bank's Risk Management infrastructure which covers methodologies, structures, policies, procedures, limits, monitoring, managing mechanism and systems. Risk Governance Framework is established given the consideration of risk profile, nature, size and complexity of the Bank's business and structure. The Bank's risk governance structure ensures oversight of, and accountability for, the effective management of risk at the Group.

The Group's business strategy is to achieve the objective of being a strong digital financial player and at the same time managing risks associated with this objective effectively. The risk management supports this objective and promotes the transparency within the Group. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite

The Board has the ultimate responsibility for setting out the risk appetite and effective management of risk for the Group. The Board's risk strategy is reflected in its Risk Appetite Statement ("RAS"). These describe the amount of each risk type that the Bank is willing to take in pursuit of its strategic objectives.

The Management Executive Committee (MEC) has the primary responsibility for implementing, overseeing and taking ownership for the enforcement of strategy and internal control directives laid down by the Board. The Management level committees also actively manage risk through the Asset and Liabilities Committee ("ALCO") and the Risk Management Committee ("RMC.").

The Risk Management function headed by the Chief Risk Officer reports to the Board Risk Committee (BRC). The risk function is independent of the origination function to ensure the balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function exercises control over credit, market, liquidity, operational, fraud, compliance, data governance and information security risk and business continuity risk.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Bank's risk management, control and governance processes. The IAD auditors, alongside the compliance department, also ensure that policies and procedures undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures.

5.3 Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from Islamic financing activities, Ijara, and Investments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as counterparty default risk and geographical risk for risk management purposes.

The objective of credit risk management is to undertake an independent review and objective assessment of risk for all credit facilities as well as to both partner and challenge the businesses in defining, implementing, and continually re-evaluating the risk appetite in line with the Group's policies, procedures and change in market conditions and regulations.

Credit applications for Personal banking customers are reviewed and approved by the Credit underwriting team in line with the approved policies and delegated approval authorities. Credit policies for the Personal Banking Group asset products are reviewed by the Retail Risk Policies & Portfolio Management team to ensure that the associated risks against financing are minimized.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

The Risk management department ensures that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances for facilities in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance. Risk Management is also responsible for establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. It is also responsible for providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Approved policies govern all delegated financing authorities and include policies, strategies and procedures specific to the Group's business and are decided based on macro-economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for the Group. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

ECL measurement
Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by utilizing the key input of probability of default (PD), loss given default (LGD) and the exposure at default EAD). These inputs are generally derived from statistical models and other historical data and they are adjusted to reflect probability weighted forward looking information.

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions. In addition, the estimation of ECL takes into account the time value of money.

As per IFRS 9 requirements, the Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility.

12 Month or Lifetime ECL for each facility is being determined depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed,12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

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

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 recognized.

The Group assesses when significant increase in credit risk has occurred based on quantitative and qualitative assessments, are 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. The following assessments are considered while facilities are assessed for Stage 1 and Stage 2 categorization:

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

SICR — FROM STAGE 1 TO STAGE 2 FOR NON-RETAIL FINANCING, SUKUK AND MONEY MARKET INSTRUMENTS

Investment grade	6 notches rating downgrade
Non-investment grade	3 notches rating downgrade
Across investment/non-investment grade	3 notches rating downgrade across investment to non-investment grade.
Credit restructured	Restructured for credit reasons in the last 12 months
Watch list	Flagged as watch list or accounts that are more than 30 days past due.
Others	All other criteria as per Central Bank including uncollateralised bullet financing.

SICR — FROM STAGE 1 TO STAGE 2 FOR RETAIL FINANCING AND CREDIT CARDS

Criteria to determine whether credit risk has increased significantly are as follows:

- greater than 30 DPD;
- at least three times 30 DPD or more in the last 12 months;
- at least two times 60 DPD or more in the last 12 months.

In addition to above, the Group also considers other qualitative SICR indicators as suggested in IFRS 9 and Central Bank of UAE guidelines.

STAGE 3 DEFAULT

Following categorization are being used.

Retail financing and credit cards	90 days past due
Sukuk and money market instruments	Sub-standard, doubtful or loss flagging
Non-retail financing	Sub-standard, doubtful or loss flagging — this includes all accounts that are over 90 days past due

Exposure other than to a Sovereign with a rating of A or better and Sovereign exposures with investment grade rating from an External Rating Agency (BBB- or better) will be classified as low credit risk (LCR).

Curing

In addition, the Group also follows a probation period for backward transition of staging:

- An account has to be in stage 2 for a minimum of 12 months (cure period) for it to move to stage 1;
- An account in stage 3 has to move to stage 2 before moving to stage 1.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Measurement of ECL

As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months and over the remaining life of the facility.

The Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as a simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):

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. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

Loss Given Default (LGD):

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 financer would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective profit rate of the facility.

Exposure at Default (EAD):

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

Forward-looking information incorporated in the ECL model
The Group uses forward- looking macro-economic information in its measurement of ECL. The ADCB Group Chief Economist provides the macro-economic forecasts and scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and has macro-economic models that forecast relationships between macro-economic variables and credit losses.

During the year, the Group changed its macro-economic variables forecast in line with the prevailing market conditions. The Group also reviewed its LGD models and made appropriate changes.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Measurement of ECL continued

Risks of the Group's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and/or quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

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

List of macro variables used	Definition	Scenario	2022	2023	2024
		Base	70.0	67.0	65.0
Oil price, Brent USD	Price per barrel	Upside	72.5	75.0	80.0
		Downside	65.0	60.0	57.0
		Base	4.9	2.3	2.0
Real GDP growth	% change	Upside	5.7	2.4	2.2
		Downside	1.92	1.5	1.2
		Base	3.4	2.5	2.3
Real non-oil GDP growth	% change	Upside	3.8	3.0	2.5
		Downside	2.4	2.0	1.5
		Base	2.0	1.5	1.0
Abu Dhabi real estate sale prices	% change	Upside	3.0	3.5	2.0
		Downside	1.0	1.0	0.7
		Base	1.4	2.0	1.5
Consumer inflation	% annual average	Upside	2.0	2.5	1.5
		Downside	0.7	0.0	0.4
		Base	4.0	1.5	1.0
Dubai real estate sale prices	% change	Upside	6.0	3.0	2.0
		Downside	2.0	0.0	-1.0

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing historical data of more than five years.

Collateral management

The Group holds collateral against various credit risk exposures in the form of mortgage over property, fixed deposits and guarantees. Collateral and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collateral include cash/ fixed deposits, guarantees, immovable properties, vehicles.

Collateral is revalued regularly as per the bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Exposure to credit risk
The Group measures its exposures to credit risk by reference to the gross carrying amount of financial assets.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Collateral management continued

As at 31 December 2021 and 31 December 2020, the Group's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	Notes	*2021* *AED'000*	*2020* *AED'000*
Deposits & balances due from banks, net	11	**404,345**	450,761
Receivables from Islamic financing activities	12	**6,133,256**	6,819,951
Ijara	13	**1,739,857**	2,158,733
Investment securities	14	**3,357,980**	3,058,166
Other assets	18	**94,520**	84,837
		11,729,958	12,572,448
Commitments and contingencies	33	**596,365**	506,956

As at 31 December 2021 and 31 December 2020, the distribution by geographical region of major categories of assets and commitments as per Central Bank guidelines was as follows:

	United Arab Emirates AED'000	*Kazakhstan AED'000*	*Others AED'000*	*Total AED'000*
31 December 2021				
Assets				
Balances with central banks	**1,010,161**	**89,848**	-	**1,100,009**
Deposits & balances due from banks, net	**300,205**	**1,701**	**102,324**	**404,230**
Receivables from Islamic financing activities	**5,300,137**	**669,419**	-	**5,969,556**
Ijara	**1,683,508**	**560**	**271**	**1,684,339**
Investment securities	**2,530,080**	**7,294**	**829,896**	**3,367,270**
Other assets	**58,909**	**26,240**	**9,371**	**94,520**
Total	**10,883,000**	**795,062**	**941,862**	**12,619,924**
Commitments and contingencies	**148,183**	**448,182**	-	**596,365**
31 December 2020				
Assets				
Balances with central banks	811,014	125,805	-	936,819
Deposits & balances due from banks, net	299,927	1,822	148,681	450,430
Receivables from Islamic financing activities	5,929,842	731,033	-	6,660,875
Ijara	2,085,109	10,563	374	2,096,046
Investment securities	2,403,511	7,530	655,958	3,066,999
Other assets	47,783	30,569	6,485	84,837
Total	11,577,186	907,322	811,498	13,296,006
Commitments and contingencies	186,462	320,494	-	506,956

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

At 31 December 2021 and 31 December 2020, the distribution by sector of major categories of assets and commitments as per Central Bank guidelines was as follows:

	Government *AED'000*	*Public* *AED'000*	*Corporate / private* *AED'000*	*Consumers* *AED'000*	*Total* *AED'000*
31 December 2021					
Balances with central banks	**1,100,009**	**-**	**-**	**-**	**1,100,009**
Deposits & balances due from banks, net	**-**	**-**	**404,230**	**-**	**404,230**
Receivables from Islamic financing activities	**-**	**-**	**621,963**	**5,347,593**	**5,969,556**
Ijara	**-**	**-**	**560**	**1,683,779**	**1,684,339**
Investment securities	**1,655,064**	**867,947**	**844,259**	**-**	**3,367,270**
Other assets	**25,515**	**6,050**	**7,211**	**55,744**	**94,520**
Total	**2,780,588**	**873,997**	**1,878,223**	**7,087,116**	**12,619,924**
Commitments and contingencies	**-**	**-**	**448,237**	**148,128**	**596,365**

	Government *AED'000*	*Public* *AED'000*	*Corporate / private* *AED'000*	*Consumers* *AED'000*	*Total* *AED'000*
31 December 2020					
Balances with central banks	936,819	-	-	-	936,819
Deposits & balances due from banks, net	-	-	450,430	-	450,430
Receivables from Islamic financing activities	-	-	697,089	5,963,786	6,660,875
Ijara	-	-	10,563	2,085,483	2,096,046
Investment securities	1,783,360	531,197	752,442	-	3,066,999
Other assets	19,625	3,231	40,691	21,290	84,837
Total	2,739,804	534,428	1,951,215	8,070,559	13,296,006
Commitments and contingencies	-	-	371,439	135,517	506,956

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Credit quality per class of financial assets

The Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. The credit quality of financial assets is reported by the Group using internal credit ratings.

