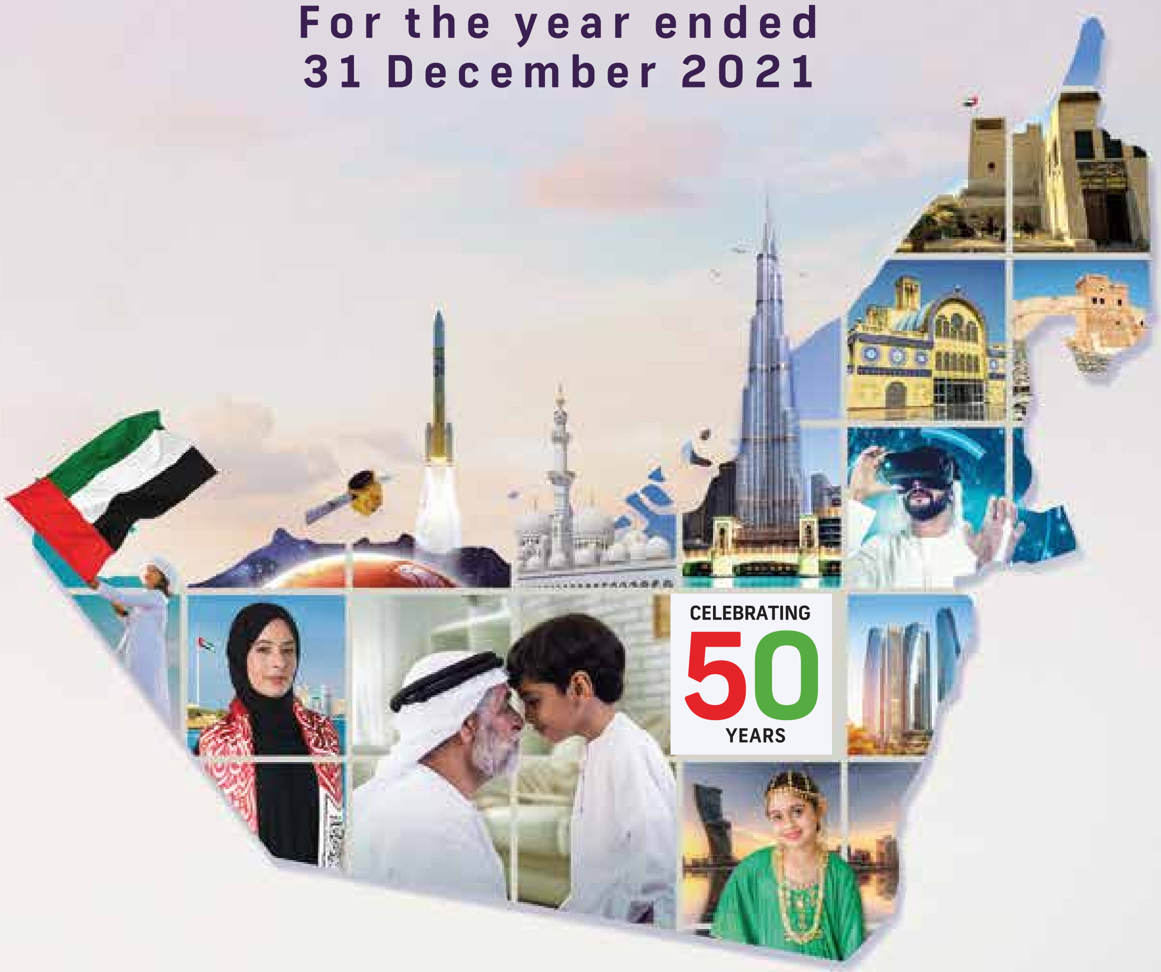
EMIRATES ISLAMIC
الإمارات الإسلامي

FINANCIAL STATEMENTS

For the year ended 31 December 2021



EMIRATES ISLAMIC BANK PJSC
GROUP CONSOLIDATED FINANCIAL STATEMENTS

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report together with the audited consolidated financial statements of Emirates Islamic Bank PJSC ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2021.

The Bank was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3 October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995. At an extraordinary general meeting held on 10 March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Shariah rules and principles. The transformation was completed on 9 October 2004 (the "Transformation Date") when the Bank obtained Central Bank of the UAE and other UAE authorities' approvals.

Basis of Preparation of Financial Statements

The Group consolidated financial statements have been prepared in accordance with IFRS issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the UAE and as per Islamic Shariah guidance.

Financial Commentary

The Group reported a strong set of financial results delivering a net profit of AED 823 million for 2021, which represents an increase of 271 per cent over 2020, mainly from higher non-funded income coupled with a reduction in cost of risk.

Emirates Islamic continued to maintain healthy liquidity and strong capital ratios, enabling the Bank to grow Customer Financing by 4%, in line with improved economic activity.

We continue to focus on maintaining a strong balance sheet with strong risk oversight whilst effectively managing cost of risk and ensuring healthy coverage ratios.

During 2021, we successfully issued a US$500 million 5-year Sukuk issued from our US$ 2.5 billion Certificate Issuance Programme. The landmark issuance, rated A+ by Fitch, is listed on NASDAQ Dubai and Euronext Dublin's Regulated Market. Investors showed strong appetite which resulted in an order book that peaked at USD$ 1.3 billion, which was 2.6 times the issuance size with a profit rate of 2.082% per annum, representing the lowest spread ever paid by a UAE bank since 2008 for a US$ benchmark public debt issuance. The issuance, well received by the global investment community, demonstrates strong investor confidence in our financials and growth outlook, as well as a favorable outlook for the UAE economy.

2021 was a milestone year for the UAE as the nation proudly celebrated its golden jubilee and successfully, safely and responsibly welcomed the world to Expo 2020 Dubai. Emirates Islamic is proud to be the official Islamic banking partner of Expo 2020 Dubai and showcase the ethical values of Islamic Banking, the world's oldest and most relevant banking system.

We continue to focus on the development of our Emirati talent, empowering them to play a leading role in shaping the industry's future.

We remain grateful to the leadership of our great nation for their ongoing swift and extraordinary response to the global pandemic. We are committed to ensuring a healthy and safe working environment for our employees and continue to focus on adoption of all necessary precautionary measures, as applicable.

As Covid-19 continued to alter the way we live, work and bank, we further enhanced our digital solutions which helped increase customer adoption of digital banking and we will continue to invest in technology to enhance digital services provided to our customers.

Holding true to our core Shariah principles, the Group has provided additional support to approximately 14% of its customers, primarily through deferrals of over AED 2.5 billion of profit and principal payments since Q2-2020. We are proud of our Islamic heritage, and as part of our commitment to the society, we contributed over AED 51 million in 2021 through the Emirates Islamic Charity Fund for a range of humanitarian causes across the UAE.

Equity Holders Funds

Total Equity holders' funds as at the end of 2021 stands at AED 8,551 million (2020: AED 7,852 million).

Proposed Appropriations

The Directors propose the following appropriations from retained earnings:

		AED million

Retained earnings as at 01 January 2021		1,111.0
Group profit for the year		823.1
Other comprehensive income		(0.4)
Transfer to Legal and Statutory reserve		(110.9)

Retained earnings available for appropriation		1,822.8
(a)	Directors' fees for 2021	(7.0)
(b)	Zakat	(41.7)

Balance of retained earnings as at 31 December 2021		1,774.1

Attendance of Directors at Board/ Board Committee meetings during 2021

The Board of Directors comprises of the following members:

Mr. Hesham Abdulla Al Qassim	Chairman
Mr. Buti Obaid Buti Al Mulla	Vice Chairman
Mr. Shoaib Mir Hashim Khoory	Director
Mr. Mohamed Hamad Obaid Al Shehi	Director
Mr. Mohamed Hadi Ahmed Al Hussaini	Director
Mr. Ali Humaid Ali Al Owais	Director
Mr. Shayne Nelson	Director

Total Number of Board Meetings: 6

Board Audit Committee

Mr. Mohamed Hamad Obaid Al Shehi	Chairman
Mr. Shoaib Mir Hashem Khoory	Member
Mr. Hesham Abdulla Al Qassim	Member
Mr. Shayne Nelson	Member

Total Number of Meetings: 4

Board Nomination & Remuneration Committee

Mr. Buti Obaid Buti Al Mulla	Chairman
Mr. Hesham Abdulla Al Qassim	Member
Mr. Ali Humaid Ali Al Owais	Member
Mr. Shayne Nelson	Member

Total Number of Meetings: 4

Board Risk Committee

Mr. Ali Humaid Ali Al Owais	Chairman
Mr. Hesham Abdulla Al Qassim	Member
Mr. Buti Obaid Buti Al Mulla	Member
Mr. Shayne Nelson	Member

Total Number of Meetings: 4

Board Credit and Investment Committee

Mr. Shoaib Mir Hashem Khoory	Chairman
Mr. Hesham Abdulla Al Qassim	Member
Mr. Mohamed Hamad Obaid Al Shehi	Member
Mr. Mohamed Hadi Ahmad Al Hussaini	Member
Mr. Ali Humaid Ali Al Owais	Member
Mr. Shayne Nelson	Member

Total Number of Meetings: 46

Auditors:

Deloitte & Touche were appointed as auditors of the Group for 2021 financial year in the Annual General Meeting held on 24th February 2021.

On behalf of the Board

Chairman

Dubai, UAE

25 January 2022

The Annual Shariah Report

Annual Report of the Internal Shariah Supervision Committee of

(Emirates Islamic Bank)

Issued on: (*17-01-2022*)

To: Shareholders of (Emirates Islamic Bank) (“the Institution”)

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards (“the Regulatory Requirements”), the Internal Shariah Supervision Committee of the Institution (“ISSC”) presents to you the ISSC’s Annual Report for the financial year ending on 31 December 2021 (“Financial Year”).

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC’s charter, the ISSC’s responsibility is stipulated as to:

a. undertake Shariah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution’s policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (“Institution’s Activities”) and issue Shariah resolutions in this regard, and

b. determine Shariah parameters necessary for the Institution’s Activities, and the Institution’s compliance with Islamic Shariah within the framework of the rules, principles, and standards set by the Higher Shariah Authority (“HSA”) to ascertain compliance of the Institution with Islamic Shariah.

The senior management is responsible for compliance of the Institution with Islamic Shariah in accordance with the HSA’s resolutions, fatwas, and opinions, and the ISSC’s resolutions within the framework of the rules, principles, and standards set by the HSA (“Compliance with Islamic Shariah”) in all Institution’s Activities, and the Board bears the ultimate responsibility in this regard.

2. Shariah Standards

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

3. Duties Fulfilled by the ISSC During the Financial Year

The ISSC conducted Shariah supervision of the Institution's Activities by reviewing those Activities, and monitoring them through the internal Shariah control division, and internal Shariah audit, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:

a. Convening (9) meetings during the year.
b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.
c. Monitoring compliance of policies, procedures, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.
d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between investment accounts holders and shareholders with parameters set by the ISSC.
e. Supervision through the internal Shariah control division, and internal Shariah audit, of the Institution's Activities including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
f. Providing guidance to relevant parties in the Institution – to rectify (where possible) incidents cited in the reports prepared by internal Shariah control division, and internal Shariah audit, and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.
g. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
h. Specifying the amount of Zakat due on each share of the Institution.
i. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shariah.

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

4. Independence of the ISSC

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

5. The ISSC's Opinion on the Shariah Compliance Status of the Institution

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

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

Signatures of members of the Internal Shariah Supervision Committee of the Institution

Prof. Mohamed Abdul Rahim Sultan Al Olama	Chairman and Executive Member	( )
Sheikh Essam Mohamed Ishaq	Vice Chairman	( )
Dr. Mohamed Ali Elgari	Member	( )
Dr. Amin Fateh Amer	Member	( )
Dr. Salim Ali Al-Ali	Member	( )

Due Zakat on Emirates Islamic Bank Shareholders for the year 2021

Zakat on shares may be calculated using one of the following methods, according to the intention of the shareholder:

- **First Method**

  Zakat on shares purchased for trading purposes (for capital gain) is as follows:

  Total Zakat payable on shares = Number of shares x Share quoted value x 2.5775%*

- **Second Method**

  Zakat on shares purchased for acquisition (to benefit from the annual return) is as follows:

  Total Zakat payable on shares = Number of shares x Zakat value per share**

* **Note:** Zakat is calculated at 2.5775% for the Gregorian year, and at 2.5% for Hijri year, due to the eleven days difference between the two calendars.

** Zakat value per share = 0.0076702

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Emirates Islamic Bank PJSC
Dubai
United Arab Emirates

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Emirates Islamic Bank PJSC (the "Bank") and its subsidiaries (together the "Group"), Dubai, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates Islamic Bank PJSC, Dubai (continued)

Key Audit Matters (continued)

<table>
<tr><th>Key audit matter</th><th>Our audit approach</th></tr>
<tr><td colspan="2">Financing receivables loss impairments – Estimation uncertainty with respect to expected credit losses for financing receivables to customers</td></tr>
<tr><td>The assessment of the Bank's determination of impairment allowances for financing receivables to customers require management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the financing receivables to customers (representing 65.7% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 7 to the consolidated financial statements for the accounting policy and Note 36 for the credit risk disclosure.

The material portion of the non-retail portfolio of financing receivables is assessed individually for the significant increase in credit risk (SICR) or credit impairment and the related measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging movements in accordance with the Bank's policies and the requirements of IFRS 9 Financial Instruments.

The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation process by an independent reviewer.</td><td>We have gained an understanding of the financing receivables origination process, credit risk management process and the estimation process of determining impairment allowances for financing receivables to customers and tested the operating effectiveness of relevant controls within these processes.

On a sample basis, we selected individual loans and performed a detailed credit review and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions underlying the impairment allowance calculation, such as estimated future cash flows, collateral valuations and estimates of recovery. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for financing receivables impairment allowances.

We evaluated key assumptions such as thresholds used to determine SICR and forward-looking macroeconomic scenarios including the related weighting.

For loans tested collectively, we evaluated controls over the modelling process, including model inputs, monitoring, validation and approval. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data.

We tested the IT application used in the credit impairment process and verified the integrity of data used as input to the models including the transfer of data between source systems and the impairment models. We evaluated system-based and manual controls over the recognition and measurement of impairment allowances.</td></tr>
</table>

Key Audit Matters (continued)

Key audit matter	**Our audit approach**
Financing receivables loss impairments – Estimation uncertainty with respect to expected credit losses for Financing receivables to customers (continued)	
	We evaluated other post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses. The Bank performed an independent validation of the PD and LGD models including macro-economic model during the reporting period. We considered the process of this independent validation of the models and its impact on the results of the impairment estimate. Finally, we have updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the forecasts used by the Bank to determine future economic conditions at the reporting date.
IT systems and controls over financial reporting	
We identified IT systems and controls over financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated. Moreover, the Bank completed the migration of its core banking systems and consolidated multiple systems into a single core banking platform during the reporting period. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to address the potential risk for fraud and error as a result of change to applications or underlying data.	We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications. We tested IT general controls relevant to the identified automated controls and Information Produced by the Entity (IPEs) covering access security, program changes, data center and network operations. We examined certain Information Produced by the Entity (IPEs) used in the financial reports from relevant applications and key controls over their report logics as well as preparation and maintenance. We performed testing on the key automated controls on significant IT systems relevant to business processes. We tested the interfaces between the identified systems in order to determine if information is being transmitted in an accurate and complete manner.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates Islamic Bank PJSC, Dubai (continued)

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report 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. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed 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

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

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

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

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates Islamic Bank PJSC, Dubai (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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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, related safeguards.

From the matters communicated with the Group's Audit Committee, 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 and regulations preclude 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.

INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Emirates Islamic Bank PJSC, Dubai (continued)

Report on Other Legal and Regulatory Requirements

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- Note 11 to the consolidated financial statements discloses the Bank's purchases or investments in shares during the year ended 31 December 2021;
- Note 31 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- Note 38 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2021.

