



**AL AHLI BANK OF KUWAIT  
(K.S.C.P.) - UNITED ARAB EMIRATES  
(UAE) BRANCHES**

**REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021**

## **Al Ahli Bank of Kuwait (K.S.C.P.) - United Arab Emirates (UAE) Branches**

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## INDEPENDENT AUDITOR'S REPORT

**The Head Office of  
Al Ahli Bank of Kuwait (K.S.C.P.)  
United Arab Emirates (UAE) Branches**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Al Ahli Bank of Kuwait – UAE Branches (the “Branches”), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in the Head office account and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

#### **Basis for opinion**

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

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

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

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

Those charged with governance are responsible for overseeing the Branches’ financial reporting process.

#### **Auditor’s responsibilities for the audit of the financial statements**

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

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## INDEPENDENT AUDITOR'S REPORT

To the Head Office of Al Ahli Bank of Kuwait (K.S.C.P.) United Arab Emirates (UAE) Branches (continued)

### Auditor's responsibilities for the audit of the financial statements (continued)

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

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

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

### Report on other legal and regulatory requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- the Branches have maintained proper books of account;
- the Branches have not made any investments in shares during the year ended 31 December 2021;
- note 21 to the financial statements discloses material related party transactions and the terms under which they were conducted; and
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Branches have contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which materially affect its activities or its financial position as at 31 December 2021.

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

### Deloitte & Touche (M.E.)



Musa Ramahi

Registration No. 872

15 February 2022

Dubai, United Arab Emirates

**AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES**
**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2021**

	Notes	2021 AED'000	2020 AED'000
<b>ASSETS</b>			
Cash and balances with Central Bank	4	185,528	926,990
Due from banks	5	271,661	440,786
Investment securities	6	599,884	-
Loans and advances, net	7	2,723,686	2,430,493
Other assets	8	8,452	15,564
Property and equipment		23,311	24,613
<b>Total assets</b>		<b>3,812,522</b>	<b>3,838,446</b>
<b>LIABILITIES AND HEAD OFFICE ACCOUNT</b>			
<b>Liabilities</b>			
Due to banks	10	356,242	9,157
Customer deposits	11	2,864,882	3,246,449
Other liabilities	12	61,558	67,547
<b>Total liabilities</b>		<b>3,282,682</b>	<b>3,323,153</b>
<b>Head Office account</b>			
Designated capital	13	390,000	390,000
Statutory reserve	14	38,877	37,411
Voluntary reserve		131	131
Investments revaluation reserve		(115)	-
Property revaluation surplus		8,377	8,377
General impairment reserve	22	16,235	16,235
Retained earnings		76,335	63,139
<b>Total Head Office account</b>		<b>529,840</b>	<b>515,293</b>
<b>Total liabilities and Head Office account</b>		<b>3,812,522</b>	<b>3,838,446</b>



Chief Executive Officer



Executive Manager - Finance

**AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**For the year ended 31 December 2021**

	Notes	2021 AED'000	2020 AED'000
Interest income	15	74,419	105,431
Interest expense	16	(20,123)	(45,294)
<b>Net interest income</b>		<b>54,296</b>	60,137
Net fees and commission income	17	17,529	18,192
Net foreign exchange gain		4,912	6,227
<b>Total operating income</b>		<b>76,737</b>	84,556
Staff costs		(41,015)	(40,881)
General and administrative expenses		(24,794)	(24,029)
<b>Operating expenses</b>		<b>(65,809)</b>	(64,910)
<b>Profit for the year before provisions</b>		<b>10,928</b>	19,646
Impairment losses reversed/(charged) on financial assets	18	3,734	(194,528)
<b>Net profit/(loss) for the year before tax</b>		<b>14,662</b>	(174,882)
<b>Net profit/(loss) for the year</b>		<b>14,662</b>	(174,882)
<b>Other comprehensive loss</b>			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation of freehold land		-	(2,200)
<i>Items that will be reclassified subsequently to profit or loss:</i>			
Fair value loss on investments in debt instruments measured at FVTOCI		(115)	-
<b>Total comprehensive income/(loss) for the year</b>		<b>14,547</b>	(177,082)

**AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES**
**STATEMENT OF CHANGES IN THE HEAD OFFICE ACCOUNT**
**For the year ended 31 December 2021**

	Designated capital AED '000	Statutory reserve AED '000	Voluntary reserve AED '000	Investments revaluation reserve AED '000	Property revaluation surplus AED '000	General impairment reserve AED '000	Retained earnings AED '000	Total AED '000
<b>As at 1 January 2021</b>	390,000	37,411	131	-	8,377	16,235	63,139	515,293
Profit for the year	-	-	-	-	-	-	14,662	14,662
Other comprehensive loss for the year	-	-	-	(115)	-	-	-	(115)
<b>Total comprehensive (loss)/income for the year</b>	-	-	-	(115)	-	-	14,662	14,547
Transfer to statutory reserve	-	1,466	-	-	-	-	(1,466)	-
<b>Balance as at 31 December 2021</b>	<b>390,000</b>	<b>38,877</b>	<b>131</b>	<b>(115)</b>	<b>8,377</b>	<b>16,235</b>	<b>76,335</b>	<b>529,840</b>
<b>As at 1 January 2020</b>	390,000	37,411	131	-	10,577	16,235	238,021	692,375
Loss for the year	-	-	-	-	-	-	(174,882)	(174,882)
Other comprehensive loss for the year	-	-	-	-	(2,200)	-	-	(2,200)
<b>Total comprehensive loss for the year</b>	-	-	-	-	(2,200)	-	(174,882)	(177,082)
<b>Balance as at 31 December 2020</b>	<b>390,000</b>	<b>37,411</b>	<b>131</b>	<b>-</b>	<b>8,377</b>	<b>16,235</b>	<b>63,139</b>	<b>515,293</b>

The accompanying notes form integral part of these financial statements.