31 December 2021	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	618,823	-	-	618,823
Non performing (Grades 8-10)	-	-	26,247	26,247
Gross receivables from Islamic financings activities - Corporate	618,823	-	26,247	645,070
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	5,379,616	90,701	-	5,470,317
Non performing (Grades 8-10)	-	-	17,869	17,869
Gross receivables from Islamic financings activities - Retail	5,379,616	90,701	17,869	5,488,186
Gross receivables from Islamic financings activities	5,998,439	90,701	44,116	6,133,256
Allowance for impairment	(118,569)	(9,709)	(35,422)	(163,700)
Total carrying amount	5,879,870	80,992	8,694	5,969,556

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

31 December 2020	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	644,857	20,643	-	665,500
Non performing (Grades 8-10)	-	-	36,991	36,991
Gross receivables from Islamic financings activities - Corporate	644,857	20,643	36,991	702,491
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	5,964,553	121,945	-	6,086,498
Non performing (Grades 8-10)	-	-	30,962	30,962
Gross receivables from Islamic financings activities - Retail	5,964,553	121,945	30,962	6,117,460
Gross receivables from Islamic financings activities	6,609,410	142,588	67,953	6,819,951
Allowance for impairment	(125,671)	(8,688)	(24,717)	(159,076)
Total carrying amount	6,483,739	133,900	43,236	6,660,875

31 December 2021	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Ijara - Corporate				
Performing (Grades 1-7)	-	-	-	-
Non performing (Grades 8-10)	-	-	**566**	**566**
Gross Ijara - Corporate	-	-	**566**	**566**
Ijara - Retail				
Performing (Grades 1-7)	**1,472,131**	**161,085**	-	**1,633,216**
Non performing (Grades 8-10)	-	-	**106,075**	**106,075**
Gross Ijara - Retail	**1,472,131**	**161,085**	**106,075**	**1,739,291**
Gross Ijara	**1,472,131**	**161,085**	**106,641**	**1,739,857**
Allowance for impairment	**(1,032)**	**(15,384)**	**(39,102)**	**(55,518)**
Total carrying amount	**1,471,099**	**145,701**	**67,539**	**1,684,339**

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

31 December 2020	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Ijara - Corporate				
Performing (Grades 1-7)	10,563	-	-	10,563
Non performing (Grades 8-10)	-	-	-	-
Gross Ijara - Corporate	10,563	-	-	10,563
Ijara - Retail				
Performing (Grades 1-7)	1,782,301	177,124	-	1,959,425
Non performing (Grades 8-10)	-	-	188,745	188,745
Gross Ijara - Retail	1,782,301	177,124	188,745	2,148,170
Gross Ijara	1,792,864	177,124	188,745	2,158,733
Allowance for impairment	(5,397)	(10,122)	(47,168)	(62,687)
Total carrying amount	1,787,467	167,002	141,577	2,096,046

31 December 2021	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Investment securities				
Performing (Grades 1-7)	**3,357,980**	-	-	**3,357,980**
Non performing (Grades 8-10)	-	-	-	-
Gross Investments	**3,357,980**	-	-	**3,357,980**
Allowance for impairment	-	-	-	-
Total carrying amount	**3,357,980**	-	-	**3,357,980**

31 December 2020	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Investment securities				
Performing (Grades 1-7)	3,058,166	-	-	3,058,166
Non performing (Grades 8-10)	-	-	-	-
Gross Investments	3,058,166	-	-	3,058,166
Allowance for impairment	-	-	-	-
Total carrying amount	3,058,166	-	-	3,058,166

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

The movement of gross exposure is as follows:

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Deposits & balances due from banks				
Balance as at 1 January 2021	**450,761**	**-**	**-**	**450,761**
Transfers:				
Other movements within the same stage	**(43,192)**	**-**	**-**	**(43,192)**
New financial assets originated/purchased	**-**	**-**	**-**	**-**
Financial assets that have been derecognized	**(3,224)**	**-**	**-**	**(3,224)**
Balance as at 31 December 2021	**404,345**	**-**	**-**	**404,345**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Deposits & balances due from banks				
Balance as at 1 January 2020	2,521,156	-	-	2,521,156
Transfers:				
Other movements within the same stage	(55,395)	-	-	(55,395)
New financial assets originated/purchased	300,000	-	-	300,000
Financial assets that have been derecognized	(2,315,000)	-	-	(2,315,000)
Balance as at 31 December 2020	450,761	-	-	450,761

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Receivables from Islamic financings activities				
Balance as at 1 January 2021	**6,609,410**	**142,588**	**67,953**	**6,819,951**
Transfers:				
Transfer from stage 1 to stage 2	**(58,198)**	**58,198**	**-**	**-**
Transfer from stage 1 to stage 3	**(13,844)**	**-**	**13,844**	**-**
Transfer from stage 2 to stage 1	**69,541**	**(69,541)**	**-**	**-**
Transfer from stage 2 to stage 3	**-**	**(3,898)**	**3,898**	**-**
Transfer from stage 3 to stage 2	**-**	**1,369**	**(1,369)**	**-**
Transfer from stage 3 to stage 1	**-**	**-**	**-**	**-**
Other movements within the same stage	**(456,590)**	**(8,059)**	**26,496**	**(438,153)**
New financial assets originated/purchased	**1,189,564**	**2,718**	**1,261**	**1,193,543**
Financial assets that have been derecognized	**(1,341,144)**	**(32,633)**	**(16,056)**	**(1,389,833)**
Write-offs and other adjustments	**(300)**	**(41)**	**(51,911)**	**(52,252)**
Balance as at 31 December 2021	**5,998,439**	**90,701**	**44,116**	**6,133,256**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2020	7,332,775	211,654	93,031	7,637,460
Transfers:				
Transfer from stage 1 to stage 2	(29,874)	29,874	-	-
Transfer from stage 1 to stage 3	(38,897)	-	38,897	-
Transfer from stage 2 to stage 1	7,202	(7,202)	-	-
Transfer from stage 2 to stage 3	-	(847)	847	-
Transfer from stage 3 to stage 2	-	421	(421)	-
Transfer from stage 3 to stage 1	110	-	(110)	-
Other movements within the same stage	(584,348)	(47,351)	114,662	(517,037)
New financial assets originated/purchased	695,940	16,256	222	712,418
Financial assets that have been derecognized	(770,970)	(60,190)	(43,819)	(874,979)
Write-offs and other adjustments	(2,528)	(27)	(135,356)	(137,911)
Balance as at 31 December 2020	6,609,410	142,588	67,953	6,819,951

5 **FINANCIAL RISK MANAGEMENT** continued

5.3 **Credit risk management** continued

	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**
Ijara				
Balance as at 1 January 2021	**1,792,864**	**177,124**	**188,745**	**2,158,733**
Transfers:				
Transfer from stage 1 to stage 2	**(38,737)**	**38,737**	-	-
Transfer from stage 1 to stage 3	**(5,131)**	-	**5,131**	-
Transfer from stage 2 to stage 1	**39,107**	**(39,107)**	-	-
Transfer from stage 2 to stage 3	-	**(19,428)**	**19,428**	-
Transfer from stage 3 to stage 2	-	**30,352**	**(30,352)**	-
Transfer from stage 3 to stage 1	-	-	-	-
Other movements within the same stage	**(103,424)**	**(9,712)**	**(2,927)**	**(116,063)**
New financial assets originated/purchased	**70,625**	**6,664**	-	**77,289**
Financial assets that have been derecognized	**(283,173)**	**(23,545)**	**(42,203)**	**(348,921)**
Write-offs and other adjustments	-	-	**(31,181)**	**(31,181)**
Balance as at 31 December 2021	**1,472,131**	**161,085**	**106,641**	**1,739,857**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Ijara				
Balance as at 1 January 2020	2,292,214	223,352	173,244	2,688,810
Transfers:				
Transfer from stage 1 to stage 2	(6,836)	6,836	-	-
Transfer from stage 1 to stage 3	(1,419)	-	1,419	-
Transfer from stage 2 to stage 1	2,407	(2,407)	-	-
Transfer from stage 2 to stage 3	-	(1,212)	1,212	-
Transfer from stage 3 to stage 2	-	396	(396)	-
Other movements within the same stage	(148,574)	(50,142)	57,253	(141,463)
New financial assets originated/purchased	19,304	38,125	1,661	59,090
Financial assets that have been derecognized	(364,231)	(37,824)	(35,947)	(438,002)
Write-offs and other adjustments	(1)	-	(9,701)	(9,702)
Balance as at 31 December 2020	1,792,864	177,124	188,745	2,158,733

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Investment securities				
Balance as at 1 January 2021	**3,058,166**	**-**	**-**	**3,058,166**
Transfers:				
Other movements within the same stage	**(155,427)**	**-**	**-**	**(155,427)**
New financial assets originated/purchased	**551,058**	**-**	**-**	**551,058**
Financial assets that have been derecognized	**(95,817)**	**-**	**-**	**(95,817)**
Balance as at 31 December 2021	**3,357,980**	**-**	**-**	**3,357,980**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Investment securities				
Balance as at 1 January 2020	3,338,365	-	-	3,338,365
Transfers:				
Other movements within the same stage	278,052	-	-	278,052
New financial assets originated/purchased	37,027	-	-	37,027
Financial assets that have been derecognized	(595,278)	-	-	(595,278)
Balance as at 31 December 2020	3,058,166	-	-	3,058,166

5 **FINANCIAL RISK MANAGEMENT** continued

5.3 **Credit risk management** continued

The movement in impairment allowances is as follows:

	31 December 2021				31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Deposits & balances due from banks, net								
At the beginning of the year	**331**	**-**	**-**	**331**	838	-	-	838
Allowances for impairment made during the year, net	**(216)**	**-**	**-**	**(216)**	(464)	-	-	(464)
Write offs, recoveries and others	**-**	**-**	**-**	**-**	(43)	-	-	(43)
At the end of the year	**115**	**-**	**-**	**115**	331	-	-	331

	31 December 2021				31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities								
At the beginning of the year	**125,671**	**8,688**	**24,717**	**159,076**	106,998	21,085	81,644	209,727
Allowances for impairment made during the year	**907**	**1,308**	**54,593**	**56,808**	27,022	(10,672)	78,443	94,793
Write offs, recoveries and others	**(22)**	**(15)**	**(43,888)**	**(43,925)**	(293)	(83)	(135,370)	(135,746)
Unwinding on renegotiated financings	**(7,987)**	**(272)**	**-**	**(8,259)**	(8,056)	(1,642)	-	(9,698)
At the end of the year	**118,569**	**9,709**	**35,422**	**163,700**	125,671	8,688	24,717	159,076

5 **FINANCIAL RISK MANAGEMENT** continued

5.3 **Credit risk management** continued

The movement in impairment allowances is as follows:

	31 December 2021				31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Ijara								
At the beginning of the year	**5,397**	**10,122**	**47,168**	**62,687**	20,303	29,561	66,094	115,958
Allowances for impairment made during the year, net	**(4,365)**	**5,262**	**23,115**	**24,012**	(14,905)	(19,439)	(9,225)	(43,569)
Write offs, recoveries and others	-	-	**(31,181)**	**(31,181)**	(1)	-	(9,701)	(9,702)
At the end of the year	**1,032**	**15,384**	**39,102**	**55,518**	5,397	10,122	47,168	62,687

	31 December 2021				31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Investment securities								
At the beginning of the year	**2,981**	-	-	**2,981**	2,292	-	-	2,292
Allowances for impairment made during the year, net	**(1,267)**	-	-	**(1,267)**	689	-	-	689
Write offs, recoveries and others	-	-	-	-	-	-	-	-
At the end of the year	**1,714**	-	-	**1,714**	2,981	-	-	2,981

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

The movement in impairment allowances is as follows:

	31 December 2021				31 December 2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL not credit-impaired**	**Stage 3 Lifetime ECL credit-impaired**	**Total**	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000	AED'000	AED'000	AED'000
Other Liabilities								
At the beginning of the year	**474**	**1,671**	**8,350**	**10,495**	249	1,648	9,185	11,082
Allowances for impairment made during the year	**(359)**	**12**	**-**	**(347)**	308	24	89	421
Write offs, recoveries and others	**(78)**	**(1,671)**	**(8,350)**	**(10,099)**	(83)	(1)	(924)	(1,008)
At the end of the year	**37**	**12**	**-**	**49**	474	1,671	8,350	10,495

As at 31 December 2021, ECL on unfunded exposures amounted to AED 49 thousand (2020: AED 10,495 thousand).