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

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No. 1141
25 January 2022
Dubai
United Arab Emirates

GROUP CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Notes	2021 AED 000	2020 AED 000
ASSETS			
Cash and deposits with Central Bank	9	10,688,166	19,633,539
Due from banks	10	2,768,718	3,651,734
Investment securities	11	6,684,578	4,827,207
Financing receivables	12	42,614,024	40,808,976
Customer acceptances	30	787,200	504,666
Investment properties		296,729	364,137
Property and equipment		281,873	301,554
Other assets	13	783,117	479,490
TOTAL ASSETS		**64,904,405**	**70,571,303**
LIABILITIES			
Due to banks	14	2,548,432	7,813,910
Customer deposits	15	47,269,061	46,878,075
Sukuk payable	16	3,672,500	5,510,933
Customer acceptances	30	787,200	504,666
Other liabilities	17	2,076,228	2,011,715
TOTAL LIABILITIES		**56,353,421**	**62,719,299**
EQUITY			
Issued capital	18	5,430,422	5,430,422
Legal and statutory reserve	19	691,025	608,717
Other reserves	19	543,043	514,495
Fair value reserve	19	112,390	187,361
Retained earnings		1,774,104	1,111,009
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP		**8,550,984**	**7,852,004**
TOTAL LIABILITIES AND EQUITY		**64,904,405**	**70,571,303**

The attached notes 1 to 40 form an integral part of these Group consolidated financial statements.
The independent auditor›s report is set out on pages 9-14.

Chairman

Chief Executive Officer

2 5 JAN 2022

GROUP CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 AED 000	2020 AED 000
Income from financing and investment products	20	1,940,345	2,136,588
Distribution on deposits and profit paid to Sukuk holders	21	(229,156)	(442,636)
Net income from financing and investment products		**1,711,189**	**1,693,952**
Fee and commission income		726,184	668,043
Fee and commission expense		(356,910)	(296,304)
Net fee and commission income	22	**369,274**	**371,739**
Other operating income	23	317,532	22,330
Total operating income		**2,397,995**	**2,088,021**
General and administrative expenses	24	(1,191,100)	(1,083,942)
Operating profit before impairment		**1,206,895**	**1,004,079**
Net impairment loss on financial assets		(332,446)	(1,434,054)
Net impairment loss on non-financial assets		(51,364)	(52,250)
Total net impairment loss	25	**(383,810)**	**(1,486,304)**
Net profit / (loss) for the year		**823,085**	**(482,225)**
Earnings / (loss) per share	27	**0.152**	**(0.089)**

The attached notes 1 to 40 form an integral part of these Group consolidated financial statements.
The independent auditor›s report is set out on pages 9-14.

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

	2021 AED 000	2020 AED 000
Net profit / (loss) for the year	823,085	(482,225)
Other comprehensive income		
Items that will not be reclassified subsequently to the Income statement:		
Actuarial gains / (losses) on retirement benefit obligations	(482)	(5,687)
Items that may be reclassified subsequently to the Income statement:		
Movement in fair value reserve (Sukuk instruments):		
- Net change in fair value	(74,704)	95,792
- Net amount transferred to income statement	(267)	(61)
Other comprehensive income / (loss) for the year	(75,453)	90,044
Total comprehensive income/(loss) for the year	**747,632**	**(392,181)**

The attached notes 1 to 40 form an integral part of these Group consolidated financial statements.
The independent auditor›s report is set out on pages 9-14.

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

	2021	2020
	AED 000	AED 000
OPERATING ACTIVITIES		
Net profit / (loss) for the year	823,085	(482,225)
Adjustment for non cash items (refer Note 34)	660,660	1,958,821
Operating profit before changes in operating assets and liabilities	**1,483,745**	**1,476,596**
(Increase)/decrease in certificate of deposits with Central Bank maturing after three months	4,297,305	3,067,732
(Increase)/decrease in amounts due from banks maturing after three months	(1,445,360)	(259,882)
Increase/(decrease) in amounts due to banks maturing after three months	(850,000)	649,940
(Increase)/decrease in other assets	(303,627)	219,791
Increase/(decrease) in other liabilities	72,912	1,539
Increase/(decrease) in customer deposits	390,986	1,555,369
(Increase)/decrease in financing receivables	(2,398,127)	(4,768,269)
Net cash flows generated from/(used in) operating activities	**1,247,834**	**1,942,816**
INVESTING ACTIVITIES		
(Increase)/decrease in investment securities	(1,923,004)	(1,174,757)
Dividend income received	5,973	14,594
(Increase)/decrease of property and equipment	(67,716)	(45,388)
Net cash flows generated from/(used in) investing activities	**(1,984,747)**	**(1,205,551)**
FINANCING ACTIVITIES		
Issuance of sukuk	1,836,250	1,836,250
Repayment of sukuk payable (refer note 16)	(3,672,500)	-
Net cash flows generated from/(used in) financing activities	**(1,836,250)**	**1,836,250**
Increase/(decrease) in cash and cash equivalents (refer Note 34)	**(2,573,163)**	**2,573,515**

The attached notes 1 to 40 form an integral part of these Group consolidated financial statements.
The independent auditor›s report is set out on pages 9-14.

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

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE GROUP					
	Issued capital	Legal and statutory reserve	Other reserves	Fair value reserve	Retained earnings	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Balance as at 1 January 2021	5,430,422	608,717	514,495	187,361	1,111,009	7,852,004
Profit for the year	-	-	-	-	823,085	823,085
Other comprehensive income/(loss) for the year	-	-	-	(74,971)	(482)	(75,453)
Transfer to reserves	-	82,308	28,548	-	(110,856)	-
Directors' fees (refer note 26)	-	-	-	-	(7,000)	(7,000)
Zakat	-	-	-	-	(41,652)	(41,652)
Balance as at 31 December 2021	5,430,422	691,025	543,043	112,390	1,774,104	8,550,984
Balance as at 1 January 2020	5,430,422	608,717	514,495	91,630	1,660,341	8,305,605
Loss for the year	-	-	-	-	(482,225)	(482,225)
Other comprehensive income/(loss) for the year	-	-	-	95,731	(5,687)	90,044
Transfer to reserves	-	-	-	-	-	-
Directors' fees	-	-	-	-	-	-
Zakat	-	-	-	-	(61,420)	(61,420)
Balance as at 31 December 2020	5,430,422	608,717	514,495	187,361	1,111,009	7,852,004

The attached notes 1 to 40 form an integral part of these Group consolidated financial statements.
The independent auditor›s report is set out on pages 9-14.

1 CORPORATE INFORMATION

Emirates Islamic Bank PJSC (formerly Middle East Bank) (the "Bank") was incorporated by a decree of His Highness the Ruler of Dubai as a conventional Bank with a limited liability in the Emirate of Dubai on 3 October 1975. The Bank was reregistered as a Public Joint Stock Company in July 1995 and is regulated by the Central Bank of United Arab Emirates.

At an extraordinary general meeting held on 10 March 2004, a resolution was passed to transform the Bank's activities to be in full compliance with the Shariah rules and principles. The entire process was completed on 9 October 2004 (the "Transformation Date") when the Bank obtained the UAE Central Bank and other UAE authorities' approvals.

The Bank is a subsidiary of Emirates NBD Bank PJSC, Dubai (the "Group Holding Company"). The ultimate parent company of the Group Holding Company is Investment Corporation of Dubai (the "Ultimate Parent Company"), a company in which the Government of Dubai is the major shareholder.

The Bank is listed in the Dubai Financial Market (TICKER: "EIB"). The Bank's website is http://www.emiratesislamic.ae. In addition to its head office in Dubai, the Bank operates through 42 branches in the UAE. The consolidated financial statements comprise financial statements of the Bank and its following subsidiaries (together referred to as "the Group").

			Ownership %	
	Date of incorporation & country	**Principal activity**	**31 December 2021**	**31 December 2020**
Emirates Islamic Financial Brokerage Co. LLC	26 April 2006, UAE	Financial brokerage services	100%	100%
EIB Sukuk Company Limited	6 June 2007, Cayman Islands	Special Purpose Entity	100%	100%
EI Funding Limited	15 May 2014, Cayman Islands	Special Purpose Entity	100%	100%

The Bank provides full commercial and banking services and offers a variety of products through financing and investing instruments in accordance with Shariah rules and principles.

The Bank's registered office address is P.O. Box 6564, Dubai, United Arab Emirates.

2 BASIS OF ACCOUNTING

Statement of compliance:

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and applicable requirements of the laws of the UAE.

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

3 FUNCTIONAL AND PRESENTATION CURRENCY

The Group consolidated financial statements are presented in United Arab Emirates Dirham (AED), which is the Group's functional currency. Except where indicated, financial information presented in AED has been rounded to the nearest thousand. The corresponding figures in the notes to the financial statements of 2020 have been reclassified in order to conform to the presentation for the current year. These changes have been made to improve the quality of information presented and do not impact the previously reported profit.

4 BASIS OF MEASUREMENT

The Group consolidated financial statements have been prepared under the historical cost basis except for the following:

- Shariah compliant derivatives are measured at fair value;
- financial instruments classified at fair value through profit or loss (FVTPL) are measured at fair value; and,
- financial assets at fair value through other comprehensive income (FVOCI) are measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in Note 5.

5 USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Group consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowances required for impaired financing receivables as well as allowances for impairment provision for unquoted investment securities. Estimates and judgments 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.

Significant items where the use of estimates and judgments are required are outlined below:

(i) Financial instruments

Judgments made in applying accounting policies that have most significant effects on the amounts recognized in the consolidated financial statements of the year ended 31 December 2021 pertain to:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.

- Calculation of expected credit loss (ECL): Assumptions and estimation uncertainties that have a significant impact on ECL for the year ended 31 December 2021. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Inputs, assumptions and techniques used for ECL calculation

Key concepts that have the most significant impact and require a high level of judgment, as considered by the Group while determining the ECL, are:

Assessment of Significant Increase in Credit Risk ("SICR")

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes.

The Group's assessment of significant increases in credit risk is being performed at least quarterly for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation – (continued)

Assessment of Significant Increase in Credit Risk (continued)

1. The Group has established thresholds for significant increase in credit risk based on movement in Probability of Default relative to initial recognition.
2. Additional qualitative reviews have been performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
3. IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment is based on individual assessment of financial assets for objective evidence of impairment.

The Group reviews its financing receivables portfolio to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the contractual future cash flows from a financing receivable or homogenous group of financing receivables. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss.

Assessment of Significant Increase in Credit Risk (Covid-19)

The Group continues to assess obligors for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or long term.

The Group continues to support its impacted customers through a program of payment relief that was initiated in 2020 by deferring profit/principal due. These payment reliefs are considered as short term liquidity support to address obligors' cash flow issues. The Group believes that the extension of payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Group continues to consider severity and extent of potential Covid-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR.

As per the disclosure requirements of the Central Bank of UAE (CBUAE) in the context of Covid-19, the Group has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by the Covid-19 crisis, are categorized in Group 1. Customers expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals are categorized in Group 2.

Customers expected to be significantly impacted by Covid-19 in the long term and that are expected to face substantial deterioration in their creditworthiness have been migrated to Stage 2 and categorized in Group 2. In exceptional circumstances, Stage 3 migration may have also been triggered where a customer's business, income streams and profit servicing capacity were expected to be permanently impaired. Such customers have also been categorized in Group 2.

The accounting impact of the extension / restructuring of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of ECL for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions.

The estimation and application of forward-looking information requires significant judgment based on the macroeconomic variables (or changes in macroeconomic variables) such as occupancy rates, oil prices, housing price index and GDP (where applicable), that are closely correlated with credit losses in the relevant portfolio and represent the underlying causal effects of changes in these economic conditions. Each macroeconomic scenario used in the Group's ECL calculation will have projected forecasts of the relevant macroeconomic variables.

The Group estimation of ECL in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. These scenarios are based on macroeconomic forecasts published by the external experts. If conditions warrant, additional downside scenarios may also be considered.

Probability weights attached to these scenarios are updated on a quarterly basis (if required). All scenarios considered are applied to all portfolios subject to ECL with the same probabilities. In some instances the inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the consolidated financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. Such cases are subjected to the Group's governance process for oversight.

Sensitivity assessment due to movement in each macroeconomic variable and the respective weights under the three scenarios is periodically assessed by the Group.

The table below summarizes key macroeconomic indicators included in the economic scenarios on 31 December 2021 for the years ending 2021 to 2025.

	Base Scenario					**Upside Scenario**					**Downside Scenario**				
	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025	2021	2022	2023	2024	2025
UAE															
Oil Price – USD	70	70	64	64	66	70	73	69	70	72	70	44	46	53	56
GDP - Change %	2.1	3.3	2.5	2.6	2.7	2.1	7.9	5.1	2.4	2.2	2.1	(6.5)	(2.0)	4.2	5.3
Imports - AED in Bn	1135	1231	1285	1348	1415	1135	1314	1434	1521	1601	1135	1077	1061	1121	1208

In light of the current uncertain economic environment, the Group continued to assess a range of possible macro-economic scenarios and associated weights, and analyzed their impact on ECL estimates for the year 2021 using baseline, upside and downside scenarios with 40%-30%-30% weightings respectively. The Group also applied portfolio-level ECL adjustments to corporate exposures based upon affected sectors, as well as to retail customers availing deferrals based upon employment status and level of salary inflows. The Group continues to assess individually significant exposures for any adverse movements due to Covid-19.

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

5 USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

(i) Financial instruments (continued)

Inputs, assumptions and techniques used for ECL calculation (continued)

Definition of default

The definition of default used in the measurement of ECL and the assessment to determine movement between stages is consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which it is exposed to credit risk. All applicable contractual terms are considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Governance

In addition to the existing risk management framework, the Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance, Risk Management, Internal audit and Business teams and are responsible for reviewing and approving key inputs and assumptions used in the Group ECL estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group financial statements.

(ii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from quoted prices, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include consideration of liquidity and model inputs such as correlation and volatility for longer dated Shariah compliant derivatives.

Fair values are subject to a control framework designed to ensure that they are either determined or validated, by a function independent of the risk taker.

(iii) Contingent liability arising from litigations

Due to the nature of its operations, the Group may be involved in litigations arising in the ordinary course of business. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are applied prospectively.

6 CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied the accounting policies as set out in Note 7 to all periods presented in these consolidated financial statements, except for the following accounting policies which are applicable from 1 January 2021:

IBOR TRANSITION (PROFIT RATE BENCHMARK REFORMS)

Effective from 1 January 2021, the Group implemented Phase 2 of the Profit Rate Benchmark Reform —Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The areas impacted by the amendments include application of practical expedient for accounting for modifications to financial instruments that are measured at other than fair value through profit or loss when transactions are updated for the new Risk Free Rate (RFR) rates (will not result in derecognition) , relief on changes to hedge designations and hedge documentation (a change to hedge designations and hedge documentation required by IBOR reform would not result in discontinuation of hedge accounting) and providing disclosures that enable users to understand nature and extent of risks arising from profit rate benchmark reform to which the Group is exposed and how it manages those risks. The amendments are applied retrospectively with no restatement required for prior periods.

During 2020, the Group implemented Phase 1 of the amendments which provided relief on hedge accounting requirements for those hedges existing before the IBOR replacement. The Group's exposure to hedging instruments (Profit Rate Swaps and Islamic Cross-Currency Swaps) and hedged items maturing from the year 2021 are not considered material.

The Group will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the profit rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the Group is exposed to ends. The Group expects this uncertainty will continue until the Group's contracts that reference IBORs are amended to specify the date on which the profit rate benchmark will be replaced.

As a result of the Phase 2 amendments:

When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of the profit rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change), the Group changes the basis for determining the contractual cash flows prospectively by revising the effective profit rate updated to reflect the change in a profit rate benchmark from IBOR to Risk Free Rate (RFR) without adjusting the carrying amount. If additional changes are made, which are not economically equivalent, the applicable requirements of IFRS 9 are applied to the additional changes.

The Group is primarily exposed to GBP and USD LIBOR which are subject to the profit rate benchmark reform. The exposures arise on Shariah compliant derivatives and non-derivative financial assets and liabilities.

