Credit Agricole Corporate and Investment Bank UAE branches

Financial statements

For the year ended 31 December 2021

Credit Agricole Corporate and Investment Bank - UAE branches

Financial statements for the year ended 31 December 2021

Ernst & Young Middle East
(Dubai Branch)
P.O. Box 9267
Ground Floor, ICD Brookfield Place
Al Mustaqbal Street
Dubai International Financial Centre
Dubai
United Arab Emirates

Tel: +971 4 701 0100
+971 4 332 4000
Fax: +971 4 332 4004
dubai@ae.ey.com
ey.com

INDEPENDENT AUDITORS' REPORT TO THE
CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK - UAE BRANCHES

Opinion
We have audited the financial statements of Credit Agricole Corporate and Investment Bank – UAE Branches (the “Branches”), which comprise the statement of financial position as at 31 December 2021, and the statement of comprehensive income, statement of changes in capital and reserves 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 flow for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the financial statements section* of our report. We are independent of the 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 in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

In preparing the financial statements, management is responsible for assessing the 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.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branches' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 management 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.

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF
CREDIT AGRICOLE CORPORATE AND INVESTMENT BANK - UAE BRANCHES (continued)

Report on other legal and regulatory requirements

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

For Ernst & Young

TS. Hari Gopal

Signed By:
Thodla Hari Gopal
Partner
Registration No.: 689

31 March 2022

Dubai, United Arab Emirates

Credit Agricole Corporate and Investment Bank - UAE branches

Statement of financial position

	Notes	As at 31 December 2021 AED'000	2020 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	437,374	542,841
Due from other banks	6	47,346	76,008
Due from Head Office and branches abroad	7	8,146	21,358
Loans and advances	8	73,402	266
Other assets	9	10,866	10,519
Furniture and equipment (including right-of-use assets)	10	1,279	1,658
Total assets		578,413	652,650
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	11	15,602	5,654
Due to Head Office and branches abroad	12	110,109	179,040
Due to customers	13	66,736	77,682
Other liabilities	14	14,386	14,680
Total liabilities		206,833	277,056
EQUITY			
Allocated capital	16 (a)	316,403	316,403
Regulatory credit risk reserve	16 (b)	15,597	15,597
Legal reserve	17	31,124	31,124
Accumulated profits		8,456	12,470
Total equity		371,580	375,594
Total liabilities and equity		578,413	652,650

These financial statements were approved on 31 March 2022 and signed by:

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Ani Mathews
Chief Financial Officer

....
Francis Moracchini
Chief Operating Officer

Credit Agricole Corporate and Investment Bank - UAE branches

Statement of comprehensive income

	Notes	Year ended 31 December 2021 AED'000	2020 AED'000
Interest income	20	1,729	5,240
Interest expense	21	(211)	(563)
Net interest income		1,518	4,677
Net fees and commission income	22	4,764	5,168
Net foreign exchange income		283	850
Other income		-	10
Operating income		6,565	10,705
Operating expenses	23	(9,914)	(9,364)
Net impairment reversal on credit exposure	23(a)	(207)	(12)
(Loss) Income for the year before taxation		(3,556)	1,329
Taxation	25	(458)	(1,079)
(Loss)/Income for the year after taxation		(4,014)	250
Other comprehensive income		-	-
Total comprehensive (loss) income for the year		(4,014)	250

Statement of changes in capital and reserves

	Allocated capital AED'000	Regulatory credit risk reserve AED'000	Legal reserve AED'000	Accumulated profits AED'000	Total AED'000
At 1 January 2020	316,403	15,597	31,099	12,245	375,344
Total comprehensive income for the year	-	-	-	250	250
Transfer to legal reserve	-	-	25	(25)	-
At 31 December 2020	316,403	15,597	31,124	12,470	375,594
Total comprehensive loss for the year	-	-	-	(4,014)	(4,014)
Transfer to legal reserve	-	-	-	-	-
At 31 December 2021	316,403	15,597	31,124	8,456	371,580

Statement of cash flows

	Notes	Year ended 31 December 2021 AED'000	2020 AED'000 (Restated)
Operating activities			
Loss for the year before taxation		(3,556)	1,329
Adjustments for:			
Depreciation	10	946	1,131
Gain on disposal of property & equipment		-	(10)
Provision for impairment of loans and advances	5, 8(c)	2,963	2,594
Provision for employees' end of service benefits including transfer from other branches abroad	15	357	309
Operating cash flows before payment of income tax, employees' end of service benefits and changes in assets and liabilities		710	5,353
Income tax paid	25	(1,834)	(3,091)
Payment of employees end of service benefits	15	-	-
Changes in operating assets and liabilities:			
Statutory deposit with the UAE Central Bank	5	314	2,267
Certificate of deposits with Central Banks maturing after three months		-	-
Due from Other Banks		33,903	30,396
Due from Head Office and branches abroad		-	9,497
Loan and advances before provision for impairment	8(a)	(76,055)	14,157
Other assets, net of deferred tax		240	8,998
Due to Head Office and branches abroad		-	-
Due to customers	13	(10,946)	(1,839)
Other liabilities	14	138	(1,767)
Net cash from operating activities		(53,530)	63,971
Investing activities			
Proceeds from sale of property and equipment		-	10
Purchase of property and equipment	10	(582)	(1,217)
Net cash used in investing activities		(582)	(1,207)
Net (decrease) increase in cash and cash equivalents		(54,112)	62,764
Cash and cash equivalents at the beginning of year		(7,897)	(70,647)
Effects of exchange rate		12	(14)
Cash and cash equivalents at the end of year	26	(61,997)	(7,897)

1 Incorporation and activities

Credit Agricole Corporate and Investment Bank UAE is a branch of Credit Agricole Corporate and Investment Bank incorporated in France. The ultimate parent of Credit Agricole Corporate and Investment Bank is Credit Agricole SA, also incorporated in France.

The principal activity of Credit Agricole Corporate and Investment Bank in the UAE is commercial banking which is carried out from its branches in Dubai and Abu Dhabi (the "Branches"). The Dubai branch's registered address is PO Box 9256, Dubai, United Arab Emirates. The Abu Dhabi branch's registered address is PO Box 4725, Abu Dhabi, United Arab Emirates.

Federal Law by Decree No 32 of 2021, which repeals and replaces Federal Law No. 2 of 2015 (as amended) on Commercial Companies, was issued on 20 September 2021, and is effective from 2 January 2022. The Branches are in the process of reviewing the new law and will apply the requirements thereof no later than one year from the date on which the new Decree Law came into effect.

Along with these financial statements, the branches has presented Basel III Pillar 3 disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel III Pillar 3 guidelines has impacted the type and amount of disclosures made in these financial statements, but has no impact on the reported profits or financial position of the Branches. In accordance with the requirements of Basel III, the Branches has provided full comparative information.

These financial statements represent the combined financial position and results of the two branches in the United Arab Emirates. The Branches are not a separate legal entity but meets the definition of a reporting entity under IFRS under the Conceptual Framework for IFRS. IFRS defines a reporting entity as an entity that is required, or chooses, to prepare financial statements.

All the operating activities of the Branches are clearly defined and separately managed from the other businesses of the Head Office and accounting records are maintained on this basis. The assets of the Branches are used solely by the Branches and are registered in the name of the Branches. The liabilities relate to the activities of the Bank.

It is important to note whilst the reporting boundary is defined above, the assets and liabilities presented within the reporting boundary remain the assets and liabilities of the Head Office and are not legally separable from the Head Offices' other assets and liabilities. As such legally, the assets of the reporting entity may be available to the other claims of the Head Office.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

2.1 Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB"), interpretations issued by International Financial Reporting Interpretation Committee (IFRIC) and applicable requirements of the law of United Arab Emirates. The financial statements are prepared under the historical cost convention except for derivative financial instruments which have been measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Branches' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The COVID-19 pandemic has resulted in significant volatility in the financial markets worldwide. Numerous governments including UAE have announced measures to provide both financial and nonfinancial assistance to the affected entities. The pandemic affects the assumptions and estimation uncertainty associated with the measurement of assets and liabilities with details covered in note 3.2.8 of these financial statements

2.2 Changes in accounting policies and disclosures

The accounting policies used in the preparation of these financial statements are consistent with those used in the previous financial year, except for the adoption of the amendments to the existing standards relevant to the Branches, effective as of 1 January 2021. The nature and the impact of each amendment is described below:

Interbank offered rates ("IBORs) reform disclosure – Phase 2
Amendments, published by the IASB in August 2020, complement those published in 2019 and focus on the accounting consequences of replacing old benchmark interest rates with other benchmark rates following reforms, which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases.

IBOR Reform Phase 2 provides temporary reliefs that allow the Branches hedging relationships to continue upon the replacement of an existing interest rate benchmark with an alternative risk-free benchmark reference rate ("RFR"). The reliefs require the branches to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. The branches have assessed the impact of Phase 2 and concluded that it is not material to the branches financial statements.

