

REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2021



The National Bank of Ras Al-Khaimah (P.S.C.)

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DIRECTORS' REPORT TO THE SHAREHOLDERS

For and on behalf of the Board of Directors

We are pleased to present the results of RAKBANK (the "Bank") and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2021. Net Profit for the year amounted to AED 758.3 million, an increase of AED 252.9 million (50.0%) over the previous year. Total Assets stood at AED 56.3 billion, increasing by 6.7% over 2020. Gross Loans and Advances closed at AED 34.2 billion, up by 6.1% over the previous year. Deposits grew by 1.9% with time deposits growth of AED 660.1 million (7.4%). The Return on Average Assets ratio for the year was 1.4% compared to 0.9% for the previous year and Return on Average Equity was 9.5%, compared to 6.5% in 2020.

Financial performance

The increase of AED 252.9 million in Net Profit was mainly due to decrease in provisions for expected credit losses by AED 586.6 million which was partially offset by decrease in Net Interest Income AED 357.1 million.

Gross Interest Income and Income from Islamic Financing decreased by AED 630.4 million, which was partially offset by decrease in Interest Expense and Distributions to Depositors by AED 273.2 million that resulted in total decrease in Net Interest Income and Net Income from Islamic Financing of AED 357.1 million. Interest income from conventional loans and investments decreased by 21.2%, while interest costs on conventional deposits and borrowings went down by AED 211.2 million. Net income from Sharia-compliant financing decreased by AED 38.6 million. Gross Interest Income and Income from Islamic Financing decreased due to a decline in high yielding loan and investment books because of the lock up, lower credit demand and reduced credit appetite of the Bank for higher risk customer and industry segments. This was further exaggerated by a general decline in interest rates in the economy. Interest Expense and Distributions to Depositors were lower due to the lack of demand for funds due to the declining loan book (on an average basis), higher contribution of CASA deposits and the lower interest rate environment.

Non-Interest Income increased by AED 23.7 million to AED 1.1 billion. This was mainly due to an increase of AED 75.5 million in Net fees and commission and other income partially offset by a decrease of AED 26.8 million in forex and derivative income, investment Income by AED 9.2 million as well as a decrease in Net insurance underwriting profit by AED 15.8 million.

Operating Expenses remained flat at AED 1.4 billion compared to previous year. The staff and outsourcing costs decreased by AED 20.6 million and occupancy cost decreased by 5.4 million, which was offset by an increase of AED 17.3 million in other costs mainly due to increase in credit cards service provider related costs and AED 5.5 million in marketing expenses. The Group's Cost to Revenue ratio increased to 43.2% compared to 39.2% for the previous year.

Operating Profit before impairment losses decreased by AED 333.7 million from 2020 which was offset by decrease in provisions for credit losses AED 586.6 million (35.3%) from the previous year. Total impairment provision for the year was AED 1.1 billion compared to AED 1.7 billion in 2020.

The Non-Performing Loans and Advances to Gross Loans and Advances ratio improved to 4.1% from 5.2% in the previous year. Additionally, the net credit losses to average loans and advances decreased to 3.2% in 2021 compared to 4.8% in 2020.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Financial performance (continued)

Total Assets increased by 6.7% to AED 56.3 billion compared to 2020. This was due to an increase in Gross Loans and Advances of AED 2.0 billion, Investments increased by AED 1.5 billion and placements with other banks increased by 1.9 billion. This was partially offset by decrease in cash and balances with Central Bank by AED 1.6 billion. Wholesale Banking and Financial Institutions lending was up by AED 1.5 billion compared to 2020 and Retail banking's loan portfolio was also up by AED 709.9 million. Business Banking Loan Portfolio was down by AED 262.3 million compared to the previous year.

Customer deposits grew by AED 702.8 million to AED 37.6 billion compared to 2020. This growth came mainly from an increase of AED 660.1 million in Time Deposits.

After taking into consideration the profit for 2021 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 17.0% at year-end, compared with 18.6% at the end of 2020. This level of capital provides the Bank with ample room for growth in 2022. The regulatory Eligible Liquid Asset Ratio at the end of the year was 11.6%, compared to 14.5% for the previous year. The Advances to Stable Resources ratio stood at a comfortable 82.9% compared to 80.7% at the end of 2020.

Ratings

The Bank is currently rated by the following agencies. The ratings are given below:

Rating Agency	Last update date	Deposits	Outlook
Moody's	October 2021	Baa1 / P-2	Stable
Fitch	December 2021	BBB+ / F2	Stable
Capital Intelligence	August 2021	A- / A2	Stable

Regulatory disclosure

During the year, the Group has not engaged its external auditor PricewaterhouseCoopers for any non-audit services.

Key Developments in 2021

- RAKBANK's Board of Directors appointed Mr. Raheel Ahmed as the new Chief Executive Officer. He joined RAKBANK on 3rd of January 2022 and will formally become CEO from the 2nd February 2022.
- RAKBANK announced the renewal of its partnership with the Fintech platform Invoice Bazaar. The renewed partnership is in line with the Bank's strategy of creating an efficient ecosystem and environment for SMEs by offering unique financial solutions to e-commerce traders. These include a comprehensive suite of banking services, short-term working capital loans, cloud-based accounting solutions, and instant access to the RAKBANK SMEsouk portal.
- RAKBANK launched its Emirates Skywards Mastercard World Elite Credit Card campaign that offers cardholders the opportunity to earn up to 160,000 bonus Skywards Miles. New cardholders can earn bonus Skywards Miles from three main actions: Applying, Spending and Transferring.
- RAKBANK opened a new RAKelite Center that is conveniently located in Dubai's Business Bay, the heart of the city's business district. The location of the new RAKelite Center offers RAKBANK's valued RAKelite customers easy and instant access to a wide range of financial solutions as well as their dedicated Relationship Managers.
- RAKBANK concluded an issuance of USD 75 million 2.5-year Floating Rate Note (FRN) at a coupon of 3 months USD LIBOR+100 basis points on 24 May 2021
- RAKBANK concluded another issuance of USD 75 million 2.5-year Floating Rate Note (FRN) at a coupon of 3 months USD LIBOR+100 basis points on 27 May 2021

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Developments in 2021 (continued)

- RAKBANK signed a Memorandum of Understanding (MoU) to form a strategic alliance with one of the leading investment destinations in the country: Ajman Free Zone. The signed MoU is in line with both organizations' strategies of supporting SMEs and further developing a sustainable economy.
- In its constant efforts to contribute and promote a sustainable environment, RAKBANK signed an agreement with Ras Al Khaimah Municipality to launch green financing solutions in Ras Al Khaimah. The agreement facilitates several financing options at preferential rates for green housing initiatives, green auto industry, and green personal financing solutions.
- Bfound joined RAKBANK SMEsouk, allowing RAKBANK's Business Debit Cardholders to benefit from an exclusive 25% discount on bfound's digital marketing services.
- RAK AMI Hotel, a Ras Al Khaimah based company focused on developing and managing hotels in the emirate, has secured financing from RAKBANK for a new hotel development project. The funds will be primarily used for RAK AMI Hotel's flagship project, Mövenpick Resort Al Marjan Island, which has a development value of AED 543 million (USD 147 million).
- UAE Trade Connect (UTC), a new nationwide blockchain platform, has officially gone live to help financial institutions combat fraud and duplication. The steering committee for the platform consists of the Central Bank of the UAE, CBI, CBD, Emirates NBD, FAB, Mashreq Bank, NBF, and RAKBANK.
- RAKBANK is one of Mastercard's partner banks for their new, advanced B2B payments with a new supply chain finance offering, empowering more businesses to secure the working capital they need to grow.
- In line with its strategy to promote a cashless economy, Emirates Digital Wallet partnered with RAKBANK to build its nationwide cashless ecosystem, klip. Emirates Digital Wallet, spearheaded by the UAE Banks Federation, operates klip with an aim to reduce the use of physical cash and supports the UAE government's efforts to drive digital transformation.
- RAKBANK partnered with Schrodgers, a global asset management company, to host a webinar that delves into the Environmental, Social and Governance (ESG) factors that influence the world of investment. This webinar was a forum for the public to discuss and understand the practical aspects of ESG, how it has impacted the investment landscape and what investors are searching for with regards to ESG.
- RAKBANK partnered with Mastercard, a leading technology company in the global payments industry, to launch firefly – a first of its kind companion app for the RAKBANK Emirates Skywards World Elite Mastercard Credit Card.
- In recognition of Breast Cancer Awareness Month, RAKBANK launched an internal breast cancer awareness campaign that aimed at spreading knowledge on early detection, the importance of regular health check-ups, and other combative measures that the Bank's employees can learn from.
- RAKBANK signed a Memorandum of Understanding (MoU) to form a strategic alliance with Jebel Ali Free Zone (Jafza), the leading trade and logistics hub of the UAE. This partnership aligns with both the organizations' strategies of supporting SMEs and further developing a sustainable economy. As part of the agreement, RAKBANK will offer SMEs that operate in Jafza instant access to the Bank's solutions and services.
- MIZA, a UAE based FinTech SME Finance platform provider, announced a strategic partnership with RAKBANK. The partnership is in line with RAKBANK's strategy of creating an efficient ecosystem for SMEs that is designed to be the launchpad for providing innovative supply chain financing solutions to service key sectors of the UAE economy.
- Emirates Development Bank (EDB) entered into a Memorandum of Understanding (MoU) with RAKBANK on Credit Guarantee and Co-lending programs for SMEs in the UAE. Under the agreement, RAKBANK can offer up to AED 10 million financing to SMEs, and 50% of the facility amount will be either guaranteed or co-lent by EDB.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Developments in 2021 (continued)

- RAK Properties, one of the UAE's leading property development and tourism infrastructure companies, has signed a AED 150 million Term Loan Agreement with RAKBANK for its Bay Residences Project in Hayat Island, Mina Al Arab.
- 16 UAE Nationals working with RAKBANK received their bachelor's degree in banking and finance from the Emirates Institute for Banking and Financial Studies (EIBFS), a regional leader in banking and finance education and training.
- UAE's entertainment destination, Topgolf Dubai, welcomed RAKBANK as an exclusive venue and event partner. The strategic partnership entails that Topgolf's top floor will be renamed the RAKBANK Floor. Topgolf guests stand a chance to win a host of prizes and experiences from RAKBANK just playing on the RAKBANK floor.
- RAKBANK partnered with neo bank, YAP, to form the first independent digital banking platform in the UAE. Like other neo banks, YAP does not have any physical branches and does not offer traditional banking services like loans and mortgages. However, it offers spending and budgeting analytics, peer-to-peer payments and remittances services and bill payments.

Recognition in 2021

- Number 1 Top Investment House in the Middle East & North Africa – by Asset Benchmark Research
- Banking Innovation Awards 2021 – by EFMA Accenture Banking Innovation Awards 2021
- Winner of the Customer Journey Reimagination category – SME Digital Onboarding – by Infosys Finacle Innovation Awards 2021
- Best Wealth Management Provider in the UAE – 2021 by World Finance Wealth Management Awards
- Best Online Bank UAE 2021 – by International Business Magazine
- Best Bank for Insurance UAE 2021 – by International Business Magazine
- Best Sustainable Work Practices Excellence Bank Award – by Middle East Banking Innovation Summit
- RAKBANK is the Gold Award Winners in The Asset ESG Corporate Awards 2021
- RAKBANK has been awarded the Dubai Chamber CSR Label – Environment 2021 Certificate
- Best Self-Service Banking Implementation in Middle East for “Quick Apply” – by the Asian Banker Financial Technology Innovation Awards
- Best Retail Payment Implementation in the Middle East for “Skiplly” – by the Asian Banker Financial Technology Innovation Awards
- Best Trade Finance Bank – by the MEA Trade Review Awards 2021
- Best AI Technology Implementation for the “Insurance Chatbot” at MEA Finance Awards 2021
- One of the World's Best Banks of 2021 – by Forbes
- Outstanding Digital Transformation in Payments for “Skiplly” – by the Middle East & Africa Innovation Awards 2021
- Best Use of Martech Enterprise – by Vibe MarTech Awards 2021
- Advertiser of the Year – by the Mobile Marketing Association's (MMA) Smarties Award
- Brand Awareness – Memotraits – by the Mobile Marketing Association's (MMA) Smarties Award
- Gender Equality in Advertising – She Can Play – by the Mobile Marketing Association's (MMA) Smarties Award
- Product Services Launch – Conversations – Kickstarting new SMEs amidst the Pandemic – by the Mobile Marketing Association's (MMA) Smarties Award
- Mobile Gaming, Gamification & E-sports – Euphoria Moments – by the Mobile Marketing Association's (MMA) Smarties Award
- Mobile Video – Memotraits – by the Mobile Marketing Association's (MMA) Smarties Award
- Mobile Social – She Can Play – by the Mobile Marketing Association's (MMA) Smarties Award

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Outlook for 2022

The 2021 financial year was an interesting journey. In the first half of the year, the UAE economy was recovering from the impacts of the COVID-19 pandemic and the lockdowns of the prior year. However, the second half of the year resulted in a complete turnaround, and this applied to RAKBANK as well. With over 90% of the UAE population being vaccinated, the country eased further the restrictions, which led to positive effects nation-wide.

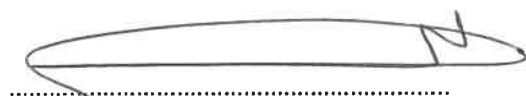
Nonetheless, the pandemic persisted and new variants of the virus were discovered. The government and regulators advocated for booster shots and stricter precautionary COVID-19 measures for public spaces in order to keep the UAE economy open and functioning. This was aimed at deterring the pandemic's effect on the country and encouraging the health and wellbeing of citizens and residents.

Overall, the UAE has seen a significant improvement in the macro-economic environment due to the Leadership's exemplary handling of the pandemic. We expect these positive trends to continue and result in improved outcomes for 2022.

According to the International Monetary Fund (IMF), the UAE's real GDP growth will increase to 3% in 2022. This is supported by the fact that the country has one of the highest vaccination rates in the world, a turnaround and recovery in oil production, a rebound in tourism, ease of residency rules for expats, and several activities in place related to Dubai's Expo 2020.

Just as the UAE economy continues to rebound swiftly from the effects of the COVID-19 pandemic, RAKBANK has demonstrated a similar form of resilience in 2021. This is evident in the Bank's overall improvement in asset quality, which has resulted from the change of mix in the Bank's loan book, in line with its diversification strategy. This has been gradually implemented over the last few years.

The Bank will continue to focus on its digital transformation as we aim to deliver Simply Better banking solutions, whilst equip our customers with the necessary tools for them to gain access to our banking services in a safe and secure manner.



Mohamed Omran Alshamsi
Chairman



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The National Bank of Ras Al-Khaimah (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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Mohamed ElBorno, Jacques Fakhoury, Douglas O'Mahony, Murad Alnsour and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy



Independent auditor’s report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Measurement of Expected Credit Losses</p> <p>The Group applies ECL on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments.</p> <p>The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.</p> <p>For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral.</p> <p>The Group’s impairment policy under IFRS 9 is presented in Note 3 to the consolidated financial statements.</p> <p>Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.</p>	<p>We performed the following audit procedures on the measurement of the ECL included in the Group’s consolidated financial statements for the year ended 31 December 2021:</p> <ul style="list-style-type: none"> ➤ We tested the completeness and accuracy of the data used in the calculation of ECL. ➤ For a sample of exposures, we checked the appropriateness of the Group’s application of the staging criteria. ➤ We involved our internal experts to assess the following areas: <ul style="list-style-type: none"> ● Conceptual framework used for developing the Group’s impairment policy in the context of its compliance with the requirements of IFRS 9. ● ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group’s classes of financial assets. The appropriateness of the model methodology was assessed, taking into consideration the impact of COVID-19. ● Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.



Independent auditor’s report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
	<ul style="list-style-type: none"><li data-bbox="826 524 1428 651">➤ For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral.<li data-bbox="826 689 1428 1115">➤ In addition, for the Stage 3 corporate credit portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files. For the Stage 3 retail credit portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised at each category level.<li data-bbox="826 1153 1428 1272">➤ We assessed the consolidated financial statement disclosures with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.<li data-bbox="826 1279 1428 1303">➤

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Other information

The directors are responsible for the other information. The other information comprises the annual report of the Group (but does not include the consolidated financial statements and our auditor's report thereon). We obtained the Directors' report to the shareholders prior to the date of this auditor's report and the remaining information of the annual report is expected to be made available to us after that date.

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

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

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

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

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

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

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

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

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



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

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

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

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015 as amended, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 as amended;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Directors' report to the shareholders is consistent with the books of account of the Group;
- (v) note 35 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- (vi) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 as amended or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- (vii) note 45 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2021.


Further, as required by the Article 114 of 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.

PricewaterhouseCoopers
1 February 2022


Rami Sarhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

	Notes	2021 AED'000	2020 AED'000
ASSETS			
Cash and balances with UAE Central Bank	4	3,894,068	5,470,285
Due from other banks, net	5	8,428,854	6,562,391
Investment securities measured at fair value	7	4,898,867	3,633,298
Investment securities measured at amortised cost	7	4,567,056	4,301,664
Loans and advances, net	6	32,283,560	30,041,470
Insurance contract assets and receivables, net	8	362,491	282,265
Customer acceptances		67,568	116,865
Other assets	9	806,165	1,284,182
Property and equipment	11	694,267	795,930
Right-of-use assets	36	134,424	117,872
Goodwill	10	166,386	166,386
Total assets		56,303,706	52,772,608
 LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	12	3,174,223	2,067,762
Deposits from customers	13	37,647,088	36,944,324
Customer acceptances		67,568	116,865
Debt securities issued and other long term borrowings	14	5,274,326	3,612,266
Insurance contract liabilities and payables	15	477,847	430,394
Other liabilities	16	1,150,212	1,653,691
Lease liabilities	37	130,600	102,348
Total liabilities		47,921,864	44,927,650
 EQUITY			
Share capital	17	1,676,245	1,676,245
Legal reserve	18	950,431	950,431
Retained earnings		2,584,864	2,079,275
Other reserves	19	3,131,076	3,099,695
Equity attributable to owners of the Bank		8,342,616	7,805,646
Non-controlling interests	20	39,226	39,312
Total equity		8,381,842	7,844,958
Total Liabilities and Equity		56,303,706	52,772,608



 Mohamed Omran Alshamsi
 Chairman



 Peter William England
 Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 AED'000	2020 AED'000
Interest income	21	1,971,674	2,501,429
Interest expense	21	(197,358)	(408,527)
Net interest income		1,774,316	2,092,902
Income from Islamic financing	22	454,816	555,453
Distribution to depositors	22	(60,701)	(122,777)
Net income from Islamic financing		394,115	432,676
Net interest income and net income from Islamic financing		2,168,431	2,525,578
Net fees and commission income	23	686,902	632,833
Foreign exchange & derivative income		160,774	187,608
Net insurance underwriting profit	24	37,160	53,002
Investment income	25	80,328	89,501
Other operating income		96,943	75,507
Non-interest income		1,062,107	1,038,451
Operating income		3,230,538	3,564,029
General and administrative expenses	26	(1,395,575)	(1,395,349)
Operating profit before provision for credit loss		1,834,963	2,168,680
Provision for credit loss, net	30	(1,076,663)	(1,663,302)
Profit for the year		758,300	505,378
Attributed to:			
Owners of the Bank		756,125	503,777
Non-controlling interests	20	2,175	1,601
Profit for the year		758,300	505,378
Earnings per share:			
Basic and diluted in AED	27	0.45	0.30

The accompanying notes form an integral part of these consolidated financial statements.

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

	2021	2020
	AED'000	AED'000
Profit for the year	758,300	505,378
Other comprehensive income:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Changes in fair value of financial assets measured at fair value through other comprehensive income, (equity instruments)	91,227	(10,610)
Re-measurements of post-employment benefit obligations	2,832	(7,294)
<u>Items that may be reclassified subsequently to profit or loss:</u>		
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments)	(3,880)	40,717
Profit on sale of debt instruments transferred to profit and loss	(48,087)	(32,567)
Net changes in fair value arising from cash flow hedges	(10,056)	12,200
Other comprehensive income for the year	32,036	2,446
Total comprehensive income for the year	790,336	507,824
Attributed to:		
Owners of the Bank	788,407	506,340
Non-controlling interests	1,929	1,484
Total comprehensive income for the year	790,336	507,824

The accompanying notes form an integral part of these consolidated financial statements.

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

	Share capital AED'000	Legal reserve AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2020	1,676,245	950,431	2,015,353	3,161,700	7,803,729	37,828	7,841,557
Profit for the year			503,777		503,777	1,601	505,378
Other comprehensive income			-	2,563	2,563	(117)	2,446
Total comprehensive income for the year	-	-	503,777	2,563	506,340	1,484	507,824
Zakat	-	-	(1,550)	-	(1,550)	-	(1,550)
Transfer from regulatory impairment reserve - specific	-	-	64,568	(64,568)	-	-	-
Dividend paid	-	-	(502,873)	-	(502,873)	-	(502,873)
At 31 December 2020	1,676,245	950,431	2,079,275	3,099,695	7,805,646	39,312	7,844,958
Balance at 1 January 2021	1,676,245	950,431	2,079,275	3,099,695	7,805,646	39,312	7,844,958
Profit for the year	-	-	756,125	-	756,125	2,175	758,300
Other comprehensive income	-	-	901	31,381	32,282	(246)	32,036
Total comprehensive income for the year	-	-	757,026	31,381	788,407	1,929	790,336
Dividend paid	-	-	(251,437)	-	(251,437)	(2,015)	(253,452)
At 31 December 2021	1,676,245	950,431	2,584,864	3,131,076	8,342,616	39,226	8,381,842

The accompanying notes form an integral part of these consolidated financial statements.

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

	2021	2020
	AED'000	AED'000
<i>Cash flows from operating activities</i>		
Profit for the year	758,300	505,378
Adjustments:		
Provision for credit losses, net	1,076,663	1,663,302
Depreciation of property and equipment	127,273	122,875
Zakat payable	-	(1,550)
Depreciation of Right-of-use assets	29,688	37,435
Interest cost on lease liability	4,880	5,374
Gain on rent concessions due to COVID-19	(1,508)	(3,936)
Loss / (profit) on disposal of property and equipment	(13,163)	3,245
Amortization of discount relating to investments securities	(73,674)	(114,676)
Gain on sale of investment securities measured at fair value through OCI	(48,086)	(32,567)
Loss / (gain) on sale of investment securities held through profit or loss	(5,218)	6,542
Gain on sale of investment securities held at amortized cost	(1,157)	(44,264)
Fair value loss (gain) on investments due to hedge and forex	90,875	(37,302)
Fair value gain on FVTPL investment securities	(9,353)	(3,403)
Amortization of premium / (discount) of debt securities	(2,009)	8,936
Changes in operating assets and liabilities	1,933,511	2,115,389
Decrease in deposits with the UAE Central Bank	752,110	844,446
Decrease / (increase) in due from other banks with original maturities of three month or over	(1,357,305)	227,566
Decrease / (increase) in loans and advances, net	(3,309,618)	2,885,490
Decrease / (increase) in insurance contract assets & receivables	(82,608)	141,476
Decrease in other assets	528,731	30,655
Increase / (decrease) in due to other banks	1,106,462	(2,909,293)
Increase in deposits from customers	702,764	117,964
Increase / (decrease) in insurance contract liabilities and payables	47,452	(125,980)
Decrease in other liabilities, goodwill and customer acceptances	(558,400)	(105,850)
Net cash (used in) / generated from operating activities	(236,901)	3,221,863
<i>Cash flows from investing activities</i>		
Purchase of investment securities	(8,465,871)	(6,563,426)
Proceeds from maturity/disposal of investment securities	7,015,879	6,980,574
Purchase of property and equipment	(53,592)	(97,082)
Proceeds from disposal of property and equipment	41,148	6,662
Net cash (used) in / generated from investing activities	(1,462,436)	326,728
<i>Cash flows from financing activities</i>		
Dividends paid	(253,452)	(502,873)
Payment for rentals on lease contracts	(22,778)	(27,479)
Payment of debt security and other borrowings	(844,634)	(1,285,550)
Issue of debt security and other borrowings	2,508,702	-
Net cash generated from / used in financing activities	1,387,838	(1,815,902)
Net (decrease) / increase in cash and cash equivalents	(311,499)	1,732,689
Cash and cash equivalents, beginning of the year	3,636,113	1,903,424
Cash and cash equivalents, end of the year (Note 33)	3,324,614	3,636,113

The accompanying notes form an integral part of these consolidated financial statements. The principal non-cash transactions during the year relate to the addition of right of use assets and are disclosed in Note 36.