Hedged items include issued GBP and USD fixed rate sukuk and advances to and deposits from customers linked to USD and GBP LIBOR. Hedging instruments include IBOR-linked profit rate swaps and Islamic cross-currency swaps.

For risks arising from profit rate benchmark reform please refer Note 36 V.

6 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

IBOR TRANSITION (PROFIT RATE BENCHMARK REFORMS) (CONTINUED)

Summary of transition

The table below shows the Group's exposure at the year end to significant IBORs subject to reform that have yet to transition to RFRs. These exposures will remain outstanding until the IBOR ceases and will therefore transition in future. The table below excludes the exposures that will expire before the transition.

AED 000 **31 December 2021**	**Non-derivative financial assets- Gross carrying value**	**Non-derivative financial liabilities -Gross carrying value**	**Derivatives Nominal amount**
LIBOR USD (3 months)	2,526,140	-	338,986
LIBOR USD (6 months)	-	-	16,747
LIBOR GBP (3 months)	118,527	-	-
Islamic Cross Currency Swaps			
Cross currency USD	-	-	293,637
Cross currency GBP	-	-	90,859

During the year 2021, the Group started offering SONIA linked contracts as a replacement of GBP LIBOR. GBP LIBOR discontinued from 1 January 2022. USD LIBOR will discontinue from 30 June 2023.

7 SIGNIFICANT ACCOUNTING POLICIES

The Group has consistently applied the following accounting policies to all periods presented in these Group consolidated financial statements.

(a) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group re-assesses 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. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Basis of consolidation

The Group consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the Group consolidated financial statements are prepared for the same reporting date as the Bank. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated.

Business combinations are accounted for by applying the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date, fair value of assets transferred by group, liability incurred and equity interest issued by the group in exchange for control of the acquiree. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 9 in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interest in the acquiree are restated to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of consolidation (continued)

(i) Subsidiaries (continued)

Basis of consolidation (continued)

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(ii) Special Purpose Entities

Special Purpose Entities (SPEs) are entities that are created to accomplish a well-defined objective such as the securitisation of particular assets, or the execution of a specific funding transaction. An SPE is consolidated if the Group is exposed to variable returns from its involvement in the SPE and has the ability to affect those returns through its power over the SPE based on an evaluation of the substance of its relationship with the Group.

The following circumstances may indicate a relationship in which, in substance, the Group controls and consequently consolidates an SPE:

a. the Group has power over the SPE;
b. the Group has exposure to, or rights, to variable returns from its involvement with the SPE; and
c. the Group has the ability to use its power over the SPE to affect the amount of the Group's returns.

The assessment of whether the Group has control over an SPE is carried out at inception and reassessed at each period end date or if there are changes in the structure / terms of additional transactions between the group and the SPE..

Information about the Group's securitization activities is included in Note 16.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Principles of consolidation (continued)

(iii) Transactions with non-controlling interest

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the Bank and is presented separately in the Group consolidated statement of comprehensive income and within equity in the Group consolidated balance sheet, separately from equity attributable to owners of the Bank.

Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interest are adjusted to reflect the changes in their relative profits in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

(b) Foreign Currencies

Monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. The resulting gain / loss on monetary items is taken to the 'Other operating income' in the consolidated income statement. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(c) Financing Profit

Effective profit rate

Profit income and expense are recognised in profit or loss using the effective profit method. The 'effective profit rate' is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective profit rate for financial instruments other than credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For credit-impaired financial assets, a credit-adjusted effective profit rate is calculated using estimated future cash flows including ECL.

Amortised cost

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization of the difference between the initial amount and the maturity amount using the effective profit method and, for financial assets, adjusted for any loss allowance.

Gross carrying amount

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting any loss allowance.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Financing Profit (continued)

Presentation

Finance profit and expense presented in the consolidated income statement include:

- Profit on financial assets and financial liabilities measured at amortised cost calculated on an effective profit basis.
- Profit on Sukuk measured at FVOCI calculated on an effective profit basis.

(d) Income from financing receivables

Revenue is recognised on the respective Islamic products as follows:

Murabaha

The profit is quantifiable and contractually determined at the commencement of the contract. Profit is recognised as it accrues over the life of the contract using an effective profit method on the balance outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price to the customer and the bank's total Istisna'a cost) are accounted using effective profit method.

Ijara

Income from Ijara is recognised on an accrual basis over the period of the contract using effective profit method.

Mudaraba

Income on Mudaraba financing is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

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

(e) Fees and commission

Fee income, which is not an integral part of the effective profit rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 '*Revenue from Contracts with Customers*'. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Fees and commission (continued)

Fee income is accounted for as follows:

(i) income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

(ii) income earned from the provision of services is recognised as revenue as the services are provided (for example, portfolio and other management advisory and service fees); and

(iii) Other fees and commission income and expense are recognised as the related services are performed or received.

Fee income which forms an integral part of the effective profit rate of a financial instrument is recognised as an adjustment to the effective profit rate (for example, certain financing commitment fees) and recorded in income from financing and investing products.

(f) Earnings prohibited by Shariah

Earnings prohibited by the Shariah are set aside for charitable purposes or otherwise dealt with in accordance with the directions of the Internal Shariah Supervision Committee.

(g) Dividend income

Dividend income is recognised when the Group's right to receive the dividend is established.

(h) Property related income

Property related income includes rental income, which is recognised on a straight-line basis over the term of the lease.

(i) Leases

Under IFRS 16, the Group recognises a right-of-use asset and a lease liability at lease commencement for all leases, except for short term leases and leases of low value assets.

The Group initially measures the right-of-use asset at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability.

The Group initially measures the lease liability at the present value of the future lease payments discounted using the discount rate implicit in the lease. Subsequently, the lease liability is adjusted for profit and lease payments, as well as the impact of lease modifications, amongst others.

The Group has elected to apply the expedient allowed by IFRS 16 on its general requirements to short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less) and leases of low value assets. For this the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee's benefits.

The Group has presented right of use assets within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

Where the Group leases out its investment property, the Group has classified these as operating leases.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities

(i) Classification of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured: at amortised cost, FVOCI or 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 profit on the principal amount outstanding.

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

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

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 other comprehensive income (OCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

(ii) Recognition and initial measurement

The Group initially recognises financing receivables, deposits and sukuks issued on the date on which they are originated or acquired. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(iii) Business model assessment:

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

Assessment whether contractual cash flows are solely payments of principal and profit:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'profit' 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 financing 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 profit, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of profit rate.

See note on investment securities, financing receivables and cash and cash equivalents for further details.

The Group classifies its financial liabilities, other than financial guarantees and financing commitments, as measured at amortised cost or FVTPL.

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.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(iv) Impairment

The Group recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are financing instruments;
- financial guarantee contracts issued; and
- financing commitments issued.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

Measurement of ECL

ECL are 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 financing 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.

Restructured financial assets

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

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(iv) Impairment (continued)

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and financial assets carried at FVOCI are credit-impaired. 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the obligor or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the obligor will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Purchased or originated credit impaired assets (POCI)

POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit is subsequently recognised based on a credit-adjusted EIR. Lifetime ECLs are only recognised or released to the extent that there is a subsequent change in the credit risk.

Revolving facilities

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

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

Write-off

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(v) Financial guarantees and financing commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified obligor fails to make payment when due, in accordance with the terms of a financing instrument. The financial guarantee liability is carried at amortised cost when payment under the contract has become probable.

'Financing commitments' are firm irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantees issued or irrevocable commitments to provide credit are initially measured at fair value and their initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured at the higher of this amortised amount and the amount of loss allowance.

(vi) Foreign currencies

Foreign currency differences arising on translation are generally recognized in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised through OCI.

(vii) Financing receivables

Financing receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 'Financing receivables' captions in the consolidated statement of financial position include:

- Financing receivables measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs and subsequently at their amortised cost using the effective profit method and are presented net of expected credit losses; and
- Financing receivables measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss, if applicable.

The following terms are used in financing receivables:

Murabaha

An agreement whereby the Group sells to a customer a commodity, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Istisna'a

An agreement between the Group and a customer whereby the Group would sell to the customer a developed property according to agreed upon specifications. The Group would develop the property either on its own or through a subcontractor and then hand it over to the customer on a fixed date at an agreed price.

Ijara

An agreement, whereby the Group (lessor) leases an asset to a customer (lessee), for a specific period and against certain rent instalments. Ijara could end by transferring the ownership of the asset to the lessee at the end of the agreement or substantially all the risks and returns related to the ownership.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(vii) Financing receivables (continued)

Musharaka

An agreement between the Group and a customer to contribute to a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing agreement set between both parties while the loss is shared in proportion to their shares of capital in the enterprise

Mudaraba

An agreement between two parties; wherein one of them provides the funds and is called Rab-Ul-Mal and the other provides efforts and expertise and is called the Mudarib and is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba income. In case of normal loss; the Rab-Ul-Mal would bear the loss of his funds while the Mudarib would bear the loss of his efforts. However, in case of default, negligence or violation of any of the terms and conditions of the Mudaraba agreement, only the Mudarib would bear the losses. The Group may act as Mudarib when accepting funds from depositors and as Rab-Ul-Mal when investing such funds on a Mudaraba basis.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent 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.

These products are carried at amortised cost less impairment.

(viii) Investment securities

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

- Financing 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 profit method;
- Financing 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;
- Financing securities measured at FVOCI; and
- Equity investment securities designated as at FVOCI.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(viii) Investment securities (continued)

For financing 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.

- Profit income using the effective profit method
- ECL and reversals, and
- Foreign exchange gains and losses.

When a financing 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 on equity instruments recognised in OCI are transferred to retained earnings on disposal of an investment.

(ix) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of the ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards or ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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.

Any interest in transferred financial assets that qualify for derecogniton that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities financing and sale-and-repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(x) Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in profit or loss. If such a modification is carried out because of financial difficulties of the obligor, then the gain or loss is presented together with impairment losses. In other cases, it is presented as profit income.

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in profit or loss.

(xi) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the Group consolidated statement of financial position when, and only when, the Group currently has legally enforceable rights to set off amounts and it intends either to settle them on a net basis or through realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activities.

(xii) Fair value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

(i) In the principal market for the asset or liability; or

(ii) In the absence of principal market, in the most advantageous market for the asset and liabilities.

If an asset or a liability measured at fair value has a 'Bid' price and an 'Ask' price, then the Group measures assets and long positions at a 'Bid' price and liabilities and short positions at an 'Ask' price.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value is applicable to both financial and non-financial instruments.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Financial assets and financial liabilities (continued)

(xiii) Designated at FVTPL

At initial recognition, the Group has designated certain financial assets as at FVTPL because this designation eliminates or significantly reduces an accounting mismatch, which would otherwise arise.

The Group has designated certain financial liabilities as at FVTPL in either of the following circumstances:

(a) The liabilities are managed, evaluated and reported internally on a fair value basis; or
(b) The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

A description of the basis of each designation is set out in relevant notes for the asset or liability class.

(xiv) Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are disclosed in the notes to the Group consolidated financial statements when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included as a separate deposit. Securities purchased under agreements to resell ('reverse repos') are recorded as financing receivables to either banks or customers, as appropriate. The difference between sale and repurchase price is treated as profit and accrued over the life of the agreements using the effective profit method.

(k) Islamic derivative financial instruments

Islamic derivative financial instruments include foreign exchange contracts, profit rate swaps and foreign exchange options. Islamic derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All Islamic derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Islamic derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right to setoff exists, and the parties intend to settle the cash flows on a net basis.

Islamic derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the Islamic derivative's components using recognized pricing or valuation models as appropriate.

(l) Cash and cash equivalents

'Cash and cash equivalents' include notes and coins on hand, unrestricted balances held with Central Banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

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

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Inventory

Properties acquired in settlement of financing receivables are held as inventory and are stated at lower of cost or net realisable value. Directly attributable costs incurred in the acquisition of inventory is included as part of cost of the inventory.

Net realisable value is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date.

(n) Property, equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

Subsequent costs 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. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and fixed assets not commissioned are not depreciated. The estimated useful life of fixed assets for the Group is as follows:

Freehold premises	25 - 60 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture, fixtures and office equipment	5 years
Computer hardware and software	4 - 5 years
Core banking software	5 - 7 years
Motor vehicles	3 - 5 years

Assets are depreciated on a straight-line basis over their estimated useful lives as given above.

Fixed assets not commissioned are stated at cost. When commissioned, they are transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the Group consolidated income statement.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Investment properties

The Group holds certain properties as investments to earn rental income, for capital appreciation, or both. Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred, if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost less depreciation and accumulated impairment (if any).

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in ‘other operating income’ in the year of retirement or disposal.

Transfers to and from investment properties are made only when there is a change in use based on the business model.

(p) Intangible assets

(i) Capitalised software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the Group consolidated income statement on a straight-line basis over the estimated useful life of the software, from the date that it is available for use.

(ii) Other intangible assets

Intangibles acquired separately are measured on initial recognition at cost. The cost of the intangibles acquired in a business combination is at fair value as at the date of acquisition. Following initial recognition, intangibles are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible asset are assessed to be either finite or indefinite. Intangibles with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangibles may be impaired. The amortisation period and amortisation method for intangibles with a finite useful life is 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 amortisation period or method, as appropriate, and treated as changes in an accounting estimate. The amortisation expense on intangibles with finite lives is recognised in the Group consolidated income statement in the expense category consistent with the function of the intangibles.

(q) Impairment of non financial assets

The carrying amounts of the Group’s non-financial assets are reviewed periodically to determine whether there is any indication of impairment. If any such indication exists then the asset’s recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. A cash generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the consolidated income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of other assets in the unit (group or units) on a pro rata basis.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Impairment of non financial assets (continued)

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(r) Deposits, financing receivables and sukuks issued

Deposits, financing receivables and sukuks issued are the main sources of funding for the Group.

Deposits, financing receivables and sukuks issued are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective profit method.

(s) Provisions

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

(t) Employee benefits

(i) Pension obligations

The Group operates a pension scheme in respect of eligible UAE national employees in compliance with the UAE Federal Law on Pensions and Social Security. Arrangements for benefits for overseas employees is made in accordance with local regulations and customs. Full provision is made for all accrued benefits.

The Group also pays contributions to trustee administered funds on a contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

(ii) Termination gratuity benefit scheme

In compliance with UAE labour law, the Group has a termination gratuity benefit scheme covering all of its expatriate salaried employees who have been employed with the Group for more than one year. The provision for gratuity is recorded through the consolidated income statement.

The present value of the gratuity obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for gratuities include the discount rate. Any changes in these assumptions will impact the carrying amount of gratuity obligations. The value of the gratuity obligations is based on the report submitted by an independent actuarial firm.

(u) Dividend on shares

Dividends on shares are recognised as a liability and deducted from equity when they are approved by the Group’s shareholders in the Annual General Meeting.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) Share capital and reserves

Share issue costs

Incremental costs that are directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

(w) Earnings per share

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

(x) Operating segments

For management purposes, the Group is organised into operating segments based on their products, services and certain subsidiaries which are independently managed by the respective segment managers responsible for the performance of the segments under their charge.

The segment managers report directly to the management of the Group who regularly review the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in Note 29.

(y) Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries,
   (i) controls, is controlled by, or is under common control with, the Group;
   (ii) has any interest in the Group that gives it significant influence over the Group; or
   (iii) has joint control over the Group;

(b) the party is an associate;
(c) the party is a jointly-controlled entity;
(d) the party is a member of the key management personnel of the Group;
(e) the party is a close member of the family of any individual referred to in (a) or (d); or
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(z) Profit distribution

Profit distribution between the unrestricted account holders (investment, saving and Wakala accounts) and the Shareholders, is according to the instructions of the Bank's Internal Shariah Supervision Committee.

Net income realised from Mudaraba Pool, at the end of each quarter, represents the net profit available for distribution. Net profit available for distribution between unrestricted account holders and shareholders is calculated after deducting the Mudarib share as per the agreed and declared percentage.