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

The movement in impairment allowances is as follows:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Deposits & balances due from banks				
Balance as at 1 January 2021	331	-	-	331
Transfers:				
Other movements within the same stage	(220)	-	-	(220)
New financial assets originated/purchased	12	-	-	12
Financial assets that have been derecognized	(8)	-	-	(8)
Gross (release)/charge for the year	(216)	-	-	(216)
Net (release)/charge for the year	(216)	-	-	(216)
Write-offs and other adjustments	-	-	-	-
Balance as at 31 December 2021	115	-	-	115

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Deposits & balances due from banks				
Balance as at 1 January 2020	838	-	-	838
Transfers:				
Other movements within the same stage	(428)	-	-	(428)
New financial assets originated/purchased	-	-	-	-
Financial assets that have been derecognized	(36)	-	-	(36)
Net (release)/charge for the year	(464)	-	-	(464)
Write-offs and other adjustments	(43)	-	-	(43)
Balance as at 31 December 2020	331	-	-	331

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2021	125,671	8,688	24,717	159,076
Transfers:				
Transfer from stage 1 to stage 2	(757)	757	-	-
Transfer from stage 1 to stage 3	(157)	-	157	-
Transfer from stage 2 to stage 1	491	(491)	-	-
Transfer from stage 2 to stage 3	-	(247)	247	-
Transfer from stage 3 to stage 2	-	723	(723)	-
Transfer from stage 3 to stage 1	-	-	-	-
Other movements within the same stage	179	2,637	58,384	61,200
New financial assets originated/purchased	7,656	263	1,127	9,046
Financial assets that have been derecognized	(6,505)	(2,334)	(4,599)	(13,438)
Gross charge for the year	907	1,308	54,593	56,808
Recoveries	-	-	(63,234)	(63,234)
Net charge for the year	907	1,308	(8,641)	(6,426)
Unwinding on renegotiated financings	(7,987)	(272)	-	(8,259)
Write-offs and other adjustments	(22)	(15)	(43,888)	(43,925)
Balance as at 31 December 2021	118,569	9,709	35,422	163,700

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2020	106,998	21,085	81,644	209,727
Transfers:				
Transfer from stage 1 to stage 2	(1,561)	1,561	-	-
Transfer from stage 1 to stage 3	(14,256)	-	14,256	-
Transfer from stage 2 to stage 1	4,497	(4,497)	-	-
Transfer from stage 2 to stage 3	-	(5,203)	5,203	-
Transfer from stage 3 to stage 2	-	2,946	(2,946)	-
Transfer from stage 3 to stage 1	856	-	(856)	-
Other movements within the same stage	(35,007)	(2,035)	98,921	61,879
New financial assets originated/purchased	85,184	2,640	183	88,007
Financial assets that have been derecognized	(12,691)	(6,084)	(36,318)	(55,093)
Gross charge for the year	27,022	(10,672)	78,443	94,793
Recoveries	-	-	(41,906)	(41,906)
Net charge for the year	27,022	(10,672)	36,537	52,887
Unwinding on renegotiated financings	(8,056)	(1,642)	-	(9,698)
Write-offs and other adjustments	(293)	(83)	(135,370)	(135,746)
Balance as at 31 December 2020	125,671	8,688	24,717	159,076

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Ijara				
Balance as at 1 January 2021	5,397	10,122	47,168	62,687
Transfers:				
Transfer from stage 1 to stage 2	(117)	117	-	-
Transfer from stage 1 to stage 3	(16)	-	16	-
Transfer from stage 2 to stage 1	345	(345)	-	-
Transfer from stage 2 to stage 3	-	(1,284)	1,284	-
Transfer from stage 3 to stage 2	-	2,529	(2,529)	-
Other movements within the same stage	(3,774)	4,110	30,509	30,845
New financial assets originated/purchased	55	1,207	6	1,268
Financial assets that have been derecognized	(858)	(1,072)	(6,171)	(8,101)
Gross charge / (release) for the year	(4,365)	5,262	23,115	24,012
Net charge / (release) for the year	(4,365)	5,262	23,115	24,012
Write-offs and other adjustments	-	-	(31,181)	(31,181)
Balance as at 31 December 2021	1,032	15,384	39,102	55,518

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Ijara				
Balance as at 1 January 2020	20,303	29,561	66,094	115,958
Transfers:				
Transfer from stage 1 to stage 2	(2,287)	2,287	-	-
Transfer from stage 1 to stage 3	(1,105)	-	1,105	-
Transfer from stage 2 to stage 1	7,855	(7,855)	-	-
Transfer from stage 2 to stage 3	-	(468)	468	-
Transfer from stage 3 to stage 2	-	5,748	(5,748)	-
Other movements within the same stage	(16,366)	(14,875)	6,385	(24,856)
New financial assets originated/purchased	65	893	3	961
Financial assets that have been derecognized	(3,067)	(5,169)	(11,438)	(19,674)
Gross charge / (release) for the year	(14,905)	(19,439)	(9,225)	(43,569)
Net charge / (release) for the year	(14,905)	(19,439)	(9,225)	(43,569)
Write-offs and other adjustments	(1)	-	(9,701)	(9,702)
Balance as at 31 December 2020	5,397	10,122	47,168	62,687

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Investment securities				
Balance as at 1 January 2021	2,981	-	-	2,981
Transfers:				
Other movements within the same stage	(1,507)	-	-	(1,507)
New financial assets originated/purchased	248	-	-	248
Financial assets that have been derecognized	(8)	-	-	(8)
Gross (release)/charge for the year	(1,267)	-	-	(1,267)
Net (release)/charge for the year	(1,267)	-	-	(1,267)
Balance as at 31 December 2021	1,714	-	-	1,714

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Investment securities				
Balance as at 1 January 2020	2,292	-	-	2,292
Transfers:				
Transfer from stage 2 to stage 1	-	-	-	-
Other movements within the same stage	899	-	-	899
New financial assets originated/purchased	7	-	-	7
Financial assets that have been derecognized	(217)	-	-	(217)
Net (release)/charge for the year	689	-	-	689
Balance as at 31 December 2020	2,981	-	-	2,981

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Other liabilities				
Balance as at 1 January 2021	**474**	**1,671**	**8,350**	**10,495**
Transfers:				
Transfer from stage 1 to stage 2	**(33)**	**33**	-	-
Other movements within the same stage	**(16)**	**(21)**	-	**(37)**
New financial assets originated/purchased	**1**	-	-	**1**
Financial assets that have been derecognized	**(311)**	-	-	**(311)**
Net (release)/charge for the year	**(359)**	**12**	-	**(347)**
Write-offs and other adjustments	**(78)**	**(1,671)**	**(8,350)**	**(10,099)**
Balance as at 31 December 2021	**37**	**12**	-	**49**

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit-impaired	Stage 3 Lifetime ECL credit-impaired	Total
	AED'000	AED'000	AED'000	AED'000
Other liabilities				
Balance as at 1 January 2020	249	1,648	9,185	11,082
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Other movements within the same stage	364	24	1,242	1,630
New financial assets originated/purchased	7	-	674	681
Financial assets that have been derecognized	(63)	-	(1,827)	(1,890)
Net (release)/charge for the year	308	24	89	421
Write-offs and other adjustments	(83)	(1)	(924)	(1,008)
Balance as at 31 December 2020	474	1,671	8,350	10,495

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2019 via notice no. CBUAE/BSD/2019/458 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, a comparison 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	**119,628**	124,234
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(146,572)**	(155,335)
General provision transferred to the impairment reserve	**-**	-
Impairment Reserve - Specific		
Specific provisions under Circular 28/2010 of CBUAE	**74,524**	80,235
Less: Stage 3 provisions under IFRS 9	**(74,524)**	(80,235)
Specific provision transferred to the impairment reserve	**-**	-

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount is required to be transferred to the impairment reserve.

Financial assets with renegotiated terms
Financial assets with renegotiated terms are facilities that have been renegotiated due to the deterioration in the customer's financial position and where the Group has made concessions that it would not otherwise consider.

Write-off of financial assets
Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

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

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.

5 FINANCIAL RISK MANAGEMENT continued

5.3 Credit risk management continued

Collateral
Collateral is used to mitigate credit risk, as the secondary source of payment in case the counterparty cannot meet its contractual payment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

Credit risk mitigants are held against receivables from Islamic financing activities, Ijara finance and investments in the form of real estate collateral, cash deposits and guarantees. Collateral generally is not held against Wakala deposits with banks and other financial institutions, and no such collateral was held at 31 December 2021 or 31 December 2020.

The table below shows the lower of the collateral value or the outstanding balance of the customers' financings as at the reporting date

	2021 AED'000	*2020 AED'000*
Against customer financing not credit-impaired		
Property	**1,623,469**	1,957,502
Cash margin and lien over deposit	**1,388**	4,748
	1,624,857	1,962,250
Against individually credit-impaired		
Property	**105,511**	177,784
	105,511	177,784
Total	**1,730,368**	2,140,034

The tables below stratify credit exposures from home finances retail customers by ranges of finance-to-value (FTV) ratio:

	2021 AED'000	*2020 AED'000*
FTV ratio		
Less than 50%	**624,338**	730,198
51-70%	**431,875**	514,487
71-90%	**473,594**	587,189
91-100%	**136,117**	197,429
More than 100%	**78,986**	128,432
Total	**1,744,910**	2,157,735

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, spreads and foreign exchange rates.

Overall authority for market risk is vested in the Asset and Liability Committee ("ALCO"). The Risk Management Division is responsible for the development of detailed market and liquidity risk management policies (subject to review and approval by ALCO or relevant authority) and for the day to day monitoring of the actual position versus the established limits.

Management of market risk
The Treasury, Market, & Liquidity Risk team is responsible for measuring market risk exposures as an independent control function in accordance with approved policies and risk appetite.

The Treasury, Market, & Liquidity Risk team monitors market risk exposures of daily limit monitoring and control reports that are circulated to all stakeholders to advise of current outstanding exposures versus prescribed limits and any breach is immediately advised for rectification.

The banking book primarily comprises Islamic financing activities, Ijara and investment in Sukuks designated at FVTOCI and AC which are exposed to profit rate risk. The Group has non-material exposure in the trading book.

Currency risk
The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, and currency positions on are monitored on a daily basis.

If the exchange rates between the various currencies and AED increase or decrease by 5%, with all other variables held constant, the impact on the results and equity of the Group would not be material as the exposures are primarily related to currencies that are pegged to AED. The table below indicates the extent to which the Group is exposed to currency risk and its impact:

	% Change in rate	*Effect on net profit AED'000*	*Effect on equity AED'000*
31 December 2021			
Currency			
USD	5%	**6,327**	**6,327**
EUR	5%	**7**	**7**
GBP	5%	**8**	**8**
Others	5%	**59**	**59**
KZT	5%	-	**5,006**
31 December 2020			
Currency			
USD	5%	1,723	1,723
EUR	5%	6	6
GBP	5%	7	7
Others	5%	42	42
KZT	5%	-	5,166

In addition, the Group does not actively trade in foreign currency but manages all customer requests on a back to back basis, thus further reducing the risk the Group is exposed to.

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk *continued*

Profit rate risk
Profit rate risk in the banking book is applicable to the Group's exposure to receivables from Islamic financing activities, Ijara as well as investment in Sukuks securities designated at FVTOCI and AC. To the extent that the profit rate sensitive assets are funded and backed by rate sensitive liabilities of identical maturities / repricing frequency the exposure is mitigated, matched funding however does not maximize profit. The Group therefore selectively accepts the gap between the repricing/ maturities of rate sensitive assets/ liabilities that maximizes profitability while remaining within defined risk tolerance and parameters.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard profit rate scenarios. Standard scenarios include a 25 basis point parallel rise in all yield curves over a twelve-month horizon maintaining a constant financial position.

	Impact on results and equity of the Group	
	2021	*2020*
	AED'000	*AED'000*
+ 25 basis points change in profit rates	**1,943**	3,362

This exposure arises as a result of mismatches in re-pricing of assets and liabilities reflected in the following net position schedule.