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

Uncertainty surrounding the integrity of IBOR rates has in recent years led regulators, central banks and market participants to work towards a transition to RFRs and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

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

Details of IBOR reforms and related disclosures are covered in Note 3.7 of these financial statements.
There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Bank's financial year beginning on 01 January 2021 that would be expected to have a material impact on the branches financial statements.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies

Financial instruments

IFRS 9: Financial Instruments

Initial measurement and recognition of financial assets and financial liabilities
A financial asset or a financial liability is recognised when the Branches becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised using settlement date accounting i.e. the date the Branches receives or delivers 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. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Branches recognise balances due to customers when funds are transferred to the Branches.

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments. 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, as described below.

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 net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

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.

The Branches classify their financial assets based on the business model for managing the assets and the asset's contractual terms, measured at Amortised cost, as explained below.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held for trading and derivative instruments or the fair value designation is applied.

Due from banks, loans and advances to customers, and cash and balances with the UAE Central Bank
The Branches only measure due from banks, loans and advances to customers and cash and balances with the UAE Central Bank at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (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;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

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.

The 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.

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

- Amortised cost (AC)
- Fair Value Through Profit and Loss (FVTPL)
- Fair Value Through Other Comprehensive Income (FVOCI)

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 income statement. Any gain or loss on derecognition is recognised in the income statement. 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 income statement. The losses arising from impairment are recognised in the income statement under "net provision on credit facilities".

The Branches classify cash and balances with central bank, due from banks and loans and advances as AC.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Fair Value Through Profit and 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, for which there is evidence of a recent pattern of short-term profit.

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 FVOCI, as at 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 income statement. Interest income and dividends are recognised in the income statement according to the terms of the contract, or when the right to payment has been established.

The Branches measure derivatives as at FVTPL and the positive and negative fair value of these derivatives are included in other assets and other liabilities, respectively.

Reclassifications
The Branches do not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branches acquire, dispose of, or terminate a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions
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.

Derecognition other than for substantial modification
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
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Derecognition other than for substantial modification (continued)
When the Branches have neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Branches continuing involvement, in which case, the Branches also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branches have retained. 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 the Branches could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branches would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 income statement.

Derivative financial instruments

Derivative financial instruments
Derivatives include interest rate swaps. 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 .

Financial guarantees, letters of credit and undrawn loan commitments
In the ordinary course of business, the Branches give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, in other liabilities. 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 income statement., and - under IFRS 9 - an ECL provision as set out in notes 5,6,7,8 and 14. The premium received is recognised in the income statement 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.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Impairment of financial assets
The Branches recognise expected credit losses (ECL) for balances with UAE central bank, loans and advances, due from banks and unfunded exposures.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Branches' policies for determining if there has been a significant increase in credit risk are set out in (Note 3.2.1).

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Branches have established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Branches group its financial assets into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When financial assets are first recognized, the Branches recognize an allowance based on 12mECL.
- Stage 2: When a financial assets has shown a significant increase in credit risk since origination, the Branches record an allowance for the LTECL.
- Stage 3: For, financial assets considered credit-impaired, the Branches record an allowance for the LTECL
- Purchased or originated credit impaired (POCI): POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Branches have no reasonable expectations of receiving either the entire outstanding amount or a proportion there of, the gross carrying amount and financial asset are reduced. This is considered a (partial) derecognition of the financial asset.

The calculation of ECLs
The Branches calculate ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

The calculation of ECLs (continued)
The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of default (PD) -The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at default (EAD) - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- Loss given default (LGD) -The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Undrawn loan commitments
When estimating life time ECL for undrawn loan commitments, the Branches estimate the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

Revolving facilities
For revolving facilities that include both a loan and an undrawn commitment, ECLs are calculated and presented together with the loan. For loan commitments and letters of credit, the ECL is recognised within other liabilities.

Guarantees
The Branches liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Branches estimate ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECLs related to financial guarantee contracts are calculated and presented together with the loan. Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Improvement in credit risk profile
If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. The Group has defined the below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1which is in line with the guidance as per the Central Bank of the UAE.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (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. Macro-economic factors are considered for this purpose by applying forward looking information.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Scenarios

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

The most significant period-end assumptions used for ECL estimate as at 31 December 2021 is GDP. The Branches have considered the scenarios – base case, upside and downside for all portfolios keeping in view principal macroeconomic variable (GDP).

Sensitivity analysis

The Branches have performed sensitivity analyses by assessing the impact on the ECL if the principal macroeconomic variable (GDP) was to change by the base case, upside and downside scenarios and they do not expect a significant sensitivity impact on an overall basis.

Collateral valuation

To mitigate its credit risks on financial assets, the Branches seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Branches' statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branches use active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan’s contractual terms are accounted as separate units of accounts subject to ECL.

Write-offs

Financial assets are written off either partially or in their entirety only when the Branches have no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. 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.

2 Summary of significant accounting policies (continued)

2.3 Significant Accounting Policies (continued)

Renegotiated loans

In the event of a default, the Branches 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. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Collateral repossessed

The Branches' policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. This, however, is subject to the regulatory requirements as per the Central Bank of the UAE. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Banches' policy.

Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position if, and only if, the Branches have a legally enforceable right to offset such amounts with the same counterparty and an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting arrangements, therefore, the related assets and liabilities are presented gross in the statement of financial position.

2.4 Due from banks, Head Office and branches abroad

Amounts due from banks are initially recognised at fair value including associated transaction costs, if any. They are subsequently measured at amortised cost less any amounts written off and provision for impairment, if any.

2.5 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand, money in current accounts and placements with original maturity of less than three months excluding the statutory deposit required to be maintained with the UAE Central Bank,Amounts due from (to) banks on demand or with an original maturity of three months or less.

2.6 Derivative financial instruments

Derivatives generally 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.

2.7 Due to banks and customers

Due to banks and customers are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.8 Furniture. equipment and right-of-use assets

Furniture, equipment are stated at cost less accumulated depreciation and impairment, if any. Depreciation is calculated on a straight line method to write down the cost of assets to their estimated residual values over their expected useful lives as follows: Right-of-use assets are depreciated on a straight-line basis over the lease term.

	Years
Furniture, fixtures and fittings	2 - 7
Vehicles and data processing and other equipment	3 - 4
Leasehold improvements	1 - 2

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of its fair value less cost of disposal and its value in use.

Gains and losses on disposal of furniture and equipment are determined by reference to their carrying amount and are taken into account in determining operating income. Repairs and renewals are charged to the statement of comprehensive income when the expenditure is incurred.

2.9 Provision for employees' 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.

In accordance with IAS 19, 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.

2.10 Provisions

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

2.11 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Branches are measured in United Arab Emirates Dirhams ("AED") being the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are prepared in AED, which is the Branches' functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into AED at the rate applicable on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates ruling at the statement of financial position date. Any resultant gains or losses are accounted for in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

2.12 Interest income and expense

Interest income and expenses are recognised using effective interest method.

When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Branches calculate interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branches revert to calculating interest income on a gross basis. The previously unrecognised interest income of a cured but previously impaired financial asset will be recognised as a reversal of impairment loss. Interest income and expenses for all interest-bearing financial instruments are recognised within the statement of comprehensive income.

2.13 Fees and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Commission income on issue of letters of credit and guarantees is recognised over the term of the instrument. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

2.14 Taxation

(a) Current income tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. Provision for taxation is made in respect of the Branches operations in the Emirates of Abu Dhabi and Dubai whereby tax is payable at the rate of 20% of the adjusted net taxable profit generated during the year in each of the Emirates, in accordance with the relevant legislation of each of the Emirates.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined at the rate of 20% on temporary differences in accordance with the relevant legislation of each of the Emirates that have been enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset / liability is realised.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

The Branches only off-set its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Branches intention to settle on a net basis

2 Summary of significant accounting policies (continued)

2.15 Recharge to other branches

Common expenses allocated by Head Office, senior management costs and Global Corporate Banking Operations (GOP) costs incurred by the Dubai Branch are recharged to the DIFC branch on the basis of equitable allocation of cost between the branches. The allocation is based on the proportion of average assets of the respective branches. Recharge to other branches are accrued on a monthly basis and cash settled.

2.16 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 (instruments other than 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 for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm’s length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants.

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

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.

2 Summary of significant accounting policies (continued)

2.16 Fair value measurement (continued)

Fair value hierarchy
The Branches measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

2.17 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.

2.18 Leases

Below are the accounting policies of the Branches in relation to leases where the Branches are the lessee:

Right-of-use assets
The Branches recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Branches are reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with leasehold improvements as discussed in note 10.

2 Summary of significant accounting policies (continued)

2.18 Leases (continued)

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

In calculating the present value of lease payments, the Branches use the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

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

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

New Standards and amendments to existing standards issued but not yet effective
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 standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- Defination of Accounting Estimates– Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

3 Financial risk management

3.1 Risk management review

The Branches' activities expose them to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business. The Branches' aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Branches' financial performance.

The Branches' risk management policies approved by the Head Office are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Branches regularly review its risk management policies and systems to reflect changes in markets, products and emerging best practices.

3.2 Credit risk

Credit risk is defined as the risk that the Branches' customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Branches to suffer a financial loss. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Branches' portfolio, could result in losses that are different from those provided for at the statement of financial position date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, balances with banks and other receivables. There is also credit risk in off-balance sheet financial arrangements such as credit commitments.