Profit Distribution is on a pro rata-basis of the weighted average balances of unrestricted customers' accounts and Shareholders' funds. No priority is given to either party in the Mudaraba Pool.

7 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(aa) Zakat

The Bank discharges Zakat (Alms) as per its Articles of Association. The Bank calculates Zakat based on the guidance of its Internal Shariah Supervision Committee as follows:

- Zakat is calculated as per the Net Investment Asset method.
- Zakat is disbursed to Shariah channels through a committee formed by the management.

(bb) Revenue recognition

Revenue is recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Group also operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained.

8 STANDARDS ISSUED BUT NOT YET ADOPTED

Certain new standards (IFRS 17), amendments to standards and interpretations (annual improvements to IFRS, amendments to IFRS 3, IFRS 4, IAS 1, IAS 8, IAS 12 and IAS 37) are not yet effective for the year ended 31 December 2021, with the Group not opting for early adoption.

The Group anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of Group in the period of initial application.

9 CASH AND DEPOSITS WITH CENTRAL BANKS

	2021 AED 000	2020 AED 000
Cash	485,196	372,666
Statutory and other deposits with Central Bank	2,799,354	6,149,420
Murabaha with Central Bank	7,403,616	13,111,453
	10,688,166	19,633,539

The reserve requirements which are kept with Central Bank of UAE are not available for use in the Group's day to day operations and cannot be withdrawn without the approval of the Central Bank. The level of reserves required changes periodically in accordance with the directives of Central Bank of UAE. Murabaha with Central Bank amounting to AED Nil (31 December 2020: AED 1,650 million) were collateralized for the purpose of obtaining Zero Cost Funding from Central Bank of UAE which has been fully repaid during the year 2021 (31 December 2020: AED 1,558 million) presented under 'Due to Banks'.

10 DUE FROM BANKS

31 December 2021	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time	575,826	2,097,804	2,673,630
Overnight, call and short notice	79	99,308	99,387
Gross due from banks	575,905	2,197,112	2,773,017
Less: Expected credit losses			(4,299)
	575,905	2,197,112	2,768,718

31 December 2020	Local (UAE) AED 000	Foreign AED 000	Total AED 000
Time	346,400	1,569,000	1,915,400
Overnight, call and short notice	1,498,666	254,164	1,752,830
Gross due from banks	1,845,066	1,823,164	3,668,230
Less: Expected credit losses			(16,496)
	1,845,066	1,823,164	3,651,734

11 INVESTMENT SECURITIES

	Domestic*	Regional**	International***	Total
31 December 2021	AED 000	AED 000	AED 000	AED 000
DESIGNATED AS AT FVTPL				
Equity	41,135	108,723	-	149,858
Others	2,267	-	725	2,992
	43,402	108,723	725	152,850
MEASURED AT AMORTISED COST				
Government Sukuk	114,833	819,175	-	934,008
Corporate Sukuk	-	92,404	82,674	175,078
	114,833	911,579	82,674	1,109,086
Less: Expected credit losses				(3,568)
				1,105,518
MEASURED AT FVOCI - SUKUK INSTRUMENTS				
Government Sukuk	-	85,191	184,295	269,486
Corporate Sukuk	3,426,911	858,738	882,874	5,168,523
	3,426,911	943,929	1,067,169	5,438,009
Less: Expected credit losses				(11,799)
				5,426,210
Gross investment securities	3,585,146	1,964,231	1,150,568	6,699,945
Net investment securities				6,684,578

*Domestic: These are securities issued within the UAE.
**Regional: These are securities issued within the Middle East.
***International: These are securities issued outside the Middle East region.

11 INVESTMENT SECURITIES (CONTINUED)

	Domestic*	Regional**	International***	Total
31 December 2020	AED 000	AED 000	AED 000	AED 000
DESIGNATED AS AT FVTPL				
Equity	44,635	112,397	-	157,032
Others	543	-	2,615	3,158
	45,178	112,397	2,615	160,190
MEASURED AT AMORTISED COST				
Government Sukuk	115,196	849,206	-	964,402
Corporate Sukuk	-	115,061	-	115,061
	115,196	964,267	-	1,079,463
Less: Expected credit losses				(3,139)
				1,076,324
MEASURED AT FVOCI - SUKUK INSTRUMENTS				
Government Sukuk	-	86,915	62,100	149,015
Corporate Sukuk	2,605,313	565,931	299,088	3,470,332
	2,605,313	652,846	361,188	3,619,347
Less: Expected credit losses				(28,654)
				3,590,693
Gross investment securities	2,765,687	1,729,510	363,803	4,859,000
Net investment securities				4,827,207

*Domestic: These are securities issued within the UAE.
**Regional: These are securities issued within the Middle East.
***International: These are securities issued outside the Middle East region.

12 FINANCING RECEIVABLES

	2021	2020
	AED 000	AED 000
At Amortised Cost		
Murabaha	29,956,988	28,892,866
Credit cards receivable	1,646,713	1,486,949
Wakala	208,386	249,596
Istissna'a	873,178	1,141,483
Ijara	15,581,507	14,938,630
Others	76,797	19,074
Total financing receivables	48,343,569	46,728,598
Less: Deferred income	(1,310,471)	(1,587,797)
Less: Expected credit losses	(4,419,074)	(4,331,825)
Net financing receivable	42,614,024	40,808,976
Total of impaired financing receivables	3,843,720	4,052,183

	2021	2020
By Business Units	AED 000	AED 000
Corporate banking	15,036,364	15,900,098
Retail banking	27,577,660	24,908,878
	42,614,024	40,808,976

Ijara assets amounting to AED 2.3 billion [2020: AED 4.6 billion] and Murabaha assets amounting to AED Nil [2020: AED 0.2 billion] were securitised for the purpose of issuance of Sukuk liability (refer note 16).

Allowances of impairment on financing receivables have been disclosed in further detail in note 36 I.

13 OTHER ASSETS

	2021	2020
	AED 000	AED 000
Profit receivable	134,705	128,703
Prepayments and other advances	18,696	19,951
Sundry financing and other receivables	12,744	3,196
Deferred sales commission	23,838	23,605
Goods available-for-sale	80,509	48,091
Positive fair value of islamic derivatives (refer note 28)	118,376	131,842
Others	394,249	124,102
	783,117	479,490

14 DUE TO BANKS

	2021	2020
	AED 000	AED 000
Demand and call deposits	60,245	88,148
Time and other deposits	2,488,187	7,725,762
	2,548,432	7,813,910

The profit paid on the above averaged 0.07% p.a. (2020: 0.32% p.a).

15 CUSTOMER DEPOSITS

		2021	2020
(a)	By Type	AED 000	AED 000
	Demand, call and short notice	21,864,782	19,279,884
	Wakala	8,237,704	12,346,609
	Time deposits	2,206,960	2,413,336
	Savings	14,650,042	12,543,246
	Others	309,573	295,000
		47,269,061	46,878,075

		2021	2020
(b)	By Business Units	AED 000	AED 000
	Corporate banking	9,201,462	12,605,215
	Retail banking	38,067,599	34,272,860
		47,269,061	46,878,075

The profit rates paid on the above deposits averaged 0.27% p.a. (2020: 0.65% p.a.).

16 SUKUK PAYABLE

a) The Group issued sukuk amounting to AED 3.7 billion in 2016, and a further AED 3.7 billion during 2020 and 2021 to raise US Dollar denominated medium term finance via a Shariah compliant sukuk financing arrangement. Sukuk amounting to AED 3.7 billion matured and repaid in the month of May 2021. As at 31 December 2021, the total outstanding sukuk payable is AED 3.7 billion.

Following are the details of all the sukuk financing arrangement in issue.

Issue Date	Amount (USD)	Listing	Profit rate (%)	Payment basis	Maturity
September 2020	500,000,000	Irish Stock Exchange & Nasdaq	1.827	Semi annual	September 2025
October 2021	500,000,000	Irish Stock Exchange & Nasdaq	2.082	Semi annual	November 2026

The Bank transferred certain identified Ijara assets totaling to AED 2.3 billion (the "co-owned assets") to its subsidiary, EIB Sukuk company limited – (the "Issuer"), a special purpose vehicle formed for the issuance of these sukuk. For Sukuk issued during 2020 and 2021, the Bank has further entered into a Murabaha with the Sukukholders for an amount of AED 1.4 billion. This medium term finance is carried at amortised cost.

In substance, the co-owned assets remain in control of the Group; accordingly, these assets continue to be recognised by the Group. In case of any default, the Parent has provided an undertaking to make good all losses to the sukuk holders. The assets are in the control of the Group and shall continue to be serviced by the Group.

The Issuer will pay a semi-annual distribution amount from returns received in respect of the co-owned assets. Such proceeds are expected to be sufficient to cover the semi-annual distribution amount payable to the sukuk holders on the semi-annual distribution dates. Upon maturity of the sukuk, the Group has undertaken to repurchase the assets at the exercise price.

	2021 AED 000	2020 AED 000
Balance as at 1 January	5,510,933	3,679,921
New Issues	1,836,250	1,836,250
Repayments	(3,672,500)	-
Other movements	(2,183)	(5,238)
Balance at end of year	3,672,500	5,510,933

As at 31 December 2021, the outstanding Sukuk payable totaling AED 3,673 million (31 December 2020: AED 5,511 million) is falling due as below:

	2021 AED 000	2020 AED 000
2021	-	3,674,683
2025	1,836,250	1,836,250
2026	1,836,250	-
	3,672,500	5,510,933

b) On 15 May 2015, EI Funding Limited (the "SPE") was incorporated under Companies Law of Cayman Islands as a Special Purpose Entity. The principal activities of the company are to purchase portfolio of assets through issuance of notes. The securitization will result in a certificate pool that will be listed on the NASDAQ clearing system (off market) for private-purpose, over-the-counter dealing. The underlying Shariah structure has been approved by the Bank's Internal Shariah Supervision Committee.

The Bank has transferred part of its investment portfolio to EI Funding Limited (incorporated under Cayman Islands laws). However, the Group retains control over the transferred assets and hence the Group continues to recognize these assets as financing and the investment assets.

17 OTHER LIABILITIES

	2021 AED 000	2020 AED 000
Profit payable to depositors	41,996	85,543
Staff related liabilities	153,622	172,050
Managers' cheques	325,821	412,119
Trade and other payables	353,197	321,256
Zakat payable	41,652	61,420
Negative fair value of islamic derivatives (refer note 28)	126,615	142,334
Others	1,033,325	816,993
	2,076,228	2,011,715

18 ISSUED CAPITAL AND SHARE PREMIUM RESERVE

	2021 AED 000	2020 AED 000
Authorized Share Capital		
10,000,000,000 (2020: 10,000,000,000) ordinary shares of AED 1 each (2020: AED 1 each)	10,000,000	10,000,000
Issued and fully paid up capital		
5,430,422,000 (2020: 5,430,422,000) ordinary shares of AED 1 each (2020: AED 1 each)	5,430,422	5,430,422

19 RESERVES

Legal, statutory and other reserve

In accordance with the Bank's Articles of Association, and in compliance with Decretal Federal Law No. (14) of 2018, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital.

Other reserve

10% of the profit is also transferable to a non-distributable regular reserve until such time as this reserve equals 10% of the Bank's issued capital. During the year, the apportionment of profit to the regular reserve has been restricted to the 10% of Bank's issue capital, and now the regular reserve stands at the 10% of the Bank's issued capital.

	Legal and statutory reserve AED 000	Other reserves AED 000	Total AED 000
At 1 January 2021	608,717	514,495	1,123,212
Transfer from retained earnings*	82,308	28,548	110,856
At 31 December 2021	691,025	543,043	1,234,068

*Prior year comparatives are shown in the consolidated statement of changes in equity.

Fair value reserve

Fair value reserve includes the net change in fair value of FVOCI financial assets.

20 INCOME FROM FINANCING RECEIVABLES AND INVESTMENT PRODUCTS

	2021	2020
	AED 000	AED 000
Murabaha	1,012,978	1,228,958
Ijara	450,317	487,515
Istisna'a	40,199	48,041
Others	436,851	372,074
	1,940,345	2,136,588

21 DISTRIBUTION ON DEPOSITS AND PROFIT PAID TO SUKUK HOLDERS

	2021	2020
	AED 000	AED 000
Distribution to depositors	135,749	306,689
Profit paid to sukuk holders	93,407	135,947
	229,156	442,636

Distribution on deposits represents the share of income between depositors and equity holders. The allocation and distribution to depositors is approved by the Internal Shariah Supervision Committee.

Profit paid to sukuk holders represents the distribution of returns received in respect of assets transferred to the EIB Sukuk Company Limited which was specifically formed for this transaction.

22 NET FEE AND COMMISSION INCOME

	2021	2020
	AED 000	AED 000
Commission income	60,224	50,303
Fee income	665,960	617,740
Total fee and commission income	726,184	668,043
Fee and commission expense	(356,910)	(296,304)
	369,274	371,739

23 OTHER OPERATING INCOME

	2021	2020
	AED 000	AED 000
Dividend income on equity investments measured at FVTPL	5,973	14,594
Gain from sale of sukuk measured at FVOCI	267	61
Gain / (loss) from investment securities designated at fair value through profit or loss	(3,285)	(269,079)
Rental income (net of depreciation)	(443)	3,761
Foreign exchange income*	264,403	251,387
Other income (net)	50,617	21,606
	317,532	22,330

*Foreign exchange income comprises translation gain and gain on dealings with customers.

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
	AED 000	AED 000
Staff cost	480,172	569,979
Occupancy cost	30,560	31,310
Equipment and supplies	20,687	21,132
Recharges from group companies	288,124	254,832
Communication cost	28,245	29,375
Marketing related expenses	9,547	6,153
Depreciation	87,397	99,011
Others	246,368	72,150
	1,191,100	1,083,942

25 NET IMPAIRMENT LOSS ON FINANCIAL AND NON-FINANCIAL ASSETS

The charge to the income statement for the net impairment loss on financial and non-financial assets is made up as follows:

	2021 AED 000	2020 AED 000
Net impairment of due from banks	(12,198)	14,858
Net impairment of investment securities	(16,425)	17,877
Net impairment of financing receivables (refer note 36 I)	593,079	1,455,839
Net impairment of unfunded exposures	(57,532)	56,668
Bad financing written off / (recovery) - net	(174,478)	(111,188)
Net impairment loss on financial assets	332,446	1,434,054
Net impairment loss on non-financial assets	51,364	52,250
Total net impairment loss for the year	383,810	1,486,304

26 DIRECTORS FEES

This comprises of fees payable to the directors of the Group of AED 7 million (2020: AED Nil).

27 EARNINGS PER SHARE

The Group presents basic and diluted Earnings Per Share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all diluted potential ordinary shares, if any.

	2021 AED 000	2020 AED 000
Net profit / (loss) for the year	823,085	(482,225)
Weighted average number of equity shares in issue ('000)	5,430,422	5,430,422
Earnings / (loss) per share* (AED)	0.152	(0.089)

*The diluted and basic EPS were the same at the year end.

28 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the positive and negative fair values of Islamic derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of an Islamic derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of Islamic derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

31 December 2021 notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Islamic Derivative financial instruments:								
Forward foreign exchange contracts	3,152	(1,328)	2,144,139	380,013	794,061	13,451	586,971	369,643
Foreign exchange options	1,902	(1,993)	208,467	5,105	50,203	137,843	15,316	-
Profit rate swaps/caps	113,322	(123,294)	12,266,731	3,863,901	2,038,457	473,644	5,345,519	545,210
Total	118,376	(126,615)	14,619,337	4,249,019	2,882,721	624,938	5,947,806	914,853

31 December 2020 notional amounts by term to maturity

	Positive fair value	Negative fair value	Notional amount	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
Islamic Derivative financial instruments:								
Forward foreign exchange contracts	4,393	(660)	4,364,452	3,629,952	734,500	-	-	-
Foreign exchange options	1,206	(1,391)	416,301	32,439	97,317	221,667	64,878	-
Profit rate swaps/caps	126,243	(140,283)	5,512,258	-	788,750	670,635	3,391,631	661,242
Total	131,842	(142,334)	10,293,011	3,662,391	1,620,567	892,302	3,456,509	661,242

28 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group and potential future fluctuations. All credit exposure is managed under approved facilities and in certain cases collateralized. The Group takes a Credit Value Adjustment (CVA) on outstanding derivative transactions. The methodology for CVA calculation relies on three components: the probability of default of the counterparty, the expected positive exposure and the recovery rate. CVA is computed on all asset classes including Foreign Exchange, Profit Rates and Commodities.