**STATEMENT OF CASH FLOWS**
**For the year ended 31 December 2021**

	Notes	2021 AED'000	2020 AED'000
<b>Cash flows from operating activities</b>			
Net profit/(loss) before tax		14,662	(174,882)
Adjustments for:			
Depreciation of property and equipment		2,094	2,867
Impairment losses charged on financial assets	18	7,701	208,736
		<hr/>	<hr/>
<b>Cash generated from operations before changes in operating assets and liabilities</b>		<b>24,457</b>	<b>36,721</b>
<i>Changes in operating assets and liabilities:</i>			
Deposits with Central Bank with original maturity of more than thirty days	4	700,000	(325,000)
Deposits with bank with original maturity of more than thirty days	5	73,450	(308,490)
Loans and advances		(306,459)	(459,076)
Other assets		7,112	8,978
Customer deposits	11	(381,567)	311,031
Due to banks - time deposits	10	300,000	-
Due to banks with original maturity of more than thirty days		-	(70,000)
Other liabilities		1,661	1,553
		<hr/>	<hr/>
<b>Net cash generated/(used) in operations</b>		<b>418,654</b>	<b>(804,283)</b>
<b>Cash flows from investing activity</b>			
Purchase of Monetary bills issued by UAE Central Bank	6	(599,884)	-
Purchase of property and equipment		(2,992)	(520)
		<hr/>	<hr/>
<b>Net cash used in investing activity</b>		<b>(602,876)</b>	<b>(520)</b>
<b>Net decrease in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		(184,222)	(804,803)
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>		<b>350,129</b>	<b>1,154,932</b>
<b>Cash and cash equivalents comprise:</b>			
Cash on hand and balances with UAE Central Bank	4	185,528	226,990
Deposits and current account with banks	5	36,621	132,296
Due to banks	10	(56,242)	(9,157)
		<hr/>	<hr/>
		<b>165,907</b>	<b>350,129</b>
		<hr/>	<hr/>

**1. Incorporation and principal activities**

The financial statements of Al Ahli Bank of Kuwait (K.S.C.P.) United Arab Emirates Branches (the “Branches”) relate to the activities of the Abu Dhabi Branch and the Dubai Branch of Al Ahli Bank of Kuwait K.S.C.P. (the “Head Office” or the “Bank”), a public shareholding company incorporated in Kuwait on 23 May 1967 and is registered as a Bank with the Central Bank of Kuwait.

The Branches operate under separate licences issued by the UAE Central Bank and are engaged in banking activities. The registered address of the Branches and Head Office are as follows:

- Dubai Branch - P.O. Box 1719, Abu Baker Al Siddique Street, Dubai, United Arab Emirates
- Abu Dhabi Branch - P.O. Box 7941, Abu Dhabi, United Arab Emirates
- Head Office - P.O. Box 1387, Safat, Kuwait City, Kuwait.

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of Head Office, Branch registered under the Dubai International Financial Centre (“DIFC”) and other branches of the Head Office outside United Arab Emirates. Since the capital of the Branches is not publicly traded, no segmental analysis is provided.

**2. Application of new and revised international financial reporting standards (IFRSs)****2.1 New and revised IFRSs applied on the financial statements**

The Branches applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021. The Branches have not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The significant amendments are as follows:

*Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16*

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).

The amendments include the following practical expedients:

- ▶ A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest
- ▶ Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued
- ▶ Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

*Managing interest rate benchmark reform and associated risks*

A fundamental reform of major interest rate benchmarks is being undertaken globally, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as ‘IBOR reform’). The Branches’ main exposure as at 31 December 2021 was to US dollar LIBOR. The alternative reference rate for US dollar LIBOR it is the Secured Overnight Financing Rate (SOFR). Assessment to financial instruments with contractual terms indexed to SOFR such that they incorporate new benchmark rates were completed by 31 December 2021. Although US dollar LIBOR was planned to be discontinued by the end of 2021, in November 2020 the ICE Benchmark Administration (IBA), the FCA-regulated and authorised administrator of LIBOR, announced that USD LIBORs for certain tenors will be published till June 2023, however, the rates will be applicable for only legacy contracts. As of 31 December 2021, it is apparent that financial institutions will have to ensure the transition of legacy trades from Libor to SOFR by second quarter of 2023.

Further, all new trades initiated after 1 January 2022 shall be initiated based on new Alternative Reference Rate (ARR).

**2. Application of new and revised international financial reporting standards (IFRSs) (continued)**
**2.1 New and revised IFRSs applied on the financial statements (continued)**

The IBOR steering committee monitors and manages the Bank's transition to ARR. The committee evaluates the existing contracts, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee collaborates with other business functions as needed and also evaluates the changes required in internal policies and models. The committee meets once in a month to review the implementation status.

***Non-derivative financial assets and financial liabilities***

The Branches' major LIBOR exposures to non-derivative financial assets as at 31 December 2021 were loans and advances and exposures to non-derivative financial liabilities were deposits indexed mainly to US dollar IBOR. In respect of US dollar exposures, the Branches will perform transition of these contracts to alternative reference rates through bilateral agreements not later than June 2023.

***Derivatives and Hedge accounting***

The Branches do not have any exposure to USD LIBOR hedging instruments maturing after June 2023.

***Total amounts of unreformed contracts, including those with an appropriate fallback clause***

The Branches considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, (referred to as an 'unreformed contract').

The following table shows the total amounts of unreformed contracts and those with appropriate fallback language at 31 December 2021. The amounts are shown at their carrying amounts.

	<i>USD LIBOR</i>	
	<i>Total amount of unreformed contracts</i>	<i>Amount with appropriate fallback clause</i>
	<i>AED'000</i>	<i>AED'000</i>
<b>31 December 2021</b>		
<i>Non derivative</i>		
<b>Loans and advances</b>	521,670	-

Other amendments which are applicable for the annual period ended 31 December 2021 do not have any impact on the financial statement of the Branches.

**2.2 New and amended IFRSs in issue but not yet effective and not early adopted**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Branches' financial statements are disclosed below. The Branches intend to adopt these new and amended standards and interpretations, if applicable, when they become effective.

***Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16***

In May 2020, the IASB issued amendments to IAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

**2. Application of new and revised international financial reporting standards (IFRSs) (continued)****2.2 Standards and revisions issued but not yet effective (continued)***Definition of Accounting Estimates - Amendments to IAS 8*

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

*Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2*

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The above amendments are not expected to have a material impact on the financial statements of the Branches.

**3. Significant accounting policies****Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB) and applicable requirements of the laws of the U.A.E., including the UAE Federal Law No. 2 of 2015 (as amended) and the Decretal Federal Law No. (14) of 2018.

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

**Basis of preparation**

The financial statements have been prepared on the historical cost basis except for freehold land and financial instruments that are measured at fair values as explained in the accounting policies below.

**Functional and reporting currency**

The financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Branches, rounded to the nearest thousand except when otherwise stated.

The principal accounting policies applied in preparation of these financial statements are set out below.

**Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, due from banks and UAE Central Bank with original maturities not exceeding thirty days net of due to banks (excluding time deposits) with original maturity not exceeding thirty days for the purposes of cash flow statement.

**3. Significant accounting policies (continued)**
**Property and equipment**

Property and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful lives.

Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at its revalued amount which is the fair value at the date of revaluation based on valuations by external independent valuers. The resulting revaluation surplus or deficit is recognised, as a separate component under other comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised surplus is recognised in the statement of profit or loss and other comprehensive income. To the extent that a revaluation surplus reverses a revaluation decrease previously recognised in the statement of profit or loss and other comprehensive income, the increase is recognised in the statement of profit or loss and other comprehensive income. Upon disposal, the revaluation surplus relating to the freehold land sold is transferred directly to retained earnings.