Credit risk, both on and off balance sheet, is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counterparty is evaluated and appropriate credit limits are established. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

3.2.1 Credit risk measurement

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

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement (continued)

Significant increase in credit risk
The Branches continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12months 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 criterias do not indicate a significant increase in credit risk.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with Investment Grade and by 1 grade for those with Non-Investment Grade.

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.

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

PD estimation process
In managing its portfolio, the Branches utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The internal ratings are based on financial factors as well as non-financial subjective factors. The Branches also uses 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's 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.

Exposure at default
Exposure at default (EAD) represents the amount which the obligor will owe to the Branches at the time of default. The Branches consider variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off-balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk measurement (continued)

Loss given default
Loss given default (LGD) is the magnitude of the likely loss if there is a default. 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.

Incorporation of forward-looking information
The Branches consider key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Branches employ statistical models to incorporate macro-economic factors on historical default rates. The Branches consider scenarios of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Loans and advances
The Branches measure credit risk of loans and advances to customers and to financial institutions at a counterparty level by using an internally developed rating system considering various quantitative and qualitative factors over a grade of A to F. This credit risk rating is embedded in the Branches' decision and risk management process.

Clients are segmented into two grading classes. The Branches' grading, which is shown below, reflects the grading to each class. This means that, in principle, exposures migrate between classes as the assessment of the grading changes. The grading tools are kept under review and upgraded as necessary. The Branches regularly validate the performance of the grading and their predictive power with regard to default events.

The Branches' internal ratings scale and mapping of external ratings

Branches' rating	Description of the class	External rating: Standard and Poor's equivalent
Performing and watch list	A+ to E+	AAA to B
Sub-standard, doubtful and loss	E to F	B- to D

The Branches use the external ratings where available to benchmark their internal credit risk assessment. Observed defaults per grading category vary year on year, especially over an economic cycle.

3.2.2 Risk limit control and mitigation policies

The Branches maintain and manage limits and controls concentrations of credit risk wherever they are identified, in particular to individual counterparties and groups, and to industries and countries.

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Risk limit control and mitigation policies (continued)

(a) Collateral

As part of the Branches' credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The principal collateral types include assignment of contract proceeds, pledge of cash deposit and Stand-by letter of Credit.

In order to minimise the credit loss, the Branches obtain possible additional collateral from the counterparty as soon as impairment indicators are observed for the relevant loans and advances.

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Branches. In the case of forward exchange contracts the Branches are exposed to the notional amount should the counterparty fail. This credit risk exposure is managed as part of the overall lending limits with customers. The Branches also maintain and manage potential exposures from market movements and enter into forward contracts with other banks, in the form of back to back contracts resulting in limited credit exposure to the Branches.

3.2.3 Expected Credit Loss

The table below shows the percentage of the Branches' on balance sheet items relating to loans and advances and the associated expected credit loss for each of the Branches' internal rating categories:

	2021		**2020**	
	Loans and advances (%)	**Expected credit loss** (%)	**Loans and advances** (%)	**Expected credit loss** (%)
Performing loans	66.32%	0.03%	0.77%	0.12%
Loss	33.68%	100.00%	99.23%	100.00%
	100%		100.00%	

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

The following table represents a worst case scenario of credit risk exposure to the Branches at 31 December 2021 and 2020 without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor ("CCF"), Credit Risk Mitigation ("CRM") and ECL.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

	Maximum exposure	
	2021	**2020**
	AED '000	AED '000
Credit risk exposures relating to on balance sheet assets are as follows:		
-Cash and balances with UAE Central Bank	437,457	542,885
-Due from other banks	47,358	76,015
-Due from Head Office and branches abroad	8,147	21,360
-Loans and advances	110,715	34,660
-Other assets	-	228
	603,677	675,148
Credit risk exposures relating to off-balance sheet items are as follows:		
-Unutilised commitments (unconditionally cancellable)	518,214	252,657
-Guarantees, acceptances and other financial facilities	1,753,887	1,311,594
	2,272,101	1,564,251

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio and amounts due from other banks because 64.78% (2020: 50.93%) of the loans and advances & due from other banks are categorised in the top grade of the Branches' internal grading system.

The Branches continously review their credit policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.

Due from Head Office and branches are within the group, therefore, the exposure to credit risk is considered minimal.

3.2.5 Loans and advances to customers and amounts due from other banks, Head Office and branches abroad

Loans and advances to customers and amounts due from other banks, Head Office and branches abroad are summarised as follows:

	2021		**2020**	
	Loans and advances	**Due from other banks, Head Office and branches abroad**	**Loans and advances**	**Due from other banks, Head Office and branches abroad**
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	73,425	55,505	266	97,375
Impaired	37,290	-	34,394	-
Gross	110,715	55,505	34,660	97,375
Less: ECL allowance	(37,313)	(13)	(34,394)	(9)
Net	73,402	55,492	266	97,366

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Loans and advances to customers and amounts due from other banks, Head Office and branches abroad (continued)

ECL allowance for bucket 3 of AED 37,290 thousand (2020: AED 34,394 thousand). ECL allowances amounted to AED 36 thousand (2020: AED 9 thousand) for bucket 1 and 2.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Branches. The management of the Branches seek to deal solely with reputed multinational and local customers. Consequently, the Branches have a limited clientele in their loans and advances portfolio, resulting in a concentration of credit risk with a few customers accounting for 100% (2020: 100%) of the total loans and advances outstanding at the year-end. Management believes that, having regard to the reputation of these customers, this concentration of credit risk at the year-end will not result in a loss to the Branches. Internal lending limits have been set under approved credit policy for exposures in various industries which are reviewed on quarterly basis.

Past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. In 2021 and 2020 the Branches, did not have any exposure under this category.

Individually impaired
Individually impaired loans and advances at 31 December 2021 are AED 37,290 thousand (2020: AED 34,394 thousand).

Loans and advances renegotiated
Restructuring activities include extended payment arrangements and modification and deferral of payments. The majority of restructuring activity is under taken to improve cash flow and is within the terms and condition of the Branches product programme guideline. These policies are kept under continuous review. Once a loan is renegotiated, it is no longer considered past due but is treated as a new loan. No loans have been restructured during 2021.

3.2.6 Repossessed collateral

During the year ended 31 December 2021, the Branches have not taken possession of any collateral held as security which have been utilised in settlement of credit facilities (2020: Nil).

3.2.7 Concentration of risks of financial assets with credit risk exposure

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Concentration of credit risk by industry

The following table breaks down the Branches' main credit exposures categorised by the industry sectors of the counterparties.

On balance sheet items

	Financial institutions AED'000	**Trading** AED '000	**Construction** AED '000	**Total** AED '000
31 December 2021				
Due from other banks	47,358	-	-	47,358
Due from Head Office and branches abroad	8,147	-	-	8,147
Loans and advances	-	92,336	18,379	110,715
Other assets	-	-	-	-
Total	55,505	92,336	18,379	166,220
31 December 2020				
Due from other banks	76,015	-	-	76,015
Due from Head Office and branches abroad	21,360	-	-	21,360
Loans and advances	-	34,660	-	34,660
Other assets	228	-	-	228
Total	97,603	34,660	-	132,263

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Concentration of credit risk by industry (continued)

Off balance sheet items

	Financial institutions AED'000	**Trading** AED '000	**Construction** AED '000	**Manufacturing** AED '000	**Other industries** AED '000	**Total** AED '000
31 December 2021						
Unutilised commitment (Unconditionally cancellable)	-	196,073	64,612	-	257,529	518,214
Guarantees, acceptances and other financial facilities	1,621,276	14,725	107,051	-	10,835	1,753,887
Total	1,621,276	210,798	171,663	-	268,364	2,272,101
31 December 2020						
Unutilised commitment (Unconditionally cancellable)	-	199,102	21,148	30,541	1,866	252,657
Guarantees, acceptances and other financial facilities	1,147,198	24,420	102,596	20,881	16,499	1,311,594
Total	1,147,198	223,522	123,744	51,422	18,365	1,564,251

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Geographical risk concentration
The following geographical risk concentration table breaks down the Branches' credit exposure at their carrying amounts, as categorised by geographical region as of 31 December 2021 and 2020.