29 OPERATING SEGMENTS

The Group's activities comprise the following main business segments:

Corporate and institutional banking

Within this business segment, the Bank provides to corporate customers a range of products and services and accepts their deposits.

Retail banking and wealth management

Retail segment provides a wide range of products and services to individuals and small and medium enterprises and accepts their deposits.

Treasury

Treasury activities comprises of managing the Group's portfolio of investments, funds management, and interbank treasury operations, and brokerage services.

Others

Other operations of the Group include operations and support functions.

29 OPERATING SEGMENTS (CONTNUED)

31 December 2021	Corporate and institutional banking	Retail banking and wealth management	Treasury	Others	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
Net income from financing and investment products	343,745	1,338,867	12,210	16,367	1,711,189
Net fees, commission & other income	138,459	526,559	272,884	(251,096)	686,806
Total operating income	482,204	1,865,426	285,094	(234,729)	2,397,995
General administrative and other expenses	(74,539)	(690,245)	(20,630)	(405,686)	(1,191,100)
Net impairment loss	(144,704)	(216,939)	30,024	(52,191)	(383,810)
Net profit/(loss) for the year	262,961	958,242	294,488	(692,606)	823,085
Segment Assets	19,316,816	30,932,700	14,316,369	338,520	64,904,405
Segment Liabilities and Equity	10,422,561	39,663,574	894,332	13,923,938	64,904,405

29 OPERATING SEGMENTS (CONTNUED)

31 December 2020	Corporate and institutional banking	Retail banking and wealth management	Treasury	Others	Total
	AED 000	AED 000	AED 000	AED 000	AED 000
Net income from financing and investment products	325,371	1,304,637	4,743	59,201	1,693,952
Net fees, commission & other income	116,584	503,373	4,080	(229,968)	394,069
Total operating income	441,955	1,808,010	8,823	(170,767)	2,088,021
General administrative and other expenses	(89,314)	(670,334)	(23,676)	(300,618)	(1,083,942)
Net impairment loss	(660,388)	(742,382)	(31,273)	(52,261)	(1,486,304)
Net profit/(loss) for the year	(307,747)	395,294	(46,126)	(523,646)	(482,225)
Segment Assets	18,806,439	27,316,295	24,010,273	438,296	70,571,303
Segment Liabilities and Equity	14,002,223	35,703,561	5,685,449	15,180,070	70,571,303

30 COMMITMENTS AND CONTINGENCIES

The Group's commitments and contingencies are as follows:

	2021 AED 000	2020 AED 000
Letters of credit	477,237	535,446
Guarantees	4,565,004	4,530,505
Liability on risk participations	123,001	17,281
Irrevocable financing commitments*	1,788,982	1,203,841
	6,954,224	6,287,073

*Irrevocable financing commitments represent a contractual commitment to permit draw downs on a facility within a defined period subject to conditions precedent and termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled the total contract amounts do not necessarily represent exact future cash requirements.

As at 31 December 2021 ECL on unfunded exposures amounted to AED 19.5 million (2020: AED 75.15 million) in Stage 1 with exposure of AED 5,630 million (2020: AED 5,380 million) and AED 0.2 million (2020: AED 2.03 million) in Stage 2 with exposure of AED 109 million (2020: AED 365 million).

Unfunded exposure includes guarantees, standby letter of credits and irrevocable financing commitments.

(a) Acceptance

Under IFRS 9, acceptances are recognised on balance sheet with a corresponding liability. Accordingly, there is no off balance sheet commitment for acceptances.

(b) Capital Commitments

The Group has commitments as at 31 December 2021 for branch refurbishments and automation projects of AED 17.2 million (2020: AED 7.04 million).

31 RELATED PARTY TRANSACTIONS

The Group is owned by Emirates NBD (99.9%), which is partially owned by the Investment Corporation of Dubai (55.75%). The Government of Dubai is the major shareholder in Investment Corporation of Dubai.

Customer accounts from and financing to Government related entities, other than those that have been individually disclosed, amount to 18.5% and 5.1% (2020: 22.8 % and 5.0%) of the total customer's deposits and financing receivables of the Group, respectively.

These entities are independently run business entities, and all the financial dealings with the Group are on normal commercial terms.

The Group has also entered into transactions with certain other related parties who are non-government related entities. Such transactions were also made on substantially the same terms, including profit rates and collaterals, as those prevailing at the same time for comparable transactions with third parties and do not involve more than a normal amount of risk.

Key management personnel are those persons, including non-executive directors, having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and their immediate relations at the year end.

Related party balances and transactions are carried out on normal commercial terms and are as follows:

	2021 AED 000	2020 AED 000
Financing and other receivables		
To parent and related companies	265,997	1,692,942
To directors and related companies	8,139	2,141
To key management personnel and affiliates	3,287	4,133
	277,423	1,699,216
Customer deposits and other payables		
From ultimate parent company	10	10
From parent and related companies	1,943,970	5,971,863
From directors and related companies	107	152
From key management personnel and affiliates	2,978	1,933
	1,947,065	5,973,958
Investment securities and derivatives		
Investment in ultimate parent company	202,953	68,134
Positive fair value of derivative - Parent and related companies	64,747	36,961
Negative fair value of derivative - Parent and related companies	(70,862)	(96,557)
Notional amount of derivative - Parent and related companies	10,748,427	7,325,306
Group Consolidated Statement of Income		
Income from Group Holding Company	5,846	4,510
Recharges from group companies	(288,124)	(254,832)

The total amount of compensation paid to key management personnel of the Group during the year was as follows:

	2021 AED 000	2020 AED 000
Key management compensation		
Short term employee benefits	17,399	22,781
Post employment benefits	2,475	581

32 GEOGRAPHICAL DISTRIBUTION OF ASSETS AND LIABILITIES

The Group's financial position, before taking into account any collateral held or other credit enhancement, can be analysed by the following regions:

31 December 2021	UAE	Other GCC	International	Total
	AED 000	AED 000	AED 000	AED 000
ASSETS				
Cash and deposits with Central Bank	10,688,166	-	-	10,688,166
Due from banks	571,606	1,478,242	718,870	2,768,718
Investment securities	3,574,099	1,866,413	1,244,066	6,684,578
Financing Receivables	40,689,087	1,399,262	525,675	42,614,024
Customer acceptances	787,200	-	-	787,200
Investment properties	296,729	-	-	296,729
Property and equipment	281,873	-	-	281,873
Other assets	783,117	-	-	783,117
TOTAL ASSETS	**57,671,877**	**4,743,917**	**2,488,611**	**64,904,405**
LIABILITIES				
Due to banks	2,511,936	11,267	25,229	2,548,432
Customer deposits	46,271,882	582,140	415,039	47,269,061
Sukuk payable	3,672,500	-	-	3,672,500
Customer acceptances	787,200	-	-	787,200
Other liabilities	2,076,228	-	-	2,076,228
Total equity	8,550,984	-	-	8,550,984
TOTAL LIABILITIES AND EQUITY	**63,870,730**	**593,407**	**440,268**	**64,904,405**
Geographical distribution of letters of credit and guarantees	5,021,610	-	20,631	5,042,241

31 December 2020	UAE	Other GCC	International	Total
Geographical distribution of assets	64,614,821	3,891,145	2,065,337	70,571,303
Geographical distribution of liabilities and equity	69,798,862	209,193	563,248	70,571,303
Geographical distribution of letters of credit and guarantees	4,967,424	-	98,527	5,065,951

33 FINANCIAL ASSETS AND LIABILITIES

A. Classification of financial assets and financial liabilities

The table below sets out the Group's classification of each class of financial assets and liabilities, and their carrying values.

31 December 2021	FVTPL	FVOCI – sukuk instruments	Amortised cost	Total carrying value*
	AED 000	AED 000	AED 000	AED 000
Financial assets				
Cash and deposits with Central Banks	-	-	10,688,166	10,688,166
Due from banks	-	-	2,768,718	2,768,718
Investment securities	152,850	5,426,210	1,105,518	6,684,578
Financing receivables	-	-	42,614,024	42,614,024
Others	118,376	-	1,328,898	1,447,274
	271,226	5,426,210	58,505,324	64,202,760
Financial liabilities				
Due to banks	-	-	2,548,432	2,548,432
Customer deposits	-	-	47,269,061	47,269,061
Sukuk payable	-	-	3,672,500	3,672,500
Others	126,615	-	2,736,813	2,863,428
	126,615	-	56,226,806	56,353,421

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

33 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

A. Classification of financial assets and financial liabilities (continued)

31 December 2020	FVTPL	FVOCI – sukuk instruments	Amortised cost	Total carrying value*
	AED 000	AED 000	AED 000	AED 000
Financial assets				
Cash and deposits with Central Banks	-	-	19,633,539	19,633,539
Due from banks	-	-	3,651,734	3,651,734
Investment securities	160,190	3,590,693	1,076,324	4,827,207
Financing receivables	-	-	40,808,976	40,808,976
Others	131,842	-	760,667	892,509
	292,032	3,590,693	65,931,240	69,813,965
Financial liabilities				
Due to banks	-	-	7,813,910	7,813,910
Customer deposits	-	-	46,878,075	46,878,075
Sukuk payable	-	-	5,510,933	5,510,933
Others	142,334	-	2,374,047	2,516,381
	142,334	-	62,576,965	62,719,299

* The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values.

33 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments

The table below analyses financial instruments measured at fair value on a recurring basis. The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted prices (unadjusted) in principal markets for identified assets or liabilities.
- Level 2: valuation using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: valuation using inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
31 December 2021	AED 000	AED 000	AED 000	AED 000
Investment securities				
FVOCI - Sukuk instruments				
Government sukuk	269,067	-	-	269,067
Corporate sukuk	5,157,143	-	-	5,157,143
	5,426,210	-	-	5,426,210
Designated at FVTPL				
Corporate sukuk	-	-	-	-
Equity	-	-	149,858	149,858
Others	2,267	-	725	2,992
	2,267	-	150,583	152,850
Positive fair value of islamic derivatives	-	118,376	-	118,376
Negative fair value of islamic derivatives	-	(126,615)	-	(126,615)
	5,428,477	(8,239)	150,583	5,570,821

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Designated at FVTPL
	AED 000
Balance as at 1 January 2021	159,647
Total gains or losses:	
- in profit or loss	(8,849)
Purchases	-
Settlements and other adjustments	(215)
Balance as at 31 December 2021	150,583

33 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

B. Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
31 December 2020	AED 000	AED 000	AED 000	AED 000
Investment securities				
FVOCI - Sukuk instruments				
Government sukuk	148,407	-	-	148,407
Corporate sukuk	3,442,286	-	-	3,442,286
	3,590,693	-	-	3,590,693
Designated at FVTPL				
Corporate sukuk	-	-	-	-
Equity	-	-	157,032	157,032
Others	543	-	2,615	3,158
	543	-	159,647	160,190
Positive fair value of Islamic derivatives	-	131,842	-	131,842
Negative fair value of Islamic derivatives	-	(142,334)	-	(142,334)
	3,591,236	(10,492)	159,647	3,740,391

The following table shows a reconciliation from the beginning balances to the ending balances for the fair value measurements in Level 3 of the fair value hierarchy.

	Designated at FVTPL
	AED 000
Balance as at 1 January 2020	426,518
Total gains or losses:	
- in profit or loss	(270,829)
Purchases	4,515
Settlements and other adjustments	(557)
Balance as at 31 December 2020	159,647

The fair value of financial instruments classified as level 3 are, in certain circumstances, measured using valuation techniques that incorporate assumptions that are not evidenced by the prices from observable current market transactions in the same instrument and are not based on observable market data. The Group employs valuation techniques, depending on the instrument type and available market data. For example, in the absence of active market, an investment's fair value is estimated on the basis of an analysis of the investee's financial position and results, risk profile and other factors. Favourable and unfavourable changes in the value of financial instruments are determined on the basis of changes in the value of the instruments as a result of varying the levels of the unobservable parameters, quantification of which is judgmental.

There have been no transfers between Level 1 and Level 2 during the years ended 31 December 2021 and 31 December 2020.

34 NOTES TO THE GROUP CONSOLIDATED CASH FLOW STATEMENT

	2021 AED 000	2020 AED 000
(a) Analysis of changes in cash and cash equivalents during the year		
Balance at beginning of year	2,629,593	56,078
Net cash inflow/(outflow)	(2,573,163)	2,573,515
Balance at end of year	56,430	2,629,593
(b) Analysis of cash and cash equivalents		
Cash and deposits with Central Bank	10,688,166	19,633,539
Due from banks	2,773,017	3,668,230
Due to banks	(2,548,432)	(7,813,910)
	10,912,751	15,487,859
Less : Deposits with Central Bank for regulatory purposes	(2,727,438)	(2,416,725)
Less : Murabaha with Central Bank maturing after three months	(5,503,224)	(10,111,242)
Less : Amounts due from banks maturing after three months	(2,625,659)	(1,180,299)
Add : Amounts due to banks maturing after three months	-	850,000
	56,430	2,629,593
(c) Adjustment for non cash and other items		
Impairment loss / (reversal) on due from banks / other assets	(12,198)	14,858
Impairment loss / (reversal) on investment securities	(16,425)	17,877
Impairment loss on financing receivables	593,079	1,455,839
Impairment loss on unfunded exposures	(57,532)	56,668
Dividend income on equity investments	(5,973)	(14,594)
Depreciation / impairment on property and equipment / investment properties	154,805	163,627
Unrealized (gain) / loss on investments	7,087	269,784
Sukuk premium amortization	(2,183)	(5,238)
	660,660	1,958,821

35 CAPITAL MANAGEMENT AND ALLOCATION

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

Minimum Capital Requirements

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

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

For 2021, as per the TESS standards, until June 2022, CCB is required to be kept at 1.5% of the Capital base. CCyB is not in effect and is not required to be kept for 2021.

Regulatory Capital

The Group's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (‘T2’), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under the CBUAE guidelines.

- AT1 capital comprises eligible non-common equity capital instruments.

- T2 capital comprises qualifying subordinated debt, and undisclosed reserve.

35 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

The capital overview as per Basel III framework is given below:

	2021 AED 000	2020 AED 000
Available capital		
Common equity tier 1 capital	8,489,170	7,901,151
Tier 1 capital	8,489,170	7,901,151
Total eligible capital	9,010,133	8,399,230
Risk-weighted assets		
Credit risk	41,677,075	39,846,281
Market risk	61,961	29,578
Operational risk	3,919,991	3,950,030
Total risk-weighted assets	45,659,027	43,825,889

Capital Ratio	2021	2020
a. Total capital ratio for consolidated Group	19.73%	19.16%
b. Tier 1 ratio only for consolidated Group	18.59%	18.03%
c. CET1 ratio only for consolidated Group	18.59%	18.03%

35 CAPITAL MANAGEMENT AND ALLOCATION (CONTINUED)

The capital adequacy ratios as per Basel III capital regulation are given below:

	2021 AED 000	2020 AED 000
Common Equity Tier 1 (CET1) Capital		
Share Capital	5,430,422	5,430,422
Eligible reserves	1,284,644	1,207,524
Transitional arrangement: Partial addback of ECL impact to CET1	-	152,196
Retained earnings / (-) loss	1,774,104	1,111,009
CET1 capital before the regulatory adjustments and threshold deduction	**8,489,170**	**7,901,151**
Less: Regulatory deductions	-	-
Total CET1 capital after the regulatory adjustments and threshold deduction	**8,489,170**	**7,901,151**
Total CET1 capital after transitional arrangement for deductions (CET1) (A)	**8,489,170**	**7,901,151**
Additional Tier 1 (AT1) Capital		
Eligible AT1 capital	-	-
Other AT1 Capital (e.g. Share premium, non-controlling interest)	-	-
Total AT1 capital	**-**	**-**
Total AT1 capital after transitional arrangements (AT1) (B)	**-**	**-**
Tier 2 (T2) Capital		
Other Tier 2 capital (including General Provisions, etc.)	520,963	498,079
Total T2 Capital	**520,963**	**498,079**
Total T2 capital after transitional arrangements (T2) (C)	**520,963**	**498,079**
Total Regulatory Capital (A+B+C)	**9,010,133**	**8,399,230**

36 RISK MANAGEMENT

The primary risks to the Group arise from extending credit to corporate and institutional banking and retail banking and wealth management customers. The Group is also exposed to a range of other risk types such as market, operational, liquidity, compliance, reputational, country, market conduct risk and legal that drive the direction of its risk management strategy, product range and risk diversification strategies.