The asset residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Furniture and equipment	3 years to 5 years
Hardware & software	3 years to 10 years

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on the disposal of property and equipment other than the revaluation surplus on freehold land is recognised in the statement of comprehensive income.

**Initial measurement and recognition of financial assets and financial liabilities**

A financial asset or a financial liability is recognised when the Branches become a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting i.e. the date the Branches receive or deliver the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as investments at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the income statement.

**Classification and measurement of financial assets and financial liabilities**

The Branches determine classification and measurement category of financial assets, except derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

**3. Significant accounting policies (continued)****Classification and measurement of financial assets and financial liabilities (continued)*****Business model assessment***

The Branches determine their business model at the level that best reflects how they manage financial assets to achieve their business objective. The Branches' business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;

The expected frequency, value and timing of sales are also important aspects of the Branches' assessment.

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

***SPPI test***

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Branches assess whether the financial instruments' cash flows met the Solely Payments of Principal and Interest test (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Branches apply judgement and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Branches reclassify when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent, and none occurred during the year.

**Financial assets**

The Branches classify financial assets upon initial recognition of IFRS 9 into following categories:

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

**3. Significant accounting policies (continued)****Classification and measurement of financial assets and financial liabilities (continued)****(i) Amortised cost (AC)**

The Branches classify financial assets at AC if it meets both of the following conditions and is not designated at FVTPL:

- the financial asset is held within a business model whose objective is to hold financial 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 interest on the principal amount outstanding.

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the income statement under "Impairment losses charged on financial instruments".

The Branches classify cash and balances with Central Bank, due from banks, other assets (excluding prepayments and advances) and loans and advances at AC.

**(ii) Fair value through other comprehensive income (FVOCI)****Debt instruments at FVOCI**

The Branches classify debt instruments at FVOCI if it meets both of the following conditions: -

- 1) The contractual terms of the financial asset meet the SPPI test.
- 2) The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to the income statement.

The Branches classify Monetary Bills issued by the Central Bank at FVOCI.

**(iii) Fair Value Through Profit or Loss (FVTPL)**

The Branches classify financial assets as FVTPL when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together and includes managed funds, for which there is evidence of a recent pattern of short-term profit taking.

In addition to the above, on initial recognition, the Branches may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at Fair Value through Other Comprehensive Income (FVOCI) at Fair Value Through Profit or Loss (FVTPL) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the statement of profit or loss. Interest income and dividends are recognised in the statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

**3. Significant accounting policies (continued)****Classification and measurement of financial assets and financial liabilities (continued)****(iii) Fair Value Through Profit and Loss (FVTPL) (continued)****Reclassifications**

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

**Day 1 profit or loss**

When the fair value of financial instruments at initial recognition differs from the transaction price, the Branches account for the 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 Branches recognise the difference between the transaction price and fair value in the statement of profit or loss. 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.

**Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Branches intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

**Financial liabilities**

Financial liabilities are mainly classified as “Financial liabilities other than at fair value through profit or loss”. This comprises of due to banks and other financial institutions, customers’ deposits, medium term notes and certain other liabilities. The Branches do not have any “Financial liabilities at fair value through profit or loss”.

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

**Financial guarantees**

In the ordinary course of business, the Branches give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in other liabilities. Subsequent to initial recognition, the Branches' liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under IFRS 9 - an ECL provision as set out in (Note 19). The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight-line basis over the life of the guarantee in line with IFRS 15.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branches are required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

**3. Significant accounting policies (continued)****Derivative financial instruments**

Derivatives include interest rate swaps, forward foreign exchange contracts and options. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

**Derecognition of financial assets and financial liabilities**

A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Branches retain the right to receive cash flows from the assets but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Branches have transferred their rights to receive cash flows from the asset and either
  - have transferred substantially all the risks and rewards of the asset, or
  - have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.
- if the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

Where the Branches have transferred their right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches' continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches would be required to repay.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

**Impairment of financial assets**

The Branches recognise ECL for loans and advances, non-cash credit facilities in the form of bank guarantees, letters of guarantee, bank acceptances, revocable and irrevocable undrawn commitments (together "credit facilities"), investment in debt securities measured at AC or FVOCI and other financial assets measured at AC.

The Branches apply three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

**Stage 1: 12 months ECL**

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the ECL associated with the probability of default events occurring within next 12 months is recognised.

**Stage 2: Lifetime ECL – not credit impaired**

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

**3. Significant accounting policies (continued)****Impairment of financial assets (continued)**

Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

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

Except for retail credit facilities, transfer of credit facilities from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the credit facilities to Stage 2. When estimating lifetime ECL for undrawn commitments, the Branches estimate the expected portion of the commitment that will be drawn down over its expected life. ECL is then calculated on the stage of the credit facilities.

*Determining the stage of Expected Credit Loss*

At each reporting date, the Branches assess whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

At each reporting date, the Branches also assess whether a financial asset is credit impaired. The Branches consider a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes.

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

*Measurement of ECLs*

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Branches in accordance with the contract and the cash flows that the Branches expect to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

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

The Exposure at Default ("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, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

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

**3. Significant accounting policies (continued)****Impairment of financial assets (continued)***Forward looking information*

The Branches incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Branches have performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations.

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

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC. In the case of debt instruments measured at FVOCI, the loss allowances for ECL is presented in OCI with no reduction in the carrying amount of the financial asset in the statement of financial position. For revolving facilities that include both a loan and an undrawn commitment, ECLs are presented together with the loan. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. The Branches recognise the ECL charge in the statement of profit and loss.

*Write-offs*

The Branches' accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Branches have stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Loans and advances together with the associated provision account are written off when there is no realistic prospect of future recovery and all collateral have been realised or have been transferred to the Branches. If a write off is later recovered, the recovery is recognised in the income statement.

Financial guarantees are assessed, and impairment loss is recorded in a similar manner as for loans and advances. The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in the income statement. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reversed by adjusting the provision account.

**Renegotiated loans**

In the event of a default, the Branches may seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. If renegotiated terms are substantial, the loan is derecognised and recognised as a new facility with amended terms and conditions. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and its classification between stages.

**Impairment of non-financial assets**

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of sale and value in use.

**NOTES TO THE FINANCIAL STATEMENTS****For the year ended 31 December 2021 (continued)****3. Significant accounting policies (continued)****End of service benefits**

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

The Branches provide end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

**Fair value measurement**

For those assets and liabilities carried at fair value, the Branches measure fair value at each reporting date. 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.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Branches. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of non-financial instruments takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branches use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Fair values of non-financial instruments are measured based on valuation provided by independent valuers.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

All assets and liabilities for which fair value is measured are categorised and disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. Valuation is derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exists which includes price to book value multiples, price earnings multiples, Net Asset Value issued by the Fund Manager and external quotes.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Valuation techniques include discounted cash flow method, book value method or other relevant valuation techniques commonly used by market participants. The significant inputs for these valuation techniques include market interest rates, discount rates, terminal growth rate, illiquidity discount and cash flow estimates.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branches determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**3. Significant accounting policies (continued)****Revenue recognition**

Interest income and expenses are recognised on an effective interest basis. Once a financial instrument categorised as amortized cost is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expenses for all interest bearing financial instruments are recognised within the statement of profit or loss and comprehensive income.