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

1. Incorporation and principal activities

The National Bank of Ras Al-Khaimah (P.S.C.) (the "Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed Road, Ras Al-Khaimah, UAE.

The Bank is engaged in providing retail, commercial banking and treasury services through a network of twenty seven branches in the UAE. The Bank is controlled by the Government of Ras Al-Khaimah by majority of voting rights.

The Bank is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended. The UAE Federal Decree Law No. 32 of 2021 ("Companies Law") which was issued on 30 September 2021 came into effect on 2 January 2022. The company has 12 months from 2 January 2022 to comply with its provisions

At 31 December 2021, The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and five subsidiaries (together referred to as the "Group"). The consolidated financial statements for the year ended 31 December 2021 comprises the Bank and following direct subsidiaries:

<i>Subsidiary</i>	<i>Authorized issued capital</i>	<i>& Ownership interest</i>	<i>Incorporated</i>	<i>Principal Activities</i>
Ras Al Khaimah National Insurance Company PSC	AED 121.275 million	79.23%	UAE	All type of insurance business.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	Authorized USD 50,000 Issued USD 100	100%	Cayman Islands	To facilitate the issue Euro medium term notes (EMTN) under the Bank's EMTN program.
Rak Global Markets Cayman Limited	Authorized USD 50,000 Issued USD 1	100%	Cayman Islands	To facilitate Treasury transactions.

*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods.

<i>New and revised IFRSs</i>	<i>Effective for annual periods beginning on or after</i>
Covid-19-related Rent Concessions – Amendments to IFRS 16	1 January 2021

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. In May 2020, the IASB made an amendment to IFRS 16 Leases which provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

Entities applying the practical expedients must disclose this fact, whether the expedient has been applied to all qualifying rent concessions or, if not, information about the nature of the contracts to which it has been applied, as well as the amount recognised in profit or loss arising from the rent concessions.

*The relief was originally limited to reduction in lease payments that were due on or before 30 June 2021. However, the IASB subsequently extended this date to 30 June 2022.

If a lessee already applied the original practical expedient, it is required to continue to apply it consistently, to all lease contracts with similar characteristics and in similar circumstances, using the subsequent amendment. If a lessee did not apply the original practical expedient to eligible lease concessions, it is prohibited from applying the expedient in the 2021 amendment. However, if a lessee has not yet established an accounting policy on applying (or not) the practical expedient to eligible lease concessions, it can still decide to do so.

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

<i>New and revised IFRSs</i>	<i>Effective for annual periods beginning on or after</i>
Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one.

The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.
- The hedge accounting reliefs will allow most IAS 39 or IFRS 9 hedge relationships that are directly affected by IBOR reform to continue. However, additional ineffectiveness might need to be recorded.

Affected entities need to disclose information about the nature and extent of risks arising from IBOR reform to which the entity is exposed, how the entity manages those risks, and the entity’s progress in completing the transition to alternative benchmark rates and how it is managing that transition. Given the pervasive nature of IBOR-based contracts, the reliefs could affect companies in all industries.

Please refer to Note 41 for the impact on the consolidated financial statements as a consequence of IBOR reform Phase 2.

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.1 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<i>New and revised IFRSs</i>	<i>Effective for annual periods beginning on or after</i>
<p>IFRS 17, ‘Insurance contracts’ - was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of:</p> <ul style="list-style-type: none">• discounted probability-weighted cash flows• an explicit risk adjustment, and• a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. <p>The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.</p> <p>An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.</p> <p>There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.</p> <p>The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.</p> <p>Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The amendments also deferred the application date of IFRS 17 to 1 January 2023.</p>	1 January, 2023

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.1 New and revised IFRS in issue but not yet effective

New and revised IFRSs

*Effective for
annual periods
beginning on or after*

The application of IFRS 17 will have an impact on amounts reported and disclosures made in the Group’s financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Company performs a detailed review. The Group has appointed an external advisor to support the business through the design and Implementation phases of IFRS 17. The Group, with the help of the external advisor has performed an operational impact analysis and a financial impact assessment of IFRS 17 and concluded that all insurance and reinsurance contracts can be accounted for under the Premium Allocation Approach (“PAA”) due to the short term nature of the business the Insurance subsidiary writes.

As a result of this, management does not expect the results of adoption of IFRS 17 to be materially different to those of IFRS 4. Management is currently working with their external advisor to initiate parallel runs between IFRS 17 and IFRS 4 to further assess any gaps that may arise in the implementation of IFRS 17 prior to the effective date.

1 January, 2022

Property, Plant and Equipment: Proceeds before intended use –

Amendments to IAS 16- The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities.

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

New and revised IFRSs

*Effective for
annual periods
beginning on or after*

Reference to the Conceptual Framework – Amendments to

1 January, 2022

IFRS 3 - Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

1 January, 2022

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37 -

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

1 January, 2023

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS

Practice Statement 2 - The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is ‘material accounting policy information’ and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

1 January 2023

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

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

2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)

2.2 New and revised IFRS in issue but not yet effective (continued)

Annual Improvements to IFRS

1 January, 2022

Standards 2018–2020:

The following improvements were finalised in May 2020:

- IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent’s books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

1 January, 2023

Classification of Liabilities as Current or Non-current – Amendments to IAS 1 The narrow-scope amendments to IAS 1- Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the ‘settlement’ of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management’s intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

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

3. Significant accounting policies

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

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by International Accounting Standards Board (“IASB”) and applicable requirements of the laws of the United Arab Emirates (“UAE”). Federal Decree Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investments at fair value which are measured at fair value and the obligation related to employees end of service benefit, which is recognised at the present value of future obligations using the Projected Unit Credit Method. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group's consolidated statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as current: cash and balances with UAE Central Bank and customer acceptances. The following balances would generally be classified as non-current: property and equipment and goodwill. The following balances are of mixed nature (including both current and non-current portions): due from other banks - net, loans and advances – net, investment securities measured at fair value, investment securities measured at amortised cost, insurance contract assets receivables – net, other assets, right-of-use assets, due to other banks, deposits from customers, debt securities issued and other long term borrowings, insurance contract liabilities and payables, other liabilities and lease liabilities.

(b) Consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- *has power over an investee,*
- *is exposed, or has rights, to variable returns from its involvement with the investee, and*
- *has the ability to use its power over the investee to affect the amount of the investor's returns.*

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

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

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

3. Significant accounting policies (continued)

(b) Consolidation (continued)

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

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

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

3. Significant accounting policies (continued)

(c) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 3(e).

i) Murabaha financing

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

ii) Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

iii) Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal-customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

iv) Wakala

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

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

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

3. Significant accounting policies (continued)

(c) Islamic financing (continued)

v) Ijara

Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

(d) *Business combination and goodwill*

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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

3. Significant accounting policies (continued)

(d) Business combination and goodwill (continued)

Business combination (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising of an acquisition of a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent periods.

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

3. Significant accounting policies (continued)

(d) Business combination and goodwill (continued)

Goodwill (continued)

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Classification of financial assets and financial liabilities

Financial assets

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

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that 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 liabilities

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

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

3. Significant accounting policies (continued)

(e) Classification of financial assets and financial liabilities (continued)

Financial liabilities (continued)

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

Business model assessment

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

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

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

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

3. Significant accounting policies (continued)

(e) Classification of financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest (“SPPI Test”)

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

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

In making the assessment, the Group considers:

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

Reclassifications

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

Derecognition

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

(f) Measurement of financial assets and financial liabilities

Investment securities

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

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and equity investment securities designated as at FVOCI - Equity securities which are not held for trading and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group considers this classification to be more relevant.

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

3. Significant accounting policies (continued)

(f) Measurement of financial assets and financial liabilities (continued)

Investment securities (continued)

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

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

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

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

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

Financial liabilities

Financial liabilities (including customer deposits and due to other banks, repurchase agreements with banks, and debt securities issued and other long term borrowings) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

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

3. Significant accounting policies (continued)

(f) Measurement of financial assets and financial liabilities (continued)

Financial liabilities (continued)

Derecognition

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

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is “substantial” or whether the original debt has been replaced by another debt with “substantially” different terms.

(g) Impairment

Measurement of ECL

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

- Due from other banks;
- Debt investment securities carried at FVOCI and amortised cost;
- Loans and advances to customers;
- Insurance assets and receivables;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts.

No impairment loss is recognised on equity investments.

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When there has not been a Significant Increase in Credit risk (SICR) since its initial recognition, an amount equal to 12 months Expected Credit Loss (ECL) is recorded. 12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2: When a financial instrument shows a Significant Increase in Credit Risk (SICR) since its initial recognition, it is moved to Stage 2 and an amount equal to Lifetime ECL is recorded against these financial instruments. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

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

3 Significant accounting policies (continued)

(g) Impairment (continued)

Measurement of ECL (continued)

Stage 3: Financial instruments considered as credit impaired are moved to Stage 3 and amount equal to Lifetime ECL is recorded against these financial instruments.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key inputs are the term structure of the following:

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

These parameters are derived from the Group's internally developed statistical models or external data, and other historical data. These are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust the ECL numbers for the factors not being captured in the model, as a part of Management Overlay.

Summary of statistical parameters/inputs are as follows:

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

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics (Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate whether it is measured on an individual basis or a collective basis.

3. Significant accounting policies (continued)

(g) Impairment (continued)

Credit-impaired financial assets

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

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

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

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

Purchased or originated credit-impaired (POCI) financial assets

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

Definition of default

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is 90 (or more) days past due on its contractual payments.

3. Significant accounting policies (continued)

(g) Impairment (continued)

Qualitative criteria:

The bank classifies the loans as Non-performing (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
- Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.

Expected life

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

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

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

3. Significant accounting policies (continued)

(g) Impairment (continued)

Modification of financial assets (continued)

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

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition of Financial Assets

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for de-recognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

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

3. Significant accounting policies (continued)

(g) Impairment (continued)

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The Group categorises a retail loan or receivable for write off when a debtor fails to make contractual payments exceeding a certain number of days, and meets other pre-defined criteria as per bank's internal policy. As regards the non retail loans, the write off of loans is done based on the individual assessment of these loans on a case to case basis. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial guarantees contract

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

Financial guarantee contracts issued by a group entity are initially measured at their fair values. Subsequently they are measured at the higher of:

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

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Curing period

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Group is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

3. Significant accounting policies (continued)

(h) Derivatives and hedging

IFRS 9 expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 envisions an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in 'Other Operating Income'.

(i) Due from/to other banks

Amounts due from/to banks are initially recognised at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for financial instruments.

(j) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of three months or less excluding the statutory deposit required to be maintained with the UAE Central Bank.

Customer acceptances

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3. Significant accounting policies (continued)

(k) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in Note 32.

Fair value hedge

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

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

3. Significant accounting policies (continued)

(l) Derivative financial instruments (continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Amounts accumulated in cash flow hedge reserve are reclassified to profit or loss in the same period during which the hedged future cash flows affect profit or loss, in the same line in which the hedged cash flows are recognised. If the Group expects that all or a portion of the accumulated loss will not be recovered, then that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

(l) Debt securities issued

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(m) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

3. Significant accounting policies (continued)

(n) Property and equipment (continued)

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 – 30
Computer equipment and software	2 -15
Furniture, fixtures and equipment	4 – 6
Leasehold improvements	2 – 6
Motor vehicles	2 – 4

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

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(n) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

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

3. Significant accounting policies (continued)

(o) Employee benefits (continued)

(ii) Defined benefit plan

Provision is made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labor Law for their periods of service up to the financial position date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the consolidated statement of financial position.

(iii) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(o) Fiduciary assets

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognized in accordance with the accounting policy on fees and commission income.

(p) Share capital

(i) Share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Group's shareholders.

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

3. Significant accounting policies (continued)

(q) Provisions and contingent liabilities

Provisions are recognized when the Group has 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.

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

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(r) Deposits from customers

Deposits from customers are recognized initially at fair value, net of transaction costs incurred. Deposits from customers are subsequently carried at amortized cost using the effective interest method.

(s) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirhams which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirhams. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-translated into UAE Dirhams at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the consolidated income statement other than for items presented in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(t) Interest income and expense

Interest income and expense are recognized in the consolidated income statement for all instruments measured at amortized cost using the effective interest method. Interest earned whilst holding investment securities is reported in interest income in the consolidated income statement.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

3. Significant accounting policies (continued)

(u) Interest income and expense (continued)

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

(u) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are recognized over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-maker. The Chief Operating Decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8 Operating Segments, the Group has the following business segments: retail banking, Wholesale banking, business banking, treasury and Insurance business.

(x) Intangible assets

Intangible assets acquired in a business combination are measured on initial recognition at cost, which is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

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

3. Significant accounting policies (continued)

(y) Intangible assets (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(i) License

The license represents the right to conduct insurance operations, which is granted by the relevant insurance regulator. This license is assessed as having an indefinite useful life and included in goodwill.

(ii) Customer relationships

The value of customer relationships represents the value of future cash flows expected from renewals and the cross-selling of new products to customers known and identified at the time of the acquisition and will be amortized on a straight line basis over the estimated useful life which is four years.

(y) Insurance contracts

Insurance and reinsurance contracts held

The Group, through its insurance subsidiary RAKNIC, issues contracts that transfer insurance risks in the general insurance category. The general insurance category comprises Casualty, Group Life, Financial Lines, Fire, Marine, Energy and Accident and Health.

The Group writes the following types of insurance contracts:

- Accident insurance
- Property insurance
- Motor insurance
- Fire insurance
- Casualty insurance
- Medical insurance
- Marine insurance
- Engineering insurance
- Group life insurance

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

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

3. Significant accounting policies (continued)

(z) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Insurance and other receivables

Insurance and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses. A provision for impairment of receivables is established in accordance with the policy outlined in note 3 (g).

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement within provision for credit loss. When a receivable is uncollectible, it is written off against the allowance account for that receivable. Subsequent recoveries of amounts previously written off are credited as other operating income in the consolidated income statement.

Deferred acquisition costs

The costs attributable to the acquisition of new business for insurance contracts and renewing existing contracts are capitalized as an intangible asset under Deferred Acquisition Costs (DAC). All other costs are recognized as expenses when incurred. DAC are subsequently amortized over the life of the contracts as premium is earned.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non-happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

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

3. Significant accounting policies (continued)

(z) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

Recognition and measurement

i. Premiums

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognized when underwriting process is complete and policies are issued.

The earned position of premium is recognized as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below.

ii. Unearned premium provision

Unearned premiums are computed using statistical models to spread premium written evenly over period of coverage and are at least equal to the minimum stipulated by the UAE Insurance Law.

Claims

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the consolidated financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of the consolidated statement of financial position on the basis of management estimates.

Liability adequacy test

At the end of each reporting period, the Group assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in profit or loss and an unexpired risk provision is created.

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

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

3. Significant accounting policies (continued)

(z) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Reinsurance

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

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the consolidated income statement in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the position of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date.

Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Insurance contract provision and reinsurance assets

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

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

3. Significant accounting policies (continued)

(aa) Right-of-use assets and lease liabilities

Lease liabilities

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

Interest rate for discounting

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

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

4. Cash and balances with UAE Central Bank

	2021	2020
	AED'000	AED'000
Cash in hand	740,644	772,356
Balances with the UAE Central Bank	111,072	23,468
Overnight Deposits with the UAE central Bank	1,000,000	1,880,000
Certificates of deposit with the UAE Central Bank	-	775,000
Statutory deposit with the UAE Central Bank	2,042,352	2,019,461
	3,894,068	5,470,285

The Central Bank of the UAE has prescribed reserve requirements on the deposits, 1% for time deposits and 7 % on current, saving, call and similar accounts which was 14% before the start of pandemic. These are only available for day-to-day operations under certain specified conditions and cannot be withdrawn without the Central Bank's prior approval.

The Central Bank Certificates of Deposit with value of AED Nil (31 December 2020: AED 350 million) have been given as collateral for zero cost funding of AED Nil (31 December 2020: AED 350 million) under Central bank of UAE Targeted Economic Support Scheme ("TESS") programme (note 12).

Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of 0% (2020: 0.06% to 0.2%) per annum.

5. Due from other banks, net

	2021	2020
	AED'000	AED'000
Placements with other banks	380,635	791,273
Demand deposits	1,340,318	471,279
Banker's acceptances	3,400,933	2,755,336
Syndicated loans	2,823,719	2,017,212
Trade loans	464,635	526,901
Others	57,883	36,208
Total due from other banks	8,468,123	6,598,209
Provision for credit loss	(39,269)	(35,818)
Due from other banks, net	8,428,854	6,562,391

The below represents deposits and balances due from:

	2021	2020
	AED'000	AED'000
Banks in UAE	258,683	569,361
Banks outside UAE	8,209,440	6,028,848
Total due from other banks	8,468,123	6,598,209

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

6. Loans and advances, net

	2021 AED'000	2020 AED'000
(a) Loans and advances:		
Retail banking loans	17,432,820	16,722,960
Wholesale banking loans	8,690,747	7,162,422
Business banking loans	8,053,201	8,315,530
Total loans and advances [Note 6(b)]	34,176,768	32,200,912
Provision for credit loss [Note 6(c)]	(1,893,208)	(2,159,442)
Net loans and advances	32,283,560	30,041,470
(b) Analysis of loans and advances:		
Personal loans	5,481,178	6,259,453
Mortgage loans	5,942,175	5,596,743
Credit cards	2,115,034	2,203,728
Auto loans	383,499	538,080
RAK Business loans	3,056,201	3,443,069
Other Business banking loans	4,997,000	4,872,461
Wholesale banking loans	8,690,747	7,162,422
Other retail loans	3,510,934	2,124,956
Total loans and advances	34,176,768	32,200,912
(c) Movement in provision for credit losses:		
Balance at the beginning of the year	2,159,442	1,711,565
Impairment allowance for the year [Note 6(d)]	1,160,648	1,699,534
Written-off during the year	(1,426,882)	(1,251,657)
Balance at the end of the year	1,893,208	2,159,442

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

6. Loans and advances, net (continued)

(d) *Provision for credit losses of loans and advances, net:*

	2021 AED'000	2020 AED'000
Impairment allowance for the year	1,160,648	1,699,534
Net recovery during the year	(93,120)	(75,931)
	<hr/> 1,067,528	<hr/> 1,623,603

Net recovery mainly represents amounts subsequently recovered from fully written-off loans.

(e) *Islamic financing assets:*

The below table summarizes the Islamic financing assets that are part of loans and advances above:

	2021 AED'000	2020 AED'000
<i>Islamic financing assets</i>		
Islamic retail financing assets	3,180,614	3,289,296
Islamic business banking assets	2,127,033	2,199,490
Islamic wholesale banking assets	589,682	886,131
Total Islamic financing assets	<hr/> 5,897,329	<hr/> 6,374,917
Provision for impairment	(399,390)	(420,858)
	<hr/> 5,497,939	<hr/> 5,954,059
<i>Analysis of Islamic financing assets</i>		
Islamic Salam personal finance	1,944,821	2,166,569
Islamic Auto Murabaha	46,225	82,606
Islamic business banking finance	2,127,033	2,199,490
Islamic Ijara Property Finance	1,140,783	976,061
Murabaha Islamic credit cards	47,329	63,281
Islamic wholesale banking	589,682	886,131
Islamic finance – other	1,456	779
	<hr/> 5,897,329	<hr/> 6,374,917

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

6. Loans and advances, net (continued)

(f) Movement in provision for credit losses - Islamic

	2021	2020
	AED'000	AED'000
Balance at the beginning of the year	420,858	288,385
Impairment allowance for the year	281,150	337,663
Written-off during the year	(302,618)	(205,190)
	<hr/>	<hr/>
Balance at the end of the year	399,390	420,858

7. Investment securities, net

	2021	2020
	AED'000	AED'000
Securities at fair value through other comprehensive income (FVOCI)		
Quoted equity securities	377,540	267,896
Unquoted equity securities	4,459	2,612
Quoted debt securities*	3,829,217	2,759,371
Unquoted debt securities	450,775	432,294
	<hr/>	<hr/>
	4,661,991	3,462,173
Securities at fair value through profit or loss (FVPL)		
Quoted funds	131,577	125,100
Unquoted funds	43,842	42,481
Quoted debt securities	61,457	3,544
	<hr/>	<hr/>
	236,876	171,125
	<hr/>	<hr/>
Investment securities measured at fair value	4,898,867	3,633,298
	<hr/>	<hr/>
Securities held at amortized cost		
Quoted debt securities*	4,423,773	4,044,523
Unquoted debt securities	168,223	279,186
	<hr/>	<hr/>
	4,591,996	4,323,709
Provision for credit loss for Securities held at amortized cost	(24,940)	(22,045)
	<hr/>	<hr/>
Investment securities measured at amortised cost	4,567,056	4,301,664
	<hr/>	<hr/>
Net investment securities	9,465,923	7,934,962

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

7. Investment securities, net (continued)

*As at 31 December 2021, quoted debt securities with fair value of AED 1,336 million and carrying value of AED 1,513 million (31 December 2020: fair value and carrying value "Nil") have been given as collateral against repo borrowings of AED 1,313 million (31 December 2020: Nil). Also quoted debt securities with carrying value of Nil and fair value of Nil as at 31 December 2021 (31 December 2020: carrying value of AED 937.6 million fair value of AED 968.5 million) have been given as collateral for UAE Central Bank zero cost funding under "TESS" programme [Note 12].

Also quoted debt securities with fair value of Nil as at 31 December 2021 (31 December 2020: AED 968.5 million) have been given as collateral for UAE Central Bank zero cost funding under "TESS" programme [Note 12].

During the year ended 31 December 2021, change in fair value of investment securities measured at FVPL resulted in gain of AED 9.4 million (31 December 2020: AED 3.4 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 25).

During the year ended 31 December 2021, amortised cost securities amounting to AED 25.8 million (2020: AED 1.3 billion) resulted in gain of AED 1.2 million (31 December 2020: AED 44.3 million) and was recognised as investment income in the consolidated statement of profit or loss.

