Bank of Baroda - UAE Branches

Financial statements
For the year ended 31 December 2021

Bank of Baroda - UAE Branches
Financial statements
For the year ended December 31, 2021

Table of contents

	Page(s)
Independent auditor's report	1 - 3
Statement of financial position	4
Statement of profit or loss	5
Statement of other comprehensive income	6
Statement of movement in Head Office account and reserves	7
Statement of cash flows	8
Notes to the financial statements	9 - 70

Grant Thornton Audit and Accounting Limited (Dubai Branch)

The Offices 5
Level 3
Office 303
One Central, DWTC
Dubai, UAE
P.O. Box 1620
T +971 4 388 9925
F +971 4 388 9915

Independent Auditor's Report
To the Chief Executive of Bank of Baroda – UAE Branches

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of Bank of Baroda – UAE Branches (the "Branch"), which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss, statement of other comprehensive income, statement of movement in Head office account and reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

© 2022 Grant Thornton UAE - All rights reserved. Grant Thornton UAE represents all legal licenses under which Grant Thornton Audit and Accounting Limited, A British Virgin Islands registered company, operate in the UAE. These licenses include the Abu Dhabi based branch – Grant Thornton Audit and Accounting Limited – registered with the Abu Dhabi Global Market and the Dubai based branch – Grant Thornton Audit and Accounting Limited (BVI) – registered with the Dubai Financial Services Authority.

"Grant Thornton" refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Grant Thornton

Report on other legal and regulatory requirements

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

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

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

(iii) the Branch has maintained proper books of account;

(iv) the Branch has not purchased or invested in any shares during the financial year ended 31 December 2021;

(v) note 29 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and

(vi) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Branch has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, which would materially affect its activities or its financial position as at 31 December 2021.

(vii) note 22 to the financial statements discloses the social contributions made during the year ended 31 December 2021.

Grant Thornton
Farouk Mohamed
Registration No.86
Dubai, 30 March 2022

Statement of financial position
As at December 31, 2021

	Note	2021 AED'000	2020 AED'000
Assets			
Cash and balances with the UAE Central Bank	6	**1,156,281**	3,486,230
Due from banks	7	**1,631,431**	3,144,222
Due from the Head Office and other branches	29	**297,992**	261,545
Loans and advances to customers	8	**11,668,584**	12,400,517
Investment securities	9	**1,080,321**	146,516
Derivatives	27	**4,462**	29,925
Customers' indebtedness accepted by the Branch	28	**22,487**	1,894,131
Property and equipment	10	**24,338**	27,872
Deferred tax asset	24	**232,453**	309,160
Other assets	11	**107,363**	81,616
Total assets		**16,225,712**	21,781,734
Liabilites and Head office account and reserves			
Liabilities			
Due to banks	12	**570,613**	10,402
Due to Head Office and other branches	29	**469,586**	1,092,440
Deposits from customers	13	**12,834,128**	16,132,482
Derivatives	27	**1,210**	70,412
Liabilities accepted by the Branch	28	**22,487**	1,894,131
Other liabilities	14	**249,921**	199,517
Total liabilities		**14,147,945**	19,399,384
Head Office account and reserves			
Allocated capital	15	**760,000**	760,000
Statutory reserve	16	**79,498**	79,498
Fair value reserve		**(38,799)**	(340)
Retained earnings		**1,277,068**	1,543,192
Total Head Office account and reserves		**2,077,767**	2,382,350
Total liabilities and Head Office account and reserves		**16,225,712**	21,781,734

These financial statements were approved and authorised for issue on 30th March 2022 and signed by:

Nishant Ranjan
Chief Executive – GCC Operations

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

Statement of profit or loss
For the year ended December 31, 2021

	Note	2021 AED'000	2020 AED'000
Interest income	17	**426,453**	622,260
Interest expense	18	**(76,250)**	(251,254)
Net interest income		**350,203**	371,006
Fee and commission income	19	**79,852**	91,624
Fee and commission expense	20	**(1,118)**	(2,543)
Net fee and commission income		**78,734**	89,081
Other operating income	21	**23,990**	24,111
Total operating income		**452,927**	484,198
Personnel expenses	22	**(62,381)**	(59,126)
Depreciation	10	**(10,999)**	(12,224)
General and administrative expenses	23	**(41,737)**	(45,968)
Total expenses		**(115,117)**	(117,318)
Net operating income before impairment losses and taxation		**337,810**	366,880
Impairment losses on financial assets – net of recoveries		**(513,664)**	(410,510)
Loss for the year before taxation		**(175,854)**	(43,630)
Taxation	24	**(90,270)**	(94,107)
Loss for the year		**(266,124)**	(137,737)

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

Statement of other comprehensive income
For the year ended December 31, 2021

	Note	2021 AED'000	2020 AED'000
Loss for the year		**(266,124)**	(137,737)
Other comprehensive income			
Items that are or maybe reclassified subsequently to the statement of profit or loss:			
Debt Investments at fair value through other comprehensive income – net change in the fair value	9	**59**	(312)
Items that will not be reclassified to statement of profit or loss			
Equity Investments at fair value through other comprehensive income – net change in the fair value	9	**(38,518)**	-
Total comprehensive loss for the year		**(304,583)**	(138,049)

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

Statement of movement in Head office account and reserves
For the year ended December 31, 2021

	Allocated Capital AED'000	Statutory reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2020	760,000	79,498	(28)	1,680,929	2,520,399
Loss for the year	-	-	-	(137,737)	(137,737)
Transfer to statutory reserve	-	-	-	-	-
Change in fair value reserve	-	-	(312)	-	(312)
At 31 December 2020	760,000	79,498	(340)	1,543,192	2,382,350
Loss for the year	-	-	-	(266,124)	(266,124)
Transfer to statutory reserve	-	-	-	-	-
Change in fair value reserve	-	-	(38,459)	-	(38,459)
At 31 December 2021	760,000	79,498	(38,799)	1,277,068	2,077,767

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

Statement of cash flows
For the year ended December 31, 2021

	Note	2021 AED'000	2020 AED'000
Cash flows from operating activities			
Loss for the year before taxation		**(175,854)**	(43,630)
Adjustments for:			
Impairment losses on financial assets- net of recoveries		**513,664**	410,510
terest expense on lease	14.1	**290**	704
Loss/ (gain) on disposal of property and equipment		**6**	(17)
Loss/ (gain) on sale of investment securities		**1,272**	(401)
Depreciation	10	**10,999**	12,224
Fair value (gains)/ loss on derivatives		**(43,739)**	45,571
End of service benefit provision		**1,733**	1,661
Operating cash flows before changes in working captial and tax paid		**308,371**	426,622
Changes in working capital:			
Due from Central Bank of the UAE maturing after three months		**1,550,000**	(148,188)
Due from banks maturing after three months		**72,335**	736,129
Due from the Head Office and other branches maturing after three months		**128,838**	(151,355)
Loans and advances to customers		**241,955**	1,691,517
Other assets		**(25,747)**	8,493
Deposits from customers		**(3,298,354)**	(1,930,466)
Due to banks maturing after three months		**56,393**	(404,079)
Due to Head Office and other branches maturing after three months		**23,309**	(2,235)
Other liabilities		**32,732**	(102,492)
		(1,218,539)	(302,676)
End of service benefit paid		**(230)**	(776)
Taxes paid		**(11,635)**	(33,500)
Net cash (used)/generated from operating activities		**(922,033)**	89,670
Cash flows from investing activities			
Purchase of investments securities	9	**(989,450)**	-
Proceeds on sale of investment securities		**17,179**	400
Purchase of property and equipment	10	**(9,425)**	(1,394)
Proceeds from disposal of property and equipment		**149**	30
Net cash used in investing activities		**(981,547)**	(964)
Cash flows from financing activities			
Payment of lease liability	14.1	**(8,790)**	(10,107)
Net cash used in financing activities activities		**(8,790)**	(10,107)
Net (decrease)/increase in cash and cash equivalents		**(1,912,370)**	78,599
Cash and cash equivalents at 1 January		**4,076,410**	3,997,811
Cash and cash equivalents at 31 December	26	**2,164,040**	4,076,410

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

1 Incorporation and principal activities

Bank of Baroda - UAE Branches (the "Branch") operates in the United Arab Emirates (the "UAE") through its six branches located in the Emirates of Abu Dhabi, Dubai, Sharjah and Ras Al Khaimah under a banking license issued by the Central Bank of the UAE (the "CBUAE"). The Head Office of the Bank is Bank of Baroda (the "Head Office"), which is incorporated in Baroda, India. The principal address of the Branch is Zonal office, Umm Hurair building, Shop number 1 to 5, 8 and 9, plot number 3180430, Al Doha street, Al Karama, Dubai, United Arab Emirates. The registered address is P.O. Box 3162, Dubai, United Arab Emirates.

The principal activities of the Branch include accepting deposits, granting loans and advances and providing other banking services.These financial statements represent the financial position and results of the six branches of the Bank in the United Arab Emirates.

The Branches are not separate legal entities but meet the definition of a reporting entity under the conceptual framework for IFRS.

2 Basis of preparation

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB), interpretations as issued by the IFRS Interpretations Committee (IFRS IC), applicable requirements of the laws of the UAE, including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") and the Decretal Federal Law No. (14) of 2018.

Federal Law By Decree No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on September 20, 2021 with an effective date of January 2, 2022, and will entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended. The Branch has twelve months from the effective date to comply with the provisions of the New Companies Law.

The financial statements include Basel III Pillar 3 disclosures in accordance with the guidelines issued by the Central Bank of the UAE.

Basis of measurement

These financial statements have been prepared under the historical cost basis, except for the following:

- Derivatives measured at fair value through profit or loss; and
- Financial assets at fair value through other comprehensive income

Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional and presentation currency of the Branch, except as indicated, amounts has been rounded to the nearest thousand.

Use of estimates and judgments

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

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

3 Summary of significant accounting policies

3.1 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Foreign currency differences arising on translation are generally recognized in the statement of profit or loss, other than investments classified as FVOCI, where the exchange translation is recognized in other comprehensive income.

3.2 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances with the UAE Central Bank, due from and due to banks and the amounts due from and to the related parties including the Head Office and other branches 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 Branch for the purposes of meeting short term cash commitments.

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

3.3 Due from banks

Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less any amounts written off and expected credit losses, if any.

3.4 Loans and Advances to customers

Loans and advances to customers captions in the statement of financial position include:

- loans and advances 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 interest method.
- Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Branch does not intend to sell immediately or in the near term.

3.5 Financial instruments

A financial instrument is any contract that gives rise to both a financial asset for the Branch and a financial liability or equity instrument for another party or viceversa.

Recognition and measurement

The Branch initially recognizes loans and advances and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognized on the trade date, which is the date on which the Branch becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the market place.

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

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Financial Assets

Classification of financial assets

On initial recognition, financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). A financial asset is measured at amortised cost 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 to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

On initial recognition of an equity investment that is not held for trading, the Branch may irrevocably elect to present subsequent changes in fair value in 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 Branch may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI or at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

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

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

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

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Assessment of whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are Solely Payments of Principal and Interest (SPPI), the Branch 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 branch considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the branch'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 interest rates).

Reclassifications of financial assets

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

Financial Liabilities

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Branch manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Branch of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Branch's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at fair value through profit or loss.

Financial liabilities at amortised cost

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Subsequent measurement

Financial Assets

The Branch measures financial instruments such as derivatives and investments and certain fixed income instruments, at fair value at each reporting date.

Financial assets classified as at fair value through other comprehensive income or fair value through profit or loss are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortized cost using the effective interest method, less expected credit allowances.

Reclassification

Financial assets are not reclassified subsequent to the initial recognition except in the period after the Branch changes its business model for managing financial assets. If the business model under which the Branch holds financial assets changes,the financial assets affected are reclassified.The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Branch's financial assets. During the current and previous financial year there was no change in the business model under which the Branch holds financial assets and therefore no reclassifications weremade.

Impairment

The Branch recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at fair value through profit or loss:

- Cash and balances with the UAE Central Bank.
- Due from banks;
- loans and advances to customers;
- other financial assets;
- loan commitments; and
- financial guarantee contracts.

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

Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded. The 12 months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Branch calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the contractual interest rate.

Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the the contractual interest rate.

Under Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD generally set at 100%.
ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash short falls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branch expects to receive); and

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Financial Assets (continued)

Impairment (continued)

- 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.

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Branch if the holder of the commitment draws down the loan and the cash flows that the Branch expect is to receive if the loan is drawn down; and
- for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Branch expects to receive from the holder, the debtor or any other party.