For this table, the Branches have allocated exposures to regions based on the country of domicile of its counterparties:

On balance sheet items

	UAE AED'000	GCC AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2021					
Due from other banks	24,492	4,124	7,947	10,795	47,358
Due from Head Office and branches abroad	-	-	8,147	-	8,147
Loans and advances	73,425	37,290	-	-	110,715
Other assets					
Total	97,917	41,414	16,094	10,795	166,220
31 December 2020					
Due from other banks	15,946	7,298	7,626	45,145	76,015
Due from Head Office and branches abroad	-	-	21,360	-	21,360
Loans and advances	266	34,394	-	-	34,660
Other assets	201	-	-	27	228
Total	16,413	41,692	28,986	45,172	132,263

Off balance sheet items

	UAE AED'000	GCC AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2021					
Unutilised commitments (Unconditionally cancellable)	419,693	77,133	7,795	13,593	518,214
Guarantees, acceptances and other financial facilities	43,219	7,587	1,320,071	383,010	1,753,887
Total	462,912	84,720	1,327,866	396,603	2,272,101
31 December 2020					
Unutilised commitments (Unconditionally cancellable)	142,488	77,133	32,298	738	252,657
Guarantees, acceptances and other financial facilities	67,439	11,994	1,077,376	154,785	1,311,594
Total	209,927	89,127	1,109,674	155,523	1,564,251

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Gross credit exposures by residual contractual maturities

	On balance sheet items			Off balance sheet items	
	Loans and advances	**Due from Banks and due from Head Office and other branches abroad**	**Total funded**	**Total unfunded**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Less than 3 months	110,715	43,620	154,335	1,330,527	1,484,862
3 months to 1 year	-	11,885	11,885	439,291	451,176
1 to 5 years	-	-	-	259,625	259,625
Over 5 years	-	-	-	242,658	242,658
Grand Total	110,715	55,505	166,220	2,272,101	2,438,321
31 December 2020					
Less than 3 months	34,660	53,080	87,740	769,449	857,189
3 months to 1 year	-	44,295	44,295	606,585	650,880
1 to 5 years	-	-	-	188,146	188,146
Over 5 years	-	-	-	71	71
Grand Total	34,660	97,375	132,035	1,564,251	1,696,286

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Individually impaired loans by industry

The breakdown of the gross amount of individually impaired loans and advances by industry is as follows:

	Overdue			
	Less than 90 days	**above 90 days**	**Total**	**Specific provision**
	AED'000	AED'000	AED'000	AED'000
31 December 2021				
Trading	752	36,538	37,290	37,290
31 December 2020				
Trading	693	33,701	34,394	34,394

Individually impaired loans by geographic distribution

The breakdown of the gross amount of individually impaired loans and advances by geographical distribution are as follows:

	Overdue			Total	
	Less than 90 days	**above 90 days**	**Total**	**Provision**	**Impaired assets**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Saudi Arabia	752	36,538	37,290	37,290	37,290
31 December 2020					
Saudi Arabia	693	33,701	34,394	34,394	34,394

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

The Branches' internal credit rating grades for the year ended 31 December 2021:

Internal rating grade	Cash and Internal risk rating description	Balances with the UAE Central bank AED'000	Contingencies and commitments AED'000	Due from banks AED'000	Interest AED'000	Loans and advances AED'000	Due from related parties AED'000	Total AED'000
A+	Exceptional	437,457	1,583,200	12,263	-	-	8,147	2,041,067
A	Excellent	-	-	-	-	-	-	-
B+	Very good	-	5,239	6,150	-	-	-	11,389
B	Good	-	3,723	28,855	-	-	-	32,578
C+	Fairly good	-	108,564	79	-	-	-	108,643
C	Acceptable	-	337,508	11	-	-	-	337,519
C-	Average	-	178,557	-	-	55,046	-	233,603
D+	Pass	-	17,202	-	-	-	-	17,202
D	Mediocre	-	36,716	-	-	18,379	-	55,095
D-	Very mediocre	-	-	-	-	-	-	-
E+	Weak watch	-	-	-	-	-	-	-
E to E-	Substandard	-	1,373	-	-	-	-	1,373
F/Z	Default	-	19	-	-	37,290	-	37,309
		437,457	2,272,101	47,358	-	110,715	8,147	2,875,778

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

31 December 2020

Internal rating grade	Internal risk rating description	Cash and balances with the UAE Central bank AED'000	Contingencies and commitments AED'000	Due from banks AED'000	Interest AED'000	Loans and advances AED'000	Due from related parties AED'000	Total AED'000
A+	Exceptional	542,885	1,057,831	10,807	201	-	21,360	1,633,084
A	Excellent	-	-	-	-	-	-	-
B+	Very good	-	5,239	4,554	-	-	-	9,793
B	Good	-	15,969	23,141	-	-	-	39,110
C+	Fairly good	-	109,568	78	-	266	-	109,912
C	Acceptable	-	245,772	17,518	18	-	-	263,308
C-	Average	-	40,403	-	-	-	-	40,403
D+	Pass	-	86,341	19,727	9	-	-	106,077
D	Mediocre	-	-	-	-	-	-	-
D-	Very mediocre	-	2,883	190	-	-	-	3,073
E+	Weak watch	-	-	-	-	-	-	-
E to E-	Substandard	-	226	-	-	-	-	226
F/Z	Default	-	19	-	-	34,394	-	34,413
		542,885	1,564,251	76,015	228	34,660	21,360	2,239,399

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Concentration of risks of financial assets with credit risk exposure (continued)

Risk Grade

	2021		2020	
Stage 1 and 2 (A+ - E-)	**PD range**	**AED '000**	**PD range**	**AED '000**
Normal Grade (A+ - D-)	0.00017%-0.03444%	2,837,096	0.00012%-0.08047%	2,204,760
Watchlist grade (E+ - E-)	0.00498%-0.77521%	1,373	0.04243%-0.77771%	226
Stage 3 (Grade F/Z)				
Default grade (F/Z)	100%	37,309	100%	34,413
Total		**2,875,778**		**2,239,399**

3.2.8 Impact of COVID-19 and macroeconomic variables with respect to ECL

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic which continues to spread throughout the world. In addition, the oil prices and financial markets have witnessed unprecedented volatility causing protracted progression and a challenging operating environment. This has resulted in disruption to business and economic activities in the global and domestic economies. The UAE Central Bank and fiscal and monetary authorities across the world have announced various support measures to counter the possible adverse implications.

The Branches have been closely monitoring the situation and has successfully taken a number of measures ranging from reduced working hours to remote working and use of digital solutions to ensure continuity of customer services and precautionary measures to ensure health and safety of all stakeholders. The Branches have been proactively managing its liquidity and further strengthened its position to navigate through these uncertain environments with confidence. As at 31 December 2021, the Branches' advances to deposits ratio stood at 24.93%, (2020: 15.27%) and Eligible Liquid Asset Ratio stood at 181.84% (2020: 155%)

The Management Risk Committee ('MRC') and Central Credit Committee ('CCC') of the Head Office and Management Committee ('MC') and Asset Liability Committee ('ALCO') of the Branches ensure governance over all critical decisions and requirements of the IFRS 9 standard and the related guidance and notices issued by the regulator are complied with and monitored with the appropriate involvement of key stakeholders including Risk, Credit, Finance and the Business divisions. These include key technical accounting and risk methodology decisions, management overlays, inputs and assumptions used for the determination of ECL and macro-economic factors consideration.

Execution of principal decisions and results of reviews and monitoring are presented to the Board Audit Committee, Board Risk Committee and the Board, as the Branches are committed to upholding the highest corporate governance standards.

3 Financial risk management (continued)

3.3 Market risk

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

The Asset and Liability Committee ("ALCO") at the UAE Branches in Dubai ensures that the UAE branches are organised in such a way that all centers except Capital Market are immune from market risk exposure. This is achieved through a system of internal desks and internal deals which are traded between them in order to transfer the exposure to Capital Market desks. The market risk exposure of Capital Market desks operates under a framework of methodology and market risk limits table approved by the Market Risk Committee of the Head Office. The market risk exposure is measured and monitored by MAM (Market Activity Monitoring) department of market risk which ensures that limits are not breached and informs senior management both locally and at the Head Office in case any breach of limits or unauthorized activity is identified. The indicators used for the monitoring of market risk include VAR (Value at Risk), sensitivities and maturities.

Market risk measurement techniques
The main indicator used for the monitoring of market risk exposure is VAR which is computed within a framework which has been approved by the regulator (French banking Commission) at the Head Office. This framework is based on an internal model which is used to compute a one day historical VAR at a level of 99% confidence interval with one year of historical moves. The VAR computation is supplemented by a back testing computation which ensures the robustness of the internal model and the relevance of using one year of historic data. Other indicators such as sensitivities are used as proxy to VAR which remains the official indicator.

3.3.1 Price risk

Price risk is the risk that the value of the entity's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movements. The price risk arises primarily from uncertainty about the future price of financial instruments that the entity holds. The Branches do not hold financial instruments whose value is affected by changes in market prices and, therefore the Branches are not exposed to price risk.

3.3.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency.

The Branches are exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on their financial position and cash flows. Management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The table below summarises the Branches' exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Branches' financial assets and financial liabilities at carrying amounts, categorised by currency.

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Currency risk (continued)

At 31 December 2021	**AED AED'000**	**USD AED'000**	**EURO AED'000**	**Others AED'000**	**Total AED'000**
Assets					
Cash and balances with the UAE Central Bank, gross	437,457	-	-	-	437,457
Due from other banks, gross	11	40,110	1,471	5,766	47,358
Due from Head Office and branches abroad, gross	-	2,968	5,179	-	8,147
Loans and advances, gross	-	110,715	-	-	110,715
Other assets	-	-	-	-	-
Total	437,468	153,793	6,650	5,766	603,677
Liabilities					
Due to other banks	15,602	-	-	-	15,602
Due to Head Office and branches abroad	14,005	96,104	-	-	110,109
Due to customers	41,627	14,799	6,315	3,995	66,736
Other liabilities					
Total	71,234	110,903	6,315	3,995	192,447
Net balance sheet position	366,234	42,890	335	1,771	411,230

At 31 December 2020	**AED AED'000**	**USD AED'000**	**EURO AED'000**	**Others AED'000**	**Total AED'000**
Assets					
Cash and balances with the UAE Central Bank, gross	542,885	-	-	-	542,885
Due from other banks, gross	10	67,690	2,900	5,415	76,015
Due from Head Office and branches abroad, gross	-	1,285	20,075	-	21,360
Loans and advances, gross	266	34,394	-	-	34,660
Other assets	201	27	-	-	228
Total	543,362	103,396	22,975	5,415	675,148
Liabilities					
Due to other banks	5,654	-	-	-	5,654
Due to Head Office and branches abroad	131,053	47,987	-	-	179,040
Due to customers	32,735	18,782	22,739	3,426	77,682
Other liabilities	-	-	-	-	-
Total	169,442	66,769	22,739	3,426	262,376
Net balance sheet position	373,920	36,627	236	1,989	412,772

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Currency risk (continued)

The Branches have limited exposures to foreign exchange risk as most of foreign currency financial instruments are either in US Dollar or in currencies pegged to US Dollars. Forward contracts entered into by the Branches are back to back commitments to purchase and sell and the foreign exchange risk involved in these contracts is not material.