Group Risk Management Framework (GRMF):

The GRMF enables the Group to manage group-wide risks with the objective of maximizing returns while adhering to our risk appetite.

The Group uses a three lines of defense model to support its approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities. The three lines of defense are summarized below:

- Business units: required to ensure the effective management of risks within the scope of their direct organizational responsibilities. All employees within the business units are sufficiently trained and have access to appropriate tools to ensure risk-taking is controlled. Each business unit primarily owns the risk that it underwrites and is equally responsible for designing and implementing necessary controls to mitigate risks emanating from its activities.

- Risk control units: responsible for implementing policies and procedures, monitoring risks taken to ensure all risks are within the Group's risk appetite. Appropriate controls are designed and implemented with adequate reporting in place to anticipate future risks and improve the level of preparedness across the management chain.

- Group Internal Audit: provides independent assurance and reports its findings to all relevant management and governance bodies, accountable line managers, relevant oversight function and committee(s) of the Board.

A. Risk governance

The risk governance structure of the group ensures central oversight and control with clear accountability for and ownership of risk.

The Board of Directors (the Board) has the ultimate responsibility for setting Group's risk appetite and for the establishment and oversight of the Group's risk management framework. This is managed through a number of committees; namely Board Risk Committee (BRC), Board Credit & Investment Committee (BCIC) and Board Audit Committee (BAC). The management level committees also actively manage risk particularly the Group Risk Committee (GRC), Management Credit Committee (MCC), Management Investment Committee (MIC) and Asset Liability Management Committee (ALCO).

36 RISK MANAGEMENT (CONTINUED)

A. Risk governance (continued)

BRC comprises of members of the Board and is responsible for risk oversight responsibilities of the Board with regards to risk governance, risk appetite and the risk management framework.The BRC receives reports on risk management including portfolio trends, policies and standards, stress testing, liquidity and capital adequacy and is authorized to investigate or seek any information relating to any activity within its terms of reference.

BCIC supports the Board to manage the credit and investment portfolios of the Bank and is responsible for approval of credit and investment decisions above the MCC and MIC's authority. It oversees the execution of Group's credit risk management and reviews the credit profile of material portfolios to ensure that it is aligned with business strategy and risk appetite.

The primary role BAC is to have oversight and review of financial, audit and internal control issues as well as oversee the independence and performance of group's external and internal auditors.

MCC is management level committee which carries out credit facilities decisions including but not limited to approval and renewal of credit facilities, review and monitor portfolio performance in line with the credit risk strategy, decisions on debt settlement, provisioning write off and amendments to pricing, grades and waiver.

The role of the MIC is to support the Board in the management of the Investment Portfolios of the Group to ensure they conform to the strategic vision of the same and support the Board in monitoring and reporting the performance of these portfolios.

The ALCO is responsible for balance sheet management and quality of the funding plan as well as the management of capital and the establishment of, and compliance with, policies relating to balance sheet management, including management of our liquidity, capital adequacy and structural foreign exchange and profit rate risk. The committee also approves the contingency funding plan as well as the funds transfer pricing among other things.

The GRC is responsible for the management of all risks other than those delegated to MCC, MIC and ALCO and ensures the effective management of risk throughout the group in support of the group's business strategy and group's risk appetite. The committee approves risk policies and analytical models to ensure effective management of credit, market, operational, business continuity and reputational, compliance, market conduct risk and legal and other risks confronting the group.

B. The risk function

The GRMF is managed by the Enterprise and Regulatory Risk. The function is independent of the business (origination, trading and sales functions) to ensure that the necessary balance in risk/return decisions is not compromised by pressures for better results in terms of revenues and to ensure transparency of decisions in accordance with group standards and policies.

Group Risk assists in controlling and actively managing the Group's overall risk profile. The role of the function is:

- To ensure the risk management framework is effectively communicated and implemented across the Group and is appropriate to the Group's activities;
- To exercise direct ownership for various risk types including but not limited to credit, market, country, operational, reputational risks;
- To ensure that the Group's business strategies, risk policies, procedures and methodologies are consistent with the Group's risk appetite;
- To ensure the integrity of the Group's risk/return decisions guaranteeing their transparency;
- To ensure that appropriate risk management architecture and systems are developed and implemented.

36 RISK MANAGEMENT (CONTINUED)

C. Risk appetite

The Group Risk Appetite Statement (Group RAS) is an articulation of the risk that the Group would be willing to accept, underwrite and/or be exposed to in the normal course of its business conduct.

The Group RAS is a critical component and extension of the GRMF. It is a mechanism used by the Group to proactively establish and subsequently monitor the group's risk profile using a set of pre-defined key risk metrics and respective thresholds.

D. Credit risk

Credit risk is the risk of financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligation to the Group. Credit risk arises mainly from interbank, corporate and institutional banking and retail banking and wealth management receivables, and financing commitments arising from such financing activities, but can also arise from credit enhancement provided, such as financial guarantees, letter of credit, endorsement and acceptances.

The Group is also exposed to other credit risks arising from investments in financing securities (sukuk) and other exposures arising from derivatives as well as settlement balances with market counterparties and reverse repurchase agreements.

Credit risk management

Group's approach to credit risk management is based on the foundation of independence and integrity of risk management. This is ensured through a well-defined and robust organisation structure duly supported by various risk committees, forums, systems, policies, procedures and processes providing a strong risk infrastructure and management framework.

The Group's credit policy focuses on the core credit principles, financing guidelines and parameters, control and monitoring requirements, problem financing receivable identification, management of high risk counterparties and provisioning. Standard procedures specific to businesses are in place to manage various types of risks across different business segments, products and portfolios.

Portfolio performance is periodically measured against RAS parameters and breaches, if any, are actioned by the Group's Executive Committee.

Corporate and institutional Banking, Business Bank and Private Banking credit risk management

Credit facilities are granted based on the detailed credit risk assessment of the counterparty. The assessment considers amongst other things the purpose of the facility, sources of re-payment, prevailing and potential macro-economic factors, industry trends, customers' credit worthiness and standing within the industry.

The credit facility administration process is undertaken by an independent function to ensure proper execution of all credit approvals, maintenance of documentation and proactive controls over maturities, expiry of limits and collaterals.

Operations are managed by independent units responsible for processing transactions in line with credit approvals and standard operating guidelines.

Management of Early Alert (EA), Watch List (WL) & Impaired Non Performing Financing Receivables (NPFR) - The Group has a well-defined process for identification of EA, WL & NPFR accounts and dealing with them effectively. There are policies which govern credit grading of EA, WL & NPFR accounts and impairment, in line with IFRS and regulatory guidelines.

36 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Retail banking credit risk management

The Group has a structured management framework for Retail banking risk management. The framework enables the Group in identification and evaluation of the significance of all credit risks that the Group faces, which may have an adverse material impact on its financial position.

In the retail banking portfolio, losses stem from outright default due to inability or unwillingness of a customer to meet commitments in relation to funding transactions.

The Group's provisioning policy, which is in line with the IFRS and the regulatory guidelines, allows the Group to prudently recognize impairment on its retail portfolios.

Model risk management and independent validation

The Group has utilised models in many of its financial and business activities from underwriting a credit facility to reporting expected loss under the IFRS 9 accounting standards.

To manage the model risks, the Group has implemented the Group Model Governance Framework (the Framework). The Framework is a group wide policy and is applicable to models in all entities and subsidiaries of the Group. According to the Framework, all internally or externally (vendor based) developed risk quantification models that directly affect financial reporting, including Expected Loss (EL), Lifetime Expected Loss (LEL) and Regulatory requirements require independent validation.

The Framework establishes a systematic approach to manage the development, validation, approval, implementation and on-going use of the models. It sets out an effective management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework must be approved by the Board of Directors or the BRC.

The Group has an independent Group Model Validation (GMV) function that performs independent model validation. It provides Fit-for-Purpose (FFP), Conditional Approval (CA) or Not Fit-for-Purpose (NFFP) recommendation for the BRC or an appropriately delegated authority to approve the use of the new risk quantification / valuation models. In addition to new model validation, the validation function also evaluates the performance of existing models through an annual validation process. The independency of the team enables it to serve as an effective second line of defense for the bank.

36 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk management (continued)

Credit approving authorities

BCIC has delegated credit approving authorities to the MCC, MIC and members of senior management to facilitate and effectively manage the business. However, BCIC has retained the ultimate authority to approve credits beyond MCC authority.

Credit risk measurement

The estimation of credit risk for risk management purpose is complex and requires use of models, as the exposure varies with changes in market condition, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring and of the associated loss ratios. The Group measures credit risk using PD, EAD and LGD. This is similar to the approach used for the purpose of measuring ECL under IFRS 9.

Credit risk grading

The Group uses internal credit risk grading that reflects its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to various categories of counterparty. Obligor and financing receivable specific information collected at the time of facility application (such as disposable income, and level of collateral for retail exposure; and turnover and industry type considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated, such that the risk of default increases exponentially at each higher risk grade. For example, the difference in the PD between a 1A and 2A rating grade is lower than the difference in the PD between a 3A and 4A rating grade.

The following are additional considerations for each type of portfolio held by the Group:

Retail:

After the date of initial recognition, for retail business, the payment behavior of the obligor is monitored on a periodic basis to develop a behavioral score. Any other known information about the obligor which impacts their credit worthiness such as: unemployment and previous delinquency history is also incorporated into the behavior score. This score is mapped to a PD.

Corporate and institutional Banking, Business Banking and Private Banking:

Ratings are determined at the obligor level for these segments. A relationship manager incorporates any updated or new information/credit assessment into the credit system on an ongoing basis. In addition, the relationship manager also updates information about the creditworthiness of the obligor every year from sources such as public financial statements. This will determine the updated internal credit rating and PD.

Treasury:

For financing securities (sukuk) in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PDs associated with each grade are determined based on realized default rates over the prior 12 months, as published by the rating agency.

The Group's rating method comprises 24 rating levels for instruments not in default (1 to 24) and 4 default classes (25 to 28). The Group's internal rating scale are mapped with external ratings. The master scale assigns each rating category a specified range of probabilities of default, which is stable over the time. The rating models are reviewed for recalibration so that they reflect the latest projections in the light of all actually observed defaults.

36 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

ECL measurement

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

- A financial instrument that is not credit-impaired on initial recognized is classified in Stage 1 and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk (‘SICR’) since initial recognition is identified, the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.
- Financial instrument in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on a lifetime basis.
- ECL is measured after factoring forward-looking information.
- ECL on Purchase or originated credit-impaired financial assets is measured on a lifetime basis.

Significant increase in credit risk
The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

Corporate and Institutional Banking, Business Banking and Private Banking:
Significant increase in credit risk is measured by comparing the risk of default estimated at origination with the risk of default at reporting date.

Retail:
Thresholds have been set for each portfolio based on historical default rates. Facilities exceeding the threshold are considered for significant increase in credit risk.

Qualitative criteria:
The Group also considers in its assessment of significant increase in credit risk, various qualitative factors like significant adverse changes in business, extension of term granted, actual and expected forbearance or restructuring, early sign of cash flows and liquidity problems.

Backstop:
A backstop is applied and the financial instrument considered to have experienced a significant increase in credit risk if the obligor is more than 30 days past due on its contractual payments.

Definition of default and credit-impaired assets
The Group defines a financial instrument as in default, which is fully aligned with definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative:
The obligor is more than 90 days past due on its contractual payments.

Qualitative:
The obligor meets unlikeliness to pay criteria, which indicates the obligor is in significant financial difficulty. These are instances like long-term forbearance, obligor is insolvent, obligor is entering bankruptcy etc.

36 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Curing

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 4 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 such exposures from Stage 3 to 2.

Measuring ECL- Explanations of input, assumptions and estimation techniques

ECL inputs (PD, EAD and LGD) are adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in earlier year) on annual basis. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in ECL computation is the original effective profit rate or an approximation thereof.

The Lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the financing receivable. The maturity profile is based on historical observed data.

The EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment financings, this is based on the contractual repayments owed by the obligor over the 12 months and lifetime basis. This is also adjusted for any overpayments made by the obligor.
- For revolving products, the EAD is predicted by taking current drawn balance and adding a credit conversion factor which allows for the expected drawdown of the remaining limit by the time of default.

LGDs are computed at facility level. These are based upon information such as exposure, collateral and other criteria’s depending upon business segment. In addition, the final LGD is conditioned upon macro-economic outlook.

Forward looking economic information is also included in determining the 12 month and lifetime PD, EAD and LGD.

Forward-looking information incorporated in the ECL model

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio.

These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecast of these economic variables (the “base, upside and downside economic scenario along with scenario weighting”) are obtained externally on a quarterly basis.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

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

36 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Credit risk monitoring

Corporate and Institutional Banking, Business Banking and Private Banking: the Group's exposures are continuously monitored through a system of triggers and early warning signals. These are supplemented by monitoring of account conduct, assessment of collateral and market intelligence and early alerts.

Early Alert accounts are identified based on oversight, vigilance and risk triggers. Account strategy and action plans on these accounts are regularly monitored and discussed in the Early Alert Committee meetings.

Additionally for IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by IFRS 9 Governance Forum.

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

Group credit risk mitigation strategy

The Group operates within prudential exposure ceilings set by the Board in line with the UAE Central Bank guidelines. There are well laid out processes for exception management and escalation.

The Group has adopted measures to diversify the exposures to various sectors. Diversification is achieved by limiting concentration through setting customer, industry and geographical limits.

The risk transfer in the form of syndicated financings and risk participation agreements with other banks are globally accepted practices followed by the Group, where appropriate, to limit its exposure.

36 RISK MANAGEMENT (CONTINUED)

D. Credit Risk (continued)

Credit risk measurement (continued)

Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Group seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables, gold and vehicles.

Collaterals are revalued regularly as per the Group's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Group to assess the fair market value of the collateral and ensure that risks are appropriately managed. Security structures and legal covenants are also subject to regular review.

Please refer to Pillar 3 disclosures for additional information on collaterals.

Write offs

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

Non performing consumer financing, except for mortgage facilities and home financing, are written off at 181 days past due. All receivables remain active on the financing management system for recovery and any legal strategy the Group may deem fit to use.

36 RISK MANAGEMENT (CONTINUED)

D. Analysis by economic activity for assets:

The Group monitors concentrations of credit risk by economic activity sector. The analysis by economic activity is as follows:

	2021		2020	
	Financing receivables	Others	Financing receivables	Others
Manufacturing	2,072,734	309,559	1,830,294	-
Construction	780,129	340,839	760,732	363,901
Trade	5,185,066	-	6,127,281	-
Transport and communication	886,282	961,034	864,043	675,792
Services	795,701	558,729	975,313	368,843
Sovereign	502,451	1,203,494	482,770	1,177,694
Personal	29,513,889	-	27,831,259	-
Real estate	2,255,453	43,402	3,540,572	543
Hotels and restaurants	33,564	-	43,260	-
Management of companies and enterprises	2,630,980	-	1,462,368	-
Financial institutions and investment companies	1,425,390	5,958,245	783,249	5,851,071
Others	2,261,930	97,660	2,027,457	89,386
Total Assets	48,343,569	9,472,962	46,728,598	8,527,230
Less: Deferred Income	(1,310,471)	-	(1,587,797)	-
Less: Expected credit loss	(4,419,074)	(19,666)	(4,331,825)	(48,289)
	42,614,024	**9,453,296**	**40,808,976**	**8,478,941**

Others includes due from banks and investment securities.