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk *continued*

A summary of the Group's profit rate re-pricing as at 31 December 2021 is as follows:

	Less than 3 months AED'000	3-6 months AED'000	6-12 months AED'000	1-3 years AED'000	Greater than 3 years AED'000	Non-sensitive AED'000	Total AED'000
Assets							
Cash and balances with central banks	329,579	-	-	-	-	1,035,791	1,365,370
Deposits & balances due from banks, net	300,405	-	-	-	-	103,825	404,230
Receivables from Islamic financing activities	241,258	191,274	162,163	434,098	5,104,427	(163,664)	5,969,556
Ijara	1,410,566	96,854	24,900	36,954	177,823	(62,758)	1,684,339
Investment securities	-	122,928	-	1,347,982	1,887,070	9,290	3,367,270
Investment properties	-	-	-	-	-	56,875	56,875
Property and equipment, net	-	-	-	-	-	545,889	545,889
Investment in associate	-	-	-	-	-	56,656	56,656
Other assets	-	-	-	-	-	174,960	174,960
Total assets	**2,281,808**	**411,056**	**187,063**	**1,819,034**	**7,169,320**	**1,756,864**	**13,625,145**
Liabilities							
Deposits from customers	5,741,530	37,422	142,365	273,166	12,468	2,029,099	8,236,050
Wakala deposits from banks	1,248,820	-	-	-	-	25,343	1,274,163
Medium term financing	-	-	-	1,831,616	86,429	-	1,918,045
Islamic derivative financial instruments	81,889	-	-	-	-	-	81,889
Other liabilities	-	-	-	-	-	402,954	402,954
Total liabilities	**7,072,239**	**37,422**	**142,365**	**2,104,782**	**98,897**	**2,457,396**	**11,913,101**
Total off balance sheet	**596,365**	-	-	-	-	-	**596,365**
Net position	**(4,194,066)**	**373,634**	**44,698**	**(285,748)**	**7,070,423**	**(700,532)**	**2,308,409**

5 FINANCIAL RISK MANAGEMENT continued

5.4 Market risk *continued*

A summary of the Group's profit rate re-pricing as at 31 December 2020 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*	*Non-sensitive AED'000*	*Total AED'000*
Assets							
Cash and balances with central banks	169,788	-	-	-	-	948,925	1,118,713
Deposits & balances due from banks, net	300,031	-	-	-	-	150,399	450,430
Receivables from Islamic financing activities	252,495	187,131	312,923	604,115	5,463,549	(159,338)	6,660,875
Ijara	2,017,243	130,936	11,565	8,272	6,933	(78,903)	2,096,046
Investment securities	-	599,740	-	874,996	1,583,430	8,833	3,066,999
Investment properties	-	-	-	-	-	58,875	58,875
Property and equipment, net	-	-	-	-	-	497,559	497,559
Investment in associate	-	-	-	-	-	53,884	53,884
Other assets	-	-	-	-	-	118,600	118,600
Total assets	2,739,557	917,807	324,488	1,487,383	7,053,912	1,598,834	14,121,981
Liabilities							
Deposits from customers	6,667,169	102,318	298,453	285,837	43,908	2,174,778	9,572,463
Wakala deposits from banks	183,650	-	-	-	-	290,887	474,537
Medium term financing	-	-	-	1,828,745	89,091	-	1,917,836
Islamic derivative financial instruments	157,583	-	-	-	-	-	157,583
Other liabilities	-	-	-	-	-	358,100	358,100
Total liabilities	7,008,402	102,318	298,453	2,114,582	132,999	2,823,765	12,480,519
Total off balance sheet	506,956	-	-	-	-	-	506,956
Net position	(3,761,889)	815,489	26,035	(627,199)	6,920,913	(1,224,931)	2,148,418

5 FINANCIAL RISK MANAGEMENT continued

5.5 Takaful and re-takaful risk

Takaful risk
Takaful risk is where the Group agrees to indemnify the insured parties against unforeseen future insured events. The frequency and severity of claims are the main risk factors. Due to the inherent risk in the Takaful business, actual claim amounts can vary compared to the outstanding claim reserves.

Re-takaful (Islamic reinsurance) risk
In order to minimize financial exposure arising from large claims, the Group, in the normal course of business, enters into Shariah compliant agreements with other parties for re-takaful (Islamic reinsurance) purposes. Such re-takaful (Islamic reinsurance) arrangements provide for greater diversification of business, allows management to control and minimise exposure to potential losses arising from large single name risks and provide additional capacity for growth and diversification.

To minimize its exposure to significant losses from re-takaful (Islamic reinsurers') insolvencies, the Group evaluates the financial condition of its re-takaful (Islamic reinsurers) and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the re-takaful (Islamic reinsurers).

Re-takaful (Islamic reinsurers) ceded contracts do not relieve the Group from its obligations and, as a result, the Group remains liable for the portion of outstanding claims reinsured to the extent that the reinsurer fails to meet the obligations under the re-takaful (Islamic reinsurance) agreements. However, the Group takes comfort in that the bulk of re-takaful (Islamic reinsurance) risks are to generally well rated and reputed reinsurers with an average external rating of A.

Reserve for claims
The Group maintains adequate reserves in respect of its Takaful business in order to protect against adverse future claims experience and developments. The uncertainties surrounding the amount and timing of claim payments are normally resolved within a year. Furthermore, the adequacy of such reserves is reviewed on annual basis by an independent external actuary with the final report shared with management on the level of reserving adequacy.

Sensitivities
The general Takaful claims provision is sensitive to certain key assumptions which are not material to the consolidated financial statements of the Group.

5.6 Liquidity risk

Liquidity risk comprises mainly funding liquidity risk and market liquidity risk. Funding Liquidity Risk is the risk that the Group will be unable to meet its obligations associated with its financial liabilities. Market Liquidity Risk is the risk that the bank will be unable to sell financial assets at prevailing market price due to absence of buyers or due to lack of depth of the market thereby forcing the bank to accept a haircut in the event of forced or voluntary liquidation.

Management of liquidity risk
The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have a sufficient buffer of liquidity to meet its liabilities during the normal course of business. As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management centre (treasury) is well equipped to tap contingent funding sources during periods of market stress. The Group also maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored by the Market and Liquidity Risk Department and regular stress testing is conducted under a variety of scenarios covering the idiosyncratic and systemic stress conditions.

All liquidity policies and procedures are subject to regular review and approval by ALCO or relevant authority. Daily reports are produced covering the liquidity position.

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

The Group relies on customers' current accounts, saving accounts and Wakala deposits as its primary sources of funding. Customers' accounts generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk
The key measures used by the Group for managing liquidity risk are regulatory driven ratios such as Advance to stable ratio ("ASRR"), Liquid Assets Ratio and eligible liquid asset ratio.

ASRR take into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 31 December 2021, the Bank's ASRR was 76.75% (2020: 77.24%).

The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As at 31 December 2021, this ratio stood at 14.59% (2020: 12.83%).

In addition to the above ratios the Bank also monitors internally its liquidity profile through regular ALCO briefings which are held on a monthly basis. Treasury, Market, & Liquidity Risk department monitors various internal and regulatory liquidity risk ratios against the limits and circulates the liquidity risk dashboard to various stakeholders in treasury and finance.

The table below sets out the availability of the Group's financial assets to future financing.

	2021	*2020*
	AED'000	*AED'000*
Cash and balances with central banks	**1,365,370**	1,118,713
Deposits & balances due from banks, net	**(869,933)**	(24,107)
Investment securities	**3,367,270**	3,066,999
	3,862,707	4,161,605

As at the reporting date, the Group had no pledged or encumbered financial assets (2020: nil).

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

A summary of the Group's maturity profile as at 31 December 2021 is as follows:

	Less than 3 months AED'000	3-6 months AED'000	6-12 months AED'000	1-3 years AED'000	Greater than 3 years /unspecified AED'000	Total AED'000
Assets						
Cash and balances with central banks	1,365,370	-	-	-	-	1,365,370
Deposits & balances due from banks, net	404,230	-	-	-	-	404,230
Receivables from Islamic financing activities	203,743	190,364	161,658	431,084	4,982,707	5,969,556
Ijara	67,394	181	2,777	26,000	1,587,987	1,684,339
Investment securities	-	122,928	-	1,347,982	1,896,360	3,367,270
Investment properties	-	-	-	56,875	-	56,875
Property and equipment, net	-	-	-	-	545,889	545,889
Investment in associate	-	-	-	-	56,656	56,656
Other assets	162,443	6,724	5	165	5,623	174,960
Total assets	**2,203,180**	**320,197**	**164,440**	**1,862,106**	**9,075,222**	**13,625,145**
Liabilities						
Deposits from customers	6,715,218	377,598	734,411	374,980	33,843	8,236,050
Wakala deposits from banks	1,274,163	-	-	-	-	1,274,163
Medium term financing	-	-	-	1,831,616	86,429	1,918,045
Islamic derivative financial instruments	468	-	-	16,945	64,476	81,889
Other liabilities	375,730	-	-	-	27,224	402,954
Total liabilities	**8,365,579**	**377,598**	**734,411**	**2,223,541**	**211,972**	**11,913,101**
Net position	**(6,162,399)**	**(57,401)**	**(569,971)**	**(361,435)**	**8,863,250**	**1,712,044**
Total off balance sheet	**566,480**	**1,014**	**145**	**960**	**27,766**	**596,365**

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

A summary of the Group's maturity profile as at 31 December 2020 is as follows:

	Less than 3 months AED'000	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years /unspecified AED'000*	*Total AED'000*
Assets						
Cash and balances with central banks	1,118,713	-	-	-	-	1,118,713
Deposits & balances due from banks, net	450,430	-	-	-	-	450,430
Receivables from Islamic financing activities	225,793	186,238	309,743	599,346	5,339,755	6,660,875
Ijara	142,898	246	11,928	30,804	1,910,170	2,096,046
Investment securities	-	599,740	-	874,996	1,592,263	3,066,999
Investment properties	-	-	-	58,875	-	58,875
Property and equipment, net	-	-	-	-	497,559	497,559
Investment in associate	-	-	-	-	53,884	53,884
Other assets	102,105	15,262	230	1,003	-	118,600
Total assets	**2,039,939**	**801,486**	**321,901**	**1,565,024**	**9,393,631**	**14,121,981**
Liabilities						
Deposits from customers	7,769,044	388,619	983,837	361,780	69,183	9,572,463
Wakala deposits from banks	474,537	-	-	-	-	474,537
Medium term financing	-	-	-	1,828,745	89,091	1,917,836
Islamic derivative financial instruments	-	-	-	15,245	142,338	157,583
Other liabilities	327,230	-	-	-	30,870	358,100
Total liabilities	**8,570,811**	**388,619**	**983,837**	**2,205,770**	**331,482**	**12,480,519**
Net position	**(6,530,872)**	**412,867**	**(661,936)**	**(640,746)**	**9,062,149**	**1,641,462**
Total off balance sheet	**449,077**	**5,509**	**144**	**1,344**	**50,882**	**506,956**

5 FINANCIAL RISK MANAGEMENT continued

5.6 Liquidity risk *continued*

Maturity profile of financial liabilities based on contractual undiscounted repayment obligations:

31 December 2021	*Carrying amount AED'000*	*Gross outflow AED'000*	*Less than 3 months AED'000*	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*
Liabilities							
Deposits from customers	8,236,050	8,275,729	6,718,523	379,051	742,539	398,449	37,167
Wakala deposits from banks	1,274,163	1,274,171	1,274,171	-	-	-	-
Medium term financing	1,918,045	2,105,282	-	-	-	1,976,949	128,333
Islamic derivative financial instruments	81,889	81,889	81,889	-	-	-	-
Other liabilities	206,457	206,457	206,457	-	-	-	-
Total financial liabilities	**11,716,604**	**11,943,528**	**8,281,040**	**379,051**	**742,539**	**2,375,398**	**165,500**

31 December 2020	*Carrying amount AED'000*	*Gross outflow AED'000*	*Less than 3 months AED'000*	*3-6 months AED'000*	*6-12 months AED'000*	*1-3 years AED'000*	*Greater than 3 years AED'000*
Liabilities							
Deposits from customers	9,572,463	9,626,625	7,775,226	390,223	993,377	393,072	74,727
Wakala deposits from banks	474,537	474,539	474,539	-	-	-	-
Medium term financing	1,917,836	2,199,232	-	-	-	2,058,736	140,496
Islamic derivative financial instruments	157,583	157,583	157,583	-	-	-	-
Other liabilities	175,599	175,599	175,599	-	-	-	-
Total financial liabilities	**12,298,018**	**12,633,578**	**8,582,947**	**390,223**	**993,377**	**2,451,808**	**215,223**

5 FINANCIAL RISK MANAGEMENT continued

5.7 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal & compliance risk but excluding strategic or reputation risk.