	2021	2020
	AED'000	AED'000
<i>The composition of the investment portfolio by category is as follows:</i>		
Federal and local Government - UAE	1,188,494	628,475
Government related entity - UAE	957,344	1,104,783
Government - GCC	862,073	684,853
Government - other	1,400,826	1,116,368
Banks and financial institutions - UAE	550,208	566,584
Banks and financial institutions - GCC	451,666	403,084
Banks and financial institutions - other	1,499,567	1,298,239
Public limited companies - UAE	352,905	438,892
Public limited companies - GCC	611,922	510,030
Public limited companies - other	1,058,440	767,610
Total debt securities	8,933,445	7,518,918
Quoted equity securities	377,540	267,896
Quoted funds	131,577	125,100
Unquoted funds	43,842	42,481
Unquoted equity securities	4,459	2,612
Total investment securities	9,490,863	7,957,007

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

7. Investment securities, net (continued)

Movement in investment securities for the year ended 31 December 2021 and 31 December 2020:

	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
At 1 January 2021	3,462,173	171,125	4,323,709	7,957,007
Purchases	4,581,041	2,769,559	1,115,271	8,465,871
Proceeds from disposal/maturities	(3,484,754)	(2,718,379)	(812,746)	(7,015,879)
Net changes in fair value due to revaluation	38,280	-	-	38,280
Net changes in fair value due to hedge and forex	(67,592)	-	(23,283)	(90,875)
Net changes in fair value through profit or loss	-	9,353	-	9,353
Profit on sale of equity investments measured at FVOCI	980	-	-	980
Amount charged to income	(2,009)	-	-	(2,009)
Amortization of premium / discount	85,786	-	(12,112)	73,674
Profit on sale of debt instruments transferred to profit and loss	48,086	5,218	1,157	54,461
At 31 December 2021	4,661,991	236,876	4,591,996	9,490,863
	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
At 1 January 2020	2,618,153	337,142	5,214,299	8,169,594
Purchases	1,716,515	2,698,404	2,148,507	6,563,426
Proceeds from disposal/maturities	(926,064)	(2,861,282)	(3,193,228)	(6,980,574)
Net changes in fair value due to revaluation	(2,460)	-	-	(2,460)
Net changes in fair value due to hedge and forex	45,987	-	(8,685)	37,302
Net changes in fair value through profit or loss	-	3,403	-	3,403
Amount charged to income	(18,649)	-	-	(18,649)
Amortization of discount	(3,876)	-	118,552	114,676
Profit on sale of debt instruments transferred to profit and loss	32,567	(6,542)	44,264	70,289
At 31 December 2020	3,462,173	171,125	4,323,709	7,957,007

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

8. Insurance contract assets and receivables, net

	2021	2020
	AED'000	AED'000
<i>Reinsurance contract assets</i>		
Claims reported unsettled	106,204	58,411
Claims incurred but not reported	30,519	27,766
Mathematical reserve	1,712	1,433
Unearned premium and unexpired risk reserve	78,857	78,506
Total reinsurance contract assets	217,292	166,116
<i>Insurance related receivables</i>		
Premium receivables	136,350	144,587
Reinsurance	40,074	25,877
Insurance agents and brokers	1,350	393
Gross insurance related receivables	177,774	170,857
Insurance contract assets and receivables	395,066	336,973
Provision for credit loss	(32,575)	(54,708)
Insurance contract assets and receivables, net	362,491	282,265

9. Other assets

	2021	2020
	AED'000	AED'000
Interest receivable	303,846	275,931
Profit receivable on Islamic financing assets	47,747	44,326
Prepayments	52,460	97,709
Foreign exchange and other derivative contracts (Note 32)	206,801	564,418
Insurance related receivables and assets	24,516	24,780
Gold on hand	7,296	21,196
Islamic profit paid in advance	1,642	9,473
Other	161,857	246,349
	806,165	1,284,182

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

10. Goodwill

	AED'000
Cost	
At December 2020	166,386
Additions	-
At 31 December 2021	166,386
Accumulated impairment	-
At 1 January 2020	-
Impairment charge for the year	-
At 31 December 2020	-
Impairment charge for the year	-
At 31 December 2021	-
Net book value	
At 31 December 2021	166,386
At 31 December 2020	166,386

For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business. Goodwill is tested for impairment annually or at a more frequent basis when there is evidence that the fair value of the unit is less than the carrying value. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial forecasts made by senior management, covering a five year period. Cash flows beyond the five-year period are valued using a terminal growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates. The judgements applied in the VIU calculation are disclosed in note 43.

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

11. Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Information technology assets AED'000	Office Furniture and Equipment AED'000	Motor Vehicles AED'000	Capital work-in-progress AED'000	Total AED'000
Cost							
At 31 December 2019	720,224	115,709	924,799	125,815	8,617	39,751	1,934,915
Additions	-	14	1,480	574	-	95,013	97,081
Transfers	1,415	1,510	103,376	5,079	-	(111,380)	-
Disposals	(6,918)	(16,842)	(6,115)	(24)	(2,477)	-	(32,376)
At 31 December 2020	714,721	100,391	1,023,540	131,444	6,140	23,384	1,999,620
Additions	-	12	2,105	905	185	50,384	53,591
Transfers	(1539)	311	44,592	247	-	(43,611)	0
Disposals	(44,096)		(3,410)	(5,211)	(982)		(53,699)
At 31 December 2021	669,086	100,714	1,066,827	127,385	5,343	30,157	1,999,512
Accumulated depreciation and impairment							
At 31 December 2019	238,008	106,745	633,168	118,905	6,459	-	1,103,285
Charge for the year	22,945	4,391	90,055	4,542	942	-	122,875
Disposals	(3,489)	(16,277)	(240)	(24)	(2,440)	-	(22,470)
At 31 December 2020	257,464	94,859	722,983	123,423	4,961	-	1,203,690
Charge for the year	21,880	3,313	97,883	3,497	700	-	127,273
Disposals	(16,433)		(3,317)	(5,206)	(762)	-	(25,718)
At 31 December 2021	262,911	98,172	817,549	121,714	4,899	-	1,305,245
Net book value							
At 31 December 2021	406,175	2,542	249,278	5,671	444	30,157	694,267
At 31 December 2020	457,257	5,532	300,557	8,021	1,179	23,384	795,930

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

12. Due to other banks

	2021	2020
	AED'000	AED'000
Term borrowings	1,831,560	854,001
Repurchase agreements (Note 7)	1,313,445	-
UAE Central Bank zero cost funding under "TESS" programme*	-	1,199,000
Demand deposits	29,218	14,761
	3,174,223	2,067,762

***Breakdown of UAE Central bank zero cost funding under "TESS"**

	2021	2020
	AED'000	AED'000
Central Bank of UAE zero cost funding against quoted debt securities	-	849,000
Central Bank of UAE zero cost funding against central bank certificate of deposit	-	350,000
	-	1,199,000

Under Central Bank of UAE Targeted Economic Support Scheme ("TESS") programme, the Group's borrowing is AED Nil (31 December 2020: AED 1,199 million). Central Bank Certificates of Deposit of AED Nil (31 December 2020: AED 350 million) and quoted debt securities with fair value of AED Nil (31 December 2020: AED 968.5 million) have been given as collateral.

Reconciliation of liabilities arising from term borrowings:

	1 January	Financing	Non cash	31 December
	2021	cash flows	changes	2021
	AED'000	AED'000	AED'000	AED'000
Term borrowings	854,001	977,559	-	1,831,560

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

13. Deposits from customers

	2021	2020
	AED'000	AED'000
Current accounts	22,839,231	22,984,282
Call deposits	1,293,288	1,248,562
Saving deposits	3,969,997	3,826,983
Time deposits	9,544,572	8,884,497
	37,647,088	36,944,324

Time deposits include AED 1,258 million (2020: AED 1,308 million) held by the Group as cash collateral for loans and advances granted to customers.

The below table summarizes the Islamic deposits of customers that are part of deposits from customers above:

	2021	2020
	AED'000	AED'000
Wakala deposits	774,825	192,275
Mudaraba term investment deposits	18,401	23,937
Murabaha Term Deposit	2,124,618	1,914,227
Qard-E-Hassan - current accounts	993,596	881,105
Mudaraba - current accounts	542,796	495,994
Mudaraba - saving accounts	234,719	213,613
Mudaraba - call deposits	13,407	14,998
	4,702,362	3,736,149

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

14. Debt securities issued and other long term borrowings

	2021	2020
	AED'000	AED'000
USD 500 million medium term note issued at discount in April 2019 (a)	1,833,789	1,832,671
USD 50 million private placement at discount in July 2017 (a)	-	183,494
USD 145 million private placement net of discount (a)	529,326	527,131
USD 75 million private placement (a)	275,475	-
USD 75 million private placement (a)	275,475	-
USD 80 million bilateral borrowing (b)	-	293,840
SAR 800 million Islamic bilateral borrowing (c)	782,655	783,458
USD 100 million bilateral borrowing (d)	367,300	-
USD 125 million bilateral borrowing (e)	459,125	-
USD 75 million bilateral borrowing (f)	275,475	-
SAR 500 million Islamic bilateral borrowing (g)	489,160	-
Less: Debt securities and other borrowing issue costs	(13,454)	(8,328)
	5,274,326	3,612,266

(a) In April 2019, the Group issued five year USD 500 million Euro Medium Term Notes (EMTN) under its USD 2 billion EMTN programme through its subsidiary RAK Funding Cayman Limited. This was issued at a discounted rate of 99.692% and carries a fixed interest rate of 4.125% per annum which is payable half yearly in arrears. These notes mature in April 2024.

Under EMTN Programme, the Group issued USD 50 million floating rate notes in July 2017 through a private placement which got matured and repaid in July 2021. These carried a floating rate of USD 3 months LIBOR +1.5% per annum.

The Group issued USD 145 million of floating rate notes in March 2018 through a private placement with an interest rate of USD 3 months LIBOR +1.4% which mature in in March 2023.

The Group issued USD 75 million of floating rate notes on 24 May 2021 through a private placement with an interest rate of USD 3 months LIBOR +1% which matures on 24 November 2023.

The Group issued USD 75 million of floating rate notes on 27 May 2021 through a private placement with an interest rate of USD 3 months LIBOR +1% which matures on 27 November 2023.

(b) In March 2018 the Group borrowed USD 80 million at an interest rate of USD 3 months LIBOR + 1.25% per annum which matured and was repaid in June 2021.

(c) In June 2019 the Group borrowed SAR 800 million at a profit rate of 3.85% per annum which matures in June 2022.

(d) In August 2021 the Group borrowed USD 100 million at an interest rate of 1.35% per annum which matures in August 2023.

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

14. Debt securities issued and other long term borrowings (continued)

- (e) In October 2021 the Group borrowed USD 125 million at an interest rate of 3 months LIBOR +0.80% per annum which matures in October 2023.
- (f) In November 2021 the Group borrowed USD 75 million at an interest rate of 3 months LIBOR +0.80% per annum which matures in November 2023.
- (g) In November 2021 the Group borrowed SAR 500 million at an fixed interest rate 1.4% per annum which matures in November 2022.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows.

	1 January 2021 AED'000	Financing cash flows AED'000	Non cash changes AED'000	31 December 2021 AED'000
Fixed rate Euro medium term notes – issued 2019	1,824,499		663	1,825,162
Floating rate notes issued in 2017	183,494	(183,494)	-	-
Bilateral borrowing - 2018	293,789	(293,840)	51	-
Bilateral borrowing – Islamic -2019	783,458		(803)	782,655
Private placement issued in 2018	527,026		917	527,943
USD 75 million private placement 2021	-	274,442	1,033	275,475
USD 75 million private placement 2021	-	275,392	83	275,475
USD 100 million bilateral borrowing 2021	-	367,300	-	367,300
USD 125 million bilateral borrowing 2021	-	459,125	(2,138)	456,987
USD 75 million bilateral borrowing 2021	-	275,475	(1,306)	274,169
SAR 500 million Islamic bilateral borrowing 2021	-	489,668	(508)	489,160
Total liabilities from financing activities	3,612,266	1,664,068	(2,008)	5,274,326

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

15. Insurance contract liabilities and payables

	2021 AED'000	2020 AED'000
<i>Insurance contract liabilities</i>		
Claims reported unsettled, net	142,335	81,494
Claims incurred but not reported	46,042	52,611
Unearned premiums	166,629	193,690
Unallocated loss adjustment expense reserve	4,602	2,841
Unexpired risk reserve	17,731	24,089
Mathematical Reserve	14,961	14,265
Total insurance contract liabilities	392,300	368,990
<i>Insurance related payables</i>		
Creditors	24,888	22,516
Reinsurance payables	42,181	20,561
Commission payables	18,478	18,327
Total insurance related payables	85,547	61,404
Insurance contract liabilities and payables	477,847	430,394

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

15. Insurance contract liabilities and payables (continued)

Movements in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

	2021			2020		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Claims						
Outstanding claims	81,494	(58,411)	23,083	105,285	(69,938)	35,347
Unallocated loss adjustment expense reserve	2,842	-	2,842	2,304	-	2,304
Incurred but not reported	52,610	(27,767)	24,843	68,811	(40,051)	28,760
Total at the beginning of the year	136,946	(86,178)	50,768	176,400	(109,989)	66,411
Claims settled during the year	(277,269)	116,728	(160,541)	(420,796)	177,108	(243,688)
Arising from current year claims	336,940	(178,295)	158,645	348,278	(142,458)	205,820
Arising from prior year claims	(3,638)	11,021	7,383	33,064	(10,839)	22,225
Total at the end of the year	192,979	(136,724)	56,255	136,946	(86,178)	50,768
Outstanding claims	142,335	(106,204)	36,131	81,494	(58,411)	23,083
Unallocated loss adjustment expense reserve	4,602	-	4,602	2,842	-	2,842
Incurred but not reported	46,042	(30,519)	15,523	52,610	(27,767)	24,843
Total at the end of the year	192,979	(136,723)	56,256	136,946	(86,178)	50,768
Unearned premium and unexpired risk reserves						
Total at the beginning of the year	217,779	(78,506)	139,273	257,737	(105,048)	152,689
Written during the year	425,933	(184,517)	241,416	537,487	(189,897)	347,590
Earned during the year	(459,352)	184,166	(275,186)	(577,445)	216,439	(361,006)
Net increase during the year	(33,419)	(351)	(33,770)	(39,958)	26,542	(13,416)
Total at the end of the year	184,360	(78,857)	105,503	217,779	(78,506)	139,273

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

16. Other liabilities

	2021 AED'000	2020 AED'000
Interest payable	45,337	83,313
Profit distributable on Islamic deposits	28,882	29,248
Accrued expenses	253,128	220,255
Provision for employees' end-of-service benefits [Note 29]	128,268	124,314
Foreign exchange and other derivatives derivative contracts	248,219	636,961
Credit card payables and liabilities	62,673	146,645
Managers cheques issued	186,487	208,669
Mortgage payables and liabilities	26,840	18,830
Insurance related payables and liabilities	34,885	32,431
Provision for credit loss on contingent assets and customer acceptances	9,425	11,027
Others	126,068	141,998
	1,150,212	1,653,691

Major portion of other in other liabilities is related to unamortised profit and commission received in advance, unclaimed customer balances and clawback provisions on fiduciary and Bancassurance income.

17. Share capital and dividend

At 31 December 2021, the authorised, issued and fully paid share capital of the Bank comprised: 1,676 million shares of AED 1 each (31 December 2020: 1,676 million shares of AED 1 each).

At the meeting held on 11 April 2021, the shareholders of the Bank approved a cash dividend of 15% amounting to AED 251.4 million of the issued and paid-up capital in respect of the year ended 31 December 2020 (2019: 30% cash dividend amounting to AED 502.9 million). The dividend was subsequently paid on 15 April 2021.

18. Legal reserve

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, 10% of the Bank's 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. Since the legal reserve of the Bank exceeds 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution.

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

19. Other reserves

	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Regulatory impairment reserve - specific AED'000	Fair value reserve AED'000	Total AED'000
At 31 December 2019	337,208	1,000,000	1,742,000	64,568	17,924	3,161,700
Changes during the year	-	-	-	(64,568)	2,563	(62,005)
At 31 December 2020	337,208	1,000,000	1,742,000	-	20,487	3,099,695
Changes during the year	-	-	-	-	31,381	31,381
At 31 December 2021	337,208	1,000,000	1,742,000	-	51,868	3,131,076

In accordance with the Articles of Association of the Bank, 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. Since the voluntary reserve of the Bank is equal to 20% of Bank's issued capital, profit was not appropriated to voluntary reserve during the year. This reserve is available for distribution.

In accordance with CBUAE circular 28/2010 the Bank has released the regulatory impairment reserve during the year ended 31 December 2020 as the provision under IFRS9 exceeded the provision required under CBUAE circular 28/2010.

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

19. Other reserves (continued)

The Bank maintains a general banking risk reserve to address the risks inherent in the Bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution. This reserve is available for loss absorption.

Fair value reserve includes fair value of equity instruments that will not be reclassified subsequently to profit or loss, debt instruments that may be reclassified subsequently to profit or loss and fair value of cash flow hedges.

*The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice No.: CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE ("the Guidance").

Pursuant to clause 6.4 of the Guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2021	2020
	AED'000	AED'000
<i>Impairment reserve: General</i>		
General provisions under Circular 28/2010 of CBUAE	654,881	590,616
Less: Stage 1 and Stage 2 provisions under IFRS 9	1,080,237	1,356,126
	<hr/>	<hr/>
General provision transferred to the regulatory impairment reserve*		
	<hr/>	<hr/>
<i>Impairment reserve: Specific</i>		
Specific provisions under Circular 28/2010 of CBUAE	819,682	757,310
Less: Stage 3 provisions under IFRS 9	909,814	894,790
	<hr/>	<hr/>
Opening balance regulatory impairment reserve 1 January 2020	-	64,568
Amount reversed from regulatory impairment reserve*	-	(64,568)
	<hr/>	<hr/>
Total provision transferred to the regulatory impairment reserve	-	-
	<hr style="border-top: 1px solid red;"/>	<hr style="border-top: 1px solid red;"/>

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

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

20. Non-controlling interests

	2021 AED'000	2020 AED'000
Balance at the beginning of the year	39,312	37,828
Profit for the year	2,175	1,601
Dividends paid	(2,015)	-
Change in other comprehensive income for the year	(246)	(117)
Balance at the end of the year	39,226	39,312

21. Interest income and interest expense

	2021 AED'000	2020 AED'000
<i>Interest income</i>		
Personal loans	241,605	318,799
Mortgage loans	154,498	172,166
Credit cards	348,990	487,370
Auto loans	21,457	33,425
RAK business loans	313,536	432,273
Wholesale banking loans	184,567	231,801
Other business banking loans	250,514	286,114
Other retail loans	57,209	57,458
Investment securities	254,505	297,196
Deposits with the U.A.E. Central Bank	229	6,612
Other banks	144,564	178,215
	1,971,674	2,501,429
<i>Interest expense</i>		
Deposits from customers	81,645	216,581
Debt securities issued and other long term borrowings	97,506	131,547
Borrowings from other banks	18,207	60,399
	197,358	408,527

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

22. Income from Islamic Financing and distribution to depositors

	2021 AED'000	2020 AED'000
<i>Income from Islamic financing</i>		
Islamic salam personal finance	161,093	213,855
Islamic auto Murabaha	3,407	6,483
Islamic business banking finance	193,255	242,009
Islamic wholesale banking finance	22,810	28,650
Islamic Investment Income	38,975	26,391
Islamic ijara property finance	35,276	38,065
	<hr/>	
	454,816	555,453
	<hr/>	
<i>Distribution to depositors</i>		
Distribution of profit on Islamic term investment deposits	27,948	92,791
Bilateral long term borrowing	31,568	28,759
Distribution of profit on Islamic demand deposits	1,185	1,227
	<hr/>	
	60,701	122,777
	<hr/>	

23. Net fees and commission income

	2021 AED'000	2020 AED'000
Personal loans	22,839	28,169
Mortgage loans	20,059	22,811
Credit cards	247,569	254,805
Auto loans	6,135	6,451
RAK business loans	36,524	15,049
Wholesale banking	69,509	34,279
Other business banking	150,320	145,201
Fiduciary income	78,530	56,455
Bancassurance	21,850	37,826
Other	33,567	31,787
	<hr/>	
	686,902	632,833
	<hr/>	

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

24. Net insurance underwriting profit

	2021	2020
	AED'000	AED'000
Gross insurance premium	446,092	561,647
Less: insurance premium ceded to reinsurers	(184,166)	(216,439)
Net retained premium	261,926	345,208
Net change in unearned premium reserve	-	-
Net insurance premium	261,926	345,208
Gross claims incurred	(283,100)	(404,679)
Insurance claims recovered from reinsurers	116,728	177,108
Net change in mathematical reserve	(418)	(3,651)
Net claims incurred	(166,790)	(231,222)
Gross commission earned	18,361	20,804
Less: commission incurred	(76,337)	(81,788)
Net commission incurred	(57,976)	(60,984)
Net underwriting profit	37,160	53,002

25. Investment income

	2021	2020
	AED'000	AED'000
Dividend income	16,514	15,809
Net gain on disposal of investments	54,461	70,289
Fair value gain / (loss), net	9,353	3,403
Investment income	80,328	89,501

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

26. General and administrative expenses

	2021	2020
	AED'000	AED'000
Staff costs (Note 28)	775,329	788,605
Outsourced staff costs	34,489	41,825
Depreciation and amortization	127,273	122,875
Information and technology expenses	97,777	96,982
Occupancy costs	75,950	81,311
Legal and collections charges	42,100	40,609
Communication costs	50,882	54,211
Marketing expenses	27,385	21,852
Other	164,390	147,079
	1,395,575	1,395,349

27. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year:

	2021	2020
	AED'000	AED'000
Profit for the year (AED'000) [attributed to owners of the Bank]	756,125	503,777
Weighted average number of shares in issue (in 000's)	1,676,245	1,676,245
Basic earnings per share (AED)	0.45	0.30

28. Staff costs

	2021	2020
	AED'000	AED'000
Salaries, allowances and bonus	674,023	693,642
Pension	13,010	12,796
End-of-service benefits	25,599	23,412
Other	62,697	58,755
	775,329	788,605

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

29. Provision for staff end-of-service benefits

The Group provided for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2021 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The liabilities were measured using the projected unit credit method. For valuing liability as at 31 December 2021, a discount rate of 2.15% (December 2020 : 1.65%) and salary escalation rate of 1.5% (December 2020 : 1.5%) were used for the Group except for subsidiary RAK National Insurance Company (RAKNIC) . For RAKNIC, discount rate of 2.50% (December 2020 : 2.15%) and salary escalation rate of 0% (December 2020 : 0%) were used.

Below table illustrates the impact of shift in the discount rate and the salary increment assumption on staff end-of-service benefits liabilities.

Scenario	2021 AED'000	2020 AED'000
Discount Rate: Increase by 1% decrease	(9,896)	(10,012)
Discount Rate: Decrease by 1% Increase	11,395	11,591
Salary Escalation Rate: Increase by 1% Increase	11,367	11,505
Salary Escalation Rate: Decrease by 1% decrease	(10,060)	(10,135)

The change in defined benefit obligation as follows:

Change in Defined Benefit Obligation:	2021 AED'000	2020 AED'000
Balance at 1 January	125,112	122,193
Service cost:		
-Current service cost	17,393	19,121
-Past service cost (gain)	-	(881)
Interest expense	1,954	2,836
Net benefits paid	(12,601)	(25,196)
Remeasurements:		
-Effect of changes in demographic assumptions	-	(144)
-Effect of changes in financial assumptions	(5,372)	7,423
-Effect of experience adjustments	2,610	(240)
Consolidation adjustments	(828)	(798)
Balance at 31 December	128,268	124,314

There are no scheme assets as 31 December 2021 and 31 December 2020

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

30. Provision for credit loss, net

	2021	2020
	AED'000	AED'000
Net impairment charge on loans and advances [Note 6(d)]	1,067,528	1,623,603
Net impairment charge on due from other banks	3,451	6,738
Net impairment charge on investment securities measured at fair value through OCI	2,009	22,449
Net impairment charge /(release) on investment securities measured at amortised cost	2,895	(6,116)
Net impairment charge on insurance contracts	2,382	16,739
Net impairment charge /(release) on customer acceptances	72	(246)
Net impairment charge /(release) on off balance sheet items	(1,674)	135
	<hr/>	<hr/>
Net impairment charge for the year	1,076,663	1,663,302
	<hr/>	<hr/>

31. Contingencies and commitments

	2021	2020
	AED'000	AED'000
Irrevocable commitments to extend credit	5,237,315	3,332,866
Letters of guarantee - Financial	367,645	505,797
Letters of guarantee – Non Financial	763,841	604,815
Letters of credit	93,296	384,395
Capital commitments and other contingencies	31,404	19,654
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	6,493,501	4,847,527
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Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

32. Derivative contracts

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is 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 as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. Commitments to extend credit amounting to AED 7,036 million (2020: AED 6,620 million) that are revocable at the option of the Bank and not included in the above table.

The Group is holding AED 9.4 million (31 December 2020: AED 10.9 million) provision for expected credit loss on off balance sheet items as per IFRS 9, out of which AED 5.5 million (31 December 2020: AED 6.8 million) of provision relates to irrevocable commitments.

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Unrealised gains and losses are either recognised in profit and loss or in cash flow hedge reserve. In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

- (a) Swaps are commitments to exchange one set of cash flows for another. In interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. In cross-currency swaps interest payments and principal in one currency are exchanged for interest payments and principal in another currency.
- (b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.
- (c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.
- (d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

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

32. Derivative contracts (continued)

- (e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.
- (f) Coupon only Swap is a contract to exchange coupons in one currency for coupons in another currency. It is a form of cross-currency swap that entails no exchange of principal in different currencies at maturity, and only interest payments are exchanged.
- (g) Range accrual is a structured product where the coupon is linked to a reference index, such as LIBOR, being within a defined range. Callable range accrual is a range accrual where the issuer has option to call the note at specified dates in the future.
- (h) Interest rate cap is a type of interest rate derivative in which the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. Interest rate floor is a derivative contract in which the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price.
- (i) A target redemption forward (TARF) is a structured forward contract that allows the holder to buy or sell a currency against another in a regular sequence of transactions at a lower or higher level than the respective forward rate on the trade date. The product automatically expires if the enhanced rate reaches a target level.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts, NDFs, Futures and swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain Floating interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

The Group has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk on certain Fixed rate Investments and Loans.