The Branch measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics.The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's contractual interest rate, regardless of whether it is measured on an individual basis or a collective basis.The key inputs into the measurement of ECL are described below:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

These parameters are generally derived from developed statistical models, other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Branch;
- EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- LGD has been determined at 65% and calculated after applying haircut on collateral values as per CBUAE guidelines (Branch has considered only cash collaterals).

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- credit risk ratings;
- collateral type;
- loan to value ratio for retail exposure;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geographical location of the borrower.

The groupings are subject to regular review to ensure that exposure within a particular group remain appropriately homogenous.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Financial Assets (continued)

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 borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs 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 that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Branch 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. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event instead, the effect of several events may have caused financial assets to become credit-impaired. The Branch assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. The Branch considers following factors, however not limited to:

- significant financial difficulty of the issuer or counter party;
- breach of contract, such as a default or delinquency in profit or principal payments;
- it becoming probable that the counterparty will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Financial Assets (continued)

Purchased or originated credit-impaired (POCI) financial assets

For purchased or originated credit impaired (POCI) financial assets, the Branch recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in statement of profit or loss. A favourable change for such assets creates an impairment gain.

Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12- month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Branch considers a financial asset to be in default when:

- Days Past Due: Exposures that have one or more instalment past due for more than 90 days.
- Rating: Customers with an internal rating of BOB-RAM 8 or 'Default' or with an external default rating (not applicable in the case of retail facilities).
- Event driven defaults: This will be based on the customer specific factors such as breach of covenants which are deemed material, declaration of bankruptcy by the customer, death of borrower, loss of a significant contract significantly impacting the ability of the customer to repay and other customer specific factors. This will be applied on a case-by-case basis.

In assessing whether a borrower is in default, the Branch considers indicators that are:

- qualitative - e.g., breaches of covenant;
- quantitative - e.g., overdue status and non-payment on another obligation of the same issuer to the Branch; and
- based on data developed internally and obtained from external sources.

Assessment of significant increase in credit risk

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

At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The movement from Stage 1 to Stage 2 is dependent upon asset of quantitative, qualitative and backstop indicators such as days past dues of the borrowers and change in risk rating of the borrower. The indicators are based on statistical models, delinquency movements and other qualitative criteria in place as required by the regulatory guidelines.

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Branch has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage1.

Based on Branch's defined qualitative and quantitative criteria if there is significant decrease in credit risk, customers will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 and from Stage 2 to Stage 1 after meeting the cooling off period of at least 12 months respectively.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Financial Assets (continued)

Incorporation of forward-looking information

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. In its Expected Credit Life ("ECL") model, the Branch has considered the GDP and Inflation rates as a macroeconomic input

The Branch formulates three economic scenarios: a base case, which is the median scenario assigned a 65% (2020: 65%) probability of occurring, and two less likely scenarios, one upside and one downside, upside is assigned a 10% (2020: 10%) downside is assigned at 25% (2020:25%) probability of occurring.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for loan commitments and financial guarantee contracts: generally, as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Branch cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Branch presents a loss allowance for both components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Experienced credit judgement

The Branch's ECL allowance methodology requires the use of experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

When measuring ECL, the Branch considers the maximum contractual period over which the Branch is exposed to credit risk. All contractual terms are considered when determining the expected life.

Default definition followed by the Branch for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements.

Expected life

When measuring expected credit loss, the Branch considers the maximum contractual period over which the Branch is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Rating methodology used by the Branch

Within the Corporate & Small Medium Enterprises (SME) Banking business, Internal Rating Model is used for quantifying the risk associated with the counterparty. The model has been named as BOB Risk Assessment Model (BOB-RAM) ("the model"). Accounts having exposure of AED 3.673 million (US Dollar 1 million) and above are rated under the model.

The model is a two dimensional rating model under which both the obligor and facility are rated. Obligor rating grades are defined from BOB 1 to BOB 10. BOB 1 is the highest safety grade while BOB 10 is the default grade. BOB 1 to BOB 6 are defined as the investment grade rating while BOB 7 to BOB 10 are defined as the non-investment grade.
Exposures below AED 3.673 million(US Dollar 1 million) are rated under internal manual score based model. Based on the total score rating grades are defined as SME-BOB 1 to SME – BOB 7 with total 7 rating grades. SME - BOB1 is the highest safety grade while SME – BOB 7 is the defaultgrade.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Financial Assets (continued)

Write off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flow store pay the amounts subject to the write-off.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the branch's procedures for recovery of amounts due.

Modifications

Financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified the Branch assesses whether this modification results in derecognition. In accordance with the Branch's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Branch considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Branch deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Branch determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

If the Branch plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative valuation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Branch first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the statement of profit or loss. Then the Branch measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Modifications (continued)

Financial Assets (continued)

Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Branch accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is material different from the discounted present value of the remaining cash flows of the original financial liability.

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 derecognised and consideration paid is recognised in the statement of profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in the statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Derecognition

Financial assets

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

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to again or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Branch monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

3 Summary of significant accounting policies (continued)

3.5 Financial instruments (continued)

Derecognition (continued)

Financial liabilities

The Branch derecognises financial liabilities when, and only when, the Branch's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of profit or loss.

When the Branch exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Off-setting

Financial assets and liabilities are offset when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

3.6 Derivatives

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models. The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for hedgings are recognised in the statement of profit or loss.

3.7 Liabilities accepted by the Branch

Liabilities accepted by the Branch arise when the Branch is under an obligation to make payments against documents drawn under letter of credit. Liabilities accepted by the Branch specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Branch and is therefore, recognised as a financial liability in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Liabilities accepted by the Branch have been considered within the scope of IFRS 9 Financial instrument and continued to be recognised as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

3.8 Property and equipment

Recognition and measurement

Items of property and equipment, including right of use assets are measured at historical cost less accumulated depreciation and impairment losses, if any. Historical cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent cost

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 Branch and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss in the period in which they are incurred.

Depreciation

Depreciation is recognised in the statement of profit or loss on a straight-line basis over the estimated useful lives of items of property and equipment, principally between 2-10 years. Where the carrying value of an asset

3 Summary of significant accounting policies (continued)

3.8 Property and equipment (continued)

Depreciation (continued)

is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount with a charge to the statement of profit or loss. The costs of the day-to-day servicing of property and equipment are recognised in the statement of profit or loss as incurred.

Derecognition / Disposal

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

3.9 Leases

At inception of a contract, the Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Branch uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

At commencement or on modification of a contract that contains a lease component, the Branch allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of office premises the Branch has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Branch's incremental borrowing rate. Generally, the Branch uses its incremental borrowing rate as the discount rate.
The Branch determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Branch is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Branch's estimate of the amount expected to be payable under a residual value guarantee, if the Branch changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3 Summary of significant accounting policies (continued)

3.9 Leases (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in statement of profit or loss if the carrying amount of the right-of use asset has been reduced to zero.

The Branch presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

Short-term leases and leases of low value assets

The Branch has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Branch recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease arrangements as lessor

The Branch does not have any lease arrangements in which it acts as a lessor.

3.10 Taxation

Income tax comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss except to the extent that it relates to items recognised directly in statement of other comprehensive income, in which case it is recognised in statement of other comprehensive income.

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

1) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
2) temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
3) taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Branch expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets,and they relate to taxes levied by the same tax authority on the same taxable entity,or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In determining the amount of current and deferred tax, the Branch considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Branch to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

The carrying amount of the Branch's non-financial assets, other than deferred tax assets, is reviewed at each reporting date 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 that generates cash flows and that largely is independent from other assets. Impairment losses are recognised in the statement of profit or loss. 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.12 Due to banks

Due to banks are financial liabilities and are initially recognized at their fair value minus the transaction costs and subsequently measured at their amortized cost using the effective interest rate method.

3.13 Deposits

Deposits are the Branch's primary source of debt funding. Deposits are initially measured at fair value minus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.14 Provisions

A provision is recognised in the statement of financial position when the Branch has a legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

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

3.15 Net residual attributable to Head office

The Branch is not a separate legal entity and hence it did not issue own equity instruments. The 'Net residual attributable to Head Office' represent an excess or deficit arising from operations of the Branch which is attributable to the Head office. The head office has a right to request redemption of this balance in cash. It is impractical to determine the exact amount of a potential redemption as it is unknown when and if the head office will require redemption. As a practical expedient, the branch measures the 'Net residual attributable to head office' at the IFRS carrying value of the entity's net assets. The 'Net residual attributable to Head office' does not meet definitions of financial assets, liabilities or equity instruments and is presented as a separate line item outside of assets and liabilities.

3.16 Impairment reserve

The general impairment reserve is maintained in accordance with the guidelines of the CBUAE as issued in March 2018. The general impairment reserve is calculated as a difference between 1.5% of total credit risk weighted assets and ECL (stage 1 and 2).

3 Summary of significant accounting policies (continued)

3.16 Impairment reserve (continued)

If the general impairment allowance as per the CBUAE requirement is greater than ECL (stage 1 and 2), the difference is transferred to impairment reserve as an appropriation from the retained earnings.

The specific impairment reserve is maintained in accordance with the guidelines of the CBUAE as issued in March 2018. The specific impairment reserve is calculated as a difference between specific provision along with suspended interest/ profit as per CBUAE requirements is higher than the impairment allowance computed under IFRS 9, the difference individually, should be transferred to an impairment reserve as an appropriation from the retained earnings.

At each subsequent reporting date, the general impairment reserve is recomputed and any resultant difference is either released to retained earnings or transferred from retained earnings to arrive at 1.5% of credit risk weighted assets, together with general impairment reserve and ECL (stage 1 and 2). No impairment reserve is required to be maintained in case ECL (stage 1 and 2) is greater than 1.5% of credit risk weighted assets.

3.17 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 between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Branch has access at that date. The fair value of a liability reflects its non-performance risk. When one is available, the Branch measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Branch uses the valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

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

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Branch on the basis of the net exposure to either market or credit risk, are measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure. Portfolio-level adjustments – e.g., bid [1] ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid. The Branch recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

3 Summary of significant accounting policies (continued)

3.18 Interest income and expense

Effective interest rate

Interest income and expense for all interest-bearing financial instruments, except for those classified as FVTPL or designated at FVTOCI, are recognized within 'interest income' and 'interest expense' in the statement of profit or loss using the effective interest method.

Interest income and expense are recognized in statement of profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts 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 interest rate for financial instruments other than credit-impaired assets, the Branches estimate future cash flows considering all contractual terms of the financial instrument, but not expected credit losses.

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

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:
Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and

Interest on financial investment is measured at FVOCI calculated on an effective interest basis; Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Amortised cost and gross carrying amount

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

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

For financial assets that have become credit-impaired subsequent to initial recognition,interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

3.19 Fee and commission income and expense

Fee and commission income and expense that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

3 Summary of significant accounting policies (continued)

3.19 Fee and commission income and expense (continued)

A contract with a customer that results in a recognised financial instrument in the Branch's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Branch first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Other fees and commission expenses relates mainly to transaction and service fees, which are expensed in the statement of profit or loss as the services are received.

3.20 Staff terminal benefits

The Branch provides for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement subject to completion of minimum service period. This calculation is performed based on a projected unit credit method.

The Branch contributes to the pension scheme for UAE nationals under the UAE pension and social security law.This is a defined contribution pension plan and the Branch 's contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Branch has a legal and constructive obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

3.21 Financial guarantees and loan commitments

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs as a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Loan commitments are firm commitments to provide credit under pre- specified terms and conditions.
Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected future payment (when a payment under the guarantee has become probable).

The amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

4 New and Amended standards and interpretations adopted

The following amendments to existing standards and framework have been applied by the Branch in preparation of these combined financial statements. The adoption of the below did not result in changes to previously reported net profit or equity of the Branch.

Description	Effective from
Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)	01 January 2021

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions

As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The amendments are effective for annual reporting periods beginning on or after 1 January 2021

4 New and Amended standards and interpretations adopted (continued)

Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions (continued)

There is no impact on the Branch's financial statements for the year ended 31 December 2021 due to the adoption of the above amendment

Interest Rate Benchmark Reform:

On 27 August 2020 the International Accounting Standards Board (IASB or the Board) published 'Interest Rate Benchmark reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2). IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an Interbank offered rate ("IBOR") to an alternative risk-free benchmark reference rate ("RFR").