Loss from operational risk can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, loss of life or injury to people, and loss of property and / or information.

All operational risks carry at least a financial consequence. Examples of operational risks that the Group is exposed to include the losses arising from internal fraud, external fraud, acts that are inconsistent with employment, health or safety laws or agreements, failure to meet professional customer and legal obligations, disruption of business or system failures, failure to execute a transaction correctly including but not limited to internal restructures, inadequate process management and failure caused by third parties.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results. Operational risks arise from all of the Group's operations.

The objective of the Group operational risk management is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Group's defined risk appetite.

The Group has a dedicated Operational Risk Management function. It is responsible for leading the embedding of the Operational Risk management function and assuring adherence to associated policies and processes across the first and second lines of defense.

The Operational Risk Policy defines processes and the governance structure for the management of operational risk for businesses and support functions.

To create a robust control environment to manage risks, the Group use an activity-based three lines of defense model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins the Group approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.

The three lines of defense are summarised below:

- The first line of defense owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

- The day-to-day management of operational risk is executed through a strong "second line of defense" within business lines and control functions. Risk and Control Self Assessments (RCSAs), Key Risk Indicators (KRIs) and Incident Management (IM) form the core of the Operational Risk Policy. The Operational Risk Management function provides assistance to the first line of defense (business and support functions) in the implementation of the polices as-well as providing independent reporting on the effectiveness of the implementation of the operational risk framework by risk and control owners.

- The third line of defense is the Group's Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

Business Continuity Management

The safety of employees and the ability to recover from a crisis in a timely fashion are of utmost importance to AHB. AHB recognizes the importance business continuity plays in business and, of its obligations to customers and stakeholders.

5 FINANCIAL RISK MANAGEMENT continued

5.7 Operational risk continued

Business Continuity Management continued

AHB Business Continuity Framework and program for the UAE is aligned to ISO22301:2012 and has been designed to ensure that the Bank can continue to achieve its business objectives in the face of an unexpected disruptive event.

The Business continuity framework aligns to the 3 lines of defence model and requires that the business continuity plan can only be set post business impact analysis which are formally reviewed by the Business Continuity Management Department for quality and business continuity framework compliance. The business impact analysis and business continuity plan are formally 'signed-off' by the business head; the content is owned and maintained locally. Staff awareness is maintained by the Group at a centralised level. Local awareness is maintained by business continuity champions in the business unit.

AHB undertakes a rolling annual exercise program ensuring the validity of its business continuity strategies. Issues arising from these exercises are reported to management and support continuous improvement of business continuity program.

The Bank executed its pandemic response plan from January 2020 in response to the coronavirus outbreak. The bank adopted an abundance of caution approach ensuring the safety of its staff and customers. The Bank enabled a distributed work approach and maintained a resilient service throughout. Bank is now complying to the "Return to Normalcy" procedures instructed by the UAE Government and retains the ability to revert to a distributed work approach in case of resurgence.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires management to develop and apply an accounting policy that results in relevant and reliable information in light of the requirements and guidance in IFRS's dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors (the "Board") to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

6.1 Critical judgments in applying the changes in Group's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Business model assessment

Classification and measurement of financial assets depends on the results of the solely payment of principal and profit (SPPP) 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.

Impairment losses

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

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. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the finance seeker, etc). 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.

Models and assumptions used: The Group uses various models and assumptions in measuring ECL of financial assets. 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. Refer Note 5.3 for more details on ECL.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

6.1 Critical judgments in applying the changes in Group's accounting policies continued

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Note 7. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Effective Profit Rate method

The Bank's effective profit rate method recognises profit income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of financing and deposits and recognises the effect of potentially different profit rates charged at various stages and other characteristics of the product life cycle. This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to base rate and other fee income/expense that are integral parts of the instrument.

Fair valuation of investment properties

The fair value of investment properties are based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on models whose inputs are observable in an active market such as market conditions, market prices, future rental income, etc. The fair value movements on investment properties are disclosed in more detail in Note 15.

Consolidation of Funds

The changes introduced by IFRS 10 – Consolidated Financial Statements require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried profits and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager without cause. As a result, the Group has concluded that it does not have to consolidate these funds.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

6.1 Critical judgments in applying the changes in Group's accounting policies continued

Lease accounting under IFRS 16

The following are the critical judgments in the application of IFRS 16, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised;
- classification of lease arrangements (when the entity is a lessor).

Impairment of non-financial assets

The Bank assesses impairment on its nonfinancial assets (e.g., property and equipment) and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Recoverable amount is determined based on higher of value in use or fair value less cost to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Bank is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The carrying values of the Bank's property and equipment is disclosed in Note 16.

6.2 Key sources of estimation uncertainty

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

Impairment losses

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 finance provider would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

6 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS continued

6.2 Key sources of estimation uncertainty continued

Lease accounting under IFRS 16

The following are key estimations that the management has used in the process of applying the Group's accounting policies for IFRS 16 and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- determination of the appropriate rate to discount the lease payments;
- assessment of whether a right-of-use asset is impaired.

Coronavirus (COVID-19) outbreak and its impact on the Group

Coronavirus (Covid-19) outbreak and its impact on the Group has been disclosed in below note 41.

7 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as profit rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed Sukuk and equity securities, exchange-traded Islamic derivatives and simple over-the-counter Islamic derivatives such as profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial instruments measured at Fair value – fair value hierarchy

The table below analyses assets and liabilities measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

	Level 1	*Level 2*	*Level 3*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
31 December 2021				
Assets and liabilities measured at fair value				
Investment securities				
Quoted	**3,295,066**	-	-	**3,295,066**
Unquoted	-	-	**9,290**	**9,290**
Profit rate swaps (Negative value)	-	**(81,889)**	-	**(81,889)**
Investment property	-	-	**56,875**	**56,875**
31 December 2020				
Investment securities				
Quoted	3,058,166	-	-	3,058,166
Unquoted	-	-	8,833	8,833
Profit rate swaps (Negative value)	-	(157,583)	-	(157,583)
Investment property	-	-	58,875	58,875

8 OPERATING SEGMENTS

8.1 Basis for segmentation

The Group is structured into the following three segments which offer different products and services and are managed separately based on the Group's management and internal reporting structure.

Wholesale Banking Group ("WBG") provides Shariah compliant financial solutions to both the private and public sector and is organized into business divisions which include Corporate Banking, Government Relations, Institutional Banking, Syndications and Structured Finance, Capital Markets and Cash Management.

Personal Banking Group ("PBG") provides Shariah compliant products and services that are designed to meet the financial needs of individuals which include wealth management, personal financings, vehicle financings, home financings, Islamic credit cards as well as day to day banking requirements such as account management, cash transfers and cheque management.

Treasury Banking Group ("TBG") provides Shariah compliant services to handle money market, trading and other treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

8.2 Information about reportable segments

Information related to each reportable segment is set out below. Segment profit or loss, as included in the internal management reports reviewed by the Management Executive Committee (MEC) used to measure the performance of each segment.

Reportable segment information for the year ended 31 December 2021 and 31 December 2020 are as follows:

	PBG AED'000	WBG AED'000	TBG AED'000	Total AED'000
31 December 2021				
Segment revenues, net	**376,913**	**42,741**	**64,417**	**484,071**
Operating expenses	**(396,543)**	**(24,988)**	**(1,900)**	**(423,431)**
Net operating income	**(19,630)**	**17,753**	**62,517**	**60,640**
Impairment charges, net	**780**	**(18,017)**	**1,481**	**(15,756)**
Share of profit in associates	**3,695**	-	-	**3,695**
Loss from discontinued operations	-	-	-	-
Reportable segment (loss)/ profit	**(15,155)**	**(264)**	**63,998**	**48,579**
Reportable segment assets	**8,117,333**	**622,523**	**4,885,289**	**13,625,145**
Reportable segment liabilities	**7,837,543**	**746,207**	**3,329,351**	**11,913,101**
31 December 2020				
Segment revenues, net	362,581	31,130	86,154	479,865
Operating expenses	(418,695)	(24,158)	(2,295)	(445,148)
Net operating income	(56,114)	6,972	83,859	34,717
Impairment charges, net	(6,872)	(2,866)	(226)	(9,964)
Share of profit in associates	4,283	-	-	4,283
Loss from discontinued operations	(15,563)	-	-	(15,563)
Reportable segment (loss)/ profit	(74,266)	4,106	83,633	13,473
Reportable segment assets	8,947,214	707,597	4,467,170	14,121,981
Reportable segment liabilities	9,074,344	803,627	2,602,548	12,480,519

8 OPERATING SEGMENTS continued

8.2 Information about reportable segments continued

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	PBG	*WBG*	*IBG*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
31 December 2021				
Revenue, net	**434,284**	**41,394**	**8,393**	**484,071**
Inter segment revenues	**(57,371)**	**1,347**	**56,024**	**-**
Segment revenues, net	**376,913**	**42,741**	**64,417**	**484,071**
31 December 2020				
Revenue, net	447,010	22,899	9,956	479,865
Inter segment revenues	(84,429)	8,231	76,198	-
Segment revenues, net	362,581	31,130	86,154	479,865

8.3 Geographic information

The Group operates primarily in the UAE and designates it as the domestic segment. The operations originating from its branches, associates and subsidiaries in the domestic segment form a significant portion of the Group's total assets and liabilities. The international segment represents the operations of the Group that originate from its presence in Kazakhstan. As the size of these operations and exposures is not significant, no further geographical analysis of segment revenues, expenses, assets and liabilities is presented.

9 CAPITAL MANAGEMENT

9.1 Regulatory capital

The Group's objectives are aligned with ADCB Group when managing capital, which is a broader concept than the "equity" on the face of the consolidated statement of financial position, are:

• to comply with the capital requirements set by the Central Bank of the United Arab Emirates;
• to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
• to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed and amended time-to-time by the Basel Committee and the Central Bank of the United Arab Emirates.

The Central Bank of UAE ('CBUAE') supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

For credit and market risk, the Central Bank of the United Arab Emirates has issued guidelines for implementation of Standardised approach and banks are required to comply and report under Pillar 2 — Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the Central Bank of the United Arab Emirates has given banks the option to use the Basic Indicators approach or the Standardised approach and the Group has chosen to use the Standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the Group to determine the risk weight by the asset class and the criteria applicable to the counterparty as per the regulatory guidance. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel III includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks as well as capital planning under regular and stress scenarios.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of return on capital is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

9 CAPITAL MANAGEMENT continued

9.2 Capital Supply

As per Basel III requirements, total regulatory capital comprises of the following:

a) Tier 1 capital, composed of:

   (i) Common Equity Tier 1 (CET1) and
   (ii) Additional Tier 1 (AT1).

b) Tier 2 capital.