Fees and commission that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commissions are recognised over the period of service.

**Taxation**

Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the relevant tax jurisdiction.

**Foreign currencies**

Foreign currency transactions are recorded at rates of exchange ruling at value dates of the transactions. Monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into UAE Dirhams at rates of exchange ruling at the statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to UAE Dirhams at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in other comprehensive income, related foreign exchange differences are also recognised directly in other comprehensive income. For other non-monetary assets foreign exchange differences are recognised directly in the statement of profit or loss.

**Provisions**

Provisions are recognised when the Branches have a present obligation (legal or constructive) as a result of past events, 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.

**Contingencies**

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements, but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

**Use of judgements and estimates**

The Branches base their judgements and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Branches. The basis used by management in determining the carrying values of loans and advances, freehold land and the underlying risk therein are discussed below:

**Judgements***Classification of financial assets*

The Branches determine the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Refer Note 3 classification of financial assets for more information.

**3. Significant accounting policies (continued)****Use of judgements and estimates (continued)****Estimates**

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

*Fair value measurement*

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts. Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

*Impairment of financial assets*

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branches' ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

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

The Branches regularly review its models in the context of actual loss experience and adjust when necessary.

*Valuation of freehold land*

The fair value of the Branches' freehold land has been determined on the basis of a valuation carried out by appropriately qualified independent valuers with recent experience in the valuation of properties in the relevant location.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable, estimates and assumptions may have an impact on carrying amounts of loans and receivables, and freehold land.

**3 Significant accounting policies (continued)**
**Payment reliefs due to COVID-19 and Expected Credit Loss (ECL)**

The coronavirus ("COVID-19") spread which was declared a pandemic by the World Health Organization during March 2020, has caused disruption to business and economic activities globally. The Central Bank of UAE implemented various support measures to counter the possible adverse implications of COVID-19.

In determination of year end ECL, the Branches have considered potential impact caused by COVID-19 pandemic (based upon available information) and taken into account economic support and relief measures of government and central bank. The Branches have also considered the notices issued by the Central Bank of UAE with regards to the 'Targeted Economic Support Scheme (TESS)' and 'Treatment of IFRS9 Expected Credit Loss in the context of COVID-19 crisis' as well as the guidance issued by the International Accounting Standards Board (IASB). The Branches have not participated in the TESS program.

The Branches have a dedicated IFRS 9 governance process established to review and approve IFRS 9 Stage migrations, management overlays to ECL estimates, and macro-economic scenarios.

**Significant Increase in Credit Risk (SICR)**

Under IFRS 9, loans are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of SICR since origination. SICR occurs when there has been a significant increase in risk of default.

The Branches continue to assess borrowers for other indicators of unlikelihood to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or long term.

**Macro-economic factors**

In light of the current uncertain economic environment, the Branches have assessed a range of possible macro-economic scenarios and associated weights, and analyzed their impact on year end ECL estimates. Accordingly, the Branches used macro-economic forecasts to reflect the impact of COVID-19, using baseline, upside and downside scenarios. The Branches continue to assess individually significant exposures for any adverse movements due to COVID-19.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

**4. Cash and balances with Central Bank**

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
Cash on hand	<b>7,471</b>	6,503
Balances with the UAE Central Bank:		
Cash reserve requirements	<b>93,057</b>	120,487
Interest bearing deposits with the UAE Central Bank	<b>85,000</b>	800,000
	<hr/>	<hr/>
Cash and balances with the UAE Central Bank as per statement of financial position	<b>185,528</b>	926,990
Deposits with the UAE Central Bank with original maturity of more than thirty days	-	(700,000)
	<hr/>	<hr/>
	<b>185,528</b>	226,990
	<hr/> <hr/>	<hr/> <hr/>

The cash reserve, which is maintained in UAE Dirhams, is determined on a fortnightly basis in accordance with the UAE Central Bank directives and cannot be withdrawn without the UAE Central Bank's approval.

**5. Due from banks**

	2021 AED'000	2020 AED'000
Deposits with banks	244,938	370,922
Current accounts with other banks	16,568	56,044
Deposits and current accounts with related parties	10,263	13,853
	<u>271,769</u>	<u>440,819</u>
Less: Allowance for impairment losses	(108)	(33)
	<u>271,661</u>	<u>440,786</u>
Less: Deposits with banks with original maturity of more than thirty days	(235,040)	(308,490)
	<u>36,621</u>	<u>132,296</u>

**6. Investment securities**

	2021 AED'000	2020 AED'000
Monetary bills issued by the UAE Central Bank classified at: Fair value through other comprehensive income (FVOCI)	599,884	-
	<u>599,884</u>	<u>-</u>

Valuation of Monetary Bills is determined based on the quoted bid price and falls under level 1 fair value hierarchy.

**7. Loans and advances, net**

The composition of the loans and advances portfolio is as follows:

**a) By type**

	2021 AED'000	2020 AED'000
Loans	1,948,261	1,736,411
Overdrafts	428,422	529,702
Loans against trust receipts	200,383	183,678
Bills discounted	187,816	59,428
	<u>2,764,882</u>	<u>2,509,219</u>
Less: Allowance for impairment losses (refer Note 7 c)	(41,196)	(78,726)
	<u>2,723,686</u>	<u>2,430,493</u>

**AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES**
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2021 (continued)**
**7. Loans and advances, net (continued)**
**b) By currency**

	2021 AED'000	2020 AED'000
UAE Dirham	1,636,837	1,653,881
US Dollar	1,128,045	854,182
Euro	-	1,156
	<b>2,764,882</b>	<b>2,509,219</b>

Five customers represent 35.7% of the total loans and advances portfolio as at 31 December 2021 (2020: 32%).

**c) Impairment allowance for loans and advances**

The table below shows the credit quality and the maximum exposure to credit risk based on the Branches' internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and interest in suspense.