The first phase of amendments i.e. 'Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7' (IBOR reform Phase 1),

which provided temporary reliefs to enable hedge accounting to continue during the period of uncertainty before the replacement of an IBOR with RFR, were adopted for the year ended 31 December 2020 and continue to be in force until uncertainty over the cash flows of both the hedged item and hedging instrument no longer exist.

The Phase 2 amendments provide practical relief from certain requirements in the standards. These reliefs relate to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate in a contract is replaced with a new alternative benchmark rate. The amendments also provide an exception to use a revised discount rate that reflects the change in interest rate when remeasuring a lease liability because of a lease modification that is required by interest rate benchmark reform. Finally, the Phase 2 amendments provide a series of reliefs from certain hedge accounting requirements when a change required by interest rate benchmark reform occurs to a hedged item and/or hedging instrument and consequently the hedge relationship can be continued without any interruption.

Impact of IBOR Transition:

On November 30, 2020, U.S. federal prudential regulators, including the Board of Governors of the Federal Reserve System, the Office of the Controller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC), issued supervisory guidance encouraging banks to stop new USD IBOR issuances by 31 December 2021. On October 20, 2021, the U.S. prudential regulators issued a supplementary joint statement reiterating their December 31, 2021 cutoff date for new USD IBOR issuances. They further stated that entering into new USD IBOR contracts, including derivatives, after that date would create safety and soundness risks.

It is to be noted that while IBOR will no longer be used to price new disbursements in 2022 and onwards, it will formally stick around until at least 2023. One-week and two-month Libor ceased being published after 31 December 2021, while overnight, 1-month, 3-month, 6-month and 12-month maturities will continue to be published through till 30 June 2023 for reference.

In order to mitigate the rate transition risk Branch has taken the following steps:

Branch has identified the assets and liabilities contracts that were linked to IBOR rates as at 31 December 2020 and communicated all such borrowers for taking their concern on the IBOR rate transition.

The Branch has obtained the acceptance of change in IBOR transition from all its eligible borrowers and subsequent to the consent by the borrower, the arrangement of inclusion of fallback clause in security agreement document was made for credit facilities. The Branch has completed the inclusion of fallback clause arrangement in security documents from all eligible customer before 31.12.2021.

Further, in new such contracts Branch has obtained upfront consent/confirmation and fallback clause arrangement in security documents before granting the facility and ARR is used for all such new & existing contracts due for rollover.

4 New and Amended standards and interpretations adopted (continued)

Impact of IBOR Transition (continued):

Accordingly, the impact of interest rate transition for the year ended 31 December 2021 is assessed to be immaterial.

In addition to above, the Branch has mitigated the difference between the IBOR and ARR by adjusting the new ARR with International Swaps and Derivatives Association ("ISDA") spread at initial face of transition. Subsequently the difference between the IBOR & ARR is narrowed down. Therefore, the impact of interest rate transition in subsequent years is assessed to be immaterial.

Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2021 and earlier application is permitted; however, the Branch has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Branch's financial statements:

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).
- Annual Improvements to IFRS Standards 2018–2020.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities (Annual improvements to IFRS 9)
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

5 Significant management judgements and estimates

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

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

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

Expected credit losses on loans and advances

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the selection of appropriate macro economic variables, determining weightage of probability of default under base case, best case and worst case scenario, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes which can result in different levels of allowances.

Fair value of derivatives

The fair value of derivatives that are not quoted in active markets are determined using valuation techniques. Valuation techniques include using arm's length transactions between knowledgeable, willing parties (if available), reference to the current market value of other instruments that are substantially the same and discounted cash flow analysis.

5 Significant management judgements and estimates (continued)

Fair value of derivatives (continued)

To the extent it is practical, observable data is applied in the valuation techniques, however areas such as credit risk (both own and counterparty), volatilities and correlation requires management to make assumptions.Changes in assumptions relating to these factors could affect the reported fair value of derivatives.

Income taxes

The Branch is subject to income tax in the UAE. Estimates are required in determining the provision for income taxes. There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Branch recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax out come of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Recoverability of deferred tax asset ("DTA")

The Branch reviews the recoverability of deferred tax asset on a periodic basis. DTA is released to the statement of profit or loss as a result of decrease in loan loss provision or loan being written off from the statement of financial position determining the recoverability of DTA, the management makes estimates and uses judgments as to whether there is any observable data indicating the reversal of the provision against which DTA is recorded.

Financial Assets Classification

Assessment of the business model within which assets are held and assessment of whether the contractual terms of the financial asset are solely payment of principal and interest on the principal amount outstanding.

Significant increase in credit risk

ECL are measured an allowance equal to 12-month ECL for stage-01 assets, or lifetime ECL assets for stage-02 or stage-03 assets. Assets move to Stage-02 when its credit risk has increased significantly since initial recognition. IFRS-09 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Branch takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Branch's accounting policies:

Establishing the number and relative weightings of forward-looking scenarios for each type of product/ market and determining the forward-looking information relevant to each scenario. When measuring ECL model, the Branch uses reasonable and supportable forward-looking information relevant to each scenario: When measuring ECL the Branch uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is as estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Branch uses market-observable data to the extent it is available. Where such Level I input are not available the Branch uses valuation models to determine the fair value of its financial instruments. Refer to note 30 for more details on fair value measurement.

6 Cash and balances with the UAE Central Bank

	Note	2021 AED'000	2020 AED'000
Cash on hand		**140,153**	154,707
Balances with the UAE Central Bank:			
Certificate of deposits		**-**	1,550,000
UAE Central Bank Overnight Deposit Fund		**407,754**	1,300,000
Regulatory cash reserve deposits	6.1	**608,374**	481,523
Gross balances with UAE central bank		**1,156,281**	3,486,230

6.1 Regulatory cash reserve is maintained with the CBUAE in UAE Dirhams and US Dollars. As per CBUAE guidelines issued on October 28, 2020, these can be withdrawn by financial institutions on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates; while ensuring that daily average requirements over a 14 day reserve maintenance period. Accordingly, it is available to finance the day-to-day operations of the Branch. The regulatory cash reserve balance is calculated each month in accordance with the CBUAE directives and is based on outstanding customer deposit balances.

7 Due from banks

	2021 AED'000	2020 AED'000
Money market placements	**1,613,861**	3,127,373
Nostro balances	**17,974**	16,849
Gross due from banks	**1,631,835**	3,144,222
Less: Allowances for impairment losses	**(404)**	-
Net due from banks	**1,631,431**	3,144,222

Interest on money market placements ranged from 0.02 % to 2.7% for the year ended 31 December 2021 (31 December 2020 : 0.03% to 2.7%).

8 Loans and advances to customers

The composition of the loans and advances is as follows:

	2021 AED'000	2020 AED'000
Overdrafts	**3,521,158**	3,787,854
Term loans	**9,018,665**	7,786,211
Loans against trust receipts	**1,099,743**	1,342,995
Bills discounted	**752,433**	1,145,201
Others	**555,006**	1,372,427
Gross loans and advances	**14,947,005**	15,434,688
Less: Allowances for impairment losses	**(3,278,421)**	(3,034,171)
Net loans and advances to customers	**11,668,584**	12,400,517

Interest on loans and advances ranged from 3.5% to 7.75% for the year ended 31 December 2021 (31 December 2020: 3.5%-7.75%).

8 Loans and advances to customers (continued)

	2021 AED'000	2020 AED'000
ECL on loans and advances - Performing (Stage 1 and 2)	**238,040**	196,511
ECL on loans and advances – non performing (Stage 3)	**3,040,381**	2,837,660
Allowances for impairment losses	**3,278,421**	3,034,171

An analysis of changes in the ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
ECL allowance at 1 January 2020	105,679	106,069	2,617,780	2,829,528
Net (reversals) / impairment charge	4,989	(20,226)	564,857	549,620
Recoveries	-	-	(137,266)	(137,266)
Impairment losses – net	4,989	(20,226)	427,591	412,354
Amounts written off	-	-	(207,711)	(207,711)
At 31 December 2020	110,668	85,843	2,837,660	3,034,171
Net impairment charge	**14,844**	**26,685**	**503,287**	**544,816**
Recoveries	**-**	**-**	**(54,838)**	**(54,838)**
Impairment losses – net	**14,844**	**26,685**	**448,449**	**489,978**
Amounts written off	**-**	**-**	**(245,728)**	**(245,728)**
At 31 December 2021	**125,512**	**112,528**	**3,040,381**	**3,278,421**

9 Investment securities

The Branch has designated the following investments in Monetary bills as financial assets at amortized cost as these are investments that the Branch plans to hold in the long term for strategic reasons. The Branch classified equity instruments and government bonds as financial assets at fair value through other comprehensive income, as the Branch objective is achieved by both collecting contractual cash flows and selling financial assets.

By category:	2021 AED'000	2020 AED'000
Financial asset at amortized cost:		
Monetary Bills	**989,450**	-
Financial asset at fair value through other comprehensive income		
Debt securities	**110,760**	166,557
Equity securities	**38,618**	-
Fair value reserve movement	**(58,500)**	(20,041)
	1,080,328	146,516
Less: Loss allowance on financial assets measured at amortised cost	**(7)**	-
	1,080,321	146,516

Interest on investment is earned at 0.38% for the year ended 31 December 2021 (2020: 1.93%)

9 Investment securities (continued)

By quoted/ unquoted:	2021 AED'000	2020 AED'000
Financial asset at amortized cost:		
- Quoted	**989,450**	-
Financial asset at fair value through other comprehensive income		
- Quoted	**92,395**	148,192
- Unquoted	**56,983**	18,365
Less: Fair value reserve movement	**(58,500)**	(20,041)
Less: Loss allowance on financial assets measured at amortised cost	**(7)**	-
	1,080,321	146,516

By type:	2021 AED'000	2020 AED'000
Debt Securities:		
- Quoted	**1,081,845**	148,192
- Unquoted	**18,365**	18,365
Equity Securities:		
- Unquoted	**38,618**	-
Less: Fair value reserve movement	**(58,500)**	(20,041)
Less: Loss allowance on financial assets measured at amortised cost	**(7)**	-
	1,080,321	146,516

During the year ended 31 December 2021, the Branch purchased debt securities amounting to AED 989.45 million (2020: Nil).

10 Property and equipment

	Furniture Fixtures and Leasehold Improvements AED'000'	Motor vehicles and other equipment AED'000'	Right-of-use assets AED'000'	Total AED'000'
Cost				
At 1 January 2020	28,279	6,783	16,084	51,146
Impact of re-assessment under IFRS 16	-	-	19,048	19,048
Additions	510	884	3,745	5,139
Disposals	(79)	(170)	-	(249)
At 31 December 2020	**28,710**	**7,497**	**38,877**	**75,084**
Additions	**8,736**	**689**	**-**	**9,425**
Disposals	**(2,899)**	**-**	**-**	**(2,899)**
Impact of re-assessment under IFRS 16	**-**	**-**	**(1,804)**	**(1,804)**
At 31 December 2021	**34,547**	**8,186**	**37,073**	**79,806**

10 Property and equipment (continued)

	Furniture Fixtures and Leasehold Improvements AED'000'	Motor vehicles and other equipment AED'000'	Right-of-use assets AED'000'	Total AED'000'
Accumulated depreciation				
At 1 January 2020	20,650	5,641	8,933	35,224
Charge for the year	1,990	565	9,669	12,224
Disposals	(74)	(162)	-	(236)
At 31 December 2020	22,566	6,044	18,602	47,212
Charge for the year	2,335	750	7,914	10,999
Disposals	(2,743)	-	-	(2,743)
At 31 December 2021	22,158	6,794	26,516	55,468
Net book value				
At 31 December 2020	6,144	1,453	20,275	27,872
At 31 December 2021	12,389	1,392	10,557	24,338

11 Other assets

	Note	2021 AED'000	2020 AED'000
Accrued interest receivable		**54,898**	69,357
Prepayments		**2,885**	2,404
Advance against non-covertible debentures*		**38,618**	-
Other receivables		**10,962**	9,855
		107,363	81,616

*On 29 June 2021, a borrower went into restructuring arrangement with the Branch under which part of the loan was extinguished against non convertible debentures amounting to AED 38.618 million. These non - convertible debentures are yet to be alloted in favor of Branch as at 31 December 2021.

12 Due to banks

	2021 AED'000	2020 AED'000
Overdrawn nostro and demand deposit	**56,393**	10,360
Term deposit	**514,220**	42
	570,613	10,402

Interest on term deposits ranged from 0.01 % to 1.92% for the year ended 31 December 2021. (2020: 0.03% to 2.02%).