The group's accounting policy for its derivative financial instruments and fair value and cash flow hedges are set out in note 3(l).

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 43(d).

32. Derivative contracts (continued)

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item. The group uses the hypothetical derivative method to assess hedge effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty.

The group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship between the hedged item and the hedging instrument.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan,
- differences in critical terms between the interest rate swaps and loans.
- the effects of the forthcoming reforms to IBOR, because it might take effect at a different time and have a different impact on the hedged item and the hedging instrument.

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

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

32. Derivative contracts (continued)

31 December 2021

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity				
				Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	32,405	27,967	8,813,257	6,870,295	910,594	1,032,368	-	-
Foreign exchange options (bought)	4,341	-	526,240	526,240	-	-	-	-
Foreign exchange options (sold)		4,342	526,240	526,240	-	-	-	-
Interest rate swaps	147,043	140,996	8,431,584	-	68,197	155,301	2,005,912	6,202,174
Structured forward contracts (bought)	18	43	55,362	-	45,545	9,817		
Structured forward contracts (sold)	43	18	55,362	-	45,545	9,817		
Multi callabale range arrangement	59	2,509	700,000	-	-	-	-	700,000
Futures contracts	6		7,346	-	7,346	-	-	-
Sub total	183,915	175,875	19,115,391	7,922,775	1,077,227	1,207,303	2,005,912	6,902,174
Derivatives held as fair value hedge								
Interest rate swap	-	66,521	1,292,896	-	330,570	-	797,041	165,285
Sub total	-	66,521	1,292,896	-	330,570	-	797,041	165,285
Derivative held as cash flow hedge:								
Forward foreign exchange contract	6,563	641	1,368,699	56,216	816,483	496,000	-	-
Interest rate swap	13,480	-	200,000	-	-	-	200,000	-
Cross-currency swap	2,843	-	477,490	-	-	-	477,490	-
Future contracts	-	5,182	132,605	132,605	-	-	-	-
Sub total	22,886	5,823	2,178,794	188,821	816,483	496,000	677,490	-
Total Derivatives	206,801	248,219	22,587,081	8,111,596	2,224,280	1,703,303	3,480,443	7,067,459

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

32. Derivative contracts (continued)

31 December 2020

	Notional amount by term to maturity							
	Positive	Negative	Notional	Up to	3 – 6	6 – 12	1 – 5	Over 5
	fair value	fair value	amount	3 months	months	months	years	Years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Derivatives held for trading:								
Forward foreign exchange contract	56,586	52,173	7,880,314	3,469,188	1,191,210	3,219,916	-	-
Foreign exchange options (bought)	8,518		1,043,132	1,043,132	-	-	-	-
Foreign exchange options (sold)	-	8,526	1,043,132	1,043,132	-	-	-	-
Interest rate swaps	435,420	438,101	10,152,896	-	-	-	2,465,962	7,686,934
Cross currency swap	841	835	550,950	-	-	-	550,950	-
Commodity swaps	738	681	7,802	7,802	-	-	-	-
Multi callable range arrangement	1,170	-	600,000	-	-	-	-	600,000
Futures contracts	4,362	449	193,459	193,459	-	-	-	-
Sub total	507,635	500,765	21,471,685	5,756,713	1,191,210	3,219,916	3,016,912	8,286,934
Derivatives held as fair value hedge								
Interest rate swap	-	127,780	1,330,192	-	37,296	-	833,771	459,125
Cross-currency swap	-	-	-	-	-	-	-	-
Sub total	-	127,780	1,330,192	-	37,296	-	833,771	459,125
Derivative held as cash flow hedge:								
Forward foreign exchange contract	7,974	1,090	1,288,459	487,631	17,370	-	783,458	-
Interest rate swap	21,544	7,326	493,840	-	-	293,840	200,000	-
Cross-currency swap	1,370	-	477,490	-	-	-	477,490	-
Future contracts	25,895	-	238,428	238,428	-	-	-	-
Sub total	56,783	8,416	2,498,217	726,059	17,370	293,840	1,460,948	-
Total Derivatives	564,418	636,961	25,300,094	6,482,772	1,245,876	3,513,756	5,311,631	8,746,059

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

32. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2021

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on hedged item		Balance sheet item	Cash flow hedge reserve	
	Assets AED'000	Liabilities AED'000	Assets AED'000	Liabilities AED'000		Continuing hedges AED'000	Discontinued hedges AED'000
<u>Derivatives held as fair value hedge</u>							
Interest rate swap	1,220,638	-	-	61,772	Investment securities measured at fair value	N/A	N/A
Interest rate swap	129,088	-	-	4,750	Loans and advances, net	N/A	N/A
Sub total	1,349,726			66,522			
<u>Derivative held as cash flow hedge:</u>							
Forward foreign exchange contract-SAR		1,271,815	N/A	N/A	Debt securities issued and other long term borrowings	1,118	-
Forward foreign exchange contract-NGN	24,423	-	N/A	N/A	Investment securities measured at fair value	(269)	-
Forward foreign exchange contract-XAU	67,876	-	N/A	N/A	Loans and advances, net	387	-
Interest rate swap	200,346	-	N/A	N/A	Loans and advances, net	11,356	-
Coupon only swap		-			Debt securities issued & other long term borrowings		868
Cross-currency swap	478,600	-	N/A	N/A	Investment securities measured at amortised cost	2,624	-
Future contracts	136,836	-	N/A	N/A	Investment securities measured at fair value	(1,065)	-
Sub total	908,081	1,271,815	-	-		14,151	868
Total Derivatives	2,257,807	1,271,815	-	66,522		14,151	868

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

32. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2020

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on hedged item		Balance sheet item	Cash flow hedge reserve	
	Assets AED'000	Liabilities AED'000	Assets AED'000	Liabilities AED'000		Continuing hedges AED'000	Discontinued hedges AED'000
<u>Derivatives held as fair value hedge</u>							
Interest rate swap	1,250,720	-	-	119,069	Investment securities measured at fair value through OCI	N/A	N/A
Interest rate swap	170,345	-	-	8,711	Loans and advances, net	N/A	N/A
Sub total	1,421,065	-	-	127,780	-	-	-
<u>Derivative held as cash flow hedge:</u>							
Forward foreign exchange contract-SAR	-	391,729	N/A	N/A	Deposits from customers	-	-
Forward foreign exchange contract-SAR	-	783,458	N/A	N/A	Debt securities issued and other long term borrowings	1,070	-
Forward foreign exchange contract-NGN	44,741	-	N/A	N/A	Investment securities measured at amortised cost	(20,324)	-
Forward foreign exchange contract-XAU	75,658	-	N/A	N/A	Loans and advances, net	59	-
Interest rate swap	-	293,840	N/A	N/A	Debt securities issued and other long term borrowings	(3,791)	-
Interest rate swap	200,346	-	N/A	N/A	Loans and advances, net	19,533	-
Cross-currency swap	479,255	-	N/A	N/A	Investment securities measured at amortised cost	1,172	-
Coupon only swap	-	-	N/A	N/A	Debt securities issued & other long term borrowings	-	1,461
Future contracts	312,282	-	N/A	N/A	Investment securities measured at amortised cost	25,895	-
Sub total	1,112,282	1,469,027	-	-	-	23,614	-
Total Derivatives	2,533,347	1,469,027	-	127,780	-	23,614	1,461

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

33. Cash and cash equivalents

	2021	2020
	AED'000	AED'000
Cash in hand and current account with UAE Central Bank	1,851,716	2,675,824
Due from other banks	8,468,123	6,598,209
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	10,319,839	9,274,033
Less: Due from other banks with original maturity of greater than three months	(6,995,225)	(5,637,920)
	<hr/>	<hr/>
	3,324,614	3,636,113
	<hr style="border-top: 1px solid red;"/>	<hr style="border-top: 1px solid red;"/>

34. Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has five main business segments:

- Retail banking - incorporating individual customer and certain business current accounts, savings accounts, deposits, credit and debit cards, individual customer loans and mortgages;
- Wholesale banking - incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate customers and financial institutions;
- Business banking - incorporating transactions comprising of loans, advances, deposits and trade finance transactions of SME;
- Treasury - incorporating activities of the dealing room, related money market, and foreign exchange transactions and hedging activities with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment; and
- Insurance business - incorporating all insurance related transactions of its subsidiary Ras Al Khaimah National Insurance Company PSC.

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

34. Operating segments (continued)

The above segments include conventional and Islamic products and services of the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Bank's funds transfer pricing guidelines. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the CEO (the chief operating decision maker) in order to allocate resources to the segment and to assess its performance.

The segment information provided to the management for the reportable segments for the period ended 31 December 2021 and 2020 is as follows:

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

34. Operating segments (continued)

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury & other AED'000	Insurance business AED'000	Head office & Unallocated costs AED'000	Consolidation adjustments AED'000	Total AED'000
31 December 2021								
Net external interest income	788,725	289,456	547,427	138,724	8,473	(1,223)	2,734	1,774,316
Income from Islamic financing net of distribution to depositors	190,334	4,966	191,624	7,191	-	-	-	394,115
Internal revenue	(243,275)	(72,339)	(58,898)	330,580		43,932		-
Net interest income and net income from Islamic financing	735,784	222,083	680,153	476,495	8,473	42,709	2,734	2,168,431
Non-interest income	514,016	72,461	250,296	166,589	58,850	17,091	(17,196)	1,062,107
Operating income	1,249,800	294,544	930,449	643,084	67,323	59,800	(14,462)	3,230,538
Operating expense excluding depreciation & amortisation	(586,529)	(42,240)	(257,706)	(22,050)	(50,443)	(316,823)	7,489	(1,268,302)
Depreciation & amortisation	(41,781)	(2,216)	(6,692)	(3,096)	(2,640)	(70,848)	-	(127,273)
Total operating expense	(628,310)	(44,456)	(264,398)	(25,146)	(53,083)	(387,671)	7,489	(1,395,575)
Impairment charge, net	(598,347)	(72,593)	(392,943)	(9,013)	(3,767)	-	-	(1,076,663)
Net profit	23,143	177,495	273,108	608,925	10,473	(327,871)	(6,973)	758,300
Segment assets	17,162,512	15,186,616	7,893,733	14,378,162	796,804	1,198,910	(313,031)	56,303,706
Segment liabilities	11,958,514	10,110,492	16,736,468	7,940,565	594,142	730,063	(148,380)	47,921,864

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

34. Operating segments (continued)

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury & other AED'000	Insurance business AED'000	Head office & Unallocated costs AED'000	Consolidation adjustments AED'000	Total AED'000
31 December 2020								
Net external interest income	989,128	274,052	684,536	133,198	8,491	-	3,497	2,092,902
Income from Islamic financing net of distribution to depositors	236,223	(33,336)	232,820	(3,031)	-	-	-	432,676
Internal revenue	(279,916)	(35,017)	(85,530)	318,803	-	81,660	-	-
Net interest income and net income from Islamic financing	945,435	205,699	831,826	448,970	8,491	81,660	3,497	2,525,578
Non-interest income	511,745	37,913	213,449	215,027	75,727	1,509	(16,919)	1,038,451
Operating income	1,457,180	243,612	1,045,275	663,997	84,218	83,169	(13,422)	3,564,029
Operating expense excluding depreciation & amortisation	(621,272)	(43,618)	(250,848)	(21,574)	(49,293)	(292,375)	6,506	(1,272,474)
Depreciation & amortisation	(42,079)	(1,856)	(3,533)	(1,085)	(3,450)	(70,872)		(122,875)
Total operating expense	(663,351)	(45,474)	(254,381)	(22,659)	(52,743)	(363,247)	6,506	(1,395,349)
Impairment charge, net	(809,076)	(93,195)	(726,211)	(17,970)	(16,850)	-	-	(1,663,302)
Net profit	(15,247)	104,943	64,683	623,368	14,625	(280,078)	(6,916)	505,378
Segment assets	16,299,683	12,356,798	8,039,483	14,254,111	691,303	1,383,932	(252,702)	52,772,608
Segment liabilities	13,023,703	9,163,769	15,467,683	6,123,400	488,227	748,205	(87,337)	44,927,650

The comparative figures of 31 December 2020 have been reclassified between operating segments due to movement of accounts among segments.

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

35. Related parties transactions and balances

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits.

During the year, the Group entered into transactions with related parties in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties.

The transactions with related parties and balances arising from these transactions are as follows:

	2021	2020
	AED'000	AED'000
<i>Transactions during the period</i>		
Interest income	7,415	9,574
Interest expense	12,571	34,094
Commission income	944	621
Directors' and key management personnel's remuneration, sitting and other expenses	22,934	32,229
	<hr/>	<hr/>
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	379,316	300,999
- Directors and their related companies	85,630	35,961
- Key management personnel	5,496	3,001
	<hr/>	<hr/>
	470,442	339,961
	<hr/>	<hr/>
<i>Deposits</i>		
- Shareholders and their related companies	2,119,011	2,107,864
- Directors and their related companies	12,334	10,327
- Key management personnel	21,633	18,503
	<hr/>	<hr/>
	2,152,978	2,136,694
	<hr/>	<hr/>
<i>Irrevocable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	76,002	166,161
- Directors and their related companies	40	40
	<hr/>	<hr/>
	76,042	166,201
	<hr/>	<hr/>
<i>Insurance related receivables</i>		
Due from policy holders	12,812	11,150
	<hr/>	<hr/>
<i>Insurance related payables</i>		
Due to policy holders	35	59
	<hr/>	<hr/>

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

36. Right-of-use assets

	2021	2020
	AED'000	AED'000
Balance at the beginning of the period	117,872	176,939
Additions during the period	14,017	909
Increase / (decrease) due to changes in lease liability and contract period	32,223	(22,541)
Depreciation for the period	(29,688)	(37,435)
Balance at the closing of the period	134,424	117,872

37. Lease liabilities

	2021	2020
	AED'000	AED'000
Balance at the beginning of the period	102,348	151,710
Additions during the period	14,017	909
Increase / (decrease) due to changes in lease contract amount and contract period	33,641	(24,230)
Gain from rent concession due to pandemic	(1,508)	(3,936)
Interest cost on lease liability for the period	4,880	5,374
Less: Rental payments made during the period	(22,778)	(27,479)
Balance at the closing of the period	130,600	102,348

38. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2021, the market value of such assets amounted to AED 5,488 million (2020: AED 2,731 million) and are excluded from the consolidated financial statements of the Group.

39. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if settled unfavorably.

The Bank's subsidiary, RAKNIC as common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

40. Seasonality of results

There is no income of seasonal nature during year 2021 and 2020.

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

41. Financial risk management

Risk management review

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

The Bank's Board and Management believe that an effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction concerning risk management measures undertaken by the Group. The Risk Management function of the Bank is independent of the risk taking functions which is in line with the guidelines of the UAE Central Bank and consistent with Group's model of three lines of defence.

"The Group has a Board approved Enterprise Risk Management policy which covers the Group's Risk Appetite framework including the Financial Risks and operating within the thresholds approved for Financial Risks".

The Group's risk management policies are designed to identify, analyse, define appropriate limits/controls and monitor adherence thereof by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors have established six committees to supervise specific areas and to prepare topics for consideration by the complete Board. The broad role of each committee is described in the table below:

BOARD RISK COMMITTEES

Committee

Roles & Responsibilities

Board Credit Committee(BCC):

Board Credit Committee (BCC) will have its credit approval authority delegated by the Chairman/Board.

Board/Chairman/BCC/CEO will thereafter sub delegate or approve delegated authorities of MCC and below. BCC will also have authority to ratify approvals made by any other officers of the bank beyond their delegated authority; (typically in an emergency situation).

- Review and approve the Credit proposals which are above the delegated limits given to management.
- Approve the Product Program Guidelines (PPGs) for Asset products of Business Banking and Wholesale Banking.
- Review and approve Credit grading methodology for the Bank.
- Approve investments within the delegated lending authority as stated in the Investment Policy of the Bank.

41. Financial risk management (continued)

Risk management review (continued)

Committee

Board Nomination & Remuneration Committee (BNRC):

The BNRC of RAKBANK has been established by the Board of Directors to assist them to oversee, monitor and review matters relating to the composition of the Board including appointment of new Directors/Board Members, Executive Management remuneration, and reward strategies.

Roles & Responsibilities

- Review the structure, size and composition of the Board and make recommendations on changes.
- Formulate the criteria to determine the Knowledge, Skills and Experience required to be a Board Member/Director.
- Identify and review candidates qualified to be appointed as Board Members/Directors, including evaluation of incumbent members for potential re-nomination. The Committee will conduct candidate evaluation in accordance with a process that is formal and transparent, passing on the recommendations for the nomination to the Board.
- Evaluate and approve the compensation plans, policies and succession plans of the Executive Management.
- Assist the Board by reviewing/making recommendations in respect of the remuneration policies and framework for all employees.
- Review and recommend to the Board for the Executive Management, their annual base salary, annual bonus/variable pay, and any other compensation or benefit.
- Recommend to the Board, a set of corporate governance guidelines for the Bank.

41 Risk management review (continued)

Committee

Board Audit Committee (BAC):

The Board Audit Committee has been established by the Board of Directors (the Board) of the Bank to assist the Board in the oversight, monitoring and review of the following aspects of the Bank and its subsidiaries' operations:

- The quality and integrity of financial statements and financial reporting.
- The effectiveness of governance, risk management and internal control systems.
- Compliance with laws and regulations.
- Compliance with the Group Code of Conduct.
- The Group Internal Audit (GIA) function.
- The statutory audit process and External Auditors.

Roles & Responsibilities

- Monitor the appropriateness and integrity of the interim and published financial statements and annual report of the Bank and its businesses and subsidiaries, including significant financial reporting judgments contained in them.
- Review and approve GIA's strategy, objectives, budget and resource plan, performance measures and outcomes, and its risk-based annual audit plan. Review GIA reports on the effectiveness of internal control systems and follow up on the implementation of corrective measures.
- Consider and make recommendations to the Board on the appointment, re-appointment, resignation or removal of the External Auditors. Approve the terms of engagement, nature and scope of their audit and the effectiveness of the audit process.
- Review whistleblowing arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.
- Receive and review regulatory inspection reports from the Central Bank of the UAE
- Other matters relating to internal audit, external audit, internal controls, and financial reporting

41. Financial risk management (continued)

Risk management review (continued)

Committee

Board Risk Committee (BRC):

The BRC of RAKBank has been established by the Board of Directors to assist the Board in fulfilling its responsibility with respect to the oversight of the bank's risk management framework specifically relating to Market Risk, Liquidity Risk, Credit Risk, Operational Risk, Internal Control, Information Security risk and Fraud risk. The committee also reviews and approves changes to including the significant policies and practices used in managing these risks.

Roles & Responsibilities

- Responsible for implementation of an effective risk culture and internal controls across the Bank.
- Oversee and ensure Bank's risks are at acceptable level as per the risk appetite and that the Bank's risks do not exceed such level.
- Review and approve the bank's key risk policies and overall Risk Appetite Framework.
- Receive reports from, review with, and provide feedback to, Management Committees on the categories of risk the bank faces.
- Review the Bank's Regulatory Risk Capital (credit, market and operational risks), including significant inputs and assumptions.
- Review and approve the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Review of all Risk reports for assessing the Bank's exposure to internal and external environment and discuss strategies to overcome unacceptable risks.
- Provide guidance to management, to assist them in improving their risk management practices and / or mitigating certain risks, including the presence of qualified management personnel to carry out risk management activities effectively.

41. Financial risk management (continued)

Risk management review (continued)

Board Compliance, Governance and Legal Committee (BCGLC):

The Board Compliance, Corporate Governance and Legal Committee has been established by the Board of Directors to assist the Board of Directors. The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the Bank's Compliance framework specifically relating to Anti Money Laundering, Sanctions, Regulatory Compliance, Sharia Compliance, Consumer Protection, Corporate Governance and Legal including approval of Policies relating to these areas.

- Responsible for implementation of an effective compliance culture and internal controls across the Bank.
- Oversee and ensure Bank's Compliance risks are at acceptable level as per the risk appetite and that the Bank's risks do not exceed such level.
- Supervise the compliance management framework of the Bank and evaluate the effectiveness of the framework and mechanisms to ensure compliance with Anti Money Laundering, Sanctions and Regulatory compliance requirements stipulated by Central Bank of UAE and such other regulatory authorities.
- Review effective implementation and on-going management of Consumer Protection Regulations and Standards as prescribed by Central Bank of UAE from time to time.
- Approve Policies and Policy exceptions relating to Compliance, Sharia Compliance, Corporate Governance and Legal areas.

41. Financial risk management (continued)

Risk management review (continued)

Committee

Roles & Responsibilities

Board Strategy Committee (BSC):

The Board Strategy Committee has been established by the Board of Directors to assist the Board of Directors and give guidance to the CEO and Senior Management in managing the affairs of the Bank in areas of the Bank's overall strategy, operational and financial performance monitoring, and budgeting. The scope of the Committee includes RAKBANK and its subsidiaries.

- Review the Bank's strategic plan and recommend it to the Board of Directors for approval.
- Monitor the Bank's business objectives and strategy implementation.
- Review the developments and trends shaping the future of the industry to align the Bank's strategy and positioning, accordingly.
- Review and consider the Management's proposals re new strategic initiatives, such as partnerships and alliances.
- Advise the CEO on strategic issues that members of the Committee believe are relevant.
- Review and approve strategic proposals relating to the expansion of the business in terms of organic growth and/or acquisitions, distribution, and new lines of business.
- Consider strategic matters related to the Bank's subsidiaries and Group companies.
- Review the Bank's proposed annual budget and financial objectives, including achieving cost optimization and recommend it to the Board of Directors for approval.
- Review the Bank's performance at least quarterly against the budget.
- Review any other matter delegated by the Board of Directors

41. Financial risk management (continued)

Compliance risk

Compliance Risk at the Group is defined as the risk emanating from regulatory sanctions, material financial loss or loss to reputation that the bank will suffer as a result of its failure to comply with laws, regulations, self-regulatory organizational rules & standards/controls and codes of conduct applicable to its banking activities.

The definition of compliance at Group thereby includes:

- Compliance with regulatory requirements;
- Compliance with internal policy dictates
- Compliance with internal controls embedded in operating procedures of the Group

The Regulatory & Compliance function is managed by Chief Compliance Officer reporting to the CEO. The Group has an established Compliance function, as its second line of defence. The function is responsible for identification, monitoring and reporting of all compliance related risks. It works closely with all business and supports units of the bank in formulating compliance policies and has oversight responsibility for implementation and advice of prudential regulations and conduct of business. This Division also acts as the main liaison with the Central Bank of the U.A.E. The framework and guidelines for compliance are designed by management and approved by board of directors, in line with Basel guidelines in this regard.

The Board has formed the Board Compliance, Governance and Legal Committee to assist in fulfilling its responsibility with respect to the oversight of the Bank's Compliance framework specifically relating to Anti Money Laundering, Sanctions, Regulatory Compliance, Sharia Compliance, Consumer Protection, Corporate Governance and Legal and to manage risks in these areas. This committee is supported by a management level Committee.

Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group endeavours to effectively manage and mitigate Operational Risk through a robust and effective control environment across the organization.

The Operational Risk function is managed by Head of Operational Risk, Internal Controls and BCM reporting to the Chief Risk Officer. The Bank has a formal Operational Risk Management (ORM) governance structure established under the aegis of Management Risk Committee and Board Risk Committee, which provides the strategic direction and oversight over ORM activities.

The governance structure is designed to include three levels of Risk Management signifying a clear division of responsibilities between the risk owners (the business, operations and support units), the control functions (Risk Management) and the Internal Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The governance structure is described below:

- First Line of Defence - Business, Operations & Support Units
- Second Line of Defence - Risk Management & Compliance
- Third Line of Defence - Internal Audit

41. Financial risk management (continued)

Information Technology Risk

The Group considers cyber security / IT Risk as one of the most important risks to be managed. IT risk is the risk posed by internal and external threat actors targeting the bank's technology infrastructure which can have an impact on Bank's ability to service its customers through technology disruptions, data theft etc.