*In AED '000*
**2021**

	Stage 1	Stage 2	Stage 3	Total
<b>Performing</b>				
High grade	2,539,118	108,236	-	2,647,354
Standard grade	19,212	36,819	-	56,031
Past due but not impaired	-	14,011	-	14,011
<b>Non-performing</b>				
Individually impaired	-	-	47,486	47,486
<b>Total</b>	<b>2,558,330</b>	<b>159,066</b>	<b>47,486</b>	<b>2,764,882</b>

*In AED '000*
**2020**

	Stage 1	Stage 2	Stage 3	Total
<b>Performing</b>				
High grade	2,317,315	7,529	-	2,324,844
Standard grade	48,351	17,993	-	66,344
Past due but not impaired	2,201	58,943	-	61,144
<b>Non-performing</b>				
Individually impaired	-	-	56,887	56,887
<b>Total</b>	<b>2,367,867</b>	<b>84,465</b>	<b>56,887</b>	<b>2,509,219</b>

**AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES**
**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2021 (continued)**
**7. Loans and advances, net (continued)**
**c) Impairment allowance for loans and advances (continued)**

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

**2021:**

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying amount as at 1 January 2021</b>	<b>2,367,867</b>	<b>84,465</b>	<b>56,887</b>	<b>2,509,219</b>
New assets originated or purchased	<b>780,125</b>	<b>990</b>	-	<b>781,115</b>
Assets derecognised or repaid (excluding write offs)	<b>(418,583)</b>	<b>(39,165)</b>	<b>(15,790)</b>	<b>(473,538)</b>
Transfers to Stage 1	<b>517</b>	<b>(517)</b>	-	-
Transfers to Stage 2	<b>(171,596)</b>	<b>171,596</b>	-	-
Transfers to Stage 3	-	<b>(58,303)</b>	<b>58,303</b>	-
Amounts written off	-	-	<b>(51,914)</b>	<b>(51,914)</b>
<b>At 31 December 2021</b>	<b>2,558,330</b>	<b>159,066</b>	<b>47,486</b>	<b>2,764,882</b>

Loans and advances in the statement of financial position are stated net of impairment allowances and interest in suspense. The movements for impairment allowances and Interest In Suspense ("IIS") are as follows:

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>ECL allowance as at 1 January 2021</b>	<b>13,422</b>	<b>8,417</b>	<b>56,887</b>	<b>78,726</b>
ECL and IIS charge/(reversal) during the year	<b>1,171</b>	<b>10,152</b>	<b>3,061</b>	<b>14,384</b>
Transfers to Stage 2	<b>(2,481)</b>	<b>2,481</b>	-	-
Transfers to Stage 3	-	<b>(5,888)</b>	<b>5,888</b>	-
Amounts written off	-	-	<b>(51,914)</b>	<b>(51,914)</b>
<b>At 31 December 2021</b>	<b>12,112</b>	<b>15,162</b>	<b>13,922</b>	<b>41,196</b>

**2020:**

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Gross carrying amount as at 1 January 2020</b>	<b>2,131,270</b>	<b>84,003</b>	<b>48,406</b>	<b>2,263,679</b>
New assets originated or purchased	<b>980,760</b>	<b>3</b>	<b>51,061</b>	<b>1,031,824</b>
Assets derecognised or repaid (excluding write offs)	<b>(489,856)</b>	<b>(41,719)</b>	<b>(22,467)</b>	<b>(554,042)</b>
Transfers to Stage 2	<b>(75,582)</b>	<b>75,582</b>	-	-
Transfers to Stage 3	<b>(178,725)</b>	<b>(33,404)</b>	<b>212,129</b>	-
Amounts written off	-	-	<b>(232,242)</b>	<b>(232,242)</b>
<b>At 31 December 2020</b>	<b>2,367,867</b>	<b>84,465</b>	<b>56,887</b>	<b>2,509,219</b>

**7. Loans and advances, net (continued)**
**c) Impairment allowance for loans and advances (continued)**

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>ECL allowance as at 1 January 2020</b>	6,832	32,399	48,406	87,637
ECL and IIS charge/(reversal) during the year	7,406	(15,654)	231,579	223,331
Transfers to Stage 2	(497)	497	-	-
Transfers to Stage 3	(319)	(8,825)	9,144	-
Amounts written off	-	-	(232,242)	(232,242)
<b>At 31 December 2020</b>	<b>13,422</b>	<b>8,417</b>	<b>56,887</b>	<b>78,726</b>

As at 31 December 2021, gross loans and advances to customers individually determined to be impaired amounted to AED 47,486 thousand (2020: AED 56,887 thousand) with a specific provision including interest in suspense of AED 13,921 thousand (2020: AED 56,887 thousand).

The available provision on non-cash facilities is AED 16,435 thousand (2020: AED 24,085 thousand) and is included in other liabilities (Note 12).

For disclosures relating to credit risk management, credit concentration, credit quality by class and credit risk mitigants for loans and advances, refer to Note 22A.

**8. Other assets**

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
Interest receivable	<b>4,335</b>	5,435
Others	<b>4,117</b>	10,129
	<b>8,452</b>	15,564

**9. Property and equipment**

During the year, the Dubai Branch revalued its freehold land at AED 16,200 thousand (2020: AED 16,200 thousand). Since there was no difference in the revaluation, no amounts were transferred to other comprehensive loss.

The freehold land is valued at the lower of the two valuations obtained from independent valuers with experience and knowledge of the Dubai real estate market. Fair value is determined by reference to active market prices, adjusted for any differences in the nature, location or condition of the specific property. Had the freehold land been measured using the cost model, its carrying amount as at 31 December 2021 would be AED 7,823 thousand (2020: AED 7,823 thousand).

Freehold land was fair valued using significant valuation inputs based on unobservable market data and is classified under level 3 fair value hierarchy.

**10. Due to Banks**

	2021 AED'000	2020 AED'000
<b><i>Due to banks</i></b>		
Sight deposits	25	75
Time deposits	300,000	-
Due to related parties	56,217	9,082
	<hr/>	<hr/>
Due to banks as per statement of financial position	356,242	9,157
Less: Time deposits	(300,000)	-
	<hr/>	<hr/>
Due to banks as per statement of cash flows	56,242	9,157
	<hr/>	<hr/>

**11. Customer deposits**

	2021 AED'000	2020 AED'000
<b>By type</b>		
Sight deposits	559,968	845,425
Time deposits	2,304,914	2,401,024
	<hr/>	<hr/>
	2,864,882	3,246,449
	<hr/>	<hr/>
	2021 AED'000	2020 AED'000
<b>By currency</b>		
UAE Dirham	1,846,087	2,371,094
US Dollar	865,460	722,018
Others	153,335	153,337
	<hr/>	<hr/>
	2,864,882	3,246,449
	<hr/>	<hr/>

Five customers account for 52.8% of the total customers' deposits as at 31 December 2021 (2020: 44.5%).

**12. Other liabilities**

	2021 AED'000	2020 AED'000
Allowance for impairment on contingent liabilities (note 19)	16,435	24,085
Accrued expenses	21,161	14,991
Employees' end of service benefits	10,387	10,753
Interest payable	6,715	8,376
Others	6,860	9,342
	61,558	67,547

**13. Designated capital**

The UAE Central Bank requires a designated minimum capital of AED 40,000 thousand for branches of foreign banks operating within the United Arab Emirates. The designated capital for the Branches amounted to AED 390,000 thousand as at 31 December 2021 (31 December 2020: AED 390,000 thousand).