13 Deposits from customers

	2021	2020
	AED'000	AED'000
Demand deposits	**6,271,590**	5,702,412
Time deposits	**6,037,461**	9,914,914
Saving deposits	**521,616**	511,164
Other deposits	**3,461**	3,992
	12,834,128	16,132,482

By counterparty

	2021	2020
	AED'000	AED'000
Private Sector-Corporate	**8,611,033**	11,803,384
Private Sector-Individual	**3,548,515**	3,762,423
Non Banking Financial Institution	**674,580**	566,675
	12,834,128	16,132,482

14 Other liabilities

	Note	2021	2020
		AED'000	AED'000
Accrued interest payable		**22,779**	93,985
Staff terminal benefits		**20,766**	19,263
Provision for taxation	24	**10,222**	8,294
Banker's cheque		**98,868**	26,209
ECL on unfunded exposures		**38,820**	7,762
Lease Liability	14.1	**5,842**	16,146
Sundry creditors		**11,017**	-
Others		**23,607**	27,858
		249,921	199,517

14.1 Lease liability

	2021	2020
	AED'000	AED'000
As at 1 January	**16,146**	2,756
Impact of reassessment under IFRS 16	**(1,804)**	19,048
Additions	**-**	3,745
Interest expense	**290**	704
Cash payments	**(8,790)**	(10,107)
As at 31 December	**5,842**	16,146

15 Allocated capital

	2021 AED'000	2020 AED'000
Allocated capital	**760,000**	760,000

This represents the amount received from the Head Office as Allocated capital to the UAE branches of the Branch. On 21 December 2015, the Branch increased its allocated capital from AED 390 million to AED 760 million by additional funding provided by the Head Office.

16 Statutory reserve

As per the requirement of Union Law No. (10) of 1980, Branch needs to allocate a minimum of 10% of their annual net profits to non-distributable legal and statutory reserve until such reserve equals 50% of the allocated capital of the Branch. As the Branch had a net losses amounted to AED 266.124 million for the year ended 31 December 2021 (31 December 2020: Loss of AED 137.74 million), no transfer has been made during the year.

16.1 Impairment reserve

In accordance with CBUAE circular, during any period if provision under CBUAE guidance exceed provision calculated under IFRS 9, such excess is required to be apportioned from retained earnings to IFRS 9 reserve and this reserve shall not be adjusted for future excess provision. The details of the same as below:

Impairment Reserve - Specific as at the year end	**2021 AED'000**	**2020 AED'000**
Specific provision under circular 28/ 2010 of CB UAE	**3,069,378**	2,837,660
Less: Stage-03 Provision under IFRS-09	**3,069,378**	2,837,660
Specific provision transferred to the impairment reserve	-	-
Balance carried forward from prior year	-	-
Closing Balance	-	-
Impairment Reserve - Collective as at the year end		
Collective provisions under Circular 28/ 2010 of CB UAE	**162,879**	156,703
Less: Stage 01 & Stage 02 provisions under IFRS-09	**248,274**	204,274
Collective provision transferred to general impairment reserve	-	-

The Branch has computed general provision as 1.5% of credit risk weighted assets as at 31 December 2021 in accordance with guidance note to Bank and Financial institutions on IFRS 9 Implementation, as issued by the CBUAE in March 2018. The resultant incremental difference between 1.5% of credit risk weighted assets and stage 1 and stage 2 combined ECL is transferred from retained earnings to a non-distributable impairment reserve.

The branch has computed specific provision as at December 31, 2021 in accordance with the guidelines issued by CBUAE. The resultant incremental difference between specific provision as per CBUAE and stage 3 ECL is transferred from retained earnings to a non-distribubtable impairment reserve.

As at 31 December 2021 and 31 December 2020, the collective provision under circular 28/ 2010 of CB UAE amounted to AED 162.879 million (2020: AED 156.703 million), while the provision under IFRS-09 on stage-1 and stage-2 amounted to AED 248.274 million (2020: 204.274 million). Therefore and as per the circular 28/ 2010 of CB UAE, there is no requirement to apportion any collective impairment reserve.

17 Interest income

	2021	2020
	AED'000	AED'000
Interest from:		
On loans and advances to financial institutions / banks	**17,934**	70,325
On loans and advances to customers	**404,632**	548,813
Investment securities	**3,887**	3,122
	426,453	622,260

18 Interest expense

	2021	2020
Interest to:	**AED'000**	AED'000
Banks/ financial institutions	**6,864**	19,361
Deposit from customers	**69,386**	231,893
	76,250	251,254

19 Fee and commission income

	2021	2020
	AED'000	AED'000
Corporate	**16,686**	22,045
Processing fee	**16,272**	25,375
Retails	**15,302**	9,294
Trade finance & guarantees	**12,859**	15,728
Fee from postage and SWIFT	**6,964**	7,522
Others	**11,769**	11,660
	79,852	91,624

20 Fee and commission expense

	2021	2020
	AED'000	AED'000
Commission to agents	**1,118**	2,543
	1,118	2,543

21 Other operating income

	2021	2020
	AED'000	AED'000
Foreign exchange income	**18,137**	20,324
Others	**5,853**	3,787
	23,990	24,111

22 Personnel expenses

	2021	2020
	AED'000	AED'000
Staff salaries and allowances	**57,068**	54,659
Pension and retirement benefits	**2,928**	2,495
Others	**2,385**	1,972
	62,381	59,126

23 General and administrative expenses

	2021	2020
	AED'000	AED'000
Central management expense	**8,950**	8,449
Rent expense	**3,765**	2,280
Legal and professional charges	**12,712**	11,594
Sundry charges	**15,992**	17,965
Other miscellaneous expenses	**318**	5,680
	41,737	45,968

24 Taxation

Provision for taxation is made in accordance with regulations enacted in the Emirates of Abu Dhabi, Dubai, Sharjah and Ras Al Khaimah relating to the computation of tax payable.

	2021	2020
	AED'000	AED'000
Movement in tax provision		
Balance at 1 January	**8,294**	26,520
Current year tax expense	**7,006**	8,294
Prior year tax expense	**6,557**	6,980
Taxes paid	**(11,635)**	(33,500)
Balance at 31 December	**10,222**	8,294

	2021	2020
	AED'000	AED'000
Current tax expense		
Provision for current year tax	**7,006**	8,294
Provision made for prior year tax	**6,557**	6,980
Total current tax expense	**13,563**	15,274
Deferred tax	**76,707**	78,833
Total income tax expense	**90,270**	94,107

24 Taxation (continued)

The tax charge is determined by applying the official tax rate of 20% to the taxable profit arising in the Emirates of Abu Dhabi, Dubai, Sharjah and Ras Al Khaimah.

	2021 AED'000	2020 AED'000
Taxable profit	**34,684**	41,470
Income tax at applicable tax rate – 20%	**7,006**	8,294
Deferred tax utilization	**76,707**	78,833
Tax for prior years	**6,557**	6,980
Tax expense	**90,270**	94,107

The tax laws do not permit adjustment of a tax loss incurred in one Emirate with a tax profit of another Emirate. Therefore, in 2021, the tax expense for the UAE branches of the Bank has been computed on taxable profit generated by the branches of the Bank in the Emirates of Dubai, Sharjah and Ras Al Khaimah and in 2020, tax expense has been computed on taxable profit generated by the branches of the Bank in the Emirates of Abu Dhabi and Ras Al Khaimah.

Deferred tax

Deferred taxation comprises of impairment provisions on loans and advances and interest in suspense. The movement in deferred tax during the year is as follows:

	2021 AED'000	2020 AED'000
Balance at 1 January	**309,160**	387,993
Utilization during the year	**(76,707)**	(78,833)
Balance at 31 December	**232,453**	309,160

25 Commitments and contingent liabilities

At any time the Branch has outstanding commitments to extend credit. These commitments take the form of approved loan facilities. Outstanding loan commitments have commitment periods that do not extend beyond the normal underwriting and settlement period.

The Branch provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

At 31 December, the Branch 's commitments and contingent liabilities were as follows:

	2021 AED'000	2020 AED'000
Letters of credit	**407,123**	353,640
Guarantees	**761,877**	688,172
Undrawn loan commitments	**1,306,705**	1,942,145
Foreign exchange and forward commitments	**3,475,233**	4,039,973
	5,950,938	7,023,930

The commitments and contingent liabilities above may expire without being funded in whole or in part. Therefore, the amounts do not represent expected future cash flows.

25 Commitments and contingent liabilities (continued)

25.1 Contingencies

As at 31 December 2021, there is no undisclosed contingent liability against the Branch and also there has been no claim, proceeding or any regulatory action in UAE or in the home country against the Branch. No further disclosures regarding contingent liability arising from this is being made by the Branch, as the Branch believes that such disclosures may be prejudicial and detrimental to the Branch's position.

26 Cash and cash equivalents

	2021	2020
	AED'000	AED'000
Maturing within 3 months		
Cash and balances with the UAE Central Bank	**1,156,281**	1,936,230
Due from banks	**1,301,656**	2,741,708
Due from the Head Office and branches	**275,475**	110,190
Due to banks	**(514,220)**	(10,403)
Due to the Head Office and branches	**(55,152)**	(701,315)
Cash and cash equivalents in the statement of cash flow	**2,164,040**	4,076,410

27 Financial risk management

27.1 Introduction and overview

The primary objective of the Branch is to manage risk and provide returns to the shareholder in line with the accepted risk profile. Risk is inherent in the Branch's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accoutable for the risk exposures relating to his responsibilities.

The Branch has exposure to the following material risks from its use of financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk; and
- Operational risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, risk management frameworks, policies and processes for measuring and managing risk and the management of the Branch 's capital.

27.2 Risk management framework

The Branch through its Risk Management Framework (RMF):

- Establishes common principles and standards for the management and control of all risks and to inform behaviour across the organisation;
- Provides a shared framework and language to improve awareness of risk management processes; and
- Provides clear accountability and responsibility for risk management.

The core components of the RMF include risk classifications, risk principles and standards, definitions of roles, responsibilities and governance structure. It also includes a clear definition of key terms to ensure that we use them consistently.

27 Financial risk management (continued)

27.2 Risk management framework (continued)

Branch is under process of implementing the Corporate Goverance Framework that puts in place rule, processes and policies through Senior Management Committee of the Branch.

Risk principles

Risk principles are adopted by the Risk Management Committee. The principles describe the risk culture that the Branch wishes to sustain and develop. They provide the foundation point of the Risk framework. All risk decisions and risk management activity should be in line with, and in the spirit of, the overall risk principles of the Branch. The principles are as follows:

Balancing risk and reward

The Branch undertakes risk to support the requirements of the Branch's stakeholders. It is in line with the Branch's strategy and within the pre-established risk appetite.

Responsibility

It is the Branch's responsibility to ensure that risk taking is both disciplined and focused. The Branch takes account of social responsibilities in taking risks to produce a return.

Accountability

Risk is taken only within agreed authorities and where there is appropriate infrastructure and resources. All risk taking must be transparent, controlled and reported.

Anticipation

The Branch looks to anticipate future risks and to ensure awareness of all risk.

Risk management

The Branch has a specialist risk function, with strength in depth, experience across all risk types and economic scenarios.

The Branch's management has overall responsibility for the establishment and oversight of the Branch's risk management framework. The risk management department is responsible for implementing and maintaining risk related procedures to ensure an independent control process. It works closely with the commercial organisation to support their activities, while safe-guarding the risk profile of the Branch. It institutes prudent risk monitoring and control mechanisms (processes and systems) to ensure compliance of individual risk assets and portfolios to agreed terms and policy parameters. It reviews and presents all credit submissions, risk policy and portfolio management reports to the Head office of the Branch situated in Mumbai.

The Branch continues to re-examine the entire process, inherent risk factors and controls and consider opportunities by rationalising regulatory risk management initiatives. Experiencing from the crisis, and to deliver value beyond mere adherence, one part of the framework is Internal Capital Adequacy Assessment Process (ICAAP), to assess capital to cover risks not covered under Pillar 1. This ICAAP exercise has demonstrated that the Branch has sufficient capital buffers to cushion any extreme circumstances or scenarios and the Branch has adequate risk bearing capacity at 99.9% confidence level.

The Branch has established polices, procedures, processes and controls and has provided the risk team with adequate support by way of risk systems and tools for measuring and reporting risk for monitoring, controlling, reviewing and managing risk.