The Group has a dedicated IT Risk and Fraud Prevention unit managed by Director – IT Risk Management and Fraud Prevention who reports to the Chief Risk Officer. This unit manages security risk assessments, perimeter security monitoring, compliance to technical regulatory requirements and overarching governance for compliance to the Group's IT Risk policy.

Fraud risk

The Group's Management and Board recognise that proactive fraud risk management is an integral part of Group's overall risk management strategy. The Group has set up dedicated units to address, prevent, detect and respond to all aspects of fraud. The Fraud Prevention and Detection units are managed by Director IT Risk and Fraud Prevention who reports to the Chief Risk Officer. The Fraud response (Investigations) unit is managed by Head, Fraud Investigations who reports to the Chief Risk Officer.

The Group has adopted a Fraud Risk Management Framework (FRMF) with an objective to implement an effective Fraud Risk Management (FRM) policy and processes across the Group. This initiative is Group's approach to manage Fraud Risk in a timely and efficient manner by setting up systems and procedures to identify and actively mitigate Fraud risks. The Group has adopted a three pronged approach to Fraud Risk Management under the new framework:

- Fraud Prevention
- Fraud Detection
- Fraud Response

Credit risk

Credit risk is defined as the risk associated with the inability, unwillingness or failure of the customers, clients or counterparties of the Group to honour their contractual obligations, in part or whole, by way of a default on their principal, interest, fees, profit or any other contractual obligation by whatever name called, under a loan arrangement, credit facility or any other such transaction facilitated by the Group, in effect causing the Group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The Group's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, business banking, and wholesale banking assets.

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

41. Financial risk management (continued)

Credit risk (continued)

The Chief Credit Officer and team are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Credit Policy, Product Programs Guidelines (PPG), Credit circulars and comply with regulatory norms. Credit risk teams under direction of Chief Risk Officer, manages credit risk through setting Bank's risk appetite, issuance of credit policies, PPGs and policy circulars and comprehensive portfolio analysis.

Respective Business Heads and their teams undertake comprehensive analysis of all commercial loan applications submitted for approval, more precisely, about ownership and management, business and industry, financials, structure and collaterals. Chief Credit Officer and the team review the loan applications, and identify and measures the credit risks involved in such applications before the same is put up to Delegated Authorities for approval. Business and Credit Units monitors the portfolio on on-going basis to maintain a healthy portfolio.

In the Retail lending business, credit risk is managed through appropriate front-end sales and credit underwriting processes, as well as back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled out to ensure consistency in underwriting and the on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale exposures, credit risk is managed by identifying target market segments, structured credit approval processes and robust post-disbursement monitoring and remedial processes. Board approved risk appetite framework and credit policies lay the governing principles for any credit on boarding, underwriting and monitoring of the portfolio.

The Group manages, limits and controls concentration of credit risk wherever it is identified - in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. The group considers the collateralisation levels, financial position, industry growth prospects, etc, before taking the exposure. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

The Group builds, validates and uses Credit Scoring tools that are populated by internally and externally derived historical data, forward looking models and behavioural models to assess counterparty risk on a customer and portfolio level for some of its Retail products.

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

41. Financial risk management (continued)

Significant increase in credit risk

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the financial asset will be moved to Stage 2 and the loss allowance will be based on lifetime basis (lifetime ECL). The broad level factors that are considered to determine whether a financial asset has experienced SICR are: days past due of more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, whether an exposure has been restructured since initial recognition.

The criteria may be rebutted on a case-by-case basis, depending upon actual situation/credit Quality of financial asset/customer.

Internal credit risk ratings

In order to minimize credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categorize exposures mainly for SME and corporate exposures (Non retail portfolio) according to their degree of risk of default. For the purpose of IFRS 9 related notes, Non retail portfolio means Wholesale and Business Banking excluding RAK Business Finance Loans & Retail portfolio includes Auto Loans, Credit Cards, Mortgage Loans, Personal Loans, RAK Business Finance Loans, and Other retail Loans. The credit rating information is based on a wide range of information that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The table below provides a mapping of the Group's internal credit risk grades to the risk characteristics :

Group's Credit Risk Grades

Internal Description

1 to 4-	Low to fair risk
5+ to 6-	Medium Risk
7+ to 7-	Medium to High Risk
8	Substandard
9	Doubtful
10	Loss

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

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

41. Financial risk management (continued)

Credit risk (continued)

Internal credit risk ratings (continued)

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- internally generated data of customer behaviour, affordability metrics etc.(largely for Retail portfolio)
- Other information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Group analyses the relevant delinquency data available and using a variety of statistical models then estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as, Economic Composite Indicator (ECI), real estate prices, gross domestic product (GDP) UAE annual exports, labour force participation and government consumption expenditure etc. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn and their probabilities (scenario weights). The bank then computes the probability weighted average PD of different scenarios viz. baseline, adverse and upturn which is used in the computation of Expected Credit Loss (ECL). The Group uses the weightings of (40: 30: 30) for Baseline: Upside: Downturn Scenarios (2020: 40: 30: 30)

The Group uses different criteria to determine whether credit risk has increased significantly for a counterparty. The criteria used are both quantitative and qualitative, under quantitative criteria Group rely on measures like payment behaviour, i.e. more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, Whether an exposure has been restructured since initial recognition. The criteria may be rebutted on a case by case basis, depending upon actual situation/credit Quality of financial asset/customer.

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

41. Financial risk management (continued)

Credit risk (continued)

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn.

Baseline scenario is considered to be more likely Scenario whereas the other 2 scenarios i.e. upturn and down turn are considered relatively less likely. The bank uses multiple regression approach for arriving at PIT PD by taking into different macroeconomic factors. The bank has calculated the probability weighted average PD of different scenarios viz. baseline, adverse and upturn. Banks uses external independent data sources (Moody's) to get economic data and its forecast in various economic conditions. Additionally the Bank has identified key drivers of credit risk and credit losses for each portfolio of financial instruments. Relationships between macro-economic variables and credit risk and credit losses has been estimated using statistical analysis of historical data.

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 5%. The table below outlines the total ECL per portfolio as at 31 December 2021, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 5%. The changes are applied in isolation for illustrative purposes, and are applied to each probability-weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios:

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

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

		PD (Bucket 0)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL AED'000
Auto Loans					
National Accounts: Nominal	Current	2.08%	25.42%	44.86%	7,811
Government Consumption	+ [5]%	2.08%	25.41%	44.85%	7,810
Expenditure, (Bil. AED, NSAAR)	- [5]%	2.08%	25.42%	44.87%	7,812
National Accounts: Real Imports of	Current	2.08%	25.42%	44.86%	7,811
Goods and Services, (Bil. 2010 AED,	+ [5]%	2.04%	24.93%	43.99%	7,733
NSAAR)	- [5]%	2.12%	25.91%	45.72%	7,888
National Accounts: Nominal Net	Current	2.08%	25.42%	44.86%	7,811
Exports of Goods and Services, (Bil.	+ [5]%	2.05%	25.08%	44.26%	7,757
AED, NSAAR)	- [5]%	2.11%	25.75%	45.45%	7,865
Credit Cards					
Hotel occupancy, (% SA)	Current	3.89%	-	73.91%	181,599
	+ [5]%	3.86%	-	73.32%	180,655
	- [5]%	3.92%	-	74.50%	182,544
Implicit Price Deflator: Gross	Current	3.89%	-	73.91%	181,599
Domestic Product, (Index	+ [5]%	2.80%	-	53.16%	148,029
2010=100, NSAAR)	- [5]%	4.99%	-	91.50%	214,224
National Accounts: Real		3.89%	-	73.91%	181,599
Government Consumption					
Expenditure, (Bil. 2010 AED,	Current				
NSAAR)	+ [5]%	3.89%	-	73.85%	181,510
	- [5]%	3.90%	-	73.97%	181,689

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

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

		PD (Bucket 0)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL AED'000
Personal Loans					
Implicit Price Deflator: Current		7.50%	44.35%	67.05%	421,349
Government Consumption +[5]%		7.49%	44.31%	66.99%	421,061
Expenditure, (Index 2010=100, NSA) -[5]%		7.50%	44.39%	67.11%	421,637
National accounts: Gross domestic product [GDP] - Real, (Mil. 2007 AED, SAAR)	Current +[5]%	7.50%	44.35%	67.05%	421,349
	-[5]%	7.49%	44.33%	67.02%	421,244
		7.50%	44.37%	67.08%	421,454
National Accounts: Real Gross Capital Formation [GCF], (Bil. 2010 AED, NSAAR)	Current +[5]%	7.50%	44.35%	67.05%	421,349
	-[5]%	7.48%	44.27%	66.93%	420,786
		7.51%	44.43%	67.17%	421,912
National Accounts: Real Imports of Goods and Services, (Bil. 2010 AED, NSAAR)	Current +[5]%	7.50%	44.35%	67.05%	421,349
	-[5]%	7.48%	44.24%	66.88%	420,530
		7.52%	44.47%	67.23%	422,168
Mortgage Loans					
Implicit Price Deflator: Imports of Goods and Services, (Index 2010=100, NSA)	Current +[5]%	1.12%	13.96%	74.52%	166,481
	-[5]%	0.58%	7.31%	39.00%	148,397
		2.13%	26.68%	99.99%	187,643
Money Supply: M2, (Bil. AED, NSA)	Current +[5]%	1.12%	13.96%	74.52%	166,481
	-[5]%	1.11%	13.86%	73.97%	166,199
		1.12%	14.07%	75.08%	166,765
RAK Business Loans					
Hotel occupancy, (% SA)	Current +[5]%	7.07%	49.41%	72.00%	423,366
	-[5]%	7.03%	49.12%	71.59%	422,390
		7.11%	49.69%	72.42%	424,347
National Accounts: Nominal Net Exports of Goods and Services, (Bil. AED, NSAAR)	Current +[5]%	7.07%	49.41%	72.00%	423,366
	-[5]%	7.07%	49.37%	71.95%	423,239
		7.08%	49.45%	72.06%	423,494
National Accounts: Real Private Consumption Expenditure, (Bil. 2010 AED, NSAAR)	Current +[5]%	7.07%	49.41%	72.00%	423,366
	-[5]%	7.06%	49.31%	71.86%	423,051
		7.09%	49.50%	72.14%	423,683

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

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

The impact is of change in each variable while other variables are kept constant. ECL is calculated by changing +/-5% to all 3 scenarios of the macro economic data. PD's are weighted by scenario probabilities.

PD Bucket 0 : customers with no past dues are classified in bucket 0;

PD Bucket 1 : customers with past dues up-to 29 days are classified in bucket 1;

PD Stage 2: customers with significant increase in credit risk

Measurement of ECL

The key inputs used for measuring ECL are:

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

As explained above these figures are derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

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

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan. Regulatory LGDs are taken for portfolios with limited historic data.

EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the product of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

41. Financial risk management (continued)

Measurement of ECL (continued)

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data and for low default portfolios where there is no instances of historical default.

The Group has in place policies, which govern the determination of eligibility of various collateral including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Group's major collaterals are mortgaged properties, investments, vehicles and other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

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

41. Financial risk management (continued)

Measurement of ECL (continued)

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL) as at 31 December.

	Maximum exposure to credit risk	
	2021	2020
	AED '000	AED '000
Securities quoted at fair value through profit or loss:		
Quoted funds	131,577	125,100
Unquoted funds	43,842	42,481
Quoted debt securities	61,457	3,544
Derivatives assets		
Trading derivatives	183,915	507,635

As at 31 December 2021, margin money of AED 24.4 million (31 December 2020: AED 13.7 million) have been held as collateral against trading derivatives.

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

41 Financial risk management (continued)

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

Maximum Credit Risk Exposure as at 31 December 2021

Particular	AED '000			Total
	Stage 1	Stage 2	Stage 3	
Rating grid wise				
Due from other banks				
1 to 4-	1,367,984	277,525	-	1,645,509
5+ to 6-	5,909,044	376,138	-	6,285,182
7+ to 7-	503,533	33,899	-	537,432
Total	7,780,561	687,562	-	8,468,123
Loans and Advances				
1 to 4-	3,714,998	39,522	-	3,754,520
5+ to 6-	8,208,041	812,329	568	9,020,938
7+ to 7-	23,485	385,815	1,247	410,547
8 to 10	-	-	479,610	479,610
Unrated	19,079,306	458,516	973,331	20,511,153
Total	31,025,830	1,696,182	1,454,756	34,176,768
Investment securities (at amortized costs and FVOCI)				
AA to AA-	1,501,164	-	-	1,501,164
A+ to A-	1,056,032	-	-	1,056,032
BBB+ to BBB-	1,894,580	138,979	-	2,033,559
BB+ to BB-	1,447,315	25,575	-	1,472,890
B+ to B-	2,214,138	-	-	2,214,138
CCC+ to C	-	163,607	-	163,607
Unrated	452,589	2,938	-	455,527
Total Amount	8,565,818	331,099	-	8,896,917
Customer Acceptances				
1 to 4-	28,346	-	-	28,346
5+ to 6-	32,222	7,000	-	39,222
Total	60,568	7,000	-	67,568
Off balance sheet items				
1 to 4-	2,971,431	2,722	-	2,974,153
5+ to 6-	1,399,261	12,024	-	1,411,285
7+ to 7-	21,303	7,266	-	28,569
8 to 10	-	-	1,156	1,156
Unrated	1,320,010	-	-	1,320,010
Total	5,712,005	22,012	1,156	5,735,173

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

41. Financial risk management (continued)

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

Maximum Credit Risk Exposure as at 31 December 2020

Particular	AED '000			
	Stage 1	Stage 2	Stage 3	Total
Rating grid wise				
Due from other banks				
1 to 4-	1,170,077	119,408	-	1,289,485
5+ to 6-	3,813,395	758,835	-	4,572,230
7+ to 7-	533,209	203,285	-	736,494
Total	5,516,681	1,081,528	-	6,598,209
Loans and Advances				
1 to 4-	2,780,769	53,139	-	2,833,908
5+ to 6-	7,266,674	981,257	-	8,247,931
7+ to 7-	35,997	275,933	30,506	342,436
8 to 10		-	599,543	599,543
Unrated	17,923,753	1,109,375	1,143,966	20,177,094
Total	28,007,193	2,419,704	1,774,015	32,200,912
Investment securities (at amortized costs and FVOCI)				
AA to AA-	1,112,443	-	-	1,112,443
A+ to A-	1,008,597	-	-	1,008,597
BBB+ to BBB-	1,859,408	80,705	-	1,940,113
BB+ to BB	678,012	328,791	-	1,006,803
B+ to B-	1,657,923	114,924	-	1,772,847
CCC+ to C	-	162,135	-	162,135
Unrated	523,840	-	11,516	535,356
Total Amount	6,840,223	686,555	11,516	7,538,294
Customer Acceptances				
1 to 4-	81,511	-	-	81,511
5+ to 6-	19,303	16,051	-	35,354
Total	100,814	16,051	-	116,865
Off balance sheet items				
1 to 4-	1,550,081	26,884	-	1,576,965
5+ to 6-	1,540,313	43,200	-	1,583,513
7+ to 7-	-	2,477	181	2,658
Unrated	1,115,071	-	-	1,115,071
Total	4,205,465	72,561	181	4,278,207

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

41. Financial risk management (continued)

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

Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by external ratings from credit rating agencies at 31 December 2021 and 2020 :

	2021	2020
	AED'000	AED'000
AA to AA-	1,501,109	1,112,401
A+ to A-	1,074,012	1,009,418
BBB+ to BBB-	2,040,126	1,939,213
BB+ to BB	1,500,015	1,005,321
B+ to B-	2,205,653	1,765,574
CCC+ to C	149,937	150,913
Unrated	462,593	536,078
	8,933,445	7,518,918

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 Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2021 and 2020.

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

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

41. Financial risk management (continued)

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

On balance sheet items

	UAE AED'000	OECD AED'000	Others AED'000	Provision for credit loss AED'000	Total AED'000
31 December 2021					
Due from other banks, net	258,683	2,547,750	5,661,690	(39,269)	8,428,854
Loans and advances, net	31,127,213	494,611	2,554,944	(1,893,208)	32,283,560
Insurance contract assets, net	279,351	21,383	15,475	(32,575)	283,634
Customer acceptances	65,305	-	2,263		67,568
Investment securities measured at amortised cost	1,275,876	414,704	2,901,416	(24,940)	4,567,056
Investment securities measured at fair value	2,143,355	160,447	2,595,065	-	4,898,867
Total	35,149,783	3,638,895	13,730,853	(1,989,992)	50,529,539
31 December 2020					
Due from other banks, net	569,361	1,496,030	4,532,818	(35,818)	6,562,391
Loans and advances, net	30,557,438	175,180	1,468,294	(2,159,442)	30,041,470
Insurance contract assets, net	235,027	14,446	8,994	(54,708)	203,759
Customer acceptances	116,865	-	-	-	116,865
Investment securities measured at amortised cost	1,295,551	163,387	2,864,771	(22,045)	4,301,664
Investment securities measured at fair value	1,715,885	282,538	1,634,875	-	3,633,298
Total	34,490,127	2,131,581	10,509,752	(2,272,013)	44,859,447

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

41. Financial risk management (continued)

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

The following table breaks down the Bank's credit exposures on loans and advances, investment securities, due from other banks and off balance sheet items categorised by industry as of 31 December 2021 and 2020:

	On balance sheet items					
	Loans and advances AED'000	Investment securities AED'000	Due from other banks AED'000	Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
31 December 2021						
Agriculture, fishing & related activities	2,232	-	-	2,232	54	2,286
Crude oil, gas, mining & quarrying	185,164	68,725	-	253,889	244,646	498,535
Manufacturing	2,388,750	465,086	-	2,853,836	90,697	2,944,533
Electricity & water	9,989	682,575	-	692,564	183,545	876,109
Construction and real estate	2,097,195	562,087	-	2,659,282	716,069	3,375,351
Trading	3,656,972	-	-	3,656,972	1,363,952	5,020,924
Transport, storage & communication	1,291,286	672,298	-	1,963,584	887,084	2,850,668
Financial institutions	1,917,052	3,028,891	8,468,123	13,414,066	710,715	14,124,781
Services	3,989,699	574,477	-	4,564,176	975,117	5,539,293
Government	156,247	3,436,724	-	3,592,971	1,000	3,593,971
Retail and consumer banking	18,482,182	-	-	18,482,182	1,289,218	19,771,400
Total exposures	34,176,768	9,490,863	8,468,123	52,135,754	6,462,097	58,597,851
Provision for credit loss	(1,893,208)	(24,940)	(39,269)	(1,957,417)	(9,178)	(1,966,595)
Net exposures	32,283,560	9,465,923	8,428,854	50,178,337	6,452,919	56,631,256
31 December 2020						
Agriculture, fishing & related activities	5,827	-	-	5,827	53	5,880
Crude oil, gas, mining & quarrying	3,762	-	-	3,762	150,619	154,381
Manufacturing	1,460,725	512,766	-	1,973,491	55,607	2,029,098
Electricity & water	3,420	644,979	-	648,399	177,930	826,329
Construction and real estate	2,775,966	639,431	-	3,415,397	246,341	3,661,738
Trading	3,844,667	-	-	3,844,667	1,155,470	5,000,137
Transport, storage & communication	1,417,023	507,265	-	1,924,288	46,450	1,970,738
Financial institutions	817,527	2,587,604	6,598,209	10,003,340	1,229,420	11,232,760
Services	3,638,331	635,267	-	4,273,598	586,148	4,859,746
Government	303,116	2,429,695	-	2,732,811	113,657	2,846,468
Retail and consumer banking	17,930,548	-	-	17,930,548	1,066,178	18,996,726
Total exposures	32,200,912	7,957,007	6,598,209	46,756,128	4,827,873	51,584,001
Provision for credit loss	(2,159,442)	(22,045)	(35,818)	(2,217,305)	(10,852)	(2,228,157)
Net exposures	30,041,470	7,934,962	6,562,391	44,538,823	4,817,021	49,355,844

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

41. Financial risk management (continued)

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument:

<i>Class of financial instrument</i>	<i>Notes</i>
Due from other banks	5
Wholesale banking loans and advances	6
Business banking loans and advances	6
Retail banking Loans and advances	6
Investment securities measured at fair value	7
Investment securities measured at amortised cost	7
Insurance contract assets and receivables	8

An analysis of the Group's credit risk exposure without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

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

41. Financial risk management (continued)

Exposure stage transitions

Loans and advances				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	28,007,193	2,419,704	1,774,015	32,200,912
Stage Transfer				
Stage 1 to Stage 2 Transfer	(3,372,829)	3,372,829	-	-
Stage 2 to Stage 3 Transfer	-	(1,695,346)	1,695,346	-
Stage 2 to Stage 1 Transfer	1,152,809	(1,152,809)	-	-
Stage 3 to Stage 2 Transfer	-	171,554	(171,554)	-
Change in Exposures during the year	(15,164,391)	(1,419,750)	(416,169)	(17,000,310)
New Financial Assets Originated	20,403,048	-	-	20,403,048
Write offs	-	-	(1,426,882)	(1,426,882)
Closing Balance 31 December 2021	31,025,830	1,696,182	1,454,756	34,176,768
Loans and advances				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	32,600,836	2,268,213	1,393,079	36,262,128
Stage Transfer				
Stage 1 to Stage 2 Transfer	(3,503,984)	3,503,984	-	-
Stage 2 to Stage 3 Transfer	-	(1,930,993)	1,930,993	-
Stage 2 to Stage 1 Transfer	470,322	(470,322)	-	-
Stage 3 to Stage 2 Transfer	-	62,517	(62,517)	-
Change in Exposures during the year	(10,843,065)	(1,013,695)	(235,883)	(12,092,643)
New Financial Assets Originated	9,283,084	-	-	9,283,084
Write offs	-	-	(1,251,657)	(1,251,657)
Closing Balance 31 December 2020	28,007,193	2,419,704	1,774,015	32,200,912

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

41. Financial risk management (continued)

Exposure stage transitions (continued)

Loans and advances

				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 October 2021	29,932,909	1,989,325	1,553,579	33,475,813
Stage Transfer				
Stage 1 to Stage 2 Transfer	(550,633)	550,633	-	-
Stage 2 to Stage 3 Transfer	-	(394,381)	394,381	-
Stage 2 to Stage 1 Transfer	337,447	(337,447)	-	-
Stage 3 to Stage 2 Transfer	-	49,958	(49,958)	-
Change in Exposures during the year	(3,482,247)	(161,906)	(84,132)	(3,728,285)
New Financial Assets Originated	4,788,354	-	-	4,788,354
Write offs	-	-	(359,114)	(359,114)
Closing Balance 31 December 2021	31,025,830	1,696,182	1,454,756	34,176,768

Investment securities – FVOCI*

				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	2,978,737	224,332	11,516	3,214,585
Stage Transfer				
Stage 2 to Stage 1 Transfer	36,060	(36,060)	-	-
Change in Exposures during the year	(2,773,527)	(30,642)	(11,516)	(2,815,685)
New Financial Assets Originated	3,906,021	-	-	3,906,021
Closing Balance 31 December 2021	4,147,291	157,630	-	4,304,921

Investment securities – FVOCI*

				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	2,426,272	18,963	12,801	2,458,036
Stage Transfer				
Stage 1 to Stage 2 Transfer	(270,055)	270,055	-	-
Change in Exposures during the year	(267,304)	(64,686)	(1,285)	(333,275)
New Financial Assets Originated	1,089,824	-	-	1,089,824
Closing Balance 31 December 2020	2,978,737	224,332	11,516	3,214,585

* Exposures are gross of IFRS9 provisions held

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

41. Financial risk management (continued)

Exposure stage transitions (continued)

Investment securities – FVOCI*	AED'000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 October 2021	4,573,749	168,638	-	4,742,387
Stage Transfer				
Change in Exposures during the year	(891,318)	(11,008)	-	(902,326)
New Financial Assets Originated	464,860	-	-	464,860
Closing Balance 31 December 2021	4,147,291	157,630	-	4,304,921