CET1 capital includes paid-up share capital, share premium, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income, other disclosed reserves and minority interest.

The following regulatory adjustments are applied in the calculation of CET 1:

(i) goodwill and other intangible assets;
(ii) cash flow hedge reserves;
(iii) defined benefit pension fund assets and liabilities;
(iv) treasury shares

AT1 capital comprises of instruments eligible for inclusion in AT 1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank rules, perpetual equity instruments issued by the bank or its subsidiaries and not included in Tier 1 and their premium and instruments eligible for inclusion in Tier II capital such as hybrid (sukuk/ equity) capital instruments and subordinated term finance.

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

In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notification 60/2017 which implemented Basel III in the UAE.

Under this guidance to achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB) as part of regulatory requirement. Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement may vary between 0% — 2.5% of risk weighted assets and will be communicated by the Central Bank with adequate notice period.

9 CAPITAL MANAGEMENT continued

9.3 Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities.

In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives.

During 2021, the Group's capital strategy, which was unchanged from the previous year is to:

- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel accord guidelines; and
- Efficiently allocate capital to various business units.

9 CAPITAL MANAGEMENT continued

9.4 Capital Adequacy Ratio continued

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2021 and 2020. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	BASEL III 2021 AED'000	*BASEL III 2020 AED'000*
Common Equity Tier 1 (CET1) Capital		
Share capital	**4,750,000**	4,750,000
Statutory reserve	**175,114**	170,280
Cumulative changes in fair value	**(148,409)**	(146,353)
Retained earnings	**(3,064,661)**	(3,132,465)
CET1 capital before the regulatory adjustments	**1,712,044**	1,641,462
Less: Regulatory deductions	**(22,932)**	(47,097)
Total CET1 capital after deductions (A)	**1,689,112**	1,594,365
Additional Tier 1 Capital		
Eligible Additional Tier 1 Capital	-	-
Total Additional Tier 1 Capital (B)	-	-
Tier 2 Capital		
Other Tier 2 capital (including General Provisions, etc.)	**99,690**	103,528
Total Tier 2 Capital (C)	**99,690**	103,528
Total Regulatory Capital (A+B+C)	**1,788,802**	1,697,893

	BASEL III 2021 AED'000	*BASEL III 2020 AED'000*
Available capital		
Common equity tier 1 capital	**1,689,112**	1,594,365
Tier 1 capital	**1,689,112**	1,594,365
Total eligible capital	**1,788,802**	1,697,893
Risk weighted assets		
Credit risk	**7,975,229**	8,282,234
Market risk	**101,602**	104,110
Operational risk	**964,527**	1,186,329
Total risk weighted assets	**9,041,358**	9,572,673

9 CAPITAL MANAGEMENT continued

9.4 Capital Adequacy Ratio continued

Capital ratios	Minimum capital requirement	*2021*	*2020*
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	9.50%	**18.68%**	16.66%
Tier 1 capital expressed as a percentage of total risk weighted assets	11.00%	**18.68%**	16.66%
Total regulatory capital expressed as a percentage of total risk weighted assets	13.00%	**19.78%**	17.74%

10 CASH AND BALANCES WITH CENTRAL BANKS

	2021 AED'000	*2020 AED'000*
Cash in hand	**265,361**	181,894
Current account with Central Banks	**331,485**	319,538
Islamic certificates of deposit with Central Banks	**329,579**	169,788
Cash reserve deposits with Central Banks	**438,945**	447,493
	1,365,370	1,118,713

11 DEPOSITS AND BALANCES DUE FROM BANKS, NET

	2021 AED'000	*2020 AED'000*
Wakala investments	**300,405**	300,031
Nostro balances	**103,940**	150,730
	404,345	450,761
Allowance for impairment (note 30)	**(115)**	(331)
	404,230	450,430

All Wakala placements held by the Group as at 31 December 2021 and 2020 are in the UAE.

12 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES

	2021 AED'000	2020 AED'000
Retail Murabaha and Musawama	**5,397,827**	6,013,395
Corporate Commodity Murabaha	**645,070**	702,491
Islamic credit card receivable	**90,359**	104,065
	6,133,256	6,819,951
Allowance for impairment (note 30)	**(163,700)**	(159,076)
	5,969,556	6,660,875

During the year ended 31 December 2021, corporate receivables from Islamic financing activities, amounting to AED 254 thousand (2020 AED 43,124 thousand) have been transferred to ADCB.

Allowances of impairment on receivables from Islamic financing activities have been disclosed in further detail in note 5.3.

The distribution of the gross Murabaha, Musawama and other Islamic financing by industry sector and geographic region was as follows:

	2021 AED'000	2020 AED'000
Industry:		
Personal	**5,488,186**	6,112,459
Trading	**151,553**	156,640
Energy	**79,275**	185,376
Transport & communication	**49,534**	78,754
Real estate investment & hospitality	**-**	2
Manufacturing	**33,421**	27
Agriculture	**27,407**	30,064
Others	**303,880**	256,629
	6,133,256	6,819,951
Geographic region:		
UAE	**5,440,731**	6,083,502
Kazakhstan	**692,525**	736,449
	6,133,256	6,819,951

13 IJARA

	2021 AED'000	2020 AED'000
Retail standard Ijara	**1,739,291**	2,135,587
Corporate Standard Ijara	**566**	10,563
Retail Ijara Mawsufa Fi-aldhimma	**-**	12,583
	1,739,857	2,158,733
Allowance for impairment (note 30)	**(55,518)**	(62,687)
	1,684,339	2,096,046

Ijara assets represent net investment in assets leased for periods which either approximate or cover majority of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

Allowances of impairment on Ijara have been disclosed in further detail in note 5.3.

The distribution of the gross Ijara by industry sector and geographic region was as follows:

	2021 AED'000	2020 AED'000
Industry:		
Personal	**1,739,291**	2,147,326
Transport & communication	**-**	8,503
Trading	**-**	844
Others	**566**	2,060
	1,739,857	2,158,733
Geographic region:		
UAE	**1,739,020**	2,147,796
Kazakhstan	**566**	10,563
Others	**271**	374
	1,739,857	2,158,733

14 INVESTMENT SECURITIES

	UAE AED'000	Other GCC countries AED'000	Others AED'000	Total AED'000
31 December 2021				
Fair value through other comprehensive income				
Quoted:				
Sukuk – Government securities	**1,160,620**	**433,429**	**61,015**	**1,655,064**
Sukuk – Public sector	**532,495**	**335,452**	-	**867,947**
Sukuk – Banks and financial institutions	**426,211**	-	-	**426,211**
Sukuk – Corporate	**345,844**	-	-	**345,844**
	2,465,170	**768,881**	**61,015**	**3,295,066**
Unquoted:				
Equity instruments	**1,996**	-	**7,294**	**9,290**
	1,996	-	**7,294**	**9,290**
Amortised cost				
Quoted:				
Sukuk – Banks and financial institutions	**21,348**	-	-	**21,348**
Sukuk – Corporate	**41,566**	-	-	**41,566**
	62,914	-	-	**62,914**
	2,530,080	**768,881**	**68,309**	**3,367,270**
31 December 2020				
Fair value through other comprehensive income				
Quoted:				
Sukuk – Government securities	1,195,420	587,940	-	1,783,360
Sukuk – Public sector	463,178	68,018	-	531,196
Sukuk – Banks and financial institutions	457,150	-	-	457,150
Sukuk – Corporate	286,460	-	-	286,460
	2,402,208	655,958	-	3,058,166
Unquoted:				
Equity instruments	1,303	-	7,530	8,833
	1,303	-	7,530	8,833
	2,403,511	655,958	7,530	3,066,999

As at 31 December 2021, the allowance for impairment on Sukuk securities designated at FVTOCI amounting to AED 1,714 thousand (2020: AED 2,981 thousand) is included in fair value reserve of investments carried at FVTOCI and recognised in other comprehensive income.

14 INVESTMENT SECURITIES continued

The investment security risk grade analysis based on external ratings is shown below:

	2021 *AED'000*	*2020* *AED'000*
A+ to A-	**1,527,948**	1,314,715
BBB+ to BBB-	**1,159,726**	903,038
BB+ to BB-	**163,638**	303,387
Unrated	**515,958**	545,859
	3,367,270	3,066,999

In case of more than one rating by three external credit risk agencies (S&P, Fitch and Moody's), the lowest rating is applied.

Unrated Sukuk includes sovereign exposures to a local government in the UAE amounting to AED 480,917 thousand (2020: AED 494,195 thousand).

15 INVESTMENT PROPERTIES

The fair value of the Group's investment property is categorised into level 3 of the fair value hierarchy. The fair value of the investment property was determined by an external, independent property valuer having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. To arrive at the current market value of the property, the sale price per square foot of comparable properties was utilized. Change in the fair value for the year 2021 resulted in a loss of AED 2,000 thousand (2020: AED 1,875 thousand) which was recorded under other operating income (note 28).

16 PROPERTY AND EQUIPMENT, NET

Property and equipment at 31 December 2021 comprise:

	Land and building *AED'000*	Leasehold improvements *AED'000*	Computer systems *AED'000*	Furniture and fixtures *AED'000*	Right Of use asset *AED'000*	Capital work in progress *AED'000*	Total *AED'000*
Cost:							
At 1 January 2021	630,641	173,236	353,872	53,528	57,591	9,693	1,278,561
Additions	6,070	1,423	6,173	1,320	12,757	86,422	114,165
Transfers	-	-	4,886	-	-	(4,886)	-
Disposals	-	(496)	(4,881)	(27)	(120)	(845)	(6,369)
Translation adjustments	(177)	(137)	(211)	(60)	(579)	-	(1,164)
At 31 December 2021	**636,534**	**174,026**	**359,839**	**54,761**	**69,649**	**90,384**	**1,385,193**
Accumulated depreciation and impairment:							
At 1 January 2021	312,639	101,959	307,297	27,940	31,167	-	781,002
Charge for the year	10,016	16,692	23,215	1,598	11,231	-	62,752
Disposals	-	(218)	(3,675)	(27)	-	-	(3,920)
Translation adjustments	(31)	(101)	(116)	(44)	(238)	-	(530)
At 31 December 2021	**322,624**	**118,332**	**326,721**	**29,467**	**42,160**	-	**839,304**
Net book value:							
At 31 December 2021	**313,910**	**55,694**	**33,118**	**25,294**	**27,489**	**90,384**	**545,889**

Included in land and building are three plots of land granted by the Government to the Bank with each having a carrying value of AED 1.

16 PROPERTY AND EQUIPMENT, NET continued

Property and equipment at 31 December 2020 comprise:

	Land and building AED'000	Leasehold improvements AED'000	Computer systems AED'000	Furniture and fixtures AED'000	Right Of use asset AED'000	Capital work in progress AED'000	Total AED'000
Cost:							
At 1 January 2020	630,833	171,344	335,286	63,739	50,809	12,756	1,264,767
Additions	-	1,296	12,989	1,067	9,733	4,823	29,908
Transfers	-	1,291	5,867	-	-	(7,158)	-
Disposals	-	-	(297)	(11,382)	(1,751)	(728)	(14,158)
Translation adjustments	(192)	(695)	27	104	(1,200)	-	(1,956)
At 31 December 2020	630,641	173,236	353,872	53,528	57,591	9,693	1,278,561
Accumulated depreciation and impairment:							
At 1 January 2020	305,819	84,813	283,027	38,078	18,700	-	730,437
Charge for the year	6,904	17,364	24,770	1,264	12,841	-	63,143
Disposals	-	-	(297)	(11,310)	(38)	-	(11,645)
Translation adjustments	(84)	(218)	(203)	(92)	(336)	-	(933)
At 31 December 2020	312,639	101,959	307,297	27,940	31,167	-	781,002
Net book value:							
At 31 December 2020	318,002	71,277	46,575	25,588	26,424	9,693	497,559

Included in land and building are three plots of land granted by the Government to the Bank with each having a carrying value of AED 1.