27 Financial risk management (continued)

27.3 Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty will fail to meet a commitment contractual obligation, resulting in financial loss to the Branch. Such risk arises from loans and advances to customers, due from banks and financial institutions, derivatives and certain other assets held by the Branch. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

Management of credit risk

Credit risk identification and assessment is carried out, through a comprehensive mechanism comprising of three levels of defense. The first level of defense lies with the business units and is responsible for maintaining a sound credit quality of assets in line with the approved business strategy and credit risk appetite. The second level of defense is with the SME & Corporate Banking that assesses the risk on a customer and facility level and ensures proper documentation of customer, facility and security documents, along with the Risk Management Department that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defense with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Branch.

As a part of credit risk monitoring and control framework, regular risk monitoring at both individual and portfolio levels is carried out along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others. The Branch has a policy for credit risk mitigation towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation (CRM) include netting agreements, collaterals, guarantees, credit derivatives and Stand by Letter of Credit (SBLC).

The Branch ensures that all documentation used in collateralized transactions and for documenting - on and off-balance sheet netting, guarantees, credit derivatives and collaterals, are binding on all parties and is legally enforceable in all relevant jurisdictions. The Branch also ensures that all the documents are reviewed by appropriate authority and have appropriate legal opinions to verify and ensure its enforceability.

Procedures for managing credit risk are determined at the business levels with specific policies and procedures being adapted to different risk environments and business goals. The Branch has established a credit quality review process to provide early identification of possible changes in the credit worthiness of counterparties, including regular collateral revisions. Credit analysis includes review of facility details, credit grade determination and financial spreading/ratio analysis. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are reviewed annually. The credit quality review process allows the Branch to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The businesses work with the Head of Risk Management to take responsibility for managing pricing risk, portfolio diversification and overall asset quality within the requirements of the Branch 's standards, policies and business strategy.

Expected Credit Loss (ECL) under COVID-19

During 2020, the CBUAE has issued the TESS guidelines to fiscally cushion the economic impact of COVID-19. The Targeted Economic Support Scheme ("TESS") guidelines, have facilitated the provision of temporary relief from the payment of principal and/or interest / profit on outstanding loans for all affected private sector corporates, SMEs and individuals with specific conditions. Additionally, the scheme seeks to facilitate additional lending by easing the liquidity requirements of banks, through the relief of existing capital and liquidity buffers, which have been further elaborated on in the sections below.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Expected Credit Loss (ECL) under COVID-19 (continued)

A key element in determining the ECL is the assessment of whether a Significant Increase in Credit Risk ("SICR") has occurred or not, and hence, whether a lifetime Probability of Default (PD) or a 12-month PD is applied. UAE government's support measures including the CBUAE's TESS program, have been considered for SICR assessment which include both quantitative and qualitative criteria and are subject to management's judgment, due to the rapidly-changing dynamics of COVID-19. Further, the Branch continues to closely monitor the impact of COVID-19 on the Branch's portfolio. Further in view of the COVID-19 TESS guidelines, the central bank of UAE has extended the deferral time period upto 31 December 2021.

In view of extended TESS guideline, the Branch has undertaken preemptive measures in response to the COVID-19 outbreak. These include significantly reduced underwriting to companies in affected sectors; principle and interest payment deferment and on a case by case basis during the year ended 31 December 2021 to the Individual, Private sector and SME segments, in line with CBUAE's relief program and depending on their underlying credit assessment.

Further, the Branch has undertaken comprehensive review of its borrowers which are vulnerable to macro-economic factors and accordingly, preemptive action had been taken for the identifed borrowers. Borrowers have been categoried under two main categories as required by CBUAE under TESS:

Group 1: Are the borrowers who are not expected to face significant change in their credit worthiness beyond liquidity issue caused by the COVID-19 crisis.

The borrower in this sub segment could originally be in Stage 1 or in Stage 2, prior to being subject to deferrals. These borrowers are expected to remain in their original stage as long as the pandemic has an effect on their business, unless factors unrelated to Covid-19 or other SICR factors trigger a credit deterioration. These borrowers are not considered to have significant deterioration in credit quality to trigger a stage migration.

Group 2: customers that are significantly expected to be impacted by COVID-19.

The borrowers in this sub segment could originally be in Stage 1 or in Stage 2, prior to being subject to deferrals. This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. For these borrowers, the deterioration in credit risk maybe so significant that it may trigger a migration to stage 2 in the month following the one that deferrals are processed.

In exceptional circumstances the migration to Stage 3 would be triggered due to liquidation / bankruptcy caused by non-financial events or significant disruptions threatening the long-term sustainability of borrower's business models. The Grouping of the borrowers is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Branch.

The following are the factors which the Branch has considered for groupings:

- **Material Exposure**

The Branch had undertaken an analysis of its top 100 borrowers (EAD wise) profile on case-to-case basis, which may have substantial impact on ECL provisions. Based on the analysis, borrowers having significant impact on their business shall be classified under Group-2, otherwise in Group-1. Borrowers having less material exposures (other than top 50 corporate customers) shall be analyzed based on their industry, tenor and rating.

- **Duration of Impact**

The Branch had undertaken an analysis of the industry profile of the credit portfolio and categorized the portfolio into the following two categories: (a) Industry having impact for short term (b) Industry having impact for long term. Accordingly, industry having impact for short term shall be classified under Group-1 and industries having impact for long term shall be classified under Group-2.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Expected Credit Loss (ECL) under COVID-19 (continued)

- Highly Impacted Industry

The Branch had undertaken an analysis of the industries, that are highly affected by Covid-19 and whose sustainability and cash flows were questionable. Such identified industries were classified under Group 2 and remaining industries were classified under Group 1.

After considering the above factors for borrowers, grouping and upward /downward migration between Group 1 and Group 2 have been periodically reviewed and expert judgements on it have been made.

- Macroeconomic Indicators

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The branch has used the highest anchor point of the macro economic variables i.e. GDP and Inflations, which impacts credit risk and expected credit losses for each portfolio. The Branch uses GDP and Inflation Rate as macro-economic factors in ECL assessment, relevant to the multiple jurisdictions of operations. The Branch periodically reviews and updates selected macroeconomic data, and applies forward-looking estimates, to reflect the current uncertain economic environment. and taken the impact arising on the ECL calculation into consideration and applied management overlays based on SICR factors wherever deemed necessary.

For unbiased and probability-weighted ECL calculation, the branch uses probabilities weighted of 65%, 10% and 25% for Base-Upward-Downward macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and low weight to upward scenario.

Table 1: The grouping of borrowers in each segment and their impairment allowance based on the ECL staging is as under:

Segment	Group	Stage	Exposure at Default AED'000	Impairment Allowance AED'000
Cash and balances with the UAE Central Bank	Group 1	stage 1	1,156,281	-
Emirate Government	Group 1	stage 1	532,585	563
Federal Government	Group 1	stage 1	294,758	2,951
Government Related Entities	Group 1	stage 1	321,717	1,377
Non- Commercial Emirate Government	Group 1	stage 1	183,650	1,607
Due from Banks	Group 1	stage 1	1,631,835	404
Banks	Group 1	stage 1	1,149,819	6,243
Non-Banking Financial Institutions	Group 1	stage 1	302,766	801
Investment	Group 1	stage 1	989,450	7
Usance Payable at Sight	Group 1	stage 1	24,207	7
Corporate	Group 1	stage 1	2,960,112	78,942
		stage 2	29,582	3,924
	Group 2	stage 1	194,387	8,847
		stage 2	358,626	50,112
Small Medium Enterprise	Group 1	stage 1	1,324,199	14,500
		stage 2	145,281	6,142
	Group 2	stage 1	32,224	11
		stage 2	75,206	10,007
Trade Bills	Group 1	stage 1	613,475	2,176
		stage 2	10,389	277
	Group 2	stage 1	17,953	106
		stage 2	17,889	1,724

27 Financial risk management (continued)

27.3 Credit risk (continued)

Expected Credit Loss (ECL) under COVID-19 (continued)

- Macroeconomic Indicators (continued)

Table 1: The grouping of borrowers in each segment and their impairment allowance based on the ECL staging is as under (continued) :

Segment	Group	Stage	Exposure at Default AED'000	Impairment Allowance AED'000
High Net-worth Individuals	Group 1	stage 1	1,560,017	3,309
		stage 2	91,103	4,006
	Group 2	stage 2	282,704	33,939
Individuals	Group 1	stage 1	1,251,457	4,071
		stage 2	32,007	2,162
	Group 2	stage 2	5,421	236
Non-Fund based	Group 1	stage 1	1,001,418	4,379
		stage 2	8,426	441
	Group 2	stage 1	13,849	432
		stage 2	18,626	1,337
Un-Drawn	Group 1	stage 1	75,015	358
		stage 2	2,540	159
	Group 2	stage 1	9,450	294
		stage 2	26,689	2,423
Total			16,745,112	248,274

Table 2: Financial assets by stage:

	stage 1		stage 2		stage 3	
Row Labels	Exposure at Default AED'000	Impairment Allowance AED'000	Exposure at Default AED'000	Impairment Allowance AED'000	Exposure at Default AED'000	Impairment Allowance AED'000
Cash and balances with the UAE Central Bank	**1,156,281**	-	-	-	-	-
Stage 1	1,156,281	-	-	-	-	-
Emirate Government	**532,585**	**563**	-	-	-	-
Stage 1	532,585	563	-	-	-	-
Federal Government	**294,758**	**2,951**	-	-	-	-
Stage 1	294,758	2,951	-	-	-	-
Government Related Entities	**321,717**	**1,377**	-	-	-	-
Stage 1	321,717	1,377	-	-	-	-
Non- Commercial Emirate Government	**183,650**	**1,607**	-	-	-	-
Stage 1	183,650	1,607	-	-	-	-
Due from Banks	**1,631,835**	**404**	-	-	-	-
Stage 1	1,631,835	404	-	-	-	-
Banks	**1,149,819**	**6,243**	-	-	-	-
Stage 1	1,149,819	6,243	-	-	-	-
Non- Banking Financial Institutions	**302,766**	**801**	-	-	**376,845**	**342,806**
Stage 1	302,766	801	-	-	-	-
stage 3	-	-	-	-	376,845	342,806

27 Financial risk management (continued)

27.3 Credit risk (continued)

Expected Credit Loss (ECL) under COVID-19 (continued)

- Macroeconomic Indicators (continued)

Table 2: Financial asset by stage (continued):

	stage 1		stage 2		stage 3	
Row Labels	Exposure at Default AED'000	Impairment Allowance AED'000	Exposure at Default AED'000	Impairment Allowance AED'000	Exposure at Default AED'000	Impairment Allowance AED'000
Investment	**989,450**	**7**	**-**	**-**	**-**	**-**
Stage 1	**989,450**	**7**	**-**	**-**	**-**	**-**
Usance Payable at Sight	**24,207**	**7**	**-**	**-**	**-**	**-**
Stage 1	24,207	7	-	-	-	-
Corporate	**3,154,499**	**87,790**	**388,208**	**54,036**	**2,841,515**	**1,843,630**
Stage 1	2,921,841	78,597	384,426	53,711	45,829	31,460
stage 2	232,658	9,193	3,782	325	122,496	76,308
stage 3	-	-	-	-	2,673,190	1,735,861
Small Medium Enterprise	**1,356,424**	**14,511**	**220,487**	**16,149**	**1,249,090**	**720,022**
Stage 1	1,251,860	13,868	140,428	11,717	10,069	7,106
stage 2	104,564	643	70,494	3,236	160,655	38,585
stage 3	-	-	9,565	1,196	1,078,366	674,331
Trade Bills	**631,427**	**2,281**	**28,277**	**2,002**	**121,957**	**97,465**
Stage 1	592,172	2,152	26,657	1,855	-	-
stage 2	39,255	129	1,620	147	313	78
stage 3	-	-	-	-	121,644	97,387
High Net-worth Individuals	**1,560,017**	**3,309**	**373,807**	**37,946**	**77,288**	**27,672**
Stage 1	1,508,024	3,064	35,538	2,290	-	-
stage 2	51,993	245	338,269	35,656	53,783	6,668
stage 3	-	-	-	-	23,505	21,004
Individuals	**1,251,456**	**4,071**	**37,428**	**2,396**	**15,761**	**8,786**
Stage 1	1,232,125	3,990	16,184	935	1,597	823
stage 2	19,331	81	19,875	1,330	5,129	2,065

27 Financial risk management (continued)

27.3 Credit risk (continued)

Expected Credit Loss (ECL) under COVID-19 (continued)

- Macroeconomic Indicators (continued)

Table 2: Financial asset by stage (continued):

	stage 1		stage 2		stage 3	
Row Labels	Exposure at Default AED'000	Impairment Allowance AED'000	Exposure at Default AED'000	Impairment Allowance AED'000	Exposure at Default AED'000	Impairment Allowance AED'000
stage 3	-	-	1,369	131	9,035	5,898
Non-Fund based	**1,015,267**	**4,811**	**27,053**	**1,778**	**28,929**	**28,997**
Stage 1	988,620	4,330	14,426	1,315	-	-
stage 2	26,647	481	12,627	463	20,164	5,080
stage 3	-	-	-	-	8,765	23,917
Undrawn	**84,464**	**653**	**29,229**	**2,581**	**-**	**-**
Stage 1	72,037	344	23,489	2,419	-	-
stage 2	12,427	309	1,817	83	-	-
stage 3	-	-	3,923	79	-	-
TOTAL	**15,640,622**	**131,386**	**1,104,490**	**116,888**	**4,711,385**	**3,069,378**

TESS – Deferral Payment:

During the year, the CBUAE has come up with the following preventive measures to contain the repercussions of the COVID-19 pandemic in UAE. The scheme named as Target Economic Support Scheme (TESS) and it's standards are applicable to all Branches and Financial companies operating in UAE. In order to fulfill it's objective to contain the repercussions of the COVID-19 pandemic, it has been designed to:

1. Facilitate the provision of temporary relief from the payments of principal and/or interest/profit on outstanding loans for all affected private sector Corporates, SMEs and individuals. (The TESS does not apply to outstanding loans of government, Government related entities (GREs) and non-residents);
2. Bolster the lending capacity of Branches, through the relief of existing capital buffers; and
3. To outline expectations and actions to be taken under the TESS by all banks and finance companies operating in the UAE.