Investment securities - Amortized Cost	AED'000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	3,861,486	462,223	-	4,323,709
Stage Transfer				
Stage 1 to Stage 2 Transfer	309,413	(309,413)	-	-
Change in Exposures during the year	(660,743)	20,659	-	(640,084)
New Financial Assets Originated	908,371	-	-	908,371
Closing Balance 31 December 2021	4,418,527	173,469	-	4,591,996

Investment securities - Amortized Cost	AED'000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	4,622,930	591,369	-	5,214,299
Stage Transfer				
Stage 1 to Stage 2 Transfer	(180,495)	180,495	-	-
Change in Exposures during the year	(2,083,822)	(309,641)	-	(2,393,463)
New Financial Assets Originated	1,502,873	-	-	1,502,873
Closing Balance 31 December 2020	3,861,486	462,223	-	4,323,709

Investment securities - Amortized Cost	AED'000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 October 2021	4,144,917	175,084	-	4,320,001
Stage Transfer				
Change in Exposures during the year	(49,499)	(1,615)	-	(51,114)
New Financial Assets Originated	323,109	-	-	323,109
Closing Balance 31 December 2021	4,418,527	173,469	-	4,591,996

* Exposures are gross of IFRS9 provisions held

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

41. Financial risk management (continued)

Exposure stage transitions (continued)

Due from banks	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	5,516,681	1,081,528	-	6,598,209
Stage Transfers				
Stage 1 to Stage 2 transfer	(716,195)	716,195	-	-
Stage 2 to Stage 1 transfer	250,819	(250,819)	-	-
Change in Exposures during the year	(4,319,878)	(859,342)	-	(5,179,220)
New Financial Assets Originated	7,049,134	-	-	7,049,134
Closing Balance 31 December 2021	7,780,561	687,562	-	8,468,123
Due from banks	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	5,824,760	797,553	-	6,622,313
Stage Transfers				
Stage 1 to Stage 2 transfer	(1,068,183)	1,068,183	-	-
Stage 2 to Stage 1 transfer	109,339	(109,339)	-	-
Change in Exposures during the year	(1,907,132)	(674,869)	-	(2,582,001)
New Financial Assets Originated	2,557,897	-	-	2,557,897
Closing Balance 31 December 2020	5,516,681	1,081,528	-	6,598,209
Due from banks	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 October 2021	7,326,769	604,530	-	7,931,299
Stage Transfers				
Stage 1 to Stage 2 transfer	(317,193)	317,193	-	-
Change in Exposures during the year	(923,971)	(234,161)	-	(1,158,132)
New Financial Assets Originated	1,694,956	-	-	1,694,956
Closing Balance 31 December 2021	7,780,561	687,562	-	8,468,123

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

41. Financial risk management (continued)

Exposure stage transitions (continued)

Customer Acceptances				AED 000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	100,814	16,051	-	116,865
Stage Transfers				
Stage 1 to Stage 2 Transfer	(7,000)	7,000	-	-
Change in Exposures during the year	(66,631)	(16,051)	-	(82,682)
New Financial Assets Originated	33,385	-	-	33,385
Closing Balance 31 December 2021	60,568	7,000	-	67,568

Customer Acceptances				AED 000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	421,372	2,893	-	424,265
Stage Transfers				
Stage 1 to Stage 2 Transfer	(20,000)	20,000	-	-
Change in Exposures during the year	(382,127)	(6,842)	-	(388,969)
New Financial Assets Originated	81,569	-	-	81,569
Closing Balance 31 December 2020	100,814	16,051	-	116,865

Off balance sheet items and irrevocable Commitments				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	4,205,465	72,561	181	4,278,207
Stage Transfer				
Stage 1 to Stage 2 Transfer	(13,390)	13,390	-	-
Stage 2 to Stage 3 Transfer	-	(1,025)	1,025	-
Stage 2 to Stage 1 Transfer	24,115	(24,115)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(2,540,888)	(38,799)	(50)	(2,579,737)
New Financial Assets Originated	4,036,704	-	-	4,036,704
Closing Balance 31 December 2021	5,712,006	22,012	1,156	5,735,174

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

41. Financial risk management (continued)

Exposure stage transitions (continued)

Off balance sheet items and irrevocable Commitments				AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	3,091,360	254,733	50	3,346,143
Stage Transfer				
Stage 1 to Stage 2 Transfer	(27,025)	27,025	-	-
Stage 2 to Stage 3 Transfer	-	(131)	131	-
Stage 2 to Stage 1 Transfer	131,280	(131,280)	-	-
Change in Exposures during the year	(253,217)	(77,786)	-	(331,003)
New Financial Assets Originated	1,263,067	-	-	1,263,067
Closing Balance 31 December 2020	4,205,465	72,561	181	4,278,207

Insurance contract assets and other receivables				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	170,857	-	-	170,857
Change in Exposures	31,230			31,230
Write offs	(24,515)			(24,515)
Closing Balance 31 December 2021	177,572	-	-	177,572

Insurance contract assets and other receivables				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	263,362	-	-	263,362
Change in Exposures	(92,505)			(92,505)
Closing Balance 31 December 2020	170,857	-	-	170,857

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

41. Financial risk management (continued)

Movement of the provision for credit loss

Summary of provision for credit loss and net movement on the financial instruments by category are as follows:

Particulars	AED '000			
	1 January 2021	Net change during the year	Other Movement	31 December 2021
Due from other banks	35,818	3,451	-	39,269
Loans and Advances	2,159,442	1,160,648	(1,426,882)	1,893,208
Investment Securities - FVOCI	22,920	2,009	-	24,929
Investment Securities – amortised cost	22,045	2,895	-	24,940
Insurance contract assets and receivables	54,708	2,382	(24,515)	32,575
Customer Acceptances	175	72	-	247
Off balance sheet items	10,852	(1,674)	-	9,178
Total	2,305,960	1,169,783	(1,451,397)	2,024,346

The tables below analyse the movement of the provision for credit loss during the year per class of financial assets:

Due from banks	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	17,427	18,391	-	35,818
Stage Transfers				
Stage 1 to Stage 2 transfer	(7,089)	7,089	-	-
Stage 2 to Stage 1 transfer	2,283	(2,283)	-	-
Due to changes in PD's/ LGD's/ EAD	(22,629)	(17,477)	-	(40,106)
Due to new financial assets originated	43,557	-	-	43,557
Closing Balance 31 December 2021	33,549	5,720	-	39,269

Due from banks	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	19,437	9,643	-	29,080
Stage Transfers				
Stage 1 to Stage 2 transfer	(9,336)	9,336	-	-
Stage 2 to Stage 1 transfer	2,384	(2,384)	-	-
Due to changes in PD's/ LGD's/ EAD	(8,947)	1,796	-	(7,151)
Due to new financial assets originated	13,889	-	-	13,889
Closing Balance 31 December 2020	17,427	18,391	-	35,818

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

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Due from banks	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 October 2021	36,625	13,744	-	50,369
Stage Transfers				
Stage 1 to Stage 2 transfer	(699)	699	-	-
Due to changes in PD's/ LGD's/ EAD	(10,734)	(8,723)	-	(19,457)
Due to new financial assets originated	8,357	-	-	8,357
Closing Balance 31 December 2021	33,549	5,720	-	39,269

Loans and advances	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	683,535	581,402	894,505	2,159,442
Stage Transfer				
Stage 1 to Stage 2 Transfer	(639,599)	639,599	-	-
Stage 2 to Stage 3 Transfer	-	(688,862)	688,862	-
Stage 2 to Stage 1 Transfer	368,293	(368,293)	-	-
Stage 3 to Stage 2 Transfer	-	73,374	(73,374)	-
Due to changes in PD's/ LGD's/ EAD	(477,814)	63,363	826,660	412,209
Due to new financial assets originated	748,439	-	-	748,439
Write offs	-	-	(1,426,882)	(1,426,882)
Closing Balance 31 December 2021	682,854	300,583	909,771	1,893,208

Loans and advances	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	658,857	425,666	627,042	1,711,565
Stage Transfer				
Stage 1 to Stage 2 Transfer	(529,969)	529,969	-	-
Stage 2 to Stage 3 Transfer	-	(518,170)	518,170	-
Stage 2 to Stage 1 Transfer	55,951	(55,951)	-	-
Stage 3 to Stage 2 Transfer	-	14,443	(14,443)	-
Due to changes in PD's/ LGD's/ EAD	(67,560)	185,445	1,015,393	1,133,278
Due to new financial assets originated	566,256	-	-	566,256
Write offs	-	-	(1,251,657)	(1,251,657)
Closing Balance 31 December 2020	683,535	581,402	894,505	2,159,442

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

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Loans and advances	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 October 2021	733,313	401,171	889,861	2,024,345
Stage Transfer				
Stage 1 to Stage 2 Transfer	(77,044)	77,044	-	-
Stage 2 to Stage 3 Transfer	-	(155,353)	155,353	-
Stage 2 to Stage 1 Transfer	70,935	(70,935)	-	-
Stage 3 to Stage 2 Transfer	-	22,710	(22,710)	-
Due to changes in PD's/ LGD's/ EAD	(156,543)	25,946	246,381	115,784
Due to new financial assets originated	112,193	-	-	112,193
Write offs	-	-	(359,114)	(359,114)
Closing Balance 31 December 2021	682,854	300,583	909,771	1,893,208
Investment securities - FVOCI	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	9,295	13,384	241	22,920
Stage Transfer				
Stage 2 to Stage 1 Transfer	863	(863)	-	-
Due to changes in PD's/ LGD's/ EAD	(14,874)	1,465	(241)	(13,650)
Due to new financial assets originated	15,659	-	-	15,659
Closing Balance 31 December 2021	10,943	13,986	-	24,929
Investment securities - FVOCI	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	3,843	428	-	4,271
Stage Transfer				
Stage 1 to Stage 2 Transfer	(1,562)	1,562	-	-
Due to changes in PD's/ LGD's/ EAD	748	11,394	4,041	16,183
Due to new financial assets originated	6,266	-	-	6,266
Less: other movements	-	-	(3,800)	(3,800)
Closing Balance 31 December 2020	9,295	13,384	241	22,920

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

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Investment securities - FVOCI	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 October 2021	11,480	10,588	-	22,068
Stage Transfer				
Due to changes in PD's/ LGD's/ EAD	(3,798)	3,398	-	(400)
Due to new financial assets originated	3,261	-	-	3,261
Closing Balance 31 December 2021	10,943	13,986	-	24,929

Investment securities - Amortized Cost	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	5,997	16,048	-	22,045
Stage Transfer				
Stage 2 to Stage 1 Transfer	6,432	(6,432)	-	-
Due to changes in PD's/ LGD's/ EAD	(9,006)	5,367	-	(3,639)
Due to new financial assets originated	6,534	-	-	6,534
Closing Balance 31 December 2021	9,957	14,983	-	24,940

Investment securities - Amortized Cost	AED '000			
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	13,564	14,597	-	28,161
Stage Transfer				
Stage 1 to Stage 2 Transfer	(1,332)	1,332	-	-
Due to changes in PD's/ LGD's/ EAD	(9,014)	119	-	(8,895)
Due to new financial assets originated	2,779	-	-	2,779
Less: other movements	-	-	-	-
Closing Balance 31 December 2020	5,997	16,048	-	22,045

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

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Investment securities - Amortized Cost				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 October 2021	8,283	13,687	-	21,970
Stage Transfer				
Due to changes in PD's/ LGD's/ EAD	(965)	1,296	-	331
Due to new financial assets originated	2,639	-	-	2,639
Closing Balance 31 December 2021	9,957	14,983	-	24,940

Customer Acceptances				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	121	54	-	175
Stage Transfer				
Stage 1 to Stage 2 Transfer	(31)	31	-	-
Due to changes in PD's/ LGD's/ EAD	(22)	(54)	-	(76)
Due to new financial assets originated	148	-	-	148
Closing Balance as at 31 December 2021	216	31	-	247

Customer Acceptances				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	413	8	-	421
Stage Transfer				
Stage 1 to Stage 2 Transfer	(10)	10	-	-
Due to changes in PD's/ LGD's/ EAD	(325)	36	-	(289)
Due to new financial assets originated	43	-	-	43
Closing Balance as at 31 December 2020	121	54	-	175

Off balance sheet items and irrevocable Commitments				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	10,372	436	44	10,852
Stage Transfer				
Stage 1 to Stage 2 Transfer	(16)	16	-	-
Stage 2 to Stage 1 Transfer	58	(58)	-	-
Due to changes in PD's/ LGD's/ EAD	(5,454)	179	-	(5,275)
Due to new financial assets originated	3,601	-	-	3,601
Closing Balance 31 December 2021	8,561	573	44	9,178

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

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Off balance sheet items and irrevocable Commitments				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2020	8,882	1,812	23	10,717
Stage Transfer				
Stage 1 to Stage 2 Transfer	(148)	148	-	-
Stage 2 to Stage 3 Transfer	-	(10)	10	-
Stage 2 to Stage 1 Transfer	684	(684)	-	-
Due to changes in PD's/ LGD's/ EAD	(2,534)	(830)	11	(3,353)
Due to new financial assets originated	3,488	-	-	3,488
Closing Balance 31 December 2020	10,372	436	44	10,852

Insurance Contract Assets and other receivables				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	54,708	-	-	54,708
Due to changes in PD's/ LGD's/ EAD	2,382	-	-	2,382
Write offs	(24,515)	-	-	(24,515)
Closing Balance 31 December 2021	32,575	-	-	32,575

Insurance Contract Assets and other receivables				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2020	38,637	-	-	38,637
Due to changes in PD's/ LGD's/ EAD	16,739	-	-	16,739
Other movements (No P&L impact)	(668)	-	-	(668)
Closing Balance 31 December 2020	54,708	-	-	54,708

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

41. Financial risk management (continued)

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVOCI, amortized cost and at FVTPL.

	<i>Type of collateral held</i>
Derivative asset	Fixed Deposit/Cash Margin
Loans and advances to banks	Letter of Comfort/Export Bills
Mortgage lending	Mortgage over Property
Corporate lending	Fixed Deposit/Cash Margin; Mortgage over Properties/Vehicles; Bank Guarantee/Stand-by Letter of Credit; Pledge of Shares; Stocks and Receivables etc.
Investment securities	Underlying investments

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

There was no change in the Group's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

	2021	2020
	AED '000	AED '000
Credit Impaired Loans and Advances		
Stage 3 Loans and Advances	1,454,756	1,774,015
Less: Provisions held	(909,771)	(894,505)
Net Exposures	544,985	879,510
Market value of Collateral held		
Property	787,343	714,278
Vehicles & others	26,462	158,405
Securities	39,266	63,563
Total value of Collateral values	853,071	936,246

Off-setting of collateral

	2021	2020
	AED '000	AED '000
Loans outstanding that can be set-off against cash collateral	934,311	992,561

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

41. Financial risk management (continued)

Restructured loans and advances

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline. These policies are kept under continuous review. The Group has reviewed the entire portfolio and reported only restructured loans with financial difficulties under this note, excluding TESS restructured loans. The group has a full-fledged Collections and Recovery Unit that follow-up with overdue/delinquent customers for regularising the loan/advances. The table below presents loans restructured during the year 2021 and 2020.

Restructured loans during the year:

Product	2021		2020	
	No of accounts	Loan amount AED'000	No of accounts	Loan amount AED'000
Personal loans	1,105	241,240	455	209,585
Mortgage loans	14	19,949	5	6,027
Credit cards	2,003	76,025	2,811	124,322
Auto loans	30	2,459	29	5,422
Other business banking loans	176	53,750	116	103,685
Wholesale banking loans	6	125,432	7	8,938
RAK business loans	350	260,994	273	171,184
Total	3,684	779,849	3,696	629,163

The table below presents restructured loan portfolio outstanding as at 31 December:

Product	2021		2020	
	No of accounts	Loan amount AED'000	No of accounts	Loan amount AED'000
Personal loans	2,368	747,925	1,913	796,369
Mortgage loans	75	145,771	80	160,771
Credit cards	6,136	169,591	6,928	215,999
Auto loans	286	9,424	468	18,844
Other business banking loans	330	325,649	319	223,167
Wholesale banking loans	16	202,717	29	283,751
RAK finance business loans	713	419,466	722	396,557
Total	9,924	2,020,543	10,459	2,095,458

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

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

Personal lending

The Group's personal lending portfolio consists of secured loans, unsecured loans and credit cards.

Corporate lending

The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance, cashflow generation, their liquidity, advantage, management effectiveness and growth ratios. The valuation of collateral held against corporate lending, after initial approval, is updated once every two years for a performing asset. The valuation of such collateral is monitored more closely if the loan is put on "watch-list".

Offsetting financial assets and financial liabilities:

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group has no offsetting financial assets and financial liabilities to report as at 31 December 2021 and 31 December 2020.

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

41. Financial risk management (continued)

Risk Management – Hedging:

The following note explains the group’s exposure to financial risks that are hedged and for which hedge accounting is applied:

Risk	Exposure Arising from	Measurement	Management
Currency risk	Long term borrowings in foreign currency	Cash flow forecasting	Currency forwards
	Investment securities in foreign currency		Currency futures
	Loans and advances in foreign currency		Cross currency swap
Interest rate risk	Investment in debt securities	Sensitivity analysis	Interest rate swaps
	Loans and advances		

The financial details of the hedged exposures are covered in Note 32.

Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, 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) is chaired by the Chief Executive Officer and comprises the Divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the Group’s key financial indicators and ratios, sets the thresholds to manage and monitor the market risk and also analyses the sensitivity of the Group’s interest rate and maturity mismatches. ALCO also guides the Group’s investment decisions and provides guidance in terms of interest rate and currency movements.

Market Risk and Treasury Mid Office functions with Risk Management are responsible for day to day monitoring of Market risk exposures within Board approved Policies and Market Risk Appetite.

The exposures to derivatives include forward exchange contracts, Option Contracts and Interest Rate Swaps which are entered to meet customer needs and covered back to back in the interbank market. Further the Group has executed some interest rate swaps and a Cross Currency Swap for economic hedging purposes. Also, the Group has executed some derivatives on proprietary books within Board approved Risk Limits for Trading.

Group’s proprietary Investments are managed according to the group’s approved Investment Policy.

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

41. Financial risk management (continued)

Price risk

The Group is exposed to price risk as a result of its holdings in debt securities classified as fair value through OCI and fair value through profit and loss in investment securities. The fair values of investments quoted in active markets are based on current prices. Senior Management meets regularly to discuss the return on investment and concentration across the Group's investment portfolio and manages the risk through diversification in terms of Counterparty, Country Industry and Rating. Any trading positions in securities under the fair value through profit and loss are guided by the approved Limits for Trading.

The sensitivity analysis for price risk illustrates how changes in the fair value of quoted equity securities and funds held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market.

The table below summarises the impact of increases/decreases of the indexes on the group's equity and profit for the period. The analysis is based on the assumption that the equity indexes had increased or decreased by 5% and 2% respectively with all other variables held constant, and that all of the group's equity and fund instruments moved in line with the indexes.

	Impact on Profit		Impact on OCI	
	2021	2020	2021	2020
	AED'000	AED'000	AED'000	AED'000
Increase / decrease by 5% (+/-)	6,579	6,255	18,877	13,395
Increase / decrease by 2% (+/-)	2,632	2,502	7,551	5,358

Post-tax profit for the period would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVPL. Other components of equity would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVOCI.

Interest rate risk

Interest rate risk in the banking book (IRRBB) is the risk of loss resulting from a general change in market rates due to different terms to maturity or re-fixing on the asset and liability sides whether on- or off-balance sheet. Changes in market rates, specifically interest rates, impacts bank profitability in the short-term by varying its net interest income (NII) and the level of other interest sensitive revenues and operating expenses. Also, from a long-term perspective it impacts the underlying value of the bank's assets or liabilities, as the discounted value of future cash flows (i.e. in or out) changes due to market movements.

The Group monitors interest rate risk in banking book through the use of a detailed Interest Repricing gap reports and Net Interest Income (NII) and Economic Value of Equity (EVE) based sensitivity analysis to analyze the impact of anticipated movements in interest rates on the bank's profitability. The Group has an overarching Risk Appetite limits for NII and EVE. The Group has a Board approved Enterprise Risk Management Policy that covers the IRRBB framework & risk appetite limits for Interest Rate Risk, the Group's risk appetite framework includes the escalation mechanisms in case limits are in breach & the reporting required at the management or board level risk committees. The annual ICAAP process also includes an exhaustive stress testing exercise to assess the impact of interest rate shocks on the banking book.

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

41. Financial risk management (continued)

Interest rate risk (continued)

IRRBB is actively steered by the Asset Liability Committee (ALCO) along with the Management Risk Committee and under the oversight of the Board Risk Committee.

Also the bank has a Hedging framework which includes the hedging strategies and the governance process for both fair value and cash flow interest rate risks hedging, also covers the derivatives products used for managing the interest rates risk at the bank level and assure it is within the approved risk appetite and hedging framework.

Financial assets that are not subject to any interest-rate risk mainly comprise investments in Subsidiaries, Equity investments, cash, balances with central banks excluding certificates of deposit.

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

	Less than 3 months AED'000	3 months to 1 year AED'000	1 – 3 years AED'000	3 – 5 years AED'000	Over 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	-	-	-	-	-	3,894,068	3,894,068
Due from other banks, net	6,586,543	1,871,509	9,418	653	-	-39,269	8,428,854
Loans and advances, net	17,814,563	5,830,320	6,828,804	1,436,861	2,484,104	-2,111,092	32,283,560
Investments at fair value	941,445	1,138,628	621,941	733,842	905,593	557,418	4,898,867
Investments at amortised cost, net	843,192	648,238	1,057,246	1,017,635	1,025,685	-24,940	4,567,056
Insurance contract assets and receivables, net	-	-	-	-	-	362,491	362,491
Customer Acceptances	59,274	8,294	-	-	-	-	67,568
Goodwill and other intangible assets, Right of use assets, Property and equipment and other assets	121,277	50,929	5,708	10,359	18,530	1,594,439	1,801,242
Total	26,366,294	9,547,918	8,523,117	3,199,350	4,433,912	4,233,115	56,303,706
Liabilities and shareholders' equity							
Due to other banks	1,679,237	1,494,986	-	-	-	-	3,174,223
Deposits from customers	32,825,122	4,661,134	159,891	941	-	-	37,647,088
Debt securities issued and other long term borrowings	1,810,049	1,271,815	2,192,462	-	-	-	5,274,326
Insurance contract liabilities and payables	-	-	-	-	-	477,847	477,847
Other liabilities	173,385	40,820	5,126	10,359	18,530	1,032,592	1,280,812
Customer acceptances	59,274	8,294	-	-	-	-	67,568
Shareholders' equity	-	-	-	-	-	8,381,842	8,381,842
Total	36,547,067	7,477,049	2,357,479	11,300	18,530	9,892,281	56,303,706
Interest rate sensitivity gap	(10,180,773)	2,070,869	6,165,638	3,188,050	4,415,382	(5,659,166)	-

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

41. Financial risk management (continued)

Interest rate risk (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1 – 3 years AED'000	3 – 5 years AED'000	Over 5 years AED'000	Non - interest bearing AED'000	Total AED'000
<i>At 31 December 2020</i>							
Assets							
Cash and balances with the UAE Central Bank	425,029	350,000	-	-	-	4,695,256	5,470,285
Due from other banks, net	5,015,564	1,419,946	152,623	9,424	652	(35,818)	6,562,391
Loans and advances, net	16,673,548	3,753,213	7,636,221	1,631,606	2,781,079	(2,434,197)	30,041,470
Investments at fair value	387,408	489,468	588,455	629,940	1,099,938	438,089	3,633,298
Investments at amortised cost, net	761,132	121,104	984,194	1,020,135	1,437,144	(22,045)	4,301,664
Insurance contract assets and receivables, net	-	-	-	-	-	282,265	282,265
Customer Acceptances	39,677	77,188	-	-	-	-	116,865
Goodwill and other intangible assets, Right of use assets, Property and equipment and other assets	490,055	52,706	5,068	2,025	14,565	1,799,951	2,364,370
Total	23,792,413	6,263,625	9,366,561	3,293,130	5,333,378	4,723,501	52,772,608
Liabilities and shareholders' equity							
Due to other banks	758,572	1,309,190	-	-	-	-	2,067,762
Deposits from customers	32,360,162	4,479,004	104,779	378	1	-	36,944,324
Debt securities issued and other long term borrowings	1,004,309	-	783,458	1,824,499	-	-	3,612,266
Insurance contract liabilities and payables	-	-	-	-	-	430,394	430,394
Other liabilities	527,445	93,522	529	835	14,630	1,119,078	1,756,039
customer acceptances	39,677	77,188	-	-	-	-	116,865
Shareholders' equity	-	-	-	-	-	7,844,958	7,844,958
Total	34,690,165	5,958,904	888,766	1,825,712	14,631	9,394,430	52,772,608
Interest rate sensitivity gap	(10,897,752)	304,721	8,477,795	1,467,418	5,318,747	(4,670,929)	-

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	2021 AED'000	2020 AED'000
Fluctuation in interest rates by 25 bps	19,087	23,484

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

41. Financial risk management (continued)

Interest rate risk (continued)

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 35,914 million (2020: AED 30,056 million) of interest bearing assets with maturities within one year and AED 44,024 million (2020: AED 40,649 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

IBOR transition

Regulators and central banks in various jurisdictions have convened national working groups to identify replacement rates for the interbank offer rates ('Ibors') to facilitate an orderly transition to these rates. Traditional Ibor benchmark rates are being replaced by new refined alternative reference rates like USD Libor is being replaced by Secured Overnight Financing Rates (SOFR), GBP Libor is being replaced by Sterling Overnight Index average (SONIA), Euro Libor is being replaced by Euro Short Term Rate (ESTR), CHF Libor is being replaced by Swiss Average Overnight Rate (SARON) and JPY Libor is being replaced by Tokyo Overnight Average Rate (TONAR).