Currency risk is also assessed by measuring the impact of reasonable possible change in exchange rate. The Branches assume a fluctuation in exchange rates of +10% / -10% and estimates the following impact on the net assets and net liabilities at that date:

	2021		**2020**	
	AED'000	**AED'000**	**AED'000**	**AED'000**
	10% increase	*10% decrease*	*10% increase*	*10% decrease*
Assets	1,242	(1,242)	2,839	(2,839)
Liabilities	1,031	(1,031)	2,617	(2,617)
Net impact on financial performance	211	(211)	222	(222)
Net impact on financial position	211	(211)	222	(222)

Off-balance sheet items

	AED AED'000	**USD AED'000**	**EURO AED'000**	**Others AED'000**	**Total AED'000**
31 December 2021					
Unutilised commitments (Unconditionally cancellable)	-	518,214	-	-	518,214
Guarantees, acceptances and other financial facilities	517,814	704,938	528,444	2,691	1,753,887
Total	517,814	1,223,152	528,444	2,691	2,272,101

	AED AED'000	**USD AED'000**	**EURO AED'000**	**Others AED'000**	**Total AED'000**
31 December 2020					
Unutilised commitments (Unconditionally cancellable)	-	252,657	-	-	252,657
Guarantees, acceptances and other financial facilities	439,130	267,869	593,283	11,312	1,311,594
Total	439,130	520,526	593,283	11,312	1,564,251

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Branches take on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The ALCO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by Treasury.

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

The table below summarises the Branches' exposure to interest rate risks. It includes the Branches' financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Non-interest bearing AED'000	Total AED'000
At 31 December 2021					
Assets					
Cash and balances with the UAE Central Bank	200,000	200,000	-	37,457	437,457
Due from other banks	25,462	11,885	-	10,011	47,358
Due from Head Office and branches abroad	2,491	-	-	5,656	8,147
Loans and advances	110,715	-	-	-	110,715
Other assets	-	-	-	-	-
Total assets	338,668	211,885	-	53,124	603,777
Liabilities					
Due to other banks	-	-	-	15,602	15,602
Due to Head Office and branches abroad	95,865	-	-	14,244	110,109
Due to customers	174	3,000	-	63,562	66,736
Other liabilities	-	-	-	-	-
Total liabilities	96,039	3,000		93,408	192,447
Interest rate sensitivity gap	242,629	208,885	-	(40,284)	411,230

Interest rate yields
The average earning on placements and balances with banks was 1.78 % (2020: 1.65 %) and on loans and advances was 0.65 % (2020: 2.56 %). The average cost of customer deposits was 0.10 % (2020: 0.84 %) and of due to banks and term borrowings was 0.19 % (2020: 0.64 %).

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year to 5 years AED'000	Non-interest bearing AED'000	Total AED'000
At 31 December 2020					
Assets					
Cash and balances with the UAE Central Bank	150,000	250,000	-	142,885	542,885
Due from other banks	21,802	44,295	-	9,918	76,015
Due from Head Office and branches abroad	18,071	-	-	3,289	21,360
Loans and advances	34,660	-	-	-	34,660
Other assets	-	-	-	228	228
Total assets	224,533	294,295	-	156,320	675,148
Liabilities					
Due to other banks	-	-	-	5,654	5,654
Due to Head Office and branches abroad	47,749	-	-	131,291	179,040
Due to customers	174	-	-	77,508	77,682
Other liabilities	-	-	-	-	-
Total liabilities	47,923	-	-	214,453	262,376
Interest rate sensitivity gap	176,610	294,295	-	(58,133)	412,772

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Branches assume a fluctuation in interest rates of 200 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	Interest income		Interest expense	
	2021 AED'000	2020 AED'000	2021 AED'000	2020 AED'000
Fluctuation in interest rates by 200 bps	11,011	10,377	1,981	958

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 550,553 thousand (2020: AED 518,828 thousand) closing interest bearing assets and AED 99,039 thousand (2020: AED 47,923 thousand) closing interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.4 Liquidity risk

Liquidity risk is the risk that the Branches are unable to meet their payment obligations associated with their financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk management process

The Branches manage their liquidity in accordance with UAE Central Bank requirements and the Branches' internal guidelines mandated by ALCO. ALCO monitors liquidity ratios on a regular basis to maintain a wide diversification by currency, geography, product and term.

The UAE Central Bank has prescribed reserve requirements of 1% on term deposits and 14% on demand deposits. The UAE Central Bank also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months and inter-bank borrowings having a remaining term of greater than six months) should not exceed stable funds as defined by the UAE Central Bank.

To mitigate the repercussions of COVID-19 pandemic, the Central Bank has decided to reduce the percentage of cash reserve requirements on current accounts, savings accounts, call and similar accounts for all banks by half, from 14% to 7%, with effect from 7 April 2020, until further notice.

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative and derivative cashflows

The table below presents the cash flows payable by the Branches under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual discounted cash flows.

	Up to 3 months AED'000	3 - 6 months AED'000	Above 6 months AED'000	Total AED'000
31 December 2021				
Due to other banks	15,602	-	-	15,602
Due to Head Office and branches abroad	110,109	-	-	110,109
Due to customers	63,736	3,000	-	66,736
Other Liabilities	3,540	570	10,276	14,386
Total discounted financial liabilities	192,987	3,570	10,276	206,833
31 December 2020				
Due to other banks	5,654	-	-	5,654
Due to Head Office and branches abroad	179,040	-	-	179,040
Due to customers	77,682	-	-	77,682
Other Liabilities	3,856	322	10,502	14,680
Total discounted financial liabilities	266,232	322	10,502	277,056

The table below analyses the Branches' derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	1 – 3 months AED'000	3 – 12 months AED'000	Over 1 year AED'000	Total AED'000
31 December 2021					
− Outflow	3,066	1,250	-	-	4,316
− Inflow	3,066	1,250	-	-	4,316

	Up to 1 month AED'000	1 – 3 months AED'000	3 – 12 months AED'000	Over 1 year AED'000	Total AED'000
31 December 2020					
− Outflow	409	-	-	-	409
− Inflow	409	-	-	-	409

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative and derivative cashflows (continued)

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

As at 31 December 2021

	Carrying Amount AED'000	Gross nominal outflows AED'000	Less than 3 months AED'000	3 to 12 months AED'000	Over 1 year AED'000
Financial liabilities					
Due to other banks	15,602	15,602	15,602	-	-
Due to Head Office and branches abroad	110,109	110,109	110,109	-	-
Due to customers	66,736	66,736	63,736	3,000	-
Other (Lease Liability)	416	416	416	-	-
	192,863	192,863	189,863	3,000	-
Unutilised commitments (Unconditionally cancellable)	518,214	518,214	518,214	-	-
Guarantees, acceptances and other financial facilities	1,753,887	1,753,887	812,313	439,291	502,283

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative cashflows (continued)

As at 31 December 2020

	Carrying Amount AED'000	Gross nominal outflows AED'000	Less than 3 months AED'000	3 to 12 months AED'000	Over 1 year AED'000
Financial liabilities					
Due to other banks	5,654	5,654	5,654	-	-
Due to Head Office and branches abroad	179,040	179,040	179,040	-	-
Due to customers	77,682	77,682	77,682	-	-
Other (Lease Liability)	395	395	-	395	-
	262,771	262,771	262,376	395	-
Unutilised commitments (Unconditionally cancellable)	252,657	252,657	252,657	-	-
Guarantees, acceptances and other financial facilities	1,311,594	1,311,594	516,794	606,583	188,217

Maturity analysis of liabilities

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31 December 2021

Assets	Within 12 months	After 12 months	Total
Cash and balances with the UAE Central Bank	437,457	-	437,457
Due from Banks	47,358	-	47,358
Loans and advances	110,715	-	110,715
Other assets	2,861	8,005	10,866
Total	598,391	8,005	606,396

Liabilities	Within 12 months	After 12 months	Total
Due to banks	15,602	-	15,602
Due to customers	66,736	-	66,736
Current tax liabilities	910	-	910
Other liabilities	13,476	-	13,476
Total	96,724	-	96,724

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Non-derivative cashflows (continued)

Maturity analysis of liabilities (continued)

As at 31 December 2020

Assets	**Within 12 months**	**After 12 months**	**Total**
Cash and balances with the UAE Central Bank	542,885	-	542,885
Due from Banks	97,375	-	97,375
Loans and advances	34,660	-	34,660
Other assets	3,162	7,357	10,519
Total	678,082	7,357	685,439