27 Financial risk management (continued)

27.3 Credit risk (continued)

TESS – Deferral Payment (continued):

The CBUAE mandates that Branches and finance companies who avail assistance under the TESS shall comply with these Standards in both words and spirit, which would lead to achieving the overarching policy objectives of the scheme.

A. **TESS - Zero Cost Facility (ZCF):**
Branch has not availed anything under TESS relief (ZCF)

B. **TESS - Capital Buffer Relief:**
Branch has got relief from the reduction of CRR requirement from 14% to 7 % that has been released liquid funds of approximately AED 390 Mn. The same has been utilized for the purpose of deferment & excess granted to existing customers and fresh loans to new customers.

C. **TESS – Action to be taken by Branch & Financial:**
To facilitate the provision of temporary relief from the payments of principal, Branch had allowed 3 months (up to 31st May 2020) deferment invariably to all it's customers and further the branch has allowed deferment up to 31st December 2021 under CBUAE exteneded deferment guidelines based on the customer requests, subject to the credit decision of the Branch. The position of deferral payment allowed to customers till 31st December 2021 is as under;;

- **Customer Segment wise distribution of deferral payment:**

S.no.	Customer Segment	Number of Customers	Amount of Deferment Allowed AED'000
1	Private Sector Corporate	82	285,185
2	High Net worth Individuals	69	64,973
3	Small Medium Enterprises	586	449,818
4	Individuals	2,335	47,718
5	Others such as Government regulated entities.	-	-
Total Deferment Allowed		**3,072**	**847,694**

- **Economic Activity wise distribution of deferral payment:**

Type of Economic Activity	Borrowers benefited from TESS program		Borrowers who are affected by COVID 19, but benefitted outside of TESS	
	No of Customers	Deferred Amount	No of Customers	Deferred Amount AED'000
Agriculture and allied activities	-	-	-	-
Mining and quarrying	-	-	26	1,055
Manufacturing	-	-	205	190,195
Electricity, gas & air conditioning supply	-	-	2	838
Water supply, sewerage, waste management and remediation activities	-	-	1	123
Construction & real estate	-	-	28	67,115
Wholesale and retail trade; repair of motor vehicles and motorcycles	-	-	257	412,368

27 Financial risk management (continued)

27.3 Credit risk (continued)

TESS – Deferral Payment (continued):

- Economic Activity wise distribution of deferral payment (continued):

Type of Economic Activity	Borrowers benefited from TESS program		Borrowers who are affected by COVID 19, but benefitted outside of TESS	
	No of Customers	Deferred Amount	No of Customers	Deferred Amount AED'000
Transportation and storage	-	-	15	9,888
Hospitality	-	-	29	21,983
Information and communications	-	-	-	-
Financial and Insurance activities	-	-	3	1,256
Professional, scientific and technical activities	-	-	20	4,778
Administrative and support service activities	-	-	29	1,962
Public administration and defence and social security.	-	-	-	-
Education	-	-	9	5,605
Human health and social work activities	-	-	11	769
Arts, entertainment and recreation	-	-	15	3,333
Other service activities	-	-	18	13,734
Government	-	-	-	-
Individual Loans for consumption	-	-	2,320	67,144
Individual loans for business	-	-	84	45,548
Total	-	-	3,072	847,694

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Note	2021 AED'000	2020 AED'000
Cash and balances with the UAE Central Bank (excluding cash on hand)	6	1,016,128	3,331,523
Due from banks	7	1,631,431	3,144,222
Due from Head Office and other branches	29	297,992	261,545
Loans and advances to customers	8	11,668,584	12,400,517
Investment securities	9	1,080,321	146,516
Customers' indebtedness accepted by the Bank	28	22,487	1,894,131
Other assets (excluding prepayments)	11	104,478	79,212
		15,821,421	21,257,666
Letters of credit	25	407,123	353,640
Guarantees	25	761,877	688,172
Foreign Exchange forward commitments	25	1,306,705	4,039,973
Undrawn loan commitments	25	3,475,233	1,942,145
		5,950,938	7,023,930
Total credit risk exposure		21,772,359	28,281,596

27 Financial risk management (continued)

27.3 Credit risk (continued)

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation technique is discussed below.

Credit risk measurement

The Branch measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk. However, for financial instruments such as overdraft facilities that include both a loan and an undrawn commitment component, the Branch's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Branch's exposure to credit losses to the contractual notice period. For such financial instruments the Branch measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Branch does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Branch becomes aware of an increase in credit risk at the facility level.

This longer period is estimated taking into account the credit risk management actions that the Branch expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Stage wise ECL impairment

Policies and the Branch's framework in relation to stage wise impairment have been explained in detail in note 3.5.

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The Branch holds collateral against loans and advances to customers in the form of cash margins, pledges/liens over deposits, mortgage interests over property, other registered securities over assets and guarantees. The Branch accepts guarantees from parent companies for loans to their subsidiaries. Branch monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitor the market value of collateral obtained during its periodic review of credit facilities and of the adequacy of the allowance for impairment losses.

It is the Branch 's policy to dispose repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Branch does not occupy repossessed properties for business use.

It is the Branch 's policy to ensure that loans are extended to customers within their capability to service interest and repay principal instead of relying excessively on collateral. Accordingly, depending on customers' credit worthiness and the type of product, facilities may be unsecured. Nevertheless, collateral is and can be an important credit rissk mitigant.

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit quality analysis

The following table sets out information about the credit quality of financial assets. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

As of 31 December, 2021	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Cash and balances with the UAE Central Bank	1,156,281	-	-	-	-	-	1,156,281	-
Due from banks	1,631,835	404	-	-	-	-	1,631,835	404
Due from the Head Office and other branches	297,992	-	-	-	-	-	297,992	-
Loans and advances to customers	10,358,109	125,512	1,037,025	112,528	3,551,871	3,040,381	14,947,005	3,278,421
Investment securities	1,080,328	7	-	-	-	-	1,080,328	7
Other financial assets	104,478	-	-	-	-	-	104,478	-
Unfunded Exposures	1,099,731	5,463	56,281	4,360	28,929	28,996	1,184,941	38,820
	15,728,754	131,386	1,093,306	116,888	3,580,800	3,069,377	20,402,860	3,317,652

27 Financial risk management (continued)

27.3 Credit risk (continued)

Credit risk measurement (continued)

As of 31 December, 2020	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Cash and balances with the UAE Central Bank	3,486,230	-	-	-	-	-	3,486,230	-
Due from banks	3,144,222	-	-	-	-	-	3,144,222	-
Due from the Head Office and other branches	261,545	-	-	-	-	-	261,545	-
Loans and advances to customers	10,454,069	110,668	1,387,882	85,843	3,592,737	2,837,660	15,434,688	3,034,171
Investment securities	146,516	-	-	-	-	-	146,516	-
Other financial assets	79,212	-	-	-	-	-	79,212	-
Unfunded Exposures	3,111,970	5,474	75,595	2,289	12,653	7,783	3,200,218	15,546
	20,683,764	116,142	1,463,477	88,132	3,605,390	2,845,443	25,752,631	3,049,717

27 Financial risk management (continued)

27.3 Credit risk (continued)

Risk mitigation

Collateral types which are eligible for risk mitigation include cash, residential, commercial and industrial properties, marketable securities, commodities, and plant and machinery in addition to bank guarantees and letters of credit. The valuation frequency of collateral is driven by the level of volatility in each class of collateral. Collateral held against impaired loans is maintained at fair value, which is the current market value of collateral under the assumption of 'normal' market conditions.

Concentration risk

Credit concentration risk is managed via portfolio standards and within concentration caps set for counterparties or related parties and for industry sectors and credit grade bands.

The Branch's maximum gross exposure to credit risk, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions and sector wise:

Concentration by location	Loans and advances		Due from banks, Head office and other branches		Investment securities	
	2021	2020	**2021**	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Carrying amount	**14,947,005**	15,434,688	**1,929,423**	3,405,767	**1,080,321**	146,516
United Arab Emirates	**10,851,947**	12,219,876	**135,000**	539,000	**1,080,321**	146,516
Other Middle East Countries	**493,589**	228,433	**1,257,687**	1,160,288	**-**	-
India	**1,343,275**	1,194,807	**183,650**	1,456,769	**-**	-
Europe	**-**	-	**-**	-	**-**	-
USA	**242,876**	248,778	**330,570**	7,459	**-**	-
Others	**2,015,318**	1,542,794	**22,516**	242,251	**-**	-
	14,947,005	15,434,688	**1,929,423**	3,405,767	**1,080,321**	146,516

By Sector	**2021**	2020	**2021**	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Agriculture	**-**	-	**-**	**-**	**-**	**-**
Mining and quarrying	**1,032,493**	568,245	**-**	-	**-**	-
Manufacturing	**3,465,333**	3,594,051	**-**	-	**-**	-
Electricity, gas and water	**270,905**	266,799	**-**	-	**-**	-
Real estate	**1,295,649**	811,623	**-**	-	**-**	-
Trade	**2,338,448**	2,672,140	**-**	-	**-**	-

27 Financial risk management (continued)

27.3 Credit risk (continued)

Concentration risk (continued)

By Sector	2021	2020	2021	2020	2021	2020
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Transport and communication	132,546	123,118	-	-	-	-
Non-Banking financial institutions	677,263	766,696	1,929,423	3,405,767	-	-
Government	808,978	87,011	-	-	1,080,321	146,516
Others	4,925,390	6,545,005	-	-	-	-
	14,947,005	15,434,688	1,929,423	3,405,767	1,080,321	146,516

Investment Securities

The Branch has investments in debt securities which are measured at fair value through other comprehensive income. Credit risk in these investments is managed within the overall credit risk appetite for corporates and financial institutions. The following table provide analysis of the debt securities. The standard credit ratings used by the Branch are those assessed by Standard & Poors or their equivalent.

Analysis of investment securities

	2021	2020
	AED'000	AED'000
Rating		
A- to A+	1,080,328	146,516
	1,080,328	146,516

Aging analysis of past due but not impaired loans

The following table sets out the aging of loans and advances which are past due but not impaired and for which no individual impairment provision has been raised. A loan is considered to be past due when the counterparty has failed to make a principal or interest payment when contractually due. Past due status of a loan does not necessarily mean that the counterparty is impaired.