36 RISK MANAGEMENT (CONTINUED)

E. Classification of investment securities as per their external ratings

As of 31 December 2021

Ratings	Designated at FVTPL	FVOCI – sukuk instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000
AAA	-	-	55,088	55,088
AA- to AA+	-	604,977	92,403	697,380
A- to A+	-	2,795,187	667,976	3,463,163
Lower than A-	-	1,732,204	242,208	1,974,412
Unrated	152,850	305,641	51,411	509,902
Less: Expected credit loss	-	(11,799)	(3,568)	(15,367)
	152,850	5,426,210	1,105,518	6,684,578

Of which issued by:

	Designated at FVTPL	FVOCI – sukuk instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000
Governments	-	269,486	934,008	1,203,494
Public sector enterprises	-	4,126,888	82,675	4,209,563
Private sector and others	152,850	1,041,635	92,403	1,286,888
Less: Expected credit loss	-	(11,799)	(3,568)	(15,367)
	152,850	5,426,210	1,105,518	6,684,578

36 RISK MANAGEMENT (CONTINUED)

F. Classification of investment securities as per their external ratings (continued)

As of 31 December 2020

Ratings	Designated at FVTPL	FVOCI – sukuk instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000
AAA	-	-	-	-
AA- to AA+	-	237,834	64,276	302,110
A- to A+	-	2,121,138	639,164	2,760,302
Lower than A-	-	1,042,975	324,608	1,367,583
Unrated	160,190	217,400	51,415	429,005
Less: Expected credit loss	-	(28,654)	(3,139)	(31,793)
	160,190	3,590,693	1,076,324	4,827,207

Of which issued by:

	Designated at FVTPL	FVOCI – sukuk instruments	Amortised cost	Total
	AED 000	AED 000	AED 000	AED 000
Governments	-	149,015	964,402	1,113,417
Public sector enterprises	-	2,509,403	50,784	2,560,187
Private sector and others	160,190	960,929	64,277	1,185,396
Less: Expected credit loss	-	(28,654)	(3,139)	(31,793)
	160,190	3,590,693	1,076,324	4,827,207

36 RISK MANAGEMENT (CONTINUED)

G. Risk gross maximum exposure:

The table below shows the gross maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of use of master netting and collateral agreements.

	2021 AED 000	2020 AED 000
Deposits with Central Bank	10,202,970	19,260,873
Due from banks	2,768,718	3,651,734
Investment securities	6,684,578	4,827,207
Financing receivables	42,614,024	40,808,976
Customer acceptances	787,200	504,666
Other assets	265,825	263,741
Total (A)	63,323,315	69,317,197
Contingent liabilities	5,165,242	5,083,232
Irrevocable commitments	1,788,982	1,203,841
Total (B)	6,954,224	6,287,073
Total credit risk exposure (A + B)	70,277,539	75,604,270

36 RISK MANAGEMENT (CONTINUED)

H. Credit quality analysis:

The following table sets out information about the credit quality of financial assets measured at amortised cost. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

AED 000 31 December 2021	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Financing receivables				
Balance at 1 January	40,013,841	1,074,777	4,052,183	45,140,801
Transfers from stage 1	(570,219)	525,145	45,074	-
Transfers from stage 2	225,105	(389,361)	164,256	-
Transfers from stage 3	-	1,342	(1,342)	-
New financial assets, net of repayments and others	2,620,303	(311,555)	96,698	2,405,446
Amounts written off during the year	-	-	(513,149)	(513,149)
Total gross financing receivables	42,289,030	900,348	3,843,720	47,033,098
Expected credit losses	(717,111)	(249,248)	(3,452,715)	(4,419,074)
Carrying amount	41,571,919	651,100	391,005	42,614,024
By business units				
Corporate Banking	14,404,869	595,205	3,393,781	18,393,855
Retail Banking	27,884,161	305,143	449,939	28,639,243
Total gross financing receivables	42,289,030	900,348	3,843,720	47,033,098

AED 000 31 December 2020	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Financing receivables				
Balance at 1 January	36,080,242	2,034,020	3,113,226	41,227,488
Transfers from stage 1	(1,827,201)	687,959	1,139,242	-
Transfers from stage 2	836,292	(1,192,716)	356,424	-
Transfers from stage 3	18	11	(29)	-
New financial assets, net of repayments and others	4,924,490	(454,497)	298,276	4,768,269
Amounts written off during the year	-	-	(854,956)	(854,956)
Total gross financing receivables	40,013,841	1,074,777	4,052,183	45,140,801
Expected credit losses	(746,624)	(289,288)	(3,295,913)	(4,331,825)
Carrying amount	39,267,217	785,489	756,270	40,808,976
By business units				
Corporate Banking	14,969,448	542,669	3,438,361	18,950,478
Retail Banking	25,044,393	532,108	613,822	26,190,323
Total gross financing receivables	40,013,841	1,074,777	4,052,183	45,140,801

The stage 1 and stage 2 are performing financing receivables having grades 1a- 4f while stage 3 is non-performing financing receivable having grades 5a- 5d.

Corporate Banking – Performing includes AED Nil (2020: AED 34.3 million) for exposure against watchlist customers.

36 RISK MANAGEMENT (CONTINUED)

I. Amount arising from ECL

Financing receivables	31 December 2021				31 December 2020			
AED 000	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Balance at 1 January	746,624	289,288	3,295,913	4,331,825	601,167	371,946	2,757,829	3,730,942
Transfers from Stage 1	(27,774)	23,362	4,412	-	(35,027)	17,759	17,268	-
Transfers from Stage 2	60,630	(72,541)	11,911	-	103,140	(243,264)	140,124	-
Transfers from Stage 3	-	-	-	-	7	5	(12)	-
Allowances for impairment made during the year	(62,369)	9,139	777,807	724,577	77,337	142,842	1,345,048	1,565,227
Write back / recoveries made during the year	-	-	(131,498)	(131,498)	-	-	(109,388)	(109,388)
Amounts written off during the year	-	-	(513,149)	(513,149)	-	-	(854,956)	(854,956)
Exchange and other adjustments	-	-	7,319	7,319	-	-	-	-
Closing Balance	**717,111**	**249,248**	**3,452,715**	**4,419,074**	**746,624**	**289,288**	**3,295,913**	**4,331,825**

The contractual amount outstanding on financing receivables which were written off during the year, and are still subject to enforcement activity amounted to AED 513 million.

36 RISK MANAGEMENT (CONTINUED)

I. Amount arising from ECL (continued)

Covid-19 and Expected Credit Loss (ECL)

Novel coronavirus (Covid-19) continues to disrupt businesses and economic activity in 2021. In response, governments and central banks extended economic support and relief measures (including payment deferrals) launched last year to lessen the impact on individuals and corporates.

In determination of ECL for the year 2021, the Group has considered potential impact caused by Covid-19 pandemic (based upon available information) and taken into account economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the Central Bank of the UAE with regards to the 'Targeted Economic Support Scheme (TESS)' and 'Treatment of IFRS9 Expected Credit Loss in the context of Covid-19 crisis' as well as the guidance issued by the International Accounting Standards Board (IASB).

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

Significant Increase in Credit Risk (SICR)

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

The Group continues to assess obligors for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of Covid-19 or long term.

The Group continues to support its impacted customers through a program of payment relief that was initiated in 2020 by deferring profit/principal due. These payment reliefs are considered as short-term liquidity support to address obligor cash flow issues. The Group believes that availing payment reliefs does not automatically trigger SICR where the impact on customer's business is expected to be short term. For all other customers, the Group continues to consider severity and extent of potential Covid-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR.

The accounting impact of the extension of credit facilities due to Covid-19 has been assessed and has been treated as per the requirements of IFRS 9 for modification of terms of arrangement.

Forward Looking Information

For the year 2021, the Group has assessed the macro-economic scenarios and associated weights and analyzed their impact on ECL estimates. Accordingly, updated MEVs were used with the associated weights remaining unchanged from those used at year end 2020. The Group has also applied portfolio-level ECL adjustments to retail customers availing deferrals based upon employment status and level of salary inflows. The Group continues to assess individually significant exposures for any adverse movements due to Covid-19.

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

36 RISK MANAGEMENT (CONTINUED)

J. Deferral amount and outstanding balances of UAE customers

During 2020, the Group drew AED 1,650 million of Zero Cost Funding under the CBUAE TESS program and repaid the full amount by 31 December 2021.

As at 31 December 2021, the total deferrals provided to customers was AED 2,528 million out of which AED 1,369 million has been repaid till date resulting in active deferrals amounting to AED 1,159 million. Total outstanding exposure of the customers availing deferrals amounts to AED 10,600 million. There are no active deferrals related to the TESS program.

Analysis of customers benefiting from payment deferrals

Deferral amount and outstanding balances of UAE customers

	31 December 2021			
	Financing receivables			
AED 000	**Number of deferral customers /accounts**	**Payments deferred**	**Exposures**	**Expected Credit Losses**
Corporate and Institutional banking				
Stage 1	85	1,154,047	3,938,097	113,887
Stage 2	13	334,396	546,688	123,666
Stage 3	18	324,275	766,961	683,335
	116	1,812,718	5,251,746	920,888
Group 1	89	1,243,143	4,119,806	190,267
Group 2	27	569,575	1,131,940	730,621
	116	1,812,718	5,251,746	920,888
Retail banking and Wealth Management				
Stage 1	36,592	584,392	5,008,948	118,514
Stage 2	3,506	100,848	207,372	55,980
Stage 3	17	30,012	131,962	63,959
	40,115	715,252	5,348,282	238,453
Group 1	36,606	594,092	5,035,709	122,811
Group 2	3,509	121,160	312,573	115,642
	40,115	715,252	5,348,282	238,453
Total	40,231	2,527,970	10,600,028	1,159,341

36 RISK MANAGEMENT (CONTINUED)

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

The Central Bank of the UAE 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
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	625,156	600,319
Less: Stage 1 and Stage 2 provisions under IFRS 9	(966,359)	(1,035,912)
General provision transferred to the impairment reserve*	-	-
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	3,250,031	3,073,453
Less: Stage 3 provisions under IFRS 9	(3,452,715)	(3,295,913)
Specific provision transferred to the impairment reserve*	-	-
Total provision transferred to the impairment reserve	-	-

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

36 RISK MANAGEMENT (CONTINUED)

L. Market risk

Market risk is the potential for adverse changes in the market value of portfolio and positions due to fluctuations in profit rates, exchange rates, equity prices, commodity prices, as well as in their correlation and implied volatility. Consistent with the Group's approach to strict compliance with Shariah rules and principles, the Group does not involve in speculative foreign exchange transactions.

The Group's market risk is managed through risk limits set by the ALCO and approved by the Board Risk Committee. Risk limits are reviewed by the ALCO on an annual basis and are monitored independently by the Market Risk unit on a regular basis, and exceptions, if any, are reported to senior management.

Value-at-Risk

To better capture the multi-dimensional aspects of market risk, the Group's primary market risk metric is a statistical one, Value-at-Risk (VaR), which is used for short-term risk holding periods. VaR metrics are calculated daily for the specific asset classes, such as Profit Rate VaR, Foreign Exchange VaR and Total VaR

i. Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group is not significantly exposed to currency risk since the majority of the assets and liabilities of the Group are denominated predominately in either AED or in USD-pegged currencies from other GCC countries.

ii. Price risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The effect on equity due to reasonably possible change in equity indices, with all other variables held constant, is as follows:

	2021			2020		
	% Change in market indices	Effect on net profit	Effect on OCI	% Change in market indices	Effect on net profit	Effect on OCI
		AED 000	AED 000		AED 000	AED 000
Equity	10	15,285	-	10	16,019	-
Sukuk	10	-	542,621	10	-	359,069

36 RISK MANAGEMENT (CONTINUED)

M. Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. This definition includes legal risks (described as exposure to fines, penalties and punitive damages resulting from supervisory actions, as well as private settlements), regulatory risks, and the risk arising from change initiatives.

Operational Risk Governance Framework
The Group applies a three line of defense model for operational risk management. The business and support units form the first line of defense. They have the primary responsibility and accountability for identifying operational risk in their areas and to promptly mitigate any issues.

The Operational Risk function as the second line of defense, provide consistent and standardized methods and tools to business and support functions for managing operational risk. The Group Operational Risk unit monitors the risk management process and compliance to the operational risk policies and procedures. It conducts independent analysis of the operational risk exposure and the bank's mitigating strategies.

Internal Audit acts as the third line of defense, provides independent assurance to the Board of Directors.

Operational Risk Management Process
The Group has set up the Operational Risk function within Risk Management Team to establish the framework and governance structure set out in the operational risk policy. The risk management process comprises mainly of the below elements:

- Risk Assessment
- Risk Monitoring and Review
- Risk Treatment
- Risk Reporting

This function develops and implements the methods for the identification, assessment and monitoring of Operational Risk throughout the Group and provides regular and comprehensive reporting on operational risks to senior management. The function supports business and other support units to monitor and manage their individual operational risks. Furthermore, the Group Operational Risk function also provides analysis and reports on operational risks to management committees (Board Risk Committee, Group Risk Committee, Local Risk Committee), and to the CBUAE as per regulations, guidelines / circulars and conducts independent oversight and monitoring of risks and mitigating measures.

Insurance Management
The Group obtains comprehensive and tailored insurance cover to protect the Group against unexpected and unforeseeable losses. Islamic insurance cover is obtained from high rated insurance companies in the international reinsurance market. The requirements for insurance are reviewed periodically and the insurance cover is aligned to changes of the Group's risk exposure.

Fraud Management
The Board and Management are determined to build and maintain a credible defense to the threat posed by fraud.

In line with the evolving banking technologies and digital landscape, management has recognized the need for greater focus on anti-fraud capabilities of the Group. As such the bank is continuously investing into advanced systems and controls for the interdiction of frauds perpetrated against the bank. The bank has increased monitoring and enhanced detective controls to manage fraud risks, which arise from new technologies and new methods of banking.

The Group has a specialized Fraud Prevention and Investigation (FP&I) team which focuses on investigation of fraud attempts against the bank, spreading fraud awareness to stakeholders, identification and mitigation of fraud risks. The team has independent reporting to Board Risk Committee.

The Group has policies and procedures in place to ensure compliance with prevailing legislation and limit risk, including the risk of fraud.

36 RISK MANAGEMENT (CONTINUED)

M. Operational risk (continued)

Whistleblowing

The Group is committed to the highest standards of openness, integrity and accountability in the delivery of its services. Whilst the Group has instituted a wide range of rules, regulations, procedures and codes of practice to deliver on its commitments, fraud, malpractice, abuse and/or wrongdoing may unfortunately occur.

As such, the Group as part of 'Whistleblowers Policy', provides the platform to employees for reporting of malpractices. The policy is designed to encourage employees to report suspected internal fraud and other breaches, through specified channels, while safeguarding the employee from retribution.

Cyber Security Management

Emirates Islamic considers Information and related processes, systems, and networks as an important and valuable asset. These assets are required to be protected to ensure their confidentiality, availability and integrity at all times.

The Group has established a comprehensive cyber security framework based on three line of defense model.

The framework ensures Emirates Islamic is resilient to sustain cyber security threats in an evolving and increasingly complex digital environment.

Business Continuity Management

Business Continuity Management (BCM) is defined as a "holistic management process that identifies potential threats to an organization and the impacts to business operations that those threats, if realized, might cause, and which provides a framework for building organizational resilience with the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities."

The business continuity process across the Group is based on the international standard ISO22301:2012 (E). The BRC is responsible for providing oversight and strategy for Business Continuity Management. Business and support units are responsible to ensure appropriate Business Continuity Plans are in place and tested for their respective areas. The effectiveness of the Business Continuity Plans is monitored independently by Group Operational Risk.