Liabilities	**Within 12 months**	**After 12 months**	**Total**
Due to banks	184,694	-	184,694
Due to customers	77,682	-	77,682
Current tax liabilities	1,699	-	1,699
Other liabilities	12,981	-	12,981
Total	277,056	-	277,056

3.5 Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of financial instruments of the Branches:

	Carrying value		**Fair value**	
	2021 AED'000	**2020 AED'000**	**2021 AED'000**	**2020 AED'000**
Financial assets				
Cash and balances with UAE Central Bank	437,374	542,841	437,374	542,841
Due from other banks	47,346	76,008	47,346	76,008
Due from Head Office and branches abroad	8,146	21,358	8,146	21,358
Loans and advances	73,402	266	73,402	266
Other assets	-	228	-	228
	566,268	640,701	566,268	640,701
Financial liabilities				
Due to other banks	15,602	5,654	15,602	5,654
Due to Head Office and branches abroad	110,109	179,040	110,109	179,040
Due to customers	66,736	77,682	66,736	77,682
Other liabilities	-	-	-	-
	192,447	262,376	192,447	262,376

3 Financial risk management (continued)

3.5 Fair value of financial assets and liabilities (continued)

(i) Due to / due from other banks, cash and balances with UAE Central bank and due from Head Office and branches abroad include inter-bank placements

These are generally short term and the carrying amount approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The carrying amount approximates the fair value of loans and advances.

(iii) Due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000
31 December 2021			
Foreign currency forwards – assets	-	-	-
Foreign currency forwards – liabilities	-	-	-
31 December 2020			
Foreign currency forwards – assets	-	-	-
Foreign currency forwards – liabilities	-	-	-

There have been no transfers of financial assets and financial liabilities between Level 1 and Level 2 during the years ended 31 December 2021 or 2020.

3.6 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Branch.

The Branches' regulatory capital is analysed into two tiers:

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

During the year ended 31 December 2021 and 2020, the Branches complied in full with capital requirements. All banks operating in U.A.E. are required to maintain a minimum capital adequacy of 13%

There have been no material changes in the Branches' management of capital during the year.

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.1 Capital structure and capital adequacy as per Basel III

The Branches are required to report capital resources and risk-weighted assets under the Basel III Pillar 3 framework, as shown in the following table.

	Notes	2021 AED'000	2020 AED'000
Tier 1 capital			
Allocated capital	16a	316,403	316,403
Regulatory credit risk reserve	16b	15,597	15,597
Legal reserves		31,124	31,099
Accumulated earnings /(losses)		8,456	12,245
IFRS transitional arrangement: Partial add-back of ECL impact to CET1		207	12
		371,787	375,356
Tier 2 Capital			
General Provision		-	-
Total regulatory capital		371,787	375,356
Risk Weighted Assets			
Credit risk		629,986	499,516
Market risk		630	463
Operation risk		30,155	33,933
Total risk weighted assets		660,771	533,912
Capital adequacy ratio on Regulatory capital		56.27%	70.30%
Capital adequacy ratio on Tier 1 capital		56.27%	70.30%

Risk weighted assets relating to credit risk as at 31 December 2021 is AED 629,986 thousand (2020: AED 499,516 thousand).

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.2 Analysis of Branches' exposure based on Basel III standardised approach

			Credit Risk Mitigation (CRM)			
	On balance sheet gross outstanding AED '000	**Off balance sheet gross outstanding AED '000**	**Exposure before CRM AED '000**	**CRM AED '000**	**After CRM & CCF AED '000**	**Risk weighted Assets AED '000**
31 December 2021						
Claims on sovereigns	437,457	-	437,457	-	437,457	-
Claims on banks	57,256	1,621,276	1,678,532	238	893,455	488,974
Claims on corporates	110,715	650,825	724,250	1,137	141,012	141,012
Other assets	10,394	-	10,394	-	10,394	-
Total claims	615,822	2,272,101	2,850,633	1,375	1,482,318	629,986

Of which:			
Rated exposure	494,708	1,621,276	2,115,984
Unrated exposure	121,114	650,825	734,649
Total exposure	615,822	2,272,101	2,850,633

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.2 Analysis of the Branches' exposure based on Basel III standardised approach (continued)

	On balance sheet gross outstanding AED '000	Off balance sheet gross outstanding AED '000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED '000
			Exposure before CRM AED '000	CRM AED '000	After CRM & CCF AED '000	
31 December 2020						
Claims on sovereigns	542,903	-	542,903	-	542,903	-
Claims on banks	97,375	1,147,198	1,244,573	238	716,401	420,377
Claims on corporates	34,660	417,053	417,319	3,637	78,281	78,281
Other assets	12,177	-	12,177	-	12,177	858
Total claims	687,115	1,564,251	2,216,972	3,875	1,349,762	499,516
Of which:						
Rated exposure	642,166	1,147,196	1,789,362			
Unrated exposure	44,949	417,055	427,610			
Total exposure	687,115	1,564,251	2,216,972			

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.3 Capital requirement for market risk under standardised approach

	Risk Weighted Assets		Capital Charge	
	2021 AED '000	2020 AED '000	2021 AED '000	2020 AED '000
Market risk				
Foreign exchange risk	630	463	66	49

Capital charge for year ended 31 December 2021 has been calculated at 10.5% for Basel III (2020: 10.5%).

3.6.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from inadequate or failed processes, technology and infrastructure within the Branches, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory compliance requirements and generally accepted standards of corporate behaviour.

The Branches' objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Branches' reputation, assets and personnel with overall cost effectiveness.

3.6.5 Capital Requirement

	2021		2020	
	Revised Under TESS	Original	Revised Under TESS	Original
Minimum Common Equity Tier 1 (CET 1) ratio	7.0%	7.0%	7.0%	7.0%
Minimum tier 1 capital ratio	8.5%	8.5%	8.5%	8.5%
Minimum capital adequacy ratio	10.5%	10.5%	10.5%	10.5%
CCB	1.0%	2.5%	1.0%	2.5%

As part of the capital stimulus package provided by the CBUAE under the TESS program, Branches are allowed to tap into the capital conservation buffer of 2.5% up to a maximum of 60% effective from 15 March 2021 until 30 June 2022. Upon full consumption of this capital relief, the minimum capital adequacy ratio requirement reduces to 11.5% (as opposed to 13.0% previously applicable) for reporting periods falling within the specified duration. The Bank continues to be in compliance with this revised minimum capital threshold requirement as per CBUAE guidelines for the year ended 31 December 2021.

3 Financial risk management (continued)

3.6 Capital management (continued)

3.6.6 Impairment reserve under the Central Bank of UAE (CBUAE) guidance

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

	2021 AED 000
Impairment reserve: Specific	
Specific provisions under Circular 28/2010 of CBUAE 2	37,290
Less: Stage 3 provisions under IFRS 9	(37,290)
Specific provision transferred to the impairment reserve*	-
Total provision transferred to the impairment reserve	**-**
Impairment reserve: General	
General provisions under Circular 28/2010 of CBUAE **	9,450
Less: Stage 1 and Stage 2 provisions under IFRS 9	(444)
General provision transferred to the impairment reserve*	-

**In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.*
*** The regulatory credit risk reserve included in the statement of changes in capital and reserves has been maintained at AED 15,597K from the financial year ending December 2015. Accordingly, the reserve maintained is significantly higher than the provision required as per central bank regulation 28/2010 as at 31 December 2021.*

3.7 IBOR Reforms

Interest rate benchmark reform:
A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates - RFR (referred to as 'IBOR reform'). Credit Agricole Corporate and Investment Bank has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. A cross-functional IBOR Transition Working Group (referred to as 'IBOR Working Group') has been established at the head office level to manage its transition to alternative RFRs.

Credit Agricole Corporate and Investment Bank continues to maintain its momentum in tracking its exposure to IBOR, preparing its IT systems to accommodate the incoming RFRs, amending contracts / addendums and communicating progress with the regulators and clients. IBOR reform exposes Credit Agricole Corporate and Investment Bank to various risks, which the IBOR Working Group is managing and monitoring closely.

These risks for the Branches include but are not limited to the following:
- *Conduct risk* arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- *Financial risk* to the Branches and its clients that markets are disrupted due to IBOR reform giving rise to financial losses;
- *Pricing risk* (including re-pricing risk) from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- *Operational risk* arising from changes to the bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.

3 Financial risk management (continued)

3.7 IBOR Reforms (continued)

Credit Agricole Corporate and Investment Bank has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by reviewing its exposure and contracts on a regular basis.

The branches holds derivatives for risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The branches derivative instruments are governed by ISDA definitions and adheres to the ISDA 2020 IBOR fall back official protocol and supplement.

The Branches do not have significant IBOR exposure on floating-rate loans and advances for USD and EUR as at 31 December 2021.

4 Critical accounting estimates and judgments in applying accounting policies

The Branches based their assumptions 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. Such changes are reflected in the assumptions when they occur.