Libor rate publication is being ceased by 31st December 2021 for GBP Libor, Euro Libor, CHF Libor & JPY Libor. In case of USD Libor, 1 week & 2 months tenor rates are being ceased by 31st December 2021 and other USD Libor tenor rates will be ceased by 30 June 2023.

Libor rates are forward looking and published for a borrowing period (e.g. 1 month, 3 months, 6 months etc) and adjusted for credit risk spread while alternate reference rates (ARR) are overnight rates based on actual transactions hence adjustments for term spread and credit spread are required so that it would be economically equivalent to its predecessor on transition

The group has initiated a Ibor transition programme with the objective of facilitating an orderly transition from Ibors for the group and its clients. This programme oversees the transition by each of the businesses and is led by the Managing Director, Treasury. The programme is currently focused on evaluating the impact of the Ibor transition on legacy contracts as well as new issuance of contract which would refer to alternative reference rate and the proposed changes to processes, legal contracts, IT systems and communication with counterparties and customers. The group has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability. Covid-19 have affected the ability of clients to transition early and has resulted in compressed timelines for Ibor transition. Therefore, development and use of appropriate migration tools, and industry initiatives such as the ISDA protocol has been necessary to enable a more ordered transition coupled with legislative approaches for the products which are structurally difficult to transition.

In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks. In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships.

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

41. Financial risk management (continued)

Interest rate risk (continued)

IBOR transition (continued)

Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

Mitigating actions:

- The Ibor transition programme is in place to facilitate an orderly transition to replacement rates for our business and our clients and is overseen by the Managing Director, Treasury.
- Transition to alternative rate products is supported by extensive training, communication and client engagement to facilitate appropriate selection of products.
- IT and operational change is being implemented to enable a longer transition window.
- Business line risks have been assessed and are dynamically monitored and overseen, with specific mitigation linked to programme deliverables.
- We continue to actively engage with regulatory and industry bodies to mitigate risks relating to hedge accounting changes, multiple loan conventions, and contracts that are unable to transition.

The Bank does not have exposure to Euro Libor, CHF Libor, JPY Libor or GBP Libor hence there is no impact on transition process. The Bank has only USD Libor exposure (on 31 December 2021) as below of which majority of exposure is due for maturity before transition date (i.e., 30 June 2023) Further, in case of impacted portfolio, majority of booking are syndication lending where Bank does not have lead role.

Following assets and liabilities require to transit to an alternative benchmark interest rate by 30 June 2023:

	At 31 December 2021 AED'000
ASSETS	
Due from other banks, net	1,106,124
Loans and advances, net	4,964,139
Total assets	6,070,263
Debt securities issued and other long-term borrowings	1,280,782
Total liabilities	1,280,782
Notional amount of Derivatives	4,010,166

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

41. Financial risk management (continued)

Interest rate risk (continued)

IBOR transition (continued)

The following table contains details of only the hedging instruments used in the Group's hedging strategies which referenced USD LIBOR and have not yet transitioned to an alternate interest rate benchmark.

	Carrying amount			Balance sheet line item(s)	Notional amount directly impacted by IBOR reform
	Notional AED'000	Assets AED'000	Liabilities AED'000		AED'000
Fair value hedges					
Interest rate swap	121,209	-	4,750	Loans and advances, net	121,209
Interest rate swap	1,171,687	-	61,772	Investment securities measured at fair value	767,657
	1,292,896	-	66,522		888,866

Of the AED 1.3 billion nominal amount of interest rate swaps above, AED 404 million will mature before anticipated replacement of USD LIBOR in Q2 2023.

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. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does run open positions within the approved Trading limits.

At 31 December, the Group has below mentioned currency exposures

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

41. Financial risk management (continued)

Currency risk (continued)

	At 31 December 2021			At 31 December 2020		
	Net spot Position AED AED'000	Net forward Position AED AED'000	Net Position AED AED'000	Net spot Position AED AED'000	Net forward Position AED AED'000	Net Position AED AED'000
US Dollars - USD	11,445,251	(6,687,014)	4,758,237	6,677,330	(4,056,104)	2,621,226
Euro - EUR	(260,541)	261,897	1,356	(251,262)	246,023	(5,239)
Pound Sterling - GBP	(180,248)	178,478	(1,770)	(117,227)	116,658	(569)
Saudi Riyal - SAR	(2,095,826)	2,482,652	386,826	(1,227,390)	998,409	(228,981)
Japanese Yen – JPY	1,234	-	1,234	521	-	521
Nigerian Nira - NGN	340,582	(320,097)	20,485	691,664	(590,770)	100,894
Gold - XAU	79,987	(74,671)	5,316	102,085	(102,362)	(277)
Egyptian Pound - EGP	446,190	2,914	449,104	185,681	(4,940)	180,741
Qatar Riyal - QAR	6,070	248	6,318	196	-	196
Bahrain Dinar - BHD	10,054	434,807	444,861	1,497	-	1,497
Indian Rupee - INR	3,719	2,513	6,232	31,047	3,612	34,659
Philippine Peso - PHP	1,741	-	1,741	7,683	-	7,683
Others	9,473	323	9,796	18,233	(275)	17,958
	9,807,686	(3,717,950)	6,089,736	6,120,058	(3,389,749)	2,730,309

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Group has the largest net open position at 31 December 2021 and 2020. All currency positions are within limits laid down by Board Risk Committee.

Impact of fluctuation in market rate on open currency position other than USD

	2021 AED'000	2020 AED'000
Net open currency position non-USD	1,331,499	109,083
Impact of 1 % change in currency rate (+/-)	13,315	1,091

41. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

Liquidity risk management process

The Group manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Group's internal guidelines mandated by ALCO and Management Risk Committee under the oversight of the Board Risk Committee. Based on the directives of the ALCO, the Treasury manages the liquidity of the Group.

The Group has in place a Board approved Liquidity Risk Management Framework. It covers Liquidity Risk related risk appetite of the Group, roles and responsibilities of different divisions in the Group in relation to liquidity risk taking, measurement, monitoring and mitigation of liquidity risk and the contingency funding plan.

On the funding side, the Group has a large proportion of its funds in the form of own funds which reduces the requirement for external funds. The Group relies on deposits from its relationship-based retail business banking and wholesale banking customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. The Group's debt securities typically are issued with maturities of greater than three years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short-term nature of these deposits increases the Group's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, most of the deposit customers of the Group are relationship based and based on past trends. It is observed that these deposits are sticky in nature, thus reducing the liquidity risk to a large extent. The Group does not rely on large ticket deposits and its depositor profile is diverse leading to a more stable deposit funding.

During the period the Group arranged long term funding of AED 2.1 billion through various bilateral borrowings and private placements (Note : 14). Floating rate note of USD 50 million issued in July 2017 got matured and repaid in July 2021. Also USD 80 million bilateral borrowing of year 2018 got matured and repaid in June 2021

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

41. Financial risk management (continued)

Liquidity risk (continued)

On the deployment side, the Group maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, certificates of deposits issued by the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repaid to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits, 1% for time deposits and 14% on current, saving, call and similar accounts. Due to the ongoing pandemic situation this requirement has been reduced by the central bank to 7% on current, saving, call and similar accounts since last year. As a contingency funding plan, the Bank evaluates and keeps ready debt financing plans which can be quickly executed if required.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Contractual undiscounted repayment obligations are not significantly different from those reported in the table below.

The Central Bank of the U.A.E. also imposes mandatory 1:1 Loans to Stable Resources Ratio (LSRR) whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. Last year under the pandemic situation this requirement has been eased to 110% along with easing the Eligible Liquid Assets Ratio (ELAR) from erstwhile 10% to 7% by the Central Bank of UAE. ALCO monitors loans to stable resources ratios on a daily basis. The Bank on a daily basis also monitors the liquid assets to total assets ratio and the Eligible Liquid Asset Ratio (ELAR) and has set up internal management Action Triggers and Board Approved Risk Appetite Triggers to take suitable corrective actions once the internal thresholds have been reached.

The LSRR as at 31 December 2021, stood at 82.9% (2020: 80.7%) which is significantly lower than the maximum requirement of 110%. Similarly, the Eligible Liquid Assets Ratio of the Group stood at 11.6% (2020: 14.5%) as at 31 December 2021, also reflecting a healthy liquidity position.

The Group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

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

41. Financial risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's financial assets and liabilities as at December 31, 2021 and 2020.

	Up to 3 months AED'000	3 – 12 Months AED'000	1 - 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Provision for Credit loss AED'000	Total AED'000
At 31 December 2021							
Assets							
Cash and balances with the UAE Central Bank	3,894,068	-	-	-	-	-	3,894,068
Due from other banks	3,955,189	3,116,734	1,395,547	653	-	(39,269)	8,428,854
Loans and advances	7,145,517	5,620,309	7,288,545	4,969,490	9,152,907	(1,893,208)	32,283,560
Investment securities at fair value	1,469,845	1,167,458	621,941	733,842	905,781	-	4,898,867
Investment securities at amortised cost	674,969	613,383	1,260,325	1,017,635	1,025,684	(24,940)	4,567,056
Insurance contract assets and receivables	329,580	65,486	-	-	-	(32,575)	362,491
Customer acceptances	59,274	8,294	-	-	-	-	67,568
Goodwill	-	-	-	-	166,386	-	166,386
Property and equipment, Right of use asset and other assets	773,951	13,600	19,277	25,283	802,745	-	1,634,856
Total	18,302,393	10,605,264	10,585,635	6,746,903	12,053,503	(1,989,992)	56,303,706

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

41. Financial risk management (continued)

Liquidity risk (continued)

	Up to 3 months AED'000	3 - 12 months AED'000	1 - 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Provision Credit loss AED'000	Total AED'000
At 31 December 2021							
Liabilities and shareholders' equity							
Due to other banks	1,509,859	1,544,073	120,291	-	-	-	3,174,223
Deposit from customers	32,825,122	4,661,134	159,891	941	-	-	37,647,088
Debts securities issue and other long term borrowing	-	1,271,815	4,002,511	-	-	-	5,274,326
Insurance contract liabilities and payables	427,515	50,332	-	-	-	-	477,847
Customer acceptances	59,274	8,294	-	-	-	-	67,568
Other liabilities and lease liabilities	1,066,682	10,341	34,710	39,611	129,468	-	1,280,812
Shareholders' equity	-	-	-	-	8,381,842	-	8,381,842
Total	35,888,452	7,545,989	4,317,403	40,552	8,511,310		56,303,706
Net cumulative liquidity gap	(17,586,059)	(14,526,784)	(8,258,552)	(1,552,201)	1,989,992	(1,989,992)	-
At 31 December 2020							
Total assets	17,315,710	8,144,949	10,623,885	6,144,515	12,815,562	(2,272,013)	52,772,608
Total liabilities and equity	34,314,070	6,676,625	1,584,433	1,909,667	8,287,813	-	52,772,608
Net cumulative liquidity gap	(16,998,360)	(15,530,036)	(6,490,584)	(2,255,736)	2,272,013	-	-

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

41. Financial risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's financial liabilities as at December 31, 2021 and 2020 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be contractually required to pay and the table is not representative of the expected cash flows indicated by behavioural history of the Bank's deposits.

	Up to 3 months AED'000	3 to 12 months AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31-December-2021						
Due to other banks	1,513,180	1,550,830	126,759		-	3,190,769
Due to customers	32,837,620	4,706,423	163,789	1,018	-	37,708,850
Debt security in issue/other long	4,345	1,461,165	4,156,314		-	5,621,824
Grand Total	34,355,145	7,718,418	4,446,862	1,018		46,521,443
	Up to 3 months AED'000	3 to 12 months AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31-December-2020						
Due to other banks	324,747	1,634,531	126,765		-	2,086,043
Due to customers	32,399,717	4,571,657	112,733	425	-	37,084,532
Debt security in issue/other long	3,333	576,162	1,571,351	1,863,283	-	4,014,129
Grand Total	32,727,797	6,782,350	1,810,849	1,863,708		43,184,704

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

41. Financial risk management (continued)

Liquidity risk (continued)

Off-balance sheet items

	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2021				
Credit commitments	5,055,134	182,181	-	5,237,315
Letter of credits and guarantees	902,841	321,941	-	1,224,782
Total	5,957,975	504,122	-	6,462,097
At 31 December 2020				
Credit commitments	3,332,866	-	-	3,332,866
Letter of credits and guarantees	1,200,628	294,379	-	1,495,007
Total	4,533,494	294,379	-	4,827,873

Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

	At amortized cost AED'000	Fair value through comprehensive income AED'000	Hedging derivatives AED'000	Fair value Through profit or loss AED'000	Total AED'000
At 31 December 2021					
Assets					
Investment securities	4,567,056	4,661,991	-	236,876	9,465,923
Derivative financial instruments	-	-	22,886	183,915	206,801
Cash and balances with the UAE central Bank	3,894,068	-	-	-	3,894,068
Due from other banks	8,428,854	-	-	-	8,428,854
Loans and advances	32,283,560	-	-	-	32,283,560
Insurance contract assets and receivables	283,634	-	-	-	283,634
Customer acceptances	67,568	-	-	-	67,568
Total financial assets	49,524,740	4,661,991	22,886	420,791	54,630,408
Liabilities					
Due to other banks	3,174,223	-	-	-	3,174,223
Deposits from customers	37,647,088	-	-	-	37,647,088
Debt securities issued and other long term borrowings	5,274,326	-	-	-	5,274,326
Insurance contract liabilities and payables	477,847	-	-	-	477,847
Derivative financial instruments	-	-	72,344	175,875	248,219
Customer acceptances	67,568	-	-	-	67,568
Total financial liabilities	46,641,052	-	72,344	175,875	46,889,271

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

41. Financial risk management (continued)

Financial instruments (continued)

Categories of financial instruments (continued)

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

	At amortized cost AED'000	Fair value through comprehensive income AED'000	Hedging derivatives AED'000	Fair value through profit or loss AED'000	Total AED'000
<i>At 31 December 2020</i>					
<i>Assets</i>					
Investment securities	4,301,664	3,462,173		171,125	7,934,962
Derivative financial instruments	-	-	56,783	507,635	564,418
Cash and balances with the UAE central Bank	5,470,285	-	-	-	5,470,285
Due from other banks	6,562,391	-	-	-	6,562,391
Loans and advances	30,041,470	-	-	-	30,041,470
Insurance contract assets and receivables	203,759	-	-	-	203,759
Customer acceptances	116,865	-	-	-	116,865
Total financial assets	46,696,434	3,462,173	56,783	678,760	50,894,150
<i>Liabilities</i>					
Due to other banks	2,067,762	-	-	-	2,067,762
Deposits from customers	36,944,324	-	-	-	36,944,324
Debt securities issued and other long term borrowings	3,612,266	-	-	-	3,612,266
Insurance contract liabilities and payables	430,394	-	-	-	430,394
Derivative financial instruments	-	-	136,196	500,765	636,961
Customer acceptances	116,865	-	-	-	116,865
Total financial liabilities	43,171,611	-	136,196	500,765	43,808,572

Fair value hierarchy

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices - Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs - Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

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

41. Financial risk management (continued)

Financial instruments (continued)

Fair value hierarchy (continued)

Valuation techniques using significant unobservable inputs - Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

Financial assets measured	Level	Valuation techniques and key inputs
FVTPL Quoted debt investments	Level 1	Quoted mid prices in an active market
Quoted equity investments	Level 1	Quoted mid prices in an active market
Unquoted debt investments	Level 2	Based on the recent similar transaction in market
Unquoted debt investments	Level 3	Based on discounted cash flow model
Mutual and other funds	Level 2	Quoted prices in secondary market.

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

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
31 December 2021				
Asset at fair value				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	3,829,217	408,538	42,237	4,279,992
Investment securities - equity	377,540	-	4,459	381,999
Foreign exchange contracts	-	38,968	-	38,968
Derivative financial instruments	-	167,833	-	167,833
<i>(Through profit and loss)</i>				
Investment market fund	131,577	-	43,842	175,419
Investment- debt securities <i>(Held at amortised cost)</i>	61,457	-	-	61,457
Investment securities - debt	4,498,220	-	166,759	4,664,979
	8,898,011	615,339	257,297	9,770,647
Liabilities at fair value				
Foreign exchange contracts	-	28,608	-	28,608
Derivative financial instruments	-	219,611	-	219,611
	-	248,219	-	248,219

There are no transfers between levels during the period.

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

41. Financial risk management (continued)

Financial instruments (continued)

Fair value hierarchy (continued)

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
<i>31 December 2020</i>				
<i>Asset at fair value</i>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	2,759,371	272,662	159,632	3,191,665
Investment securities - equity	267,896	-	2,612	270,508
Foreign exchange contracts	-	64,560	-	64,560
Derivative financial instruments	-	499,858	-	499,858
<i>(Through profit and loss)</i>				
Investment market fund	125,100	-	42,481	167,581
Investment- debt securities <i>(Held at amortised cost)</i>	3,544	-	-	3,544
Investment securities - debt	4,199,593	-	257,064	4,456,657
	7,355,504	837,080	461,789	8,654,373
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	53,263	-	53,263
Derivative financial instruments	-	583,698	-	583,698
	-	636,961	-	636,961

There were no transfers between levels during the period.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of financial assets measured at FVOCI

Investment securities - equity	2021 AED'000	2020 AED'000
At 1 January	2,612	2,612
Purchases	1,847	-
Disposals/matured	-	-
Change in fair value	-	-
At 31 December	4,459	2,612

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

41. Financial risk management (continued)

Financial instruments (continued)

Fair value hierarchy (continued)

Reconciliation of Level 3 fair value measurement of financial assets measured at FVPL

Investment market fund	2021 AED'000	2020 AED'000
At 1 January	42,481	42,083
Purchases	-	-
Disposals/matured	-	-
Change in fair value	1,361	398
	<hr/>	
At 31 December	43,842	42,481
	<hr/>	

Reconciliation of Level 3 fair value measurement of financial assets at amortised cost

Investment securities - debt	2021 AED'000	2020 AED'000
At 1 January	257,064	463,653
Purchases	-	205,727
Disposals/matured	(108,437)	(390,927)
Change in fair value	18,132	(21,389)
	<hr/>	
At 31 December	166,759	257,064
	<hr/>	

Reconciliation of Level 3 fair value measurement of financial assets fair value through other comprehensive income

Investment securities - debt	2021 AED'000	2020 AED'000
At 1 January	159,632	158,715
Purchases	42,323	-
Disposals/matured	(149,827)	-
Change in fair value	(9,891)	917
	<hr/>	
At 31 December	42,237	159,632
	<hr/>	

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

41. Financial risk management (continued)

Financial instruments (continued)

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2021, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		Carrying value	
	31 December 2021 AED'000	31 December 2020 AED'000	31 December 2021 AED'000	31 December 2020 AED'000
Assets				
Loans and advances	32,695,315	30,280,145	32,283,560	30,041,470
Investment securities measured at fair value	4,898,867	3,633,298	4,898,867	3,633,298
Investment securities measured at amortised cost	4,664,979	4,456,657	4,567,056	4,301,664
Cash and balances with the UAE central Bank	3,894,068	5,470,341	3,894,068	5,470,285
Due from other banks	8,378,915	6,519,107	8,428,854	6,562,391
Total financial assets	54,532,144	50,359,548	54,072,405	50,009,108
Liabilities				
Due to other banks	3,184,645	2,082,509	3,174,223	2,067,762
Deposits from customers	37,654,150	36,968,118	37,647,088	36,944,324
Debt securities issued and other long term borrowings	5,354,510	3,649,115	5,274,326	3,612,266
Total financial liabilities	46,193,305	42,699,742	46,095,637	42,624,352

The above financial instruments are all classified as Level 3 within the fair value level hierarchy.

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

41. Financial risk management (continued)

Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel III standards.

The Bank's capital management is driven by short and long-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital, and its objective has always been to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

Capital structure and capital adequacy as per Basel III requirement as at 31 December 2021

The Bank is required to report capital resources and risk-weighted assets under the Basel III from January 2018. Capital structure and capital adequacy as per Basel III requirement as at 31 December 2021 and 31 December 2020 (after applying prudential filter) is given below:

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

41. Financial risk management (continued)

Capital Management (continued)

	31 December 2021 AED'000	31 December 2020 AED'000
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Legal and other reserves	4,004,761	4,172,571
Retained earnings	1,830,499	1,583,664
Current year profit	754,802	497,669
Dividend	(377,155)	(251,437)
	<hr/>	
Tier 1 capital base	7,889,152	7,678,712
	<hr style="border-top: 2px solid red;"/>	
Tier 2 capital base	545,734	492,180
	<hr/>	
Total capital base	8,434,886	8,170,892
	<hr style="border-top: 2px solid red;"/>	
<i>Risk weighted assets</i>		
Credit risk	43,658,721	39,374,431
Market risk	2,186,151	1,153,831
Operational risk	3,678,449	3,341,552
	<hr/>	
Total risk weighted assets	49,523,321	43,869,814
	<hr style="border-top: 2px solid red;"/>	
Capital adequacy ratio on Tier 1 capital	15.93%	17.50%
Capital adequacy ratio on Tier 2 capital	1.10%	1.13%
	<hr/>	
Total Capital adequacy ratio	17.03%	18.63%
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As per the Central Bank of UAE Regulation for Basel III, the Minimum Capital requirement including Capital Conservation Buffer is 13.0% for year 2021. However, according to Central Bank of UAE regulation dated 16 December 2021, banks are allowed to tap into the Capital Conservation Buffer up to a maximum of 60% without supervisory consequences until 30 June 2022. Additionally, Central Bank of UAE regulation dated 22 April 2020 provides for a “Prudential Filter” that permits Banks and Finance Companies to add back increases in IFRS 9 provisions to the regulatory capital over a transition period of 5 years, on a proportionate basis.

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

41. Financial risk management (continued)

Capital Management (continued)

Capital Management – Insurance subsidiary

The Insurance subsidiary's objectives when managing capital, are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, on establishment of Insurance Authority and Organization of its operations;
- to protect its policyholders' interest;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The minimum regulatory capital for the insurance subsidiary is AED 100 million (2020: 100 million) against which the total paid up capital held for the insurance subsidiary is AED 121.275 million (2020: 121.275 million).