**14. Statutory reserve**

As required by Article 239 of Federal Law No. (2) of 2015, 10% of the net profit for the year is to be transferred to a statutory reserve. As such transfers may be discontinued when the reserve equals 50% of the designated capital. During the current year, amount of AED 1,466 thousand (31 December 2020: Nil) has been transferred to the statutory reserve from the current year profits. This reserve is not available for distribution, except under the circumstances stipulated by the Law.

**15. Interest income**

	2021 AED'000	2020 AED'000
Loans and advances	72,532	96,945
Deposits with banks	1,887	8,486
	74,419	105,431

**16. Interest expense**

	2021 AED'000	2020 AED'000
Customers' deposits:		
Time deposits	19,456	43,752
Sight deposits	602	1,004
Due to banks	65	538
	20,123	45,294

**17. Net fees and commission income**

	2021 AED'000	2020 AED'000
Fees and commission income	17,623	18,372
Fees and commission expense	(94)	(180)
	17,529	18,192

**18. Impairment losses on financial assets, net**

	2021 AED'000	2020 AED'000
Impairment losses charged on cash credit facilities	(15,275)	(204,625)
Impairment losses reversed/(charged) on non-cash credit facilities	7,649	(4,111)
Impairment losses charged on non-credit facilities	(75)	-
Recoveries during the year	11,435	14,208
	3,734	(194,528)

**19. Commitments and contingent liabilities**

	2021 AED'000	2020 AED'000
<i>Contingent liabilities</i>		
Guarantees	475,119	666,871
Letters of credit	108,028	259,583
Acceptances	2,252,597	242,490
	2,835,744	1,168,944
Less: Allowances for impairment losses	(16,435)	(24,085)
	2,819,309	1,144,859

The above balances represent the irrevocable contractual amounts of the Branches' off balance sheet financial instruments that commit the Branches to make payments on behalf of the customers in the event of a specific act. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. The total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded. Total commitments to extend credit at the statement of financial position date amounted to AED 118,294 thousand (2020: AED 301,541 thousand).

As at 31 December 2021, the gross balance of contingent liabilities in Stage 1 and Stage 2 amounted to AED 2,732,028 thousand and AED 90,035 thousand, respectively (31 December 2020: AED 1,115,775 thousand and AED 36,222 thousand respectively). The ECL for Stage 1 and Stage 2 amounted to AED 1,479 thousand and AED 1,412 thousand, respectively (31 December 2020: AED 4,207 thousand and AED 3,068 thousand respectively). The credit impaired balance in Stage 3 amounted to AED 13,681 thousand against which a specific provision of AED 13,544 thousand has been taken (31 December 2020: AED 16,947 thousand with a specific provision of AED 16,810 thousand).

**20. Derivative financial instruments**

In the normal course of its business, the Branches utilise derivative financial instruments to manage their exposure to fluctuations in foreign exchange rates. Derivative transactions result, to varying degrees, in credit as well as market risks.

The Branches' measure of derivative related credit risk is the cost of replacing contracts at current market rates should the counterparty defaults on or prior to the settlement date, and is limited to the positive fair value of instruments that are favourable to the Branches.

Market risk arises as foreign exchange rates fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Branches have established appropriate procedures and limits approved by the Head Office.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their contractual amounts. The contractual amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

	2021			2020		
	<i>Positive fair value</i> <i>AED'000</i>	<i>Negative fair value</i> <i>AED'000</i>	<i>Notional amounts</i> <i>AED'000</i>	<i>Positive fair value</i> <i>AED'000</i>	<i>Negative fair value</i> <i>AED'000</i>	<i>Notional amounts</i> <i>AED'000</i>
Forward foreign exchange contracts	<b>2,562</b>	<b>180</b>	<b>1,410,492</b>	7,905	122	700,644

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future.

All derivative contracts are fair valued based on observable market inputs and are classified as level 2.

**21. Related party transactions**

Related parties represent the Head Office, directors of the Head Office, major shareholders of Head Office, senior management personnel of the Head Office and Branches, transactions with close members of their families and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the Head Office's management.

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2021 (continued)**
**21. Related party transactions (continued)**

The year end balances in respect of related parties which arise in the ordinary course of business, included in the statement of financial position are as follows:

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
<i>Deposits and current account with related parties</i>		
Current account with Head Office (note 5)	<b>10,263</b>	13,853
Bills discounted	<b>4,191</b>	20,356
	<b>14,454</b>	34,209
<i>Borrowings from and current accounts due to related parties</i>		
Borrowings from Head Office and its subsidiaries (note 10)	<b>56,217</b>	9,082
	<b>56,217</b>	9,082
<i>Due to Directors</i>		
Deposits (included in customers' deposits)	<b>22</b>	24

Related party transactions, which arise in the ordinary course of business, included in the statement of profit or loss and other comprehensive income are as follows:

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
<i>Related parties</i>		
Interest income	<b>48</b>	323
Interest expense	<b>16</b>	3
Management fees (included in other operating expenses)	<b>12,790</b>	11,417

The details of deposits and credit facilities granted to senior management of the Bank and the Branches:

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
Loans and advances	<b>1,601</b>	2,066
Deposits	<b>1,467</b>	1,574

The details of compensation for senior management of the Branches:

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
Salaries and other benefits	<b>2,970</b>	2,796
End of service benefits	<b>683</b>	208
	<b>3,653</b>	3,004

**22. Risk management****Introduction**

Risk is inherent in the Branches' activities but is managed through a process of ongoing risk identification, measurement and monitoring and by setting risk limits and controls. This process of risk management is critical to the Branches' continuing profitability and each individual within the Branches is accountable for the risk exposures relating to his or her area of responsibilities. The Branches have established comprehensive risk frameworks for managing all material risks. The frameworks address the risk identification, measurement and monitoring processes of all material risks across the Branches. Risk management is embedded in the decision-making process on all risk types to enable Branches to manage the risks assumed within acceptable levels.

During the year, the measures taken to contain the COVID-19 pandemic have significantly affected economic activity and has brought in disruptions in business operations of the Branches, its clients and the economies in which the Branches operate. Consistent with its risk management frame work, the management is evaluating the impact of the pandemic on the Branches various risks such as credit, market, liquidity and operational risks and applies measures to contain their impact. Refer Note 3 impact of COVID-19 for more information.

Descriptions of the risk appetite statement along with the risks identified and the methodology used to manage those risks are stated below:

**A Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Branches manage credit risk by setting limits for individual borrowers and groups of borrowers and for geographical and industry segments. The Branches also monitor credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Branches obtain security where appropriate, enter into master netting arrangements and collateral arrangements with counterparties, and limits the duration of exposures.