The basis used by management in determining the carrying values of loans and advances and the underlying risk therein are discussed below:

Impairment losses on loans and advances
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 PDSs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Estimating the incremental borrowing rate
The Branches cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Branches would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

4 Critical accounting estimates and judgments in applying accounting policies (continued)

The IBR therefore reflects what the Branches 'would have to pay',which requires estimation when no observable rates are available when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).The Branches estimate the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (to reflect the terms and conditions of the lease).

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.

Judgements
In the process of applying the Branches' accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

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.

Determination of the lease term for lease contracts with renewal and termination options (Branches as a lessee)
The Branches determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Branches have two lease contracts that includes extension and termination options. The Branches apply judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Branches reassess the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

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

Deferred tax assets
Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

5 Cash and balances with the UAE Central Bank

	2021 AED'000	2020 AED'000
Statutory and other deposits with UAE Central Bank*	37,457	142,885
Certificates of deposit with the UAE Central Bank	400,000	400,000
Less: Allowances for impairment (ECL)	(83)	(44)
	437,374	542,841

* includes statutory reserve requirement of AED 4,767 thousand (2020: AED 5,081 thousand)

Cash and balances with the UAE Central bank maturing within 3 months' amount to AED 237,457 thousand (2020: AED 287,804 thousand).

Treasury Monetary bills carry zero coupon rate (2020: 0.12% to 0.19% per annum for Certificate of Deposits) with Nine months to Ten Months original maturity.

Balances with the UAE CB are in stage 1 throughout the year.

6 Due from other banks

	2021 AED'000	2020 AED'000
Placements (Nostro)	10,012	9,918
Bills discounted	37,346	66,097
Less: Allowances for impairment (ECL)	(12)	(7)
	47,346	76,008

Amounts due from other banks are in stage 1 throughout the year.

7 Due from Head Office and branches abroad

	2021 AED'000	2020 AED'000
Placements	2,491	18,071
Current accounts	2,688	2,004
Recharge to other branches	2,968	1,285
Less: Allowances for impairment (ECL)	(1)	(2)
	8,146	21,358

Recharges to other branches include reallocation to the DIFC branch, of common expenses such as expenses allocated by Head Office, senior management costs and Global Corporate Banking Operations (GOP) incurred by Dubai branch. The allocation is based on the proportion of average assets by both the branches. Amounts due from Head Office and branches abroad are in stage 1 throughout the year.

8 Loans and advances

8(a) Loans and advances

	2021 AED'000	2020 AED'000
Loans and advances	110,715	34,660
Less: Allowances for impairment	(37,313)	(34,394)
	73,402	266

8(b) Analysis of loans and advances

	2021 AED'000	2020 AED'000
Overdrafts	110,715	34,660
Total loans and advances	110,715	34,660

Movement of provision for credit losses are as follows:

	2021 AED'000	2020 AED'000
Balance at 1 January	34,394	31,797
Provided during the year	2,919	2,597
Balance at 31 December	37,313	34,394

Past due but not impaired
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. There were no past due but not impaired loans or advances as at 31 December 2021 (2020: NIL).

Modified and renegotiated loans
The total amount of modified or renegotiated loans as at 31 December 2021 are Nil (2020: NIL).

Ageing for stage 2 and stage 3 loans

There are no loans outstanding under stage 2. Stage 3 loans are more than 7 years old.

8 Loans and advances (continued)

8(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**			
Rating grade	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing				
Normal	73,425	-	-	73,425
Watchlist	-	-	-	-
Non-performing				
Default	-	-	37,290	37,290
Total	**73,425**	**-**	**37,290**	**110,715**

In AED 000	**2020**			
Rating grade	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing				
Normal	266	-	-	266
Watchlist	-	-	-	-
Non-performing				
Default	-	-	34,394	34,394
Total	**266**	**-**	**34,394**	**34,660**

* The internal rating grades of the Branches corresponding to the grades mentioned above are described in note 3.2.1.

8 Loans and advances (continued)

8(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:

In AED 000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2021	**266**	**-**	**34,394**	**34,660**
New assets originated	73,425		2,896	76,321
Assets derecognised or repaid (excluding write offs)	(266)	-	-	(266)
At 31 December 2021	**73,425**	**-**	**37,290**	**110,715**

In AED 000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Gross carrying amount as at 1 January 2020	**17,101**	**-**	**31,716**	**48,817**
New assets originated	6	-	2,678	2,684
Assets derecognised or repaid (excluding write offs)	(16,841)	-	-	(16,841)
At 31 December 2020	**266**	**-**	**34,394**	**34,660**

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

8(d) ECL for loans and advances

In AED 000	Stage 1 Individual	Stage 2 Individual	Stage 3	Total
Impairment allowance as at 1 January 2021	**-**	**-**	**34,394**	**34,394**
Allowances for impairment made during the year	23	-	2,896	2,919
Recoveries made during the year	-	-	-	-
At 31 December 2021	**23**	**-**	**37,290**	**37,313**

In AED 000	Individual	Individual	Stage 3	Total
Impairment allowance as at 1 January 2020	**81**	**-**	**31,716**	**31,797**
Allowances for impairment made during the year	40	-	2,678	2,718
Recoveries made during the year	(121)	-	-	(121)
At 31 December 2020	**-**	**-**	**34,394**	**34,394**

9 Other assets

	2021 AED'000	2020 AED'000
Interest receivable	-	228
Prepayments and others	2,922	2,934
Deferred tax asset (Note 25)	7,944	7,357
	10,866	10,519

10 Furniture and equipment

	Furniture, fixtures and fittings AED'000	Data processing and other equipment AED'000	Vehicles AED'000	Total AED'000
Cost				
At 1 January 2020	2,438	2,179	677	5,294
Additions	30	175	-	205
Disposal/write off	(40)	-	-	(40)
At 31 December 2020	2,428	2,354	677	5,459
Additions	-	125	-	125
Disposal/write off	-	-	-	-
At 31 December 2021	2,428	2,479	677	5,584
IFRS 16 leases				
Opening	-	1,012	-	1,012
Disposals	-	(417)	-	(417)
Additions	-	457	-	457
At 31 December 2021	-	1,052	-	1,052
Accumulated depreciation				
At 1 January 2020	2,151	1,740	473	4,364
Charge for the year	85	147	53	285
Disposal/write off	(40)	-	-	(40)
At 31 December 2020	2,196	1,887	526	4,609
Charge for the year	91	153	53	297
Disposal/write off	-	-	-	-
At 31 December 2021	2,287	2,040	579	4,906
IFRS 16 leases				
Opening	-	204	-	204
Charge for the year	-	649	-	649
Disposals	-	(402)	-	(402)
	-	451	-	451
Net book value				
At 31 December 2021	141	1,040	98	1,279
At 31 December 2020	232	1,275	151	1,658

10 Furniture and equipment (continued)

Set out below are carrying amounts of lease liabilities (included under other liabilities) and the movements during the period:

	2021 AED'000	**2020 AED'000**
At January 1	395	458
Additions	1,052	1,012
Accretion of interest	40	4
Payments	(1,071)	(1,079)
	416	395

11 Due to other banks

	2021 AED'000	**2020 AED'000**
Current accounts	15,602	5,654

12 Due to Head Office and branches abroad

	2021 AED'000	**2020 AED'000**
Term deposits	96,104	47,987
Current accounts	14,005	131,053
	110,109	179,040

13 Due to customers

	2021 AED'000	**2020 AED'000**
Term deposits	8,331	6,177
Current accounts	58,405	71,505
	66,736	77,682

Ten customers represent 88% (2020: 91%) of the deposits outstanding at year end.

14 Other liabilities

	2021 AED'000	2020 AED'000
Interest payable	3	-
Provision for employees' end of service benefits (Note 15)	3,351	2,994
Provision for other employees' benefits	2,610	2,384
Provision for taxation (Note 25)	910	1,699
Fair value of foreign currency forwards (Note 19)	-	-
Others	7,512	7,603
	14,386	14,680

15 Provision for employees' end of service benefits

Movement in provision for employees' end of service benefits is analysed below:

	2021 AED'000	2020 AED'000
At 1 January	2,994	2,685
Provision made during the year (Note 24)	357	309
Amounts paid during the year	-	-
At 31 December	3,351	2,994

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2021, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. Average increment/promotion costs in 2021 is 4.45% (2020: 3.06%).

16 Allocated capital and Regulatory credit risk reserve

(a) Allocated capital

In accordance with the UAE Union Law No. 10 of 1980, as amended, allocated capital represents the amount of interest free capital provided by the Head Office.

(b) Regulatory credit risk reserve

The Branches have created a non-distributable reserve in lieu of the general provision required to be created in accordance with the ''Circular No 28/2010'' issued by the UAE Central Bank.