Particulars	2021 Loans to customers			2020 Loans to customers		
	Consumer	Wholesale	Total	Consumer	Wholesale	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Up to 30 days past due	282,422	15,706	298,128	26,369	271,762	298,131
Between 31-60 days past due	25,542	126,385	151,927	99,838	143,887	243,725
Between 61-90 days past due	816	25,031	25,847	17,474	165,514	182,988
	308,780	167,122	475,902	143,681	581,163	724,844

27 Financial risk management (continued)

27.4 Market risk

Market risk is the risk that changes in market prices such as interest rates, equity prices and foreign exchange rates and credit spreads (not relating to change in the obligor's/issuer's credit standing) - will affect the Branch 's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Branch's solvency while optimising the return on risk. The Branch is exposed to market risk on its banking book as well as trading book. Market risk in the banking book is managed in accordance with the Branch's Asset and Liability Committee (ALCO), while market risk in the trading book is managed in accordance with the investment policy and treasury policy. The Branch has very limited trading portfolio, hence it is not exposed to any significant market risk in respect atrading portfolio.

Management of market risk

Market risk is governed by the Branch's approved ALCO committee, investment policy and treasury policy which define levels of risk appetite in terms of Earning at Risk, forex positions and aggregate gap limit. The Asset Liability Management Committee provides market risk oversight and guidance on policy setting. The investment and treasury policies cover both trading and non-trading books of the Branch.

Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of changes in market interest rates. The Branch is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. Interest rate risk is managed principally through monitoring interest rate gaps and establishing limits on the interest rate gaps for stipulated periods. The ALCO is the monitoring body for compliance with these limits. Interest rate risk is also assessed by measuring the impact of reasonable possible interest rate movements.

Sensitivity analysis - interest rate risk

	2021	2020
	AED'000	AED'000
Shift in yield curve		
+100 bps	**25,242**	17,384
-100 bps	**(25,242)**	(17,384)

A substantial portion of the Branch's assets and liabilities are re-priced within 1-year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

The assets and liabilities repricing profile has been determined on the basis of the final maturity period or interest repricing periods at the reporting date, whichever is earlier.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Branch. It is unusual for Branches to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature are important factors in assessing the liquidity of the Branch and its exposure to changes in interest rates and exchange rates.

The Branch's interest rate gap position on assets and liabilities based on the contractual re-pricing dates is as follows:

27 Financial risk management (continued)

27.4 Market risk

Sensitivity analysis - interest rate risk (continued)

Particulars 2021	Less than one month AED'000	1 to 3 months AED'000	3 to 6 months AED'000	6 months to year AED'000	Over 1 year AED'000	Non interest bearing AED'000	Total AED'000
Cash and balances with the UAE Central Bank	-	-	-	-	-	1,156,281	1,156,281
Due from banks	804,926	514,378	312,127	-	-	-	1,631,431
Due from the Head Office and other branches	22,518	275,474	-	-	-	-	297,992
Loans and advances to customers	5,349,453	452,452	229,534	251,601	4,874,054	511,490	11,668,584
Investment securities	249,981	299,924	439,538	-	90,878	-	1,080,321
Customers indebtedness accepted by the Branch	-	-	-	-	-	22,487	22,487
Property and equipments	-	-	-	-	-	24,338	24,338
Derivatives	-	-	-	-	-	4,462	4,462
Deferred tax asset	-	-	-	-	-	232,453	232,453
Other assets	-	-	-	-	-	107,363	107,363
Total assets	6,426,878	1,542,228	981,199	251,601	4,964,932	2,058,874	16,225,712
Due to banks	570,613						570,613
Due to the Head Office and other branches	80,248	11,019	11,019	-	367,300	-	469,586
Deposits from customers	780,008	1,157,582	1,274,520	2,652,766	159,744	6,809,508	12,834,128
Derivatives	-	-	-	-	-	1,210	1,210
Liabilites accepted by the Branch	-	-	-	-	-	22,487	22,487
Other liabilities	-	-	-	-	-	249,921	249,921
Total Head office account and reserves	-	-	-	-	-	2,077,767	2,077,767
Total liabilities and head office account and reserves	1,430,869	1,168,601	1,285,539	2,652,766	527,044	9,160,893	16,225,712
On balance sheet interest rate sensitivity gap – 2021	4,996,009	373,627	(304,340)	(2,401,165)	4,437,888	(7,102,019)	-
Cumulative interest rate sensitivity gap - 2021	4,996,009	5,369,636	5,065,296	2,664,131	7,102,019	-	-

27 Financial risk management (continued)

27.4 Market risk

Sensitivity analysis - interest rate risk (continued)

Particulars 2020	Less than one month AED'000	1 to 3 months AED'000	3 to 6 months AED'000	6 months to year AED'000	Over 1 Year AED'000	Non interest bearing AED'000	Total AED'000
Cash and balances with the UAE Central Bank	-	750,000	800,000	-	-	1,936,230	3,486,230
Due from banks	1,085,566	1,672,991	220,380	165,285	-	-	3,144,222
Due from the Head Office and other branches	261,545	-	-	-	-	-	261,545
Loans and advances to customers	2,894,639	667,241	894,938	180,197	7,052,664	710,838	12,400,517
Investment securities	-	-	146,516	-	-	-	146,516
Customers indebtedness accepted by the Branch	-	-	-	-	-	1,894,131	1,894,131
Property and equipment	-	-	-	-	-	27,872	27,872
Derivatives	-	-	-	-	-	29,925	29,925
Deferred tax asset	-	-	-	-	-	309,160	309,160
Other assets	-	-	-	-	-	81,616	81,616
Total assets	4,241,750	3,090,232	2,061,834	345,482	7,052,664	4,989,772	21,781,734
Due to banks	10,402	-	-	-	-	-	10,402
Due to the Head Office and other branches	701,265	5,510	18,365		367,300	-	1,092,440
Deposits from customers	1,683,135	2,148,978	2,723,436	3,237,759	121,565	6,217,609	16,132,482
Derivatives	-	-	-	-	-	70,412	70,412
Liabilities accepted by the Branch	-	-	-	-	-	1,894,131	1,894,131
Other liabilities	-	-	-	-	-	199,517	199,517
Head office account and reserves	-	-	-	-	-	2,382,350	2,382,350
Total liabilities and head office account and reserves	2,394,802	2,154,488	2,741,801	3,237,759	488,865	10,764,019	21,781,734
On balance sheet interest rate sensitivity gap – 2020	1,846,948	935,744	(679,967)	(2,892,277)	6,563,799	(5,726,514)	47,733
Cumulative interest rate sensitivity gap -2020	1,846,948	2,782,692	2,102,725	(789,552)	5,774,247	47,733	-

27 Financial risk management (continued)

27.4 Market risk

Interest rate risk (continued)

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Branch has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies used to ensure positions are maintained within established limits.

As the UAE Dirham and other GCC currencies, except Kuwait are currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

Equity price risk

Equity price risk is the possibility that equity prices will fluctuate, affecting the fair value of equity investments and other instruments that derive their value from a particular equity investment or index of equity prices. The Branch has no significant exposure to equity price risk as at 31 December 2021.

27.5 Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk can be segregated into two broad categories:

(1) Funding liquidity risk is the risk that the Branch will encounter difficulty in funding the increase in assets and meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets, without incurring unacceptable losses.

(2) Market liquidity risk is the risk that the Branch cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

Management of liquidity risk

The Branch manages liquidity risk on a short term, medium term and long term basis. The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch's reputation. ALCO is the responsible governing body that approves the Branch's liquidity management policies. Liquidity is managed by the ALCO within the predefined liquidity limits as set out in the Board approved Asset Liability Management Policy. ALCO is responsible for ensuring that the Branch is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the liquidity limits set for the Branch.

The key elements of the Branch's liquidity strategy are as follows :

(a) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate) and wholesale market deposits and maintaining contingency facilities;
(b) Carrying a portfolio of highly liquid assets, diversified by currency and maturity;
(c) Monitoring liquidity ratios, maturity mismatches, behavioural characteristics of the Branch's financial assets and liabilities, and the extent to which the Branch's assets are encumbered and so not available as potential collateral for obtaining funding; and
(d) Carrying out stress testing of the Branch's liquidity position.

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

Management of liquidity risk (continued)

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branch does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

Exposure to liquidity risk

The key measure used by the Branch for managing liquidity risk is the ratio of net liquid assets (i.e. total assets by maturity against total liabilities by maturity) and its loans to deposit ratio.

	2021	2020
	AED'000	AED'000
Loans and advances to customers, net	**11,668,584**	12,400,517
Deposits from customers	**12,834,128**	16,132,482
Loans to deposit ratio	**90.9%**	76.87%

In addition to above, Liquidity Risk of the Branch is also monitored by Eligible Liquid Asset Ratio (ELAR), Lending to Stable Resources Ratio (LSRR), Structural Liquidity, Intraday Liquidity, Stock Approach Ratios, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), Funding Concentration Ratios (Single Borrower, Group Borrower, Borrowings from Single Bank), Resources to Deployment Ratios etc

Details of the Branch 's net liquid assets are summarised in the table below by the maturity profile of the Branch's assets and liabilities based on the contractual repayments. The maturity profile is monitored by the management to ensure adequate liquidity is maintained.

27 Financial risk management (continued)

27.5 Liquidity risk (continued)

Maturity profile of asset and liabilities

Particulars	Less than one month	1 to 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
2021						
Inflows	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	1,156,281	-	-	-	-	1,156,281
Due from banks	804,926	514,378	312,127	-	-	1,631,431
Due from the head office and other branches	22,518	275,474	-	-	-	297,992
Loans and advances to Customers	5,880,749	452,452	229,534	251,601	4,854,248	11,668,584
Investment securities	249,981	299,924	439,538	-	90,878	1,080,321
Derivatives	4,462	-	-	-	-	4,462
Customers' indebtness accepted by the Branch	-	22,487	-	-	-	22,487
Property and equipment	-	-	-	-	24,338	24,338
Deferred tax asset	-	-	-	-	232,453	232,453
Other assets	107,363	-	-	-	-	107,363
Total assets (Inflows)	8,226,280	1,564,715	981,199	251,601	5,201,917	16,225,712
Outflows						
Due to banks	570,613					570,613
Due to the head office and other branches	80,248	11,019	11,019	-	367,300	469,586
Deposits from customers	7,576,616	1,157,582	1,274,570	2,665,607	159,753	12,834,128
Derivatives	1,210	-	-	-	-	1,210
Liabilities accepted by the Branch	-	22,487	-	-	-	22,487
Other liabilities	249,921	-	-	-	-	249,921
Total liabilities (Outflows)	8,478,608	1,191,088	1,285,589	2,665,607	527,053	14,147,945
Total Head office and reserves					2,077,767	2,077,767
Total Liabilities and head office account and reserves	8,478,608	1,191,088	1,285,589	2,665,607	2,604,820	16,225,712
Net on balance sheet liquidity gap 2021						
At 31 December 2020						
Total assets (Inflows)	6,277,262	2,340,232	2,023,814	1,145,761	8,100,534	19,887,603
Total liabilities (Outflows)	3,003,802	2,891,118	2,543,509	2,789,285	6,207,126	17,434,840
Net on balance sheet liquidity gap 2020	3,273,460	(550,886)	(519,695)	(1,643,524)	1,893,408	2,452,763

27 Financial risk management (continued)

27.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. The definition of Operational Risk is "causal-based," providing a breakdown of operational risk into above four categories based on its sources. Operational Risk includes legal and regulatory risk i.e. exposure to fines, penalties or punitive damages resulting from supervisory actions, as well as ordinary damages in civil litigation, related legal costs and private settlements etc. Reputational risk and strategic risk are not included under Operational Risk as they are part of Pillar II risks. Operational risks emanate from every segment of Branch's operations and are faced by all the business units. Management of operational risk includes its identification, assessment, measurement, control, mitigation, analysis, monitoring and reporting.

The Branch has taken measures to put in place tools, firstly to identify all such operational risks. The Branch has also taken measures to implement processes and policies to mitigate the risk to an acceptable level and to avoid or minimise financial losses and damage to Branch's reputation. In order to ensure a structured and focused operational risk management process, the Branch has Operational Risk Management Committee ("ORMC") whose mandate is to oversee operational risk management process, consider each operational risk in order of "priority by significance", to develop policies, processes and procedures for managing operational risk in all of the Branch's material products, activities, processes and systems as well as recommend best way to integrate the operational risk management in the overall organisation wide risk management process.

Operational Risk Management Framework (ORMF) of the Branch comprises of following:

- Operational Risk Management Policy, Procedures and Processes;
- Operational Risk Profile, Risk Appetite and Strategy to Mitigate Risk
- Operational Risk Organizational and Governance Structure
- Operational Risk Management System (ORMS) to identify, measure, monitor, control and mitigate Operational Risk, i.e. Loss Data Management, System & Tools, Business Line Mapping, Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRIs), Scenario and Sensitivity Analysis, Business Environment and Internal Control Factors (BEICF), Operational Risk Capital Computation
- New Product Approval
- Monitoring, Analysis and Reporting

Compliance with Head Office standards is supported by a programme of periodic reviews undertaken by internal audit. The results of internal audit reviews are shared with Audit Committee at Head Office level and Senior Management of the Branch.