The maximum exposure to credit risk, as at the reporting date, is represented by the carrying amount of each financial asset in the statement of financial position.

For details of the composition of the loans and advances portfolio refer to Note 7.

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

The Head Office has an internal committee which is composed of competent professional staff and which has as its purpose to study and evaluate the existing credit facilities of each customer of the Branches. This committee is required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

**Significant increase in credit risk**

The Branches continuously monitor all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Branches assess whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

**22. Risk management (continued)****A Credit risk (continued)****Significant increase in credit risk (continued)**

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating in line with the IFRS 9 policy of the Branches.

The Branches also consider that events as mentioned below are indicators of significant increase in credit risk as opposed to a default.

- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in PD.
- Accounts expired (pending renewal) for a period of 6 months or more (excluding all accounts with technical reasons).
- Contractual disputes between borrower and contracting entity, leading to detrimental impact on the borrower's cash flow.
- Management dispute or loss of key management personnel leading to detrimental impact on borrowers' repayment capacity.
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.
- In the case of retail portfolio, qualitative indicators such as fraudulent customers, and death of customer.

The Branches consider a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

**Event of default**

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

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

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Branches for consideration for moving the facility to stage 2/stage 1.

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

**Internal rating and PD estimation process**

In managing its portfolio, the Branches utilise ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branches use S&P Risk Rating System (CRE) as its internal credit-rating engine. The CRE tool provides the ability to analyze a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Branches also use external ratings by recognised rating agencies for externally rated portfolios.

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

**22. Risk management (continued)**
**A Credit risk (continued)**
**Incorporation of forward-looking information**

The Branches incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Branches have performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio relevant to United Arab Emirates. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations.

**Derivative financial instruments**

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, as recorded in the statement of financial position.

**Credit-related commitments risks**

The Branches make available to its customers, financial guarantees which may require that the Branches make payments on their behalf. Such payments are collected from customers based on the terms of the financial guarantees. They expose the Branches to similar risks to loans and advances and these are mitigated by the same control processes and policies.

**Credit concentration risks**

The distribution of financial assets and contingent liabilities by geographic region and industry sector are as follows:

	2021		2020	
	Assets AED'000	Contingent liabilities AED'000	Assets AED'000	Contingent liabilities AED'000
<b>Geographic region:</b>				
Domestic (UAE)	2,760,863	359,597	2,947,522	619,008
Kuwait	411,148	121,911	486,830	162,839
Other Middle East	472,139	-	125,067	-
Rest of the world	110,451	2,203,500	99,798	183,625
Europe	17,312	150,736	97,743	203,472
United States of America	8,696	-	48,571	-
<b>Total</b>	<b>3,780,609</b>	<b>2,835,744</b>	<b>3,805,531</b>	<b>1,168,944</b>
<b>Industry sector:</b>				
Government	1,290,103	18	1,287,617	18
Banks and other financial institutions	813,038	121,579	935,662	162,620
Construction and real estate	391,866	296,041	562,308	480,557
Trading and manufacturing	587,784	168,819	536,337	397,718
Other	697,818	2,249,287	483,607	128,031
<b>Total</b>	<b>3,780,609</b>	<b>2,835,744</b>	<b>3,805,531</b>	<b>1,168,944</b>

**22. Risk management (continued)**
**A Credit risk (continued)**
**Maximum exposure and credit quality of financial instruments**

The table below shows the maximum exposure to credit risk for the components of the statement of financial position without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

The table also shows the credit risk exposure by credit quality of financial assets (net of provisions) by class, grade and status.

**2021**

	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired</i> AED'000	<i>Gross maximum exposure</i> AED'000
	<i>High Grade</i> AED'000	<i>Standard Grade</i> AED'000	<i>Acceptable Grade</i> AED'000		
Current account with Central Bank of UAE	-	-	-	-	-
Cash reserve with Central Bank of UAE	93,057	-	-	-	93,057
Deposits with Central Bank of UAE	85,000	-	-	-	85,000
Investment Securities	599,884	-	-	-	599,884
Deposits with banks	271,661	-	-	-	271,661
Loans and advances	2,623,007	53,788	-	46,891	2,723,686
Other assets	7,321	-	-	-	7,321
	<b>3,679,930</b>	<b>53,788</b>	<b>-</b>	<b>46,891</b>	<b>3,780,609</b>

**2020**

	<i>Neither past due nor impaired</i>			<i>Past due or individually impaired</i> AED'000	<i>Gross maximum exposure</i> AED'000
	<i>High Grade</i> AED'000	<i>Standard Grade</i> AED'000	<i>Acceptable Grade</i> AED'000		
Current account with Central Bank of UAE	-	-	-	-	-
Cash reserve with Central Bank of UAE	120,487	-	-	-	120,487
Deposits with Central Bank of UAE	800,000	-	-	-	800,000
Deposits with banks	440,786	-	-	-	440,786
Loans and advances	2,304,610	65,764	2	60,117	2,430,493
Other assets	13,765	-	-	-	13,765
	<b>3,679,648</b>	<b>65,764</b>	<b>2</b>	<b>60,117</b>	<b>3,805,531</b>

**22. Risk management (continued)**
**A Credit risk (continued)**
**Maximum exposure and credit quality of financial instruments (continued)**

The credit risk exposures relating to contingencies amounted to AED 2,835,744 thousand (31 December 2020: AED 1,168,944 thousand).

The high, standard and acceptable grades of classification of financial assets is based on inherent credit quality of the counterparties, the assessed risk profile, acceptability and availability of collateral in accordance with the Branches' internal rating model. The borrower risk rating model takes into consideration key factors, such as business trends, management, financials, collaterals, etc., which are duly weighted to arrive at the rating. These ratings changes/migrations are monitored annually. Grading of balances with banks and loans to banks is based on the external rating of the counterparties.

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

**Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash, securities, and charges over real estate properties and counter-guarantees. At 31 December 2021, of the total outstanding loans and advances, AED 1,413,679 thousand (31 December 2020: AED 911,588 thousand) were secured with a collateral value of AED 1,221,515 thousand (31 December 2020: AED 720,887 thousand).

**Impairment Reserve under the Central Bank of UAE (CBUAE) Guidance**

Regulatory credit risk reserve is a non-distributable reserve held for regulatory general provision requirement.

In accordance with Guidance Note to Banks for the Implementation of IFRS 9, issued by Central Bank of UAE (CBUAE), in case where general provision for impairment required under CBUAE guidance exceed provisions for impairment raised in IFRS 9 Stage 1 and Stage 2, the excess amount is required to be transferred to a non-distributable regulatory credit risk reserve.