17 INVESTMENT IN ASSOCIATES

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

Name of associate	Principal activity	Proportion of ownership 2021	2020
GCC Equity Fund	Investment	**81.80%**	75.60%
Global Sukuk Fund	Investment	**11.82%**	10.14%

All of the above associates are incorporated in UAE and are accounted for using the equity method in consolidated financial statements as set out in the Group's accounting policies in note 3.

The latest available audited financial information in respect of the Group's associates is as follows:

	GCC Equity Fund 2021 AED'000	*Global Sukuk Fund 2021 AED'000*
Total assets	20,824	342,358
Total liabilities	785	1,713
Net assets	20,039	340,645
Bank's share in net assets of associates	16,392	40,264
Total revenue	5,339	9,604
Profit for the year	3,763	5,224
Bank's share in profit of associates	3,078	617

18 OTHER ASSETS

	2021 AED'000	*2020 AED'000*
Financial assets		
Income receivable	**38,780**	38,614
Others	**55,740**	46,223
	94,520	84,837
Non financial assets		
Murabaha inventory	**64,500**	19,116
Prepaid expenses	**12,634**	10,383
Prepaid staff allowances	**3,306**	4,264
	80,440	33,763
	174,960	118,600

19 DEPOSITS FROM CUSTOMERS

	2021 AED'000	2020 AED'000
By account:		
Wakala deposits	**512,573**	1,853,569
Current accounts	**2,029,100**	2,174,778
Savings accounts	**4,185,687**	4,199,360
Time deposits	**1,508,690**	1,344,756
	8,236,050	9,572,463
Industry:		
Consumers	**6,452,608**	6,737,584
Corporate	**1,506,154**	2,565,382
Government	**87,096**	92,428
GRE and Public related entities	**190,192**	177,069
	8,236,050	9,572,463
Geographic region:		
UAE	**7,275,210**	8,516,168
Kazakhstan	**880,772**	991,027
Others	**80,068**	65,268
	8,236,050	9,572,463

During the year ended 31 December 2021, deposits from customers amounting to AED 603 thousand (2020: AED 38 thousand) were transferred to ADCB.

20 MEDIUM TERM FINANCING

Medium Term Sukuk

On 19 September 2018, the Bank through a Shariah compliant Sukuk arrangement raised a medium term Sukuk at a discount amounting to AED 1,828,805 thousand (Par value of USD 500,000 thousand) under the USD 2,500,000 thousand Trust Certificate Programme which was updated in August 2018. The Sukuk is listed on the Irish Stock Exchange (Euronext Dublin). The issuance has a contractual maturity of five years and bears an expected profit rate of 4.375%.

20 MEDIUM TERM FINANCING continued

Terms of arrangement
The terms of the arrangement include transfer of the ownership of certain assets ("the Co-Owned Assets"), including original Ijara assets of the Bank, to a Sukuk company, AHB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the Sukuk transaction. The assets are owned by the investors; however, the assets are managed by the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semiannual amount payable to the Sukuk holders on the distribution dates. Upon maturity of the Sukuk, the Issuer will have the right to require the Bank to purchase all of the co-owned Assets for payment of the relevant dissolution distribution amount under Sukuk which includes the outstanding face amount of Sukuks and any accrued but unpaid periodic distribution.

International Reverse Murabaha

In 2018, the Bank entered into two international collateralized reverse murabaha agreements with a financial institution with a contractual maturity of two years, bearing an expected profit rate that ranges from 3.7% to 3.9%. Both of the agreement have matured during 2020.

In 2020, the Bank entered into international reverse murabaha agreements with JSC DAMU Entrepreneurship Development Fund. As at 31 December 2021, the outstanding balance amounted to AED 86,429 thousand (2020: AED 89,091 thousand) with a contractual maturity of seven years and bears an expected profit rate that ranges from 8.5% to 9.5%.

21 OTHER LIABILITIES

	2021 *AED'000*	*2020* *AED'000*
Financial liabilities		
Accounts payable	**79,627**	63,567
Deferred income	**48,965**	-
Lease liability	**21,417**	19,714
Charity payable	**7,201**	29,960
Others	**49,247**	62,358
	206,457	175,599
Non financial liabilities		
Accrued expenses	**196,372**	171,876
Provision on unfunded facilities (note 30)	**49**	10,495
Advance administrative fees	**76**	130
	196,497	182,501
	402,954	358,100

Accrued expenses also include an amount of AED 13,433 thousand (2020: AED 13,235 thousand) of depositor's profit reserve and the zakat due on these reserves. The Group is discharging this Zakat on behalf of the depositors.

Charity payable represents profits forfeited by the Internal Shariah Supervision Committee, late payment amount and over limit fees.

21 OTHER LIABILITIES continued

Defined benefit obligation
The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2021 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 2.39% p.a. (2020: 1.68% p.a.)
Salary increment rate: 2.75% p.a. (2020: 3.00% p.a.)

Demographic assumptions for mortality and retirement were used in valuing the liabilities and benefits under the plan.

The liability would be higher by AED 1,242 thousand (2020: AED 1,315 thousand) had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 1,173 thousand (2020: AED 1,234 thousand) had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 1,070 thousand (2020: AED 1,104 thousand) had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 1,001 thousand (2020: AED 1,048 thousand) had the salary increment rate used in the assumption been lower by 0.50%.

22 SHARE CAPITAL AND STATUTORY RESERVE

Share capital
As at 31 December 2021, the authorized share capital of the Bank comprises of 5,250,000 thousand ordinary shares of AED 1 each. The issued and fully paid up share capital as at 31 December 2021 comprise of 4,750,000 thousand ordinary shares of AED 1 each.

After the effective date of merger and acquisition, ADCB holds 100% of the issued and paid share capital. The Bank's shares are not listed on a recognised stock exchange.

Statutory reserve
The UAE Federal Law No.2 of 2015 and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. Transfers to the statutory reserve, if any, are made at year end. For the year ended 31 December 2021, transfer of AED 4,834 thousand (2020: AED 1,342 thousand) was made during the year.

23 OTHER RESERVES

	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Total AED'000
1 January 2020	73,588	(199,577)	(125,989)
Net loss on investment securities designated at fair value through other comprehensive income	(4,217)	-	(4,217)
Exchange differences on translation of foreign operations	-	(16,147)	(16,147)
1 January 2021	**69,371**	**(215,724)**	**(146,353)**
Net gain on investment securities designated at fair value through other comprehensive income	**3,133**	-	**3,133**
Exchange differences on translation of foreign operations	-	**(5,189)**	**(5,189)**
31 December 2021	**72,504**	**(220,913)**	**(148,409)**

24 INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET

	2021 AED'000	*2020 AED'000*
Income from Murabaha – retail	**352,575**	412,459
Income from Murabaha – corporate	**50,765**	38,431
	403,340	450,890

25 INCOME FROM IJARA, NET

	2021 AED'000	2020 AED'000
Income from Ijara – retail	77,879	102,094
Income from Ijara – corporate	340	1,904
	78,219	103,998

26 FEES AND COMMISSION INCOME, NET

	2021 AED'000	2020 AED'000
Card related fee	58,216	48,482
Trade finance commission	151	191
Finance processing fee	5,127	3,792
Insurance commission	559	5,752
Accounts related fee	1,744	1,555
Asset management services	2,629	1,530
Others	4,061	2,670
	72,487	63,972
Fees and commission expenses	(40,449)	(32,487)
	32,038	31,485

27 TRADING INCOME, NET

	2021 AED'000	2020 AED'000
Net gains from dealing in foreign currencies	10,782	6,952
	10,782	6,952

28 OTHER OPERATING INCOME

	2021 AED'000	2020 AED'000
Dividends income	263	-
Net gain from non trading investments	10,084	14,055
Others	14,691	3,533
	25,038	17,588

29 OPERATING EXPENSES

	2021 AED'000	2020 AED'000
Personnel and related expenses	215,411	221,429
Rent expenses	4,603	6,666
Legal and professional fees	28,088	11,674
Software maintenance	29,709	26,826
Communication expenses	14,549	12,126
Premises expenses	16,433	23,416
Marketing and advertising expenses	20,583	9,468
Hardware maintenance	3,406	6,780
Printing and office supplies	1,891	3,485
VAT expenses	10,993	3,097
Other expenses	15,013	57,038
	360,679	382,005

30 IMPAIRMENT ALLOWANCE

	2021 AED'000	2020 AED'000
At the beginning of the year	**235,570**	499,245
Allowances for impairment made during the year	**78,990**	51,870
Unwinding on renegotiated financings	**(8,259)**	(9,698)
Net amounts written-off	**(84,912)**	(305,574)
Currency translation	**(293)**	(273)
At end of the year	**221,096**	235,570
Impairment charges, net		
Allowances for impairment made during the year	**78,990**	51,870
Recoveries during the year	**(63,234)**	(41,906)
Net charge for the year	**15,756**	9,964

As at 31 December 2021, net amount written off includes impairment allowance of AED 254 thousand (2020: AED 40,913 thousand) transferred to ADCB as part of corporate portfolio transfer.

	2021 AED'000	2020 AED'000
Deposits & balances due from banks, net	**115**	331
Receivables from Islamic financing activities	**163,700**	159,076
Ijara	**55,518**	62,687
Investment securities	**1,714**	2,981
Other liabilities	**49**	10,495
	221,096	235,570

31 DEPOSITORS' AND SUKUK HOLDERS' SHARE OF PROFITS

	2021 AED'000	2020 AED'000
Wakala	**25,870**	105,370
Medium term financing	**92,281**	89,271
Mudaraba	**35,837**	44,745
	153,988	239,386

The Bank invests all of its investment deposits including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements. With respect to investment deposits, the Bank is liable only in case of willful misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

32 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than three months:

	2021 *AED'000*	*2020* *AED'000*
Cash and balances with central banks	**1,365,370**	1,118,713
Deposits & balances due from banks (note 11)	**404,345**	450,761
Wakala deposits from banks	**(1,274,162)**	(474,536)
	495,553	1,094,938

33 COMMITMENTS AND CONTINGENCIES

	2021 *AED'000*	*2020* *AED'000*
Letters of guarantee	**35,019**	59,305
Revocable commitments to extend credit	**561,346**	445,086
Irrevocable commitments to extend credit	-	2,565
Capital commitments	**87,084**	14,381
Operating lease commitments	**1,583**	1,247

As at 31 December 2021, ECL on unfunded exposures amounted to AED 49 thousand (2020: AED 10,495 thousand).

34 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve Islamic derivative financial instruments. Islamic derivative financial instruments include Islamic promises to exchange currency and / or cash flows.

Islamic derivatives are measured at fair value by reference to published price quotations in an active market, counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of Islamic derivative financial instruments together with the notional amounts.