In addition to the reviews by internal audit, the compliance with policies and procedures is strengthened by reviews of compliance and operational risk manager.

27 Financial risk management (continued)

27.7 Derivatives

The Branch enters into a variety of derivatives for hedging purposes. Derivatives used by the Branch include swaps and foreign exchange forward contracts. The Branch is not engaged in any trading in derivatives. Derivatives are used purely for the hedging purposes for the clients as well as the Branch's own combined financial positions.

Swaps are agreements between the Branch and other parties to exchange future cash flows based upon agreed notional amounts. Swaps most commonly used by the Branch are interest rate swaps. Under interest rate swaps, the Branch agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount.

Foreign exchange forward contracts are commitments to either purchase or sell foreign currencies at a specified future date for a specified price. The Branch is subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavourable movements in interest rates relative to the contractual rates. However, market risk in most of the cases is covered through back-to-back deals to maintain the Branch'sposition.
The table below shows the positive and negative fair values of Derivatives, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity.

				Notional amount by term of maturity		
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
2021						
Foreign exchange contracts	**4,462**	**1,210**	**3,622,153**	**2,006,243**	**1,615,910**	**-**
	4,462	**1,210**	**3,622,153**	**2,006,243**	**1,615,910**	**-**
2020						
Foreign exchange contracts	29,925	70,412	4,039,973	121,109	3,189,824	729,040
	29,925	70,412	4,039,973	121,109	3,189,824	729,040

27 Financial risk management (continued)

27.8 Capital risk management

The Branch's regulator, the CBUAE, sets and monitors regulatory capital requirements.

The Branch's objectives when managing capital are as follows:

(1) Safeguarding the Branch's ability to continue as a going concern and increase return for stakeholders; and
(2) Comply with regulatory capital set by the CBUAE.

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

The Branch also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its regulatory and risk / economic capital requirements within its integrated ICAAP Framework. Risks such as interest rate risk in the banking book, concentration risk, strategic risk, legal and compliance risk, stress risk, insurance risk and reputational risk are all part of the ICAAP.

Effective from 2017, the capital is computed 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.

The Branch's regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

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. The minimum capital adequacy requirements as set out by the CBUAE are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

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

27 Financial risk management (continued)

27.8 Capital risk management (continued)

The CBUAE issued Basel III capital regulation vide its notice no. CBUAE/BSD/N/2020/4980 dated November 12, 2020 which is partially effective as at December 31, 2021 and the rest will be applicable from June2020).

The Branch has complied with all the externally imposed capital requirements.

Following is the Branch's capital adequacy position under Basel III as at reporting date:

	2021	2020
	AED'000	AED'000
Tier 1 capital		
Allocated capital	**760,000**	760,000
Statutory reserves	**79,498**	79,498
Retained earnings	**1,277,068**	1,543,192
Total tier 1 capital	**2,116,566**	2,382,690
Less: Regulatory Deductions	**(18,105)**	(309,160)
CET 1 Capital after deduction	**2,098,461**	2,073,530
Tier 2 capital		
Fair value reserve	**(38,799)**	(340)
General provisions/general loan loss reserves	**135,392**	130,586
Total tier 2 capital	**96,593**	130,246
Total regulatory capital (sum of tier 1 and 2 capital)	**2,195,054**	2,203,776
Risk weighted assets		
Credit risk	**10,855,369**	10,446,845
Market risk	**9,170**	4,250
Operational risk	**991,036**	854,396
Total risk weighted assets (RWA)	**11,855,575**	11,305,491
Total tier 1 capital expressed as % of RWA	**17.7%**	18.34%
Total tier 2 capital expressed as % of RWA	**0.81%**	1.15%
Capital adequacy ratio	**18.51%**	19.49%

28 Customers indebtedness and Liabilities accepted by the Branch

	2021 AED'000	2020 AED'000
Customers indebtedness and Liabilities accepted by the Branch	**22,487**	1,894,131

Customers' indebtedness accepted by the Branch represent the accepted documented liability amount which is recoverable from the respective customers of the Branch at the reporting date. Liabilities accepted by the Branch represent bills of exchange, letter of credits etc., where the Branch has accepted the liabilities under documentary credits at the reporting date. These assets and liabilities have been presented on a gross basis on the face of the statement of financial position as the Branch does not have a legal right of set-off.

29 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Branch, related parties, as defined in International Accounting Standard 24: Related Parties (IAS 24), include key management personnel and other branches and fellow subsidiaries which are part of Bank of Baroda Group (which includes the Corporate Head Office of the Branch and the branches of the Group operating in different countires in the world), with whom banking transactions are carried out on mutually agreed terms. The management believes that the terms and transaction are comparable with those that could be obtained from third parties.

The significant transactions included in the financial statements with related parties are as follows:

	2021 AED'000	2020 AED'000
Interest income	**1,021**	2,368
Interest expenses	**3,943**	8,285
Head Office charges	**1,218**	1,559

The year-end balances in respect of related parties are disclosed as due from / to the Head Office and branches. The balances of amounts due from / to the Head Office and branches are as follows:

	2021 AED'000	2020 AED'000
Due from the head office and other branches		
Bank of Baroda - United Kingdom	**7,549**	2,332
Bank of Baroda - New York	**-**	145,184
Bank of Baroda - India (Mumbai)	**14,925**	2,565
Bank of Baroda – Brussels	**43**	1,274
Bank of Baroda - Gift City	**183,650**	110,190
Bank of Baroda – UK Subsidaries	**91,825**	-
	297,992	261,545

29 Related party transactions (continued)

	2021 AED'000	2020 AED'000
Due to Head Office and other branches		
Bank of Baroda - United Kingdom	**1,489**	2,509
Bank of Baroda - Oman	**34,011**	25,607
Bank of Baroda - India (Treasury)	**372,736**	1,010,075
Bank of Baroda - Brussels	**31,625**	50,521
Bank of Baroda - UAE Branches	**5,849**	-
Bank of Baroda - MMO	**-**	2,678
Bank of Baroda - UAE Branches	**23,833**	1,030
Bank of Baroda- DIFC	**43**	20
	469,586	1,092,440

29.1 The Branch's management has identified the Chief Executive Officer and Deputy Chief Executive Officer as key management personnel. The disclosure, as required under IAS 24 (revised) with respect to key management remuneration, would result in the disclosure of the compensation paid to both.

	2021 AED'000	2020 AED'000
Key management remuneration	**718**	789

30 Accounting classification and fair values

The table below shows a reconciliation between line items in the statement of financial position and categories of financial instruments:

Particulars	Carrying amount AED'000	Fair value through OCI AED'000	FVTPL AED'000	Amortised Cost AED'000
As at 31 December 2021				
Financial assets				
Cash and balances with the UAE Central Bank	**1,156,281**	**-**	**-**	**1,156,281**
Due from banks	**1,631,431**	**-**	**-**	**1,631,431**
Due from the head office and other Branches	**297,992**	**-**	**-**	**297,992**
Loans and advances to customers	**11,668,584**	**-**	**-**	**11,668,584**
Investment securities		**1,080,321**	**-**	**1,080,321**
Derivatives			**4,462**	**4,462**
Liabilities accepted by the Branch	**22,487**	**-**	**-**	**22,487**
Other assets (excluding prepayments)	**105,497**	**-**	**-**	**105,497**
	14,882,272	**1,080,321**	**4,462**	**15,967,055**

30 Accounting classification and fair values (continued)

Particulars	Carrying amount AED'000	Fair value through OCI AED'000	FVTPL AED'000	Amortised Cost AED'000
Financial liabilities				
Due to banks	**570,613**	-	-	**570,613**
Due to the Head Office and other Branches	**469,586**	-	-	**469,586**
Deposits from customers	**12,834,128**	-	-	**12,834,128**
Derivatives	-	-	**1,210**	**1,210**
Liabilities accepted by the Branch	**22,487**	-	-	**22,487**
Other liabilities	**249,921**	-	-	**249,921**
	14,146,735	-	**1,210**	**14,147,945**

Particulars	Carrying amount AED'000	Fair value through OCI AED'000	FVTPL AED'000	Amortised cost AED'000
As at 31 December 2020				
Financial assets				
Cash and balances with the UAE Central Bank	3,486,230	-	-	3,486,230
Due from banks	3,144,222	-	-	3,144,222
Due from the head office and other Branches	261,545	-	-	261,545
Loans and advances to customers	12,400,517	-	-	12,400,517
Investment securities	-	146,516	-	146,516
Derivatives	-	-	29,925	29,925
Liabilities accepted by the Branch	1,894,131			1,894,131
Other assets (excluding prepayments)	79,212	-	-	79,212
	21,265,857	146,516	29,925	21,442,298
Financial liabilities				
Due to banks	10,402	-	-	10,402
Due to the Head Office and other Branches	1,092,440	-	-	1,092,440
Deposits from customers	16,132,482	-	-	16,132,482
Derivatives	-	-	70,412	70,412
Liabilities accepted by the Branch	1,894,131	-	-	1,894,131
Other liabilities	199,517	-	-	199,517
	19,328,972	-	70,412	19,399,383

Management believes that the fair values of financial assets and liabilities measured at amortised cost are not significantly different from their carring values.

Fair value measurement - fair value hierarchy:

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

30 Accounting classification and fair values (continued)

Fair value measurement - fair value hierarchy (continued):

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

Level 1:

Inputs that are quoted market price (unadjusted) in active markets for an identical instruments.

Level 2:

Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in activemarkets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3:
Inputs that are unobservable. This category includes all instruments for which the valuation techniqueincludes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumption are required to reflect differences between the instruments.

Valuation techniques include net present value, discounted cash flow models, and comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

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

The table below analyses financial instruments, measured at fair value at the end of reporting period, by level into fair value hierarchy into which the fair value measurement is categorised:

2021	Level 1 AED'000	Level 2 AED000	Level 3 AED'000	Total AED'000
Financial assets				
Investment securities	**1,080,321**	**-**	**-**	**-**
Derivatives	**-**	**4,462**	**-**	**-**
	1,080,321	**4,462**	**-**	**-**
Financial liabilities				
Derivatives	**-**	**1,210**	**-**	**-**
	-	**1,210**	**-**	**-**

2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets				
Investment securities	146,516	-	-	146,516
Derivatives	-	29,925	-	29,925
	146,516	29,925	-	176,441

30 Accounting classification and fair values (continued)

Fair value measurement - fair value hierarchy (continued):

2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial liabilities				
Derivatives	-	70,412	-	70,412
	-	70,412	-	70,412

At 31 December 2021	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Carrying amount AED'000
Assets				
Cash and balances with UAE Central Bank	-	1,156,281	-	1,156,281
Due from banks	-	17,974	1,613,457	1,631,431
Due from the head office and other branches	-	22,518	275,474	297,992
Loans and advances to customers	-	-	11,668,584	11,668,584
Customers' indebtedness accepted by the Branch	-	-	22,487	22,487
Other assets	-	-	107,363	107,363
	-	1,196,773	13,687,365	14,884,138
Liabilities				
Deposits from customers	-	-	12,834,128	12,834,128
Due to banks	-	53,453	517,160	570,613
Due to Head office and other branches	-	36,116	433,470	469,586
Liabilities accepted by the Branch	-	-	22,487	22,487
Other liabilities	-	-	249,921	249,921
	-	**89,569**	**14,057,166**	**14,146,735**

At 31 December 2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Carrying amount AED'000
Assets				
Cash and balances with UAE Central Bank	-	3,486,230	-	3,486,230
Due from banks	-	16,849	3,127,373	3,144,222
Due from the head office and other branches	-	-	261,545	261,545
Loans and advances to customers	-	-	12,400,517	12,400,517

30 Accounting classification and fair values (continued)

Fair value measurement - fair value hierarchy (continued):

At 31 December 2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Carrying amount AED'000
Customers' indebtedness accepted by the Branch	-	-	1,894,131	1,894,131
Other assets	-	-	79,212	79,212
	-	3,503,079	17,762,778	21,265,857
Liabilities				
Deposits from customers	-	-	16,132,482	16,132,482
Due to banks	-	10,402	-	10,402
Due to Head office and other branches	-	-	1,092,440	1,092,440
Liabilities accepted by the Branch	-	-	1,894,131	1,894,131
Other liabilities	-	