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
Regulatory general provision – 1.5% of credit risk weighted assets	<b>31,922</b>	31,065
Aggregate expected credit loss for stage 1 and 2	<b>27,275</b>	21,839
General impairment reserve	<b>16,235</b>	16,235
<b>Regulatory general provision available</b>	<b>43,510</b>	38,074

**NOTES TO THE FINANCIAL STATEMENTS**
**For the year ended 31 December 2021 (continued)**
**22. Risk management (continued)**
**B Liquidity risk**

Liquidity is the ongoing ability to accommodate maturing liabilities and deposit withdrawals; fund asset growth and business operations; and meet contractual obligations through unconstrained access to funding at reasonable market rates.

Liquidity risk is the risk that the Branches will encounter difficulty in raising funds to meet commitments associated with financial investments. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind and the management monitors liquidity on a daily basis.

The contractual amounts of gross settled derivative positions amounting to AED 1,349,901 thousand (31 December 2020: AED 496,453 thousand) expire within three months.

Substantially, all acceptances and letters of credit commitments expire within a period not exceeding one year. 98% (31 December 2020: 97%) of the guarantees expire within one year.

The table below summarises the maturity profile of the Branches' assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the expected maturity date, except for property and equipment which has been determined based on management's estimate of liquidation of those assets.

The actual maturities may differ from the maturities shown below since the borrower may have the right to prepay obligations with or without prepayment penalties, and customers' deposits might have to be repaid on demand.

The maturity profile of the assets and liabilities are as follows:

	Less than one month AED'000	One month to one year AED'000	One year to five years AED'000	Over five years AED'000	Total AED'000
<b>2021</b>					
<b>ASSETS</b>					
Cash and deposits with Central Bank of UAE	185,528	-	-	-	185,528
Deposits with banks	271,661	-	-	-	271,661
Investment securities	100,000	499,884	-	-	599,884
Loans and advances	378,769	1,026,028	1,219,010	99,879	2,723,686
Other assets	8,033	-	-	419	8,452
Property and equipment	-	-	-	23,311	23,311
<b>Total</b>	<b>943,991</b>	<b>1,525,912</b>	<b>1,219,010</b>	<b>123,609</b>	<b>3,812,522</b>
<b>LIABILITIES</b>					
Other liabilities	183	50,988	-	10,387	61,558
Due to banks	356,242	-	-	-	356,242
Customers' deposits	1,272,272	1,578,225	14,385	-	2,864,882
<b>Total</b>	<b>1,628,697</b>	<b>1,629,213</b>	<b>14,385</b>	<b>10,387</b>	<b>3,282,682</b>

**22. Risk management (continued)**
**B Liquidity risk (continued)**

	Less than one month AED'000	One month to one year AED'000	One year to five years AED'000	Over five years AED'000	Total AED'000
<b>2020</b>					
<b>ASSETS</b>					
Cash and deposits with					
Central Bank of UAE	426,990	500,000	-	-	926,990
Deposits with banks	440,786	-	-	-	440,786
Investment securities	-	-	-	-	-
Loans and advances	321,949	731,273	1,250,404	126,867	2,430,493
Other assets	15,145	-	-	419	15,564
Property and equipment	-	-	-	24,613	24,613
<b>Total</b>	<b>1,204,870</b>	<b>1,231,273</b>	<b>1,250,404</b>	<b>151,899</b>	<b>3,838,446</b>
<b>LIABILITIES</b>					
Other liabilities	205	56,589	-	10,753	67,547
Due to banks	9,157	-	-	-	9,157
Customers' deposits	1,796,195	1,410,698	39,556	-	3,246,449
<b>Total</b>	<b>1,805,557</b>	<b>1,467,287</b>	<b>39,556</b>	<b>10,753</b>	<b>3,323,153</b>

Maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Branches' deposit retention history and the availability of liquid funds.

**C Market risk**

Market risk mainly arises from fluctuations in interest rates and foreign exchange rate. The Branches have set limits on the value of risk that may be accepted. This is monitored on a regular basis by the management.

**C.1 Interest rate risk**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Branches are exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Board of Directors of the Branches has established limits on the interest rate gaps for stipulated periods. The Branches manage this risk by matching the repricing of assets and liabilities through risk management strategies.

The sensitivity of the statement of profit or loss and other comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2021.

The following table reflects the effect of 200 basis points change in interest rates on the statement of profit or loss and other comprehensive income, with all other variables held constant.

	2021 AED'000	2020 AED'000
All currencies	21,968	26,608

**22. Risk management (continued)****C Market risk (continued)****C.2 Currency risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Board of Directors of the Head Office has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. The Branches use forward foreign exchange contracts to manage its currency risks.

USD is the major foreign currency. Since AED is pegged to USD there is no effect on net profit and all other currency exposures are not significant.

**C.3 Prepayment risk**

Prepayment risk is the risk that the Branches will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected such as fixed rate loans and advances when interest rates fall. Majority of the Branches' interests bearing financial assets are at floating rates. Also, the interest bearing financial liabilities (except for the Head Office) have a maturity of less than 1 year and, accordingly, the Branches are not exposed to significant prepayment risk.

**D Operational risk**

Operational risk is the risk of loss caused by failures in operational processes, people, fraud, external events and system failures that supports operational processes. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Branches cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Branches are able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Branches manage this risk by setting policies and procedures, which are approved by the Board of Directors of the Head Office and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Branches. The Branches manage operational risk through the Risk Management Division of the Branches and the guidance of Head Office.

**23. Regulatory capital**

The Central Bank of the UAE ("CBUAE") sets and monitors capital requirements for the Branches. Effective from 2017, the capital is computed at the Branches 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.

**Minimum Capital Requirements**

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. 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%.

The Branches' regulatory capital is analysed into two tiers:

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

**23. Regulatory capital (continued)**

Total capital, calculated as sum of Tier 1 capital and Tier 2 capital, must be at least 10.5% of Risk Weighted Assets (RWA). During the year ended 31 December 2021, the Branches had complied with the CBUAE minimum capital requirements.

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

	<b>2021</b>	2020
	<b>AED'000</b>	AED'000
<b>Tier 1 capital</b>		
Designated capital	<b>390,000</b>	390,000
Statutory and voluntary reserve	<b>38,893</b>	37,542
Retained earnings	<b>76,335</b>	63,139
	<b>505,228</b>	490,681
<b>Tier 2 capital</b>		
Collective provision	<b>26,601</b>	25,887
<b>Total capital base</b>	<b>531,829</b>	516,569
<b>Risk-weighted assets</b>		
Credit Risk	<b>2,128,119</b>	2,071,000
Market Risk	<b>1,814</b>	4,845
Operational Risk	<b>223,981</b>	223,981
<b>Total risk-weighted assets</b>	<b>2,353,914</b>	2,299,826
<b>Capital Adequacy Ratio</b>	<b>22.59%</b>	22.46%

**24. Approval of the financial statements**

The financial statements were approved on behalf of the Head Office and authorised for issue on 15 February 2022.