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE

Gross loans and advances to customers by product and/or industry

	Gross loans	Gross loans and advances			ECL on loans and advances	
		Deferred Amount	Deferrals under TESS/Non Tess (exposure)	%	No of Customers in deferral	Total ECL
As at 31 December 2021	AED'000	AED'000	AED'000			AED'000
<i>Retail banking loans:</i>						
Personal loans	5,481,178	5,799	228,613	4.2%	1,125	421,348
Mortgage loans	5,942,175	-	-	0.0%	-	164,837
Credit cards	2,115,034	-	-	0.0%	-	181,599
Auto loans	383,499	50	1,103	0.3%	6	7,811
Other retail loans	3,510,934	-	-	0.0%	-	8,211
Total retail banking loans	17,432,820	5,849	229,716	1.3%	1,131	783,806
<i>Business banking loans:</i>						
RAK business loans	3,056,201	213	5,016	0.2%	6	423,366
Other business banking loans	4,997,000	-	-	0.0%	-	442,580
Total business banking loans	8,053,201	213	5,016	0.1%	6	865,946
Wholesale banking loans	8,690,747	5,544	68,552	0.8%	1	243,456
Total loans and advances	34,176,768	11,606	303,284	0.9%	1,138	1,893,208

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Gross loans and advances to customers by product and/or industry

	Group 1		Deferrals under TESS / Non TESS			
	Gross loans AED'000	No of customers	ECL AED'000	Gross		ECL AED'000
				loans AED'000	No of customers	
As at 31 December 2021						
<i>Retail banking loans:</i>						
Personal loans	216,697	1,062	9,497	11,916	63	7,621
Mortgage loans	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Auto loans	295	5	2	808	1	126
Other retail loans	-	-	-	-	-	-
Total retail banking loans	216,992	1,067	9,499	12,724	64	7,747
<i>Business banking loans:</i>						
RAK business loans	2,887	3	134	2,129	3	1,124
Other business banking loans	-	-	-	-	-	-
Total business banking loans	2,887	3	134	2,129	3	1,124
Wholesale banking loans	68,552	1	487	-	-	-
Total loans and advances	288,431	1,071	10,120	14,853	67	8,871

The above disclosure is in respect of active deferrals as at 31 December 2021.

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Change in gross carrying amount and expected credit losses

	Gross carrying amount			ECL on loans and advances		
	31-Dec-21	31-Dec-20	% Change	31-Dec-21	31-Dec-20	% Change
	AED'000	AED'000		AED'000	AED'000	AED'000
Retail banking loans:						
Personal loans	5,481,178	6,259,453	(12.4%)	421,348	494,801	(14.8%)
Mortgage loans	5,942,175	5,596,743	6.2%	164,837	133,896	23.1%
Credit cards	2,115,034	2,203,728	(4.0%)	181,599	340,045	(46.6%)
Auto loans	383,499	538,080	(28.7%)	7,811	16,868	(53.7%)
Other retail loans	3,510,934	2,124,956	(65.2%)	8,211	11,020	(25.5%)
Total retail banking loans	17,432,820	16,722,960	4.2%	783,806	996,630	(21.4%)
Business banking loans:						
RAK business loans	3,056,201	3,443,069	(11.2%)	423,366	574,554	(26.3%)
Other business banking loans	4,997,000	4,872,461	2.6%	442,580	368,067	20.2%
Total business banking loans*	8,053,201	8,315,530	(3.2%)	865,946	942,621	(8.1%)
Total wholesale banking loans*	8,690,747	7,162,422	21.3%	243,456	220,191	10.6%
Total loans and advances	34,176,768	32,200,912	6.1%	1,893,208	2,159,442	(12.3%)

*During the Q1'21 the Non Retail portfolio underwent a resegmentation exercise pursuant to which, Wholesale banking portfolio, has reduced due to clients being resegmented to Business Banking segment (SME). Due to this resegmentation, the relevant comparative figures & disclosure notes have been regrouped.

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2021 (Audited)			Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 January 2021	6,655,170	256,056	251,196	7,162,422
Stage 1 to Stage 2 Transfer	(564,383)	564,383	-	-
Stage 2 to Stage 3 Transfer	-	(76,046)	76,046	-
Stage 2 to Stage 1 Transfer	49,693	(49,693)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(6,373,976)	(317,203)	(82,015)	(6,773,194)
New Financial Assets Originated	8,353,493	-	-	8,353,493
Write offs	-	-	(51,974)	(51,974)

Gross carrying amount as at 31 December 2021	8,119,997	377,497	193,253	8,690,747
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	31 December 2021 (Audited)			Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Business Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 January 2021	6,303,700	1,395,243	616,587	8,315,530
Stage 1 to Stage 2 Transfer	(1,380,831)	1,380,831	-	-
Stage 2 to Stage 3 Transfer	-	(602,398)	602,398	-
Stage 2 to Stage 1 Transfer	496,005	(496,005)	-	-
Stage 3 to Stage 2 Transfer	-	23,464	(23,464)	-
Change in Exposures during the year	(3,389,527)	(783,072)	(104,286)	(4,276,885)
New Financial Assets Originated	4,514,692	-	-	4,514,692
Write offs	-	-	(500,136)	(500,136)

Gross carrying amount as at 31 December 2021	6,544,039	918,063	591,099	8,053,201
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021
(continued)**

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2021 (Audited)			Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 January 2021	15,048,323	768,405	906,232	16,722,960
Stage 1 to Stage 2 Transfer	(1,427,615)	1,427,615	-	-
Stage 2 to Stage 3 Transfer	-	(1,016,902)	1,016,902	-
Stage 2 to Stage 1 Transfer	607,111	(607,111)	-	-
Stage 3 to Stage 2 Transfer	-	148,090	(148,090)	-
Change in Exposures during the year	(5,400,888)	(319,475)	(229,868)	(5,950,231)
New Financial Assets Originated	7,534,863	-	-	7,534,863
Write offs	-	-	(874,772)	(874,772)
Gross carrying amount as at 31 December 2021	16,361,794	400,622	670,404	17,432,820

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2021 (Audited)			Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 October 2021	7,286,313	229,822	214,932	7,731,067
Stage 1 to Stage 2 Transfer	(178,453)	178,453	-	-
Change in Exposures during the year	(1,494,152)	(30,778)	(21,679)	(1,546,609)
New Financial Assets Originated	2,506,289	-	-	2,506,289
Gross carrying amount as at 31 December 2021	8,119,997	377,497	193,253	8,690,747

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2021 (Audited)			Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Business Banking segment Loans				
	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 October 2021	6,309,461	1,164,816	606,651	8,080,928
Stage 1 to Stage 2 Transfer	(166,587)	166,587	-	-
Stage 2 to Stage 3 Transfer	-	(103,867)	103,867	-
Stage 2 to Stage 1 Transfer	221,071	(221,071)	-	-
Stage 3 to Stage 2 Transfer	-	9,095	(9,095)	-
Change in Exposures during the year	(754,098)	(97,497)	(20,984)	(872,579)
New Financial Assets Originated	934,192	-	-	934,192
Write offs	-	-	(89,340)	(89,340)
Gross carrying amount as at 31 December 2021	6,544,039	918,063	591,099	8,053,201

	31 December 2021 (Audited)			Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Retail Banking segment Loans				
	AED'000	AED'000	AED'000	AED'000
Gross carrying amount as at 1 October 2021	16,337,135	594,687	731,996	17,663,818
Stage 1 to Stage 2 Transfer	(205,593)	205,593	-	-
Stage 2 to Stage 3 Transfer	-	(290,514)	290,514	-
Stage 2 to Stage 1 Transfer	116,376	(116,376)	-	-
Stage 3 to Stage 2 Transfer	-	40,863	(40,863)	-
Change in Exposures during the year	(1,233,997)	(33,631)	(41,469)	(1,309,097)
New Financial Assets Originated	1,347,873	-	-	1,347,873
Write offs	-	-	(269,774)	(269,774)
Gross carrying amount as at 31 December 2021	16,361,794	400,622	670,404	17,432,820

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Loss allowance for loans and advances measured at amortized cost

	31 December 2021 (Audited)			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
Wholesale Banking segment Loans				
ECL allowance as at 1 January 2021	47,582	17,543	155,066	220,191
Transfer from Stage 1 to Stage 2	(35,149)	35,149	-	-
Transfer from Stage 2 to Stage 3	-	(24,211)	24,211	-
Transfer from Stage 2 to Stage 1	6,422	(6,422)	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Due to changes in PD's/ LGD's/ EAD	(12,866)	16,761	6,761	10,656
Due to new financial assets originated	64,583	-	-	64,583
Write-offs	-	-	(51,974)	(51,974)
ECL allowance as at 31 December 2021	70,572	38,820	134,064	243,456

	31 December 2021 (Audited)			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
Business Banking segment Loans				
ECL allowance as at 1 January 2021	269,053	300,768	372,800	942,621
Transfer from Stage 1 to Stage 2	(332,131)	332,131	-	-
Transfer from Stage 2 to Stage 3	-	(330,447)	330,447	-
Transfer from Stage 2 to Stage 1	141,558	(141,558)	-	-
Transfer from Stage 3 to Stage 2	-	18,335	(18,335)	-
Due to changes in PD's/ LGD's/ EAD	(205,576)	(39,971)	295,024	49,477
Due to new financial assets originated	373,984	-	-	373,984
Write-offs	-	-	(500,136)	(500,136)
ECL allowance as at 31 December 2021	246,888	139,258	479,800	865,946

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Loss allowance for loans and advances measured at amortized cost (continued)

	31 December 2021 (Audited)			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
Retail Banking segment Loans				
ECL allowance as at 1 January 2021	366,900	263,091	366,639	996,630
Transfer from Stage 1 to Stage 2	(272,319)	272,319	-	-
Transfer from Stage 2 to Stage 3	-	(334,204)	334,204	-
Transfer from Stage 2 to Stage 1	220,313	(220,313)	-	-
Transfer from Stage 3 to Stage 2	-	55,039	(55,039)	-
Due to changes in PD's/ LGD's/ EAD	(259,372)	86,573	524,875	352,076
Due to new financial assets originated	309,872	-	-	309,872
Write-offs	-	-	(874,772)	(874,772)
ECL allowance as at 31 December 2021	365,394	122,505	295,907	783,806

	31 December 2021 (Audited)			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
Wholesale Banking segment Loans				
ECL allowance as at 1 October 2021	79,868	33,465	142,076	255,409
Transfer from Stage 1 to Stage 2	(1,524)	1,524	-	-
Due to changes in PD's/ LGD's/ EAD	(12,739)	3,831	(8,012)	(16,920)
Due to new financial assets originated	4,967	-	-	4,967
ECL allowance as at 31 December 2021	70,572	38,820	134,064	243,456

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Loss allowance for loans and advances measured at amortized cost (continued)

	31 December 2021 (Audited)			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
Business Banking segment Loans				
ECL allowance as at 1 October 2021	233,422	186,378	461,482	881,282
Transfer from Stage 1 to Stage 2	(48,075)	48,075	-	-
Transfer from Stage 2 to Stage 3	-	(52,317)	52,317	-
Transfer from Stage 2 to Stage 1	31,548	(31,548)	-	-
Transfer from Stage 3 to Stage 2	-	7,115	(7,115)	-
Due to changes in PD's/ LGD's/ EAD	(31,181)	(18,445)	62,456	12,830
Due to new financial assets originated	61,174	-	-	61,174
Write-offs	-	-	(89,340)	(89,340)
ECL allowance as at 31 December 2021	246,888	139,258	479,800	865,946
	31 December 2021 (Audited)			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Retail Banking segment Loans				
ECL allowance as at 1 October 2021	420,023	181,328	286,303	887,654
Transfer from Stage 1 to Stage 2	(27,445)	27,445	-	-
Transfer from Stage 2 to Stage 3	-	(103,036)	103,036	-
Transfer from Stage 2 to Stage 1	39,387	(39,387)	-	-
Transfer from Stage 3 to Stage 2	-	15,595	(15,595)	-
Due to changes in PD's/ LGD's/ EAD	(112,623)	40,560	191,937	119,874
Due to new financial assets originated	46,052	-	-	46,052
Write-offs	-	-	(269,774)	(269,774)
ECL allowance as at 31 December 2021	365,394	122,505	295,907	783,806

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

ECL charge (flow) since beginning of year

	Non-credit impaired		Credit Impaired	Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2021	366,900	263,091	366,639	996,630
Credit Cards	(40,041)	(30,601)	(87,803)	(158,445)
Mortgage Loans	(4,241)	5,596	29,585	30,940
Personal Loans	45,516	(112,196)	(6,771)	(73,451)
Auto Loans	(2,743)	(2,607)	(3,706)	(9,056)
Other Retail Loans	3	(778)	(2,037)	(2,812)
ECL allowance as at 31 December 2021	365,394	122,505	295,907	783,806

	Non-credit impaired		Credit Impaired	Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Business Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2021	269,053	300,768	372,800	942,621
RAK Business Banking Loans	(74,850)	(152,807)	76,471	(151,186)
Other Business Banking Loans	52,685	(8,703)	30,529	74,511
ECL allowance as at 31 December 2021	246,888	139,258	479,800	865,946

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

ECL charge (flow) since beginning of year

	Non-credit impaired		Credit Impaired	Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Wholesale Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 January 2021	47,582	17,543	155,066	220,191
Federal Government	(522)	-	-	(522)
GREs (Gov ownership >50%)	(2,459)	(42)	-	(2,501)
Corporate with Govt ownership <50%	7,116	-	-	7,116
Other Corporates	(3,059)	(1,466)	48,239	43,714
High Net Worth Individuals	(292)	-	-	(292)
SMEs	(2,371)	9,350	1,896	8,875
Banks	5,238	469	-	5,707
NBFI	(1,103)	-	-	(1,103)
Others	20,442	12,966	(71,137)	(37,729)
ECL allowance as at 31 December 2021	70,572	38,820	134,064	243,456

ECL charge (flow) for quarter 4 of the year 2021

	Non-credit impaired		Credit Impaired	Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
Retail Banking segment Loans	AED'000	AED'000	AED'000	AED'000
ECL allowance as at 1 October 2021	420,023	181,328	286,303	887,654
Credit Cards	(93,145)	(9,118)	142	(102,121)
Mortgage Loans	(28,627)	5,449	3,635	(19,543)
Personal Loans	68,934	(53,945)	4,966	19,955
Auto Loans	(1,070)	(623)	765	(928)
Other Retail Loans	(721)	(586)	96	(1,211)
ECL allowance as at 31 December 2021	365,394	122,505	295,907	783,806

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

41. Financial risk management (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

ECL charge (flow) for quarter 4 of the year 2021

	Non-credit impaired		Credit Impaired	Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
	AED'000	AED'000	AED'000	AED'000
Business Banking segment Loans				
ECL allowance as at 1 October 2021	233,422	186,378	461,482	881,282
RAK Business Banking Loans	(49,095)	(15,250)	21,929	(42,416)
Other Business Banking Loans	62,561	(31,870)	(3,611)	27,080
ECL allowance as at 31 December 2021	246,888	139,258	479,800	865,946
	Non-credit impaired		Credit Impaired	Total
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	
	AED'000	AED'000	AED'000	AED'000
Wholesale Banking segment Loans				
ECL allowance as at 1 October 2021	79,868	33,465	142,076	255,409
Federal Government	1,101	-	-	1,101
GREs (Government ownership >50%)	(2,536)	(10)	-	(2,546)
Corporate with Govt. ownership <50%	(3,579)	-	-	(3,579)
Other Corporates	(6,355)	2,063	(7,946)	(12,238)
High Net Worth Individuals	(430)	-	-	(430)
SMEs	(1,822)	(179)	(66)	(2,067)
Banks	(2,855)	486	-	(2,369)
NBFI	(907)	-	-	(907)
Others	8,087	2,995	-	11,082
ECL allowance as at 31 December 2021	70,572	38,820	134,064	243,456

42. Insurance risk

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group mainly issues short term insurance contracts in connection with property, motor, marine and casualty risks.

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Frequency and amounts of claims

The Group has developed their underwriting strategy to diversify the type of insurance risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, casualty, medical and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place.

42. Insurance risk (continued)

Property

Property insurance covers a diverse collection of risks and therefore property insurance contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

Motor

Motor insurance contracts are designed to compensate policies holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

Marine

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes. For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

Casualty

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Group manage these risks through their underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk. Underwriting limits are in place to enforce appropriate risk selections.

The Group proactively manage and pursue early settlement of claims to reduce their exposure to unpredictable developments.

42. Insurance risk (continued)

Frequency and amounts of claims (continued)

Casualty (continued)

The Group has adequate reinsurance arrangements to protect their financial viability against such claims for all classes of business.

The Group has obtained adequate non-proportionate reinsurance cover for all classes of an amount considered appropriate by the management.

Medical

Medical selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

The concentration by sector at the end of the year is broadly consistent with the prior year.

Assumptions and sensitivities

Process used to determine the assumptions

The method used by the Group for provision of incurred but not reported (IBNR) takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum-security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

42. Insurance risk (continued)

43. Critical accounting estimates and judgments in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Critical judgments in applying the group's accounting policies - IFRS 9

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

▪ *Business model assessment*

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

▪ *Significant increase of credit risk*

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

The broad level factors that are considered to determine whether a financial asset has experienced SICR are: days past due of more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, Whether an exposure has been restructured since initial recognition. The criteria may be rebutted on a case-by-case basis, depending upon actual situation/credit Quality of financial asset/customer.

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

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(a) Critical judgments in applying the group's accounting policies - IFRS 9 (continued)

Definition of default and credit-impaired assets:

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is 90 (or more) days past due on its contractual payments.

Qualitative criteria:

The bank classifies the loans as Non-performing account (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).

Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered

- *Establishing groups of assets with similar credit risk characteristics*

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

- *Models and assumptions used*

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(a) Classification of and measurement of financial assets and liabilities

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

(b) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates, prepayment rates and default rate assumptions for asset backed securities. The Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(c) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, Bank uses Counterparty valuations (third party valuations) or fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared

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

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(d) Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

(e) Useful lives of property and equipment

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset. The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

(f) Impairment of goodwill

The calculation of value-in-use is sensitive to the following assumptions:

(i) Growth rate

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Terminal growth rate of 2.5% per annum has been applied in the calculation.

(ii) Profit margins

Profit margins are based on the management's assessment of the performance potential of the cash generating unit for the next five years.

(iii) Discount rates

Management has used the discount rate of 7.24% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	From	To
Growth rate	2.5%	1.32%
Discount rate	7.24%	8.19%

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(g) Measurement of ECL under IFRS 9

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

- *Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:* When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- *Probability of default:* PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- *Loss Given Default:* LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the *product* of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities

(h) Critical judgments in applying the group's accounting policies for "IFRS 16 – Leases"

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

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The amount payable under residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(i) Process used to decide on insurance contract assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The Company uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Company's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Company has reviewed the individual contracts and in particular the industries in which the insured companies operate and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that a weighted average of different techniques have been selected for individual accident years or groups of accident years within the same class of business. The Company has an internal actuary and independent external actuaries are also involved in the valuation of technical reserves of the Company and has used historical data for the past 9 years.

The Company did not change its assumptions for the insurance contracts during the year.

44. Risk management in the current economic scenario

The economic fallout of COVID-19 crisis continues to disrupt businesses and economy in 2021. Regulators and governments across the globe introduced fiscal and economic stimulus measures to mitigate its impact. The Central Bank of UAE (“CBUAE”) also took multiple measures and has provided incentives totalling to AED 256 billion to help banks support the economic sectors and individuals in the UAE impacted by this crisis. The banking system in the UAE continues to remain resilient, and the support measures in the form of the Targeted Economic Support Scheme (“TESS”) have been further extended by the CBUAE until the first half of 2022.

COVID-19 impact on measurement of ECL

IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant ECL estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by an IFRS 9 Steering Committee with participation from the Chief Risk Officer, Chief Financial Officer and other members from Risk and Finance functions. The Bank, through this committee, reviews the appropriateness of inputs and methodology for IFRS 9 ECL, effectiveness and reliability of the reporting under IFRS 9 and other relevant matters pertaining to IFRS 9 on an ongoing basis.

The Bank on an ongoing basis reviews the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement, in light of available information. An improved vaccination rate of UAE population coupled with roll out of vaccination programs throughout geographies further Vaccine developments globally, and efforts of normalization of travel are indicating signs of recovery. In wake of the new variant of Covid-19, infections have started rising again globally and locally which poses slight uncertainty as regards the future economic outlook although initial assessment of this variant shows lesser severity, bank management is vigilant on this. UAE is continuing to mitigate the post pandemic impact. The Group based on historical analysis determines key economic variables that impacts the credit risk of its various portfolios and uses macro-economic forecasts for these variables to estimate the PD’s. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn, in accordance with IFRS 9 requirements. The Group has used the updated macro-economic forecasts for the year ended 31 December 2021 ECL and is currently using the weightings of (40:30:30) for Baseline:Upside:Downturn scenarios. The sensitivity to 10% increase in Downturn Scenario, with a corresponding decrease of 10% in Upside scenario is AED 26 million as of 31 December 2021.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in risk profile as well as any actual and expected increase in credit risk. This assessment includes detailed review of potential impacts of COVID-19 on individual clients as well as on various industries.

44. Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As per the requirement of the Joint Guidance, the Bank has grouped its customers receiving payment deferrals, into two groups (Group 1 and Group 2). This is based on the estimated extent of impact of this pandemic on the particular customer. Group 1 classification for the mildly impacted customers and Group 2 classification for the borrowers whose credit profile has deteriorated materially.

The grouping decisions are being taken based on relevant product or portfolio. E.g. for Non Retail portfolio (Wholesale banking & Business Banking clients), the grouping exercise is being done on a case-by-case assessment of the borrower & the underlying business including the impact of the externalities on the underlying business (cash-flows, turnover, repayment capacity, etc.) of the borrower and based on a combination of certain other criteria (like job loss, reduction in salary, level of business operations whether normalcy has reached or not) for retail and small and medium enterprise portfolios. These grouping decisions are iterative and are being reviewed on ongoing basis & may change based on the evolving external situations. The Bank has put an internal governance framework around grouping evaluation. With economic activities resuming the bank has noticed a reduction in the portfolio under payment deferral. For the Non retail portfolio (Wholesale banking & Business Banking clients), the case-by-case assessment that was done for grouping exercise is being revisited and updated to factor in the current economic conditions and these updated, case by case assessments are being used to determine if any upgrades/downgrades (between group 1 & group 2) are warranted. This is an ongoing exercise.

The Bank continues to monitor the situation, which is unprecedented and is continuing to evolve and is working very closely with its customers and extending required support where deemed necessary in these uncertain and evolving times and has also reassessed its staging of the portfolio as at 31 December 2021. This included evaluating whether the investment and Financial Institutions' portfolio has suffered a significant increase in credit risk.

The Bank continues to work with CBUAE and other regulatory authorities in the jurisdictions it operates to refine and operationalize relief schemes being deployed to assist clients impacted by COVID-19. This includes the Targeted Economic Support Scheme ("TESS") announced in UAE in March 2020 and subsequently updated from time to time. More than twenty two thousand of the Bank's retail, SME and corporate clients have subscribed to these schemes as at 31 December 2021.

Liquidity management

The CBUAE has continued to support the banking industry by extending the Targeted Economic Support Scheme (TESS), allowing UAE Banks to access zero cost funding from the CBUAE and pass on the benefit through allowing fresh funds to their clients. As at 31 December 2021, the bank has repaid the entire Zero Cost Funds raised from Central Bank. The Bank continues to remain vigilant and is well prepared for any unexpected liquidity scenarios.

44. Risk management in the current economic scenario (continued)

Business continuity planning

The Bank's Management Committee (GMC) continues to closely monitor the pandemic situation and take appropriate actions in line with the guidance by NCEMA (National Emergency Crisis and Disasters Management Authority) to ensure safety and security of Bank staff and an uninterrupted service to our customers. Various departments had started working from the office with 100% capacity but with the new variant and increase in number of cases, the bank has reverted to a hybrid model of working. All required protocols recommended by the Ministry of Health are being adhered to i.e. wearing of mask by staff members when on bank premises and maintaining social distance in canteen, pantry and lifts. Business Continuity Plans (BCP) for the various units of the bank are in place and tested.

45. Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 0.81 million (2020: AED 0.63 million).

46. Reclassification

Certain items have been reclassified to conform to current year presentation.

47. Subsequent Events

The Board of Directors have proposed a cash dividend of 22.5 fils per share at their meeting held on 1 February 2022.

48. Approval of the consolidated financial statements

The consolidated financial statements were approved on 1 February 2022