36 RISK MANAGEMENT (CONTINUED)

N. Liquidity risk

Liquidity Risk refers to the inability of the Group to fund an increase in assets and meet obligations as they become due (Structural Funding Risk), or the inability to convert assets into cash at reasonable prices (Market Liquidity Risk). The risk arises from mismatches in the amount and timings of cash flows.

Objectives and Governance structure

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments (under both normal and stressed conditions) can be met when due, and that access to the wholesale markets is coordinated and cost effective. To this end, the Group maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Group to respond quickly and smoothly to unforeseen liquidity requirements.

Policies and Procedures

Specifically, liquidity and funding management process includes:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- mis-match analysis between assets and liabilities for different periods with a focus on shorter time frames. These gap reports are based on contractual cash flow, retention and decay assumptions for non-maturing assets and liabilities and potential liquidity demand through undrawn commitments;
- monitoring balance sheet liquidity and financing recievables to deposits ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with back-up facilities;
- managing the concentration and profile of financing maturities;
- maintaining financing plans;
- monitoring customer depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of distress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis, while minimising adverse long-term implications for the business.

36 RISK MANAGEMENT (CONTINUED)

O. Maturity analysis of assets and liabilities

The table below summarizes the maturity profile of the Group's assets and liabilities based on their carrying values:

31 December 2021	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Undated and Over 5 years	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
ASSETS						
Cash and deposits with Central bank	7,136,411	3,551,755	-	-	-	10,688,166
Due from banks	1,576,041	1,192,677	-	-	-	2,768,718
Investment securities	197,353	501,496	1,893,414	2,046,187	2,046,128	6,684,578
Financing receivables	12,880,052	6,124,835	8,816,641	4,444,385	10,348,111	42,614,024
Investment properties	-	-	-	-	296,729	296,729
Customer acceptances	787,200	-	-	-	-	787,200
Property and equipment	-	-	-	-	281,873	281,873
Other Assets	178,575	31,053	13,459	50,748	509,282	783,117
TOTAL ASSETS	**22,755,632**	**11,401,816**	**10,723,514**	**6,541,320**	**13,482,123**	**64,904,405**

36 RISK MANAGEMENT (CONTINUED)

O. Maturity analysis of assets and liabilities (continued)

31 December 2021	Within 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Undated and Over 5 years	Total
	AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
LIABILITIES						
Due to banks	984,308	-	-	-	1,564,124	2,548,432
Customer deposits	42,970,500	3,159,296	419,784	651,121	68,360	47,269,061
Sukuk payable	-	-	-	3,672,500	-	3,672,500
Customer acceptances	787,200	-	-	-	-	787,200
Other liabilities	907,680	32,151	15,524	45,752	1,075,121	2,076,228
Total equity	-	-	-	-	8,550,984	8,550,984
TOTAL LIABILITIES AND EQUITY	45,649,688	3,191,447	435,308	4,369,373	11,258,589	64,904,405
OFF BALANCE SHEET						
Letters of credit and guarantees	3,111,211	1,447,656	391,990	66,298	25,086	5,042,241
31 December 2020						
ASSETS	28,041,477	12,546,371	10,601,341	6,900,150	12,481,964	70,571,303
LIABILITIES AND EQUITY	48,309,442	9,173,075	218,817	2,275,544	10,594,425	70,571,303
OFF BALANCE SHEET ITEMS	3,599,695	869,168	559,803	10,319	26,966	5,065,951

36 RISK MANAGEMENT (CONTINUED)

P. Analysis of financial liabilities by remaining contractual maturities

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

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	2,548,432	(2,548,440)	(984,316)	-	-	-	(1,564,124)
Customer deposits	47,269,061	(47,359,688)	(42,987,668)	(3,179,971)	(453,527)	(667,861)	(70,661)
Sukuk payable	3,672,500	(3,986,874)	(17,945)	(54,831)	(145,751)	(3,768,347)	-
	53,489,993	(53,895,002)	(43,989,929)	(3,234,802)	(599,278)	(4,436,208)	(1,634,785)
Letters of credit and guarantees	5,042,241	(5,042,241)	(3,111,211)	(1,447,656)	(391,990)	(66,298)	(25,086)
Irrevocable financing commitments	1,788,982	(1,788,982)	(1,477,327)	(156,697)	(116,030)	(17,151)	(21,777)

36 RISK MANAGEMENT (CONTINUED)

P. Analysis of financial liabilities by remaining contractual maturities (continued)

As at December 2020

	Carrying amount AED 000	Gross nominal outflows AED 000	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year to 3 years AED 000	Over 3 years to 5 years AED 000	Over 5 years AED 000
Financial liabilities							
Due to banks	7,813,910	(7,814,658)	(5,758,770)	(184,642)	-	-	(1,871,246)
Customer deposits	46,878,075	(46,964,735)	(41,026,405)	(5,331,763)	(212,254)	(374,174)	(20,139)
Sukuk payable	5,510,933	(5,726,240)	(40,908)	(3,721,776)	(68,149)	(1,895,407)	-
	60,202,918	(60,505,633)	(46,826,083)	(9,238,181)	(280,403)	(2,269,581)	(1,891,385)
Letters of credit and guarantees	5,065,951	(5,065,951)	(3,599,695)	(869,168)	(559,803)	(10,319)	(26,966)
Irrevocable financing commitments	1,203,841	(1,203,841)	(966,886)	(69,892)	(43,435)	(5,860)	(117,768)

36 RISK MANAGEMENT (CONTINUED)

Q. Profit rate risk in the banking book

Profit Rate Risk in the Banking Book ('PRRBB') is defined as the exposure of the non-trading products of the Group to profit rates. Non-trading portfolios include all banking book positions that arise from the profit rate on the Group's retail and commercial banking assets and liabilities, and financial investments designated as available for sale and amortised cost / held to maturity. PRRBB arises principally from mismatches between the future yields on assets and their funding costs, as a result of profit rate changes.

In order to manage this risk optimally, PRRBB in non-trading portfolios is transferred to Group Treasury under the supervision of the Group ALCO, through Funds Transfer Pricing (FTP) Systems. Group ALCO is required to regularly monitor all such profit rate risk positions to ensure they comply with profit rate risk limits.

For measuring overall profit sensitivity in the banking book, the Group conducts stress tests by simulating parallel shifts to the yield curve(s) ranging from 50 basis points to 200 basis points, and assessing the corresponding impact on its net income from financing and investment products.

	As at 31 December 2021		As at 31 December 2020	
	Amount	Variance	Amount	Variance
Rates Up 200 bp	2,178,486	285,730	1,917,888	247,424
Base Case	1,892,756	-	1,670,464	-
Rates Down 200 bp	1,612,628	(280,129)	1,485,722	(184,742)

The profit rate sensitivities set out in the table above are based on a set scenario i.e. the projections above assume that profit rates of all maturities move by the same amount and, therefore, do not reflect the potential effect on net income from financing and investment products of some rates changing while others remain unchanged. The projections also make the assumption that all positions run to maturity. This effect does not incorporate actions that would be taken by Group Treasury or in the business units to mitigate the impact of this profit rate risk. In practice, Group Treasury seeks proactively to change the profit rate risk profile to minimize losses and optimize net revenues.

36 RISK MANAGEMENT (CONTINUED)

R. Profit rate repricing analysis*

31 December 2021	Less than 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year	Non-profit bearing	Total
	Actual	Actual	Actual	Actual	Actual	Actual	AED 000
ASSETS							
Cash and deposits with Central Bank	2,451,281	1,400,580	2,801,172	750,583	-	3,284,550	10,688,166
Due from banks	2,330,308	129,502	63,375	146,146	-	99,387	2,768,718
Investment securities	-	194,362	378,419	123,077	5,835,870	152,850	6,684,578
Financing receivables	12,402,474	14,293,465	4,250,229	3,540,701	8,127,155	-	42,614,024
Investment properties	-	-	-	-	-	296,729	296,729
Customer acceptances	-	-	-	-	-	787,200	787,200
Property and equipment	-	-	-	-	-	281,873	281,873
Other assets	-	-	-	-	-	783,117	783,117
TOTAL ASSETS	17,184,063	16,017,909	7,493,195	4,560,507	13,963,025	5,685,706	64,904,405

*Represents when the profit rate will be repriced for each class of assets and liabilities.

36 RISK MANAGEMENT (CONTINUED)

R. Profit rate repricing analysis (continued)

31 December 2021	Less than 1 month	Over 1 month to 3 months	Over 3 months to 6 months	Over 6 months to 1 year	Over 1 year	Non-profit bearing	Total
	Actual	Actual	Actual	Actual	Actual	Actual	AED 000
LIABILITIES AND EQUITY							
Due to banks	925,460	-	-	-	-	1,622,972	2,548,432
Customer deposits	16,560,115	4,545,606	1,246,441	1,912,854	1,139,264	21,864,781	47,269,061
Sukuk payable	-	-	-	-	3,672,500	-	3,672,500
Customer acceptances	-	-	-	-	-	787,200	787,200
Other liabilities	-	-	-	-	-	2,076,228	2,076,228
Total equity	-	-	-	-	-	8,550,984	8,550,984
TOTAL LIABILITIES AND EQUITY	17,485,575	4,545,606	1,246,441	1,912,854	4,811,764	34,902,165	64,904,405
ON BALANCE SHEET GAP	(301,512)	11,472,303	6,246,754	2,647,653	9,151,261	(29,216,459)	-
PROFIT RATE SENSITIVITY GAP – 2021	(301,512)	11,472,303	6,246,754	2,647,653	9,151,261	(29,216,459)	-
CUMULATIVE PROFIT RATE SENSITIVITY GAP – 2021	(301,512)	11,170,791	17,417,545	20,065,198	29,216,459	-	-
CUMULATIVE PROFIT RATE SENSITIVITY GAP – 2020	(2,908,519)	11,184,852	12,259,187	14,704,452	23,315,493	-	-

*Represents when the profit rate will be repriced for each class of assets and liabilities.

36 RISK MANAGEMENT (CONTINUED)

S. Reputational risk

Reputational risk is the risk of potential loss of earnings and future revenue, loss in market value or lack of liquidity supply due to deterioration of reputation. It also includes the threat to the brand value of a financial institution. It also arises due to non-compliance with Internal Shariah Supervision Committee's resolution and Fatwas while taking administrative decisions, products or executing financial products contracts.

Reputational risk can arise as a consequence of failures with a strong negative perception amongst clients, shareholders, creditors or the public. The Group has measures to ensure a positive perception of the Group and that overall risk management ensures appropriate management of reputational risk.

T. ICAAP and Stress-Testing

Stress testing is an integral part of the Group's risk management process. It includes scenario analysis and is conducted regularly. In particular, the ICAAP (a group-wide exercise spanning risk types) is performed annually. On top of this, additional stress tests are carried out in response to microeconomic and macroeconomic conditions or portfolio and branch/subsidiary level. Every stress test is documented and the results are discussed at the EXCO level and approved by the GRC and the BRC.

Stress testing alerts senior management to the Group's potential vulnerability to exceptional but plausible adverse events. As such, stress testing enable us to assess capital adequacy and identify potential risky portfolio segments as well as inherent systematic risks. This then allows us to develop the right contingency plans, exit strategies and mitigating actions beforehand.

U. Regulatory/compliance risk

Regulatory/Compliance risk is the risk of reputational and/or financial losses due to the failure to comply with applicable laws, regulations or sanctions.

The Group has an independent Compliance function, with the necessary mandate and authority to enforce and monitor compliance on a Group wide basis. This includes compliance with the applicable laws and regulations across the various jurisdictions where the Group operates as well as those of the USD / EU clearing centres.

Compliance policies covering key areas such as Sanctions, Anti Money Laundering (AML), Counter Terrorist Financing (CTF), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS) are applicable Group wide and are supplemented where necessary to address any unique local requirements. These policies are supported by automated screening and monitoring systems and associated investigation teams to help comply with the Sanctions, AML, CTF, FATCA and CRS requirements. Independent Compliance Monitoring is undertaken to provide assurance over the effectiveness of controls. Mandatory Compliance Training is provided to all relevant staff both at onboarding and periodically thereafter to help ensure that key requirements are complied with.

i) Shariah non-compliance risk

Non-compliance with Internal Shariah Supervision Committee's Resolutions and Fatwas while taking administrative decision, products or executing financial products' contracts, may cause a reputational risk for the Group.

The Group has permanent Internal Shariah Control Department to evaluate all existing and proposed solutions prior to presenting it to Internal Shariah Supervision Committee for approval and to conduct a periodic audit to ensure compliance with Shariah principles and rules.

36 RISK MANAGEMENT (CONTINUED)

V. IBOR transition

The key risks for the Group arising from the transition are:

Conduct risk: The transition to alternative benchmark rates could result in the risk of market or customer misconduct, which may lead to customer complaints, regulatory sanctions or reputational impact. This includes the risk of misleading clients, market abuse (including insider dealing and market manipulation), anti-competitive practices, both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest. The Group has in place strong project governance to oversee the transition to ensure this risk is mitigated.

Pricing risk: The transition to alternative benchmark rates and the discontinuation of profit rate benchmarks may impact the pricing mechanisms used by the Group. New RFR based pricing models have been developed for financial instruments.

Profit rate basis risk: If the bilateral negotiations with the Group's counterparties are not successfully concluded before the cessation of IBORs, there are significant uncertainties with regard to the profit rate that would apply. This gives rise to additional profit rate risk that was not anticipated when the contracts were entered into and is not captured by our profit rate risk management strategy. The Group is working closely with all counterparties to avoid this from occurring.

Liquidity risk: There are fundamental differences between IBORs and the various alternative benchmark rates which the Group will be adopting. IBORs are forward looking term rates published for a period at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk free overnight rates published at the end of the overnight period, with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate profit payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

Management is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

W. Internal Audit's role in overall risk management

The Group Internal Audit is an independent appraisal function established by the Board of Directors to examine and evaluate the activities of the Group including all aspects of the Group Risk Management. The department is organisationally independent of all other functions in the bank. The unit is headed by the Chief Audit Officer, who is accountable to the Board of Directors through the Board Audit Committee.

The primary objectives of Group Internal Audit is to provide assurance on risks to which the Group' business are exposed, evaluate the adequacy and effectiveness of financial/operating controls and the Corporate Governance environment, assess the extent to which assets are accounted for and safeguarded from losses and conduct follow-up activities to assess and report on the degree to which management has addressed risks and compliance with action plans previously agreed.

The unit's mission is achieved through a risk based annual audit plan approved by the Board Audit Committee. A formal report is prepared at the end of each quarter which includes a summary of audit activity completed during the period and an update on the status of previously reported matters for Board Audit Committee attention.

The Board Audit Committee reviews and approves Group Internal Audit's plans and resources, and evaluates the effectiveness of the Internal Audit function. External advisers also periodically conduct an assessment of the function.

X. Risk management framework and processes at Group entities

In establishing risk management policies & processes at the Group entities level, due consideration is given to the entities' specific regulatory environment.

37 LEGAL PROCEEDINGS

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

38 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 51.2 million (2020: AED 78.0 million).

39 DISSOLUTION OF SUBSIDIARY

Emirates Islamic Financial Brokerage (EIFB), the subsidiary, is in the process of transferring its business operations to a subsidiary of the Parent to promote operational efficiency. The restructuring plan has been approved by the Board whereby all customers will be transferred, followed by dissolution of EIFB and cancellation of its license. The legal formalities are in process.

As at 31 December 2021, EIFB holds Total assets of AED 198.5 million (2020: 194.4 million), Total Liabilities of AED 27 million (2020: AED 26.9 million) and shareholders' equity of AED 171.4 million (2020: AED 167.5 million), with an annual net profit of AED 3.9 million for the year ended 31 December 2021 (31 December 2020: AED 1.8 million).

40 COMPARATIVE AMOUNTS

Certain prior year comparatives have been reclassified wherever necessary to conform to the presentation adopted in the current year.