The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

34 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS continued

	Positive market value AED'000	*Negative market value AED'000*	*Notional amount AED'000*	*Less than 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*	*Total AED'000*
31 December 2021							
Islamic derivatives held for hedging purposes							
Profit rate swaps	-	**(81,889)**	**1,411,751**	-	**54,861**	**1,356,890**	**1,411,751**
	-	**(81,889)**	**1,411,751**	-	**54,861**	**1,356,890**	**1,411,751**
31 December 2020							
Islamic derivatives held for hedging purposes							
Profit rate swaps	-	(157,583)	1,428,693	-	-	1,428,693	1,428,693
	-	(157,583)	1,428,693	-	-	1,428,693	1,428,693

35 LIQUIDATION OF A SUBSIDIARY

Al Hilal Auto LLC ("Subsidiary") was discontinued during the year 2016. During 2021, liquidation procedures of the subsidiary were almost completed and pending for the cancellation of license to be issued from the relevant authorities. The carrying value of net identifiable asset and liabilities of the subsidiary at the date of liquidation were as follows:

	2021 AED'000
Statement of Financial Position	
Cash and balances with central banks	**3,684**
Property and equipment	-
Other assets	-
Total assets	**3,684**
Other liabilities	-
Total liabilities	-
Total identifiable net assets	**3,684**

The results of the Group includes subsidiary's other income of AED 80 thousand in the consolidated statement of comprehensive income.

36 GROUP ENTITIES

Subsidiaries	*Country of incorporation*	*Ownership 2021*	*Ownership 2020*
Al Hilal Auto LLC*	UAE	**100%**	100%
Al Hilal Islamic Bank PJSC	Kazakhstan	**100%**	100%
Al Hilal Leasing LLP	Kazakhstan	**100%**	100%
AHB Sukuk Company Limited**	Cayman	-	-

* Al Hilal Auto LLC was discontinued during the year 2016 and liquidation procedures of the subsidiary were almost completed during 2021 and pending for the cancellation of license to be issued from the relevant authorities. Please refer to Note 35 for further details.

**The Group does not have direct holding in AHB Sukuk Company Limited, which is considered to be a subsidiary by virtue of control.

37 RELATED PARTIES

Identification of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise the Shareholder, directors and key management personnel of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

The Group enters into transactions with the Parent and its related entities, associates, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at commercial profit and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Parent and ultimate controlling party

ADCB holds 100% of the Group issued and fully paid up share capital. Mubadala Investment Company holds 60.20% of ADCB's issued and fully paid up share capital through its wholly owned subsidiary One Hundred and Fourteenth Investment Company – Sole Proprietorship LLC (December 31, 2020 – 60.20% held by Mubadala Investment Company through Abu Dhabi Investment Council Company PJSC). The Government of Abu Dhabi owns 100% of Mubadala Investment Company and so the ultimate controlling party is the Government of Abu Dhabi.

Compensation of directors and key management personnel

Key management remuneration for the years ended 31 December 2021 and 31 December 2020 comprise:

	2021 ***AED'000***	*2020* *AED'000*
Short term employment benefits	**15,872**	15,576
Post employment benefits	**5,012**	4,960

For the year ended 31 December 2021 short term employment benefits includes termination cost of AED 680 thousand (2020: AED 611 thousand).

Terms and conditions

Islamic financing and deposits are granted and accepted in various currency denominations and for various time periods from related parties. Profit rates earned on Murabaha financing facilities extended to related parties during the year have ranged from 0.01% to 3.50% per annum (2020: 0.88% to 4.91% per annum).

Profit distribution rates paid on customers' investment accounts placed by related parties during the year have ranged from 0.08% to 3.80% per annum (2020: 0.33% to 3.80% per annum).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.40% to 3.00% per annum (2020: 0.40% to 3.00% per annum).

Collaterals against financing to related parties range from being unsecured to fully secure.

Except for transactions carried out with the ultimate Parent and its group of companies, all transactions with the government and its related concerns are deemed to occur within the normal course of business.

37 RELATED PARTIES continued

Particulars of transactions with related parties, disclosed pursuant to the requirements of IAS 24, are shown below. The balances and transactions with related parties comprise:

	Balances: 31 December 2021				
	Ultimate controlling party and its related parties AED'000	***Directors and related parties AED'000***	***Key management personnel AED'000***	**Associates and Funds under *management* *AED'000***	***Total AED'000***
Deposits & balances due from banks, net	**300,000**	-	-	-	**300,000**
Receivables from Islamic financing activities and Ijara	-	-	**8,252**	-	**8,252**
Investment securities	**102,851**	-	-	-	**102,851**
Other assets	**11,801**	-	**8**	-	**11,809**
Deposits from customers	**16,922**	**971**	**1,391**	-	**19,284**
Wakala deposits from banks	**1,248,820**	-	-	-	**1,248,820**
Islamic derivative financial instruments - liabilities	**73,348**	-	-	-	**73,348**
Other liabilities	**16**	-	-	-	**16**
Commitments and contingent liabilities	**40**	-	**268**	-	**308**

	Balances: 31 December 2020				
	Ultimate controlling party and its related parties AED'000	Directors and related parties AED'000	Key management personnel AED'000	Associates and Funds under management AED'000	Total AED'000
Deposits & balances due from banks, net	300,000	-	-	-	300,000
Receivables from Islamic financing activities and Ijara	-	9,463	954	-	10,417
Investment securities	-	-	-	-	-
Other assets	3,975	12	-	-	3,987
Deposits from customers	10,850	342	2,387	-	13,579
Wakala deposits from banks	183,650	-	-	-	183,650
Islamic derivative financial instruments - liabilities	140,205	-	-	-	140,205
Other liabilities	16	-	-	-	16
Commitments and contingent liabilities	40	237	271	-	548

37 RELATED PARTIES continued

	Transactions: 31 December 2021				
	Ultimate controlling party and its related parties AED'000	*Directors and related parties AED'000*	*Key management personnel AED'000*	***Associates and Funds under** management AED'000*	*Total AED'000*
Profit income, fees and other income	**33,233**	**13**	**120**	**2,068**	**35,434**
Depositors' and sukuk holders' share of profits	**1,114**	**1**	**1**	**-**	**1,116**
Share in profit of associate	-	-	-	**3,695**	**3,695**

	Transactions: 31 December 2020				
	Ultimate controlling party and its related parties AED'000	Directors and related parties AED'000	Key management personnel AED'000	Associates and Funds under management AED'000	Total AED'000
Profit income, fees and other income	(87,489)	612	46	718	(86,113)
Depositors' and sukuk holders' share of profits	3,845	-	5	-	3,850
Share in profit of associate	-	-	-	4,283	4,283

The Bank entered into a profit rate swap, where the loss was with a related party and the gain with a non-related party.

38 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

Name of entity	***Interest held by the Group 2021***	*Interest held by the Group 2020*
Al Hilal Global Sukuk Fund	**Associate (note 17)**	Associate (note 17)
Al Hilal GCC Equity Fund	**Associate (note 17)**	Associate (note 17)

39 FUND MANAGEMENT AND FIDUCIARY ACTIVITIES

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

The management fees earned by the Group from its fund management activities as per latest financial statements dated 31 December 2021 was AED 2,068 thousand (2020: AED 718 thousand).

40 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 25,441 thousand and accordingly, Zakat is estimated at AED 0.0054 per outstanding share.

41 CORONAVIRUS (COVID-19) OUTBREAK AND ITS IMPACT ON THE BANK

The Covid-19 pandemic has caused an unprecedented human health crisis and economic impact. While the initial acute phase of the financial crisis has eased, firms and policy-makers remain concerned about a range of risks that could present a threat to financial stability and, ultimately, the economic recovery.

In response to this crisis, the Central Bank of UAE (CBUAE) has instituted measures in the UAE to support businesses and households. Some of the measures announced by the CBUAE under Targeted Economic Support Scheme (TESS), which would mitigate the impact of Covid-19, are discussed below.

i) Temporary relief to customers

Under the TESS deferral program, temporary relief from payments of principal and/or profit on outstanding financing was granted to all Covid-19 affected private sector corporates, small and medium enterprises, and individuals domiciled in UAE. To incentivize UAE banks to participate in the TESS deferral programme and to improve their financing capacity, CBUAE has granted AED 50 billion zero cost funding (ZCF) facility (capital buffer) for the entire banking industry till December 31, 2021.

In addition to TESS deferral program, CBUAE also provided TESS recovery program zero cost funding facility until June 30, 2022 for the entire banking industry. Under the TESS recovery program, Banks can offer working capital facilities and/or any other new financing to customers negatively impacted by Covid-19 repercussions.

41 CORONAVIRUS (COVID-19) OUTBREAK AND ITS IMPACT ON THE BANK continued

ii) Liquidity and capital stimulus package

The pandemic had a significant negative impact on the liquidity/funding and capital risks and profile of the banking system. Governments around the world had to intervene to provide various stimulus packages to mitigate the adverse effects of the crisis. CBUAE has also introduced the following stimulus package relating to liquidity and capital requirements, to support the banking industry in the UAE through this disruption, for banks that entirely pass on the TESS related benefits to end customers:

- CBUAE has a reduced requirement of maintaining a minimum liquidity coverage ratio (LCR) of 70% (from 100%), minimum net funding ratio (NSFR) of 90% (from 100%), and minimum eligible liquid assets ratio (ELAR) of 7% (from 10%). This liquidity can be used to compensate for the effect of posting collateral required by the TESS programme.
- To improve liquidity within UAE banking system, the CBUAE halved the reserve requirement for demand deposit of all banks from 14% to 7%.
- To counter volatility in financial markets and its impact on regulatory capital, CBUAE has issued a new requirement for all banks to apply a prudential filter to IFRS 9 expected credit loss (ECL) provisions. Any increase in the provisioning compared to December 31, 2019, will be partially added back to regulatory capital, while IFRS 9 provisions will be gradually phased-in during a five-year period, ending December 31, 2024.
- The CBUAE has allowed banks to tap into capital conservation buffer and domestic systemically important banks (D-SIB) to the extent of 60% and 100%, respectively till December 31, 2021.
- Planned implementation of certain Basel III capital requirements will be postponed till the end of 2021 (Basel III part 2) and the second quarter of 2022 (Basel III part 3).

In response to this crisis, the Bank continues to monitor and respond to all liquidity and funding requirements, and as at the reporting date, the liquidity, funding and capital position of the Bank remains strong and is well placed to absorb the impact of the current disruption.

IASB Guidance and Joint Guidance issued by the Central Bank of UAE, Dubai Financial Services Authority (the "DFSA") and the Financial Services Regulatory Authority (the "FSRA")

During 2020, the CBUAE, the DFSA and the FSRA issued a Joint Guidance on the treatment of IFRS 9 provisions in the context of the Covid-19 crisis (Joint Guidance), which was designed to be in effect for the duration of the TESS program. The Guidance allows banks to classify accounts subject to deferrals, according to a flexible grouping approach rather than the more stringent staging based on automatically applying significant increase in credit risk (SICR) criteria under IFRS 9. This staging classification applies to (i) all clients benefitting from deferrals granted under the TESS deferral program and (ii) those granted separately from that program.

The TESS deferral program has formally concluded as of December 31, 2021.

Impact of Covid-19 on the Bank

Al Hilal Bank, has a retail portfolio primarily of UAE Nationals employed in government owned entities. This is a segment that was largely insulated from job losses and salary reductions during the pandemic, and as such the impact on this portfolio was considerably muted.

The Group had drawn AED 60,372 thousand of the TESS related funds allocated to it during 2020 and passed on AED 60,372 thousand of these funds to 4,725 customers by means of payment deferrals during the year. Payment deferrals were given to retail customers in line with the Central Bank regulations ensuring that the customers impacted by Covid are supported by temporary payment deferrals. The bank returned the payment deferrals under TESS to Central Bank during 2020. The customers who availed the deferral benefits have either repaid, settled or have been written-off during the year and have regular credit processes and policies applied to them.