17 Legal reserve

In accordance with Article 82 of the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

18 Contingencies and commitments

	2021 AED'000	2020 AED'000
Guarantees	1,719,816	1,224,851
Acceptances	34,071	72,695
Letters of credit	-	14,048
Unutilised commitments (unconditionally cancellable)	518,214	252,657
	2,272,101	1,564,251

Movement in the gross carrying amount:

2021	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2021	1,485,516	78,735	-	1,564,251
New Contingencies and commitments	1,055,265	-	-	1,055,265
Repaid Contingencies and commitments	(298,921)	(496)	-	(299,417)
Exchange difference	(47,996)	(2)	-	(47,998)
At 31 December 2021	2,193,864	78,237	-	2,272,101

2020	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount at 1 January 2020	1,396,637	78,241	-	1,474,878
New Contingencies and commitments	382,129	465	-	382,594
Repaid Contingencies and commitments	(346,058)	-	-	(346,058)
Movements within Stages	(32)	32	-	-
Exchange difference	52,840	(3)	-	52,837
At 31 December 2020	1,485,516	78,735	-	1,564,251

18 Contingencies and commitments (continued)

Movement in the amount of ECL is as below:

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2021	106	78	-	184
Charge	89	151	-	240
Reversal	(98)	-	-	(98)
Exchange difference	-	(1)	-	(1)
At 31 December 2021	97	228	-	325

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2020	77	13	-	90
Charge	246	65	-	311
Reversal	(215)	-	-	(215)
Exchange difference	(2)	-	-	(2)
At 31 December 2020	106	78	-	184

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

Letters of credit are written undertakings by the Branches on behalf of a customer authorising a third party to draw drafts on the Branches, up to a stipulated amount, under specific terms and conditions. Some of these letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have less risk.

Cash margin requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branches do not generally expect the third party to draw funds under the agreement.

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

While there is some risk associated with the remainder of commitments, the risk is viewed as modest since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid when due. The Branches monitor the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Guarantees and acceptances include AED 1,478 million (2020: AED 942 million) incurred on behalf of other branches of the Head Office.

19 Forward foreign exchange contracts

Forward foreign exchange contracts (FECs) comprise commitments to purchase and sale of foreign and domestic currencies on behalf of customers and in respect of the Branches' propriety activities and undelivered spot transactions.

The Branches have entered into the following forward exchange transactions:

	Assets AED'000	Liabilities AED' 000	Contract Commitment AED'000
31 December 2021	-	-	4,316
31 December 2020	-	-	409

20 Interest income

	2021 AED'000	2020 AED'000
Interest income on :		
- balances with Head Office and branches abroad (Note 27)	65	201
- loans and advances	2,961	3,170
- other bank balances	1,599	4,547
- Interest suspension on loans and advances	(2,896)	(2,678)
	1,729	5,240

21 Interest expense

	2021 AED'000	2020 AED'000
Interest expense on :		
- balances due to Head Office and branches abroad (Note 27)	100	444
- due to customers	2	1
- other bank deposits	109	118
	211	563

22 Net fees and commission income

	2021 AED'000	2020 AED'000
Fees and commission income	4,859	5,218
Fees and commission expense	(95)	(50)
	4,764	5,168

23 Operating expenses

	2021 AED'000	2020 AED'000
Staff costs (Note 24)	13,005	12,624
Head Office costs (Note 27)	9,752	8,079
Others – Head office & Branches (Note 27)	1,060	1,057
Depreciation (Note 10)	946	1,131
Others	2,972	2,456
Recharge to other branches (Note 27)	(17,821)	(15,983)
	9,914	9,364

23 (a) Net Imapairment Losses

Provision for credit losses recognised in the statement of income is as follows

	2021 AED'000	2020 AED'000
Net impairment of financial assets on:		
Loans and Advances (Note 8d)	23	(81)
Contingent liabilities (Note 18)	141	94
Balances with the UAE Central Bank	40	(5)
Due from Head Office and branches abroad (Note 27)	(1)	1
Due from other banks	4	3
	207	12

24 Staff costs

	2021 AED'000	2020 AED'000
Salaries and wages	6,903	6,978
Bonus	2,435	2,185
Employees' end of service benefits (Note 15)	357	309
Other benefits and allowances	3,310	3,152
	13,005	12,624

25 Taxation

	2021 AED'000	2020 AED'000
Current year income tax	910	1,679
Prior year income tax	135	-
Deferred tax	(587)	(600)
	458	1,079

25 Taxation (continued)

The income tax rate applicable to the Branches' 2021 income is 20% (2020: 20%).

Reconciliation between the profit/(loss) for the year before tax as per statement of comprehensive income and tax charge for the year is as follows:

	2021 AED'000	2020 AED'000
Profit for the year before taxation	(3,556)	1,329
Income tax at the rate of 20%	(711)	266
Tax effect of:		
Permanent tax differences	1,034	813
Temporary tax differences	587	600
Current year income tax	910	1,679

Movement in provision for taxation is analysed below:

	2021 AED'000	2020 AED'000
At 1 January	1,699	3,111
Provision made during the year	910	1,679
Amounts paid during the year(Including additional tax for Prior Year)	(1,834)	(3,091)
Prior year income tax charge	135	-
At 31 December	910	1,699

Deferred income taxes are calculated on temporary differences under the liability method using an effective tax rate of 20%. Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is probable.

The movement in the current taxation account during the year ended 31 December 2021 as presented in the financial statements is as follows:

	2021 AED'000	2020 AED'000
At 1 January	1,699	3,111
Current year charge	910	1,679
Tax paid (Including additional tax for Prior Year)	(1,834)	(3,091)
Prior year income tax charge	135	-
At 31 December	910	1,699
Balance Sheet – Income tax payable	910	1,699
Net current tax payable	910	1,699

25 Taxation (continued)

The movement on the deferred tax asset is as follows:

	2021 AED'000	2020 AED'000
At 1 January	7,357	6,757
Provision made during the year	1,053	959
Amounts reversed during the year	(466)	(359)
At 31 December	7,944	7,357

26 Cash and cash equivalents

	2021 AED'000	2020 AED'000
Cash and balances with the UAE Central Bank	32,690	137,804
Due from other banks	22,877	17,633
Due from Head Office and branches abroad	8,147	21,360
Due to other banks	(15,602)	(5,654)
Due to Head Office and branches abroad	(110,109)	(179,040)
	(61,997)	(7,897)

27 Related parties

A number of transactions are entered into with Head Office and branches abroad in the normal course of business. These include loans, deposits and foreign currency transactions. In addition to balances with Head Office and branches disclosed separately, the following transactions were carried out on commercial terms and conditions duly approved by the management of the Branches.

	2021 AED'000	2020 AED'000
Balances as at 31 December:		
Due from Head Office and branches abroad	8,147	21,360
Due to Head Office and branches abroad	110,109	179,040

	2021 AED'000	2020 AED'000
Transactions during the year:		
Interest income (Note 20)	65	201
Interest expense (Note 21)	(100)	(444)
Operating expenses - Head Office costs (Note 23)	(9,752)	(8,079)
Operating expenses – Others (Note 23)	(1,060)	(1,057)
Operating expenses – Recharge to DIFC branch (Note 23)	17,821	15,983
Remuneration to key management personnel	(5,488)	(5,037)

27 Related parties (continued)

Movement in the gross carrying amount of related party balances (Including Recharge to Other Branches)

	Stage 1 AED 000	Stage 2 AED 000	Stage 3 AED 000	Total AED 000
Gross carrying amount as at 1 January 2021	21,360	-	-	21,360
New assets originated or purchased	6,862	-	-	6,862
Assets derecognised or repaid (excluding write offs)	(20,075)	-	-	(20,075)
Written off	-	-	-	-
As at 31 December 2021	**8,147**	**-**	**-**	**8,147**

	Stage 1 AED 000	Stage 2 AED 000	Stage 3 AED 000	Total AED 000
Gross carrying amount as at 1 January 2020	24,176	-	-	24,176
New assets originated or purchased	20,250	-	-	20,250
Assets derecognised or repaid (excluding write offs)	(23,066)	-	-	(23,066)
Written off	-	-	-	-
As at 31 December 2020	21,360	-	-	21,360

Movement in the amount of ECL is as below:

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2021	2	-	-	2
Net new assets originated	(1)	-	-	(1)
At 31 December 2021	1	-	-	1

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL allowance as at 1 January 2020	1	-	-	1
Net new assets originated	1	-	-	1
At 31 December 2020	2	-	-	2

27 Related parties (continued)

Grading of related party balances along with stages (Including Recharge to Other Branches)

	31 December 2021			
	Stage 1 AED 000	**Stage 2 AED 000**	**Stage 3 AED 000**	**Total AED 000**
Normal Grade (A+ - D-)	8,147	-	-	8,147
Watchlist grade (E+ - E-)	-	-	-	-
Default Grade (F/Z)	-	-	-	-
Total gross carrying amount	8,147	-	-	8,147
Expected credit loss	(1)	-	-	(1)
Carrying amount	8,146	-	-	8,146

	31 December 2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Normal Grade (A+ - D-)	21,360	-	-	21,360
Watchlist grade (E+ - E-)	-	-	-	-
Default Grade (F/Z)	-	-	-	-
Total gross carrying amount	21,360	-	-	21,360
Expected credit loss	(2)	-	-	(2)
Carrying amount	21,358	-	-	21,358

28. Comparative Figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these financial statements. However, there was no significant impact of these reclassifications on the previously reported results including the statement of financial position, statement of comprehensive income, statement of changes in capital and reserves statement of cash flows.

The reclassification related to Net Cash from operating activities

	Previously Reported 2020 AED'000	**Movement due to Re-classification AED' 000**	**Revised Balance 2020 AED'000**
Net Due from Head office and Branches	-	9,497	9,497
Effects of exchange rate	-	(14)	(14)
Cash and cash equivalents, beginning of year	(61,164)	(9,483)	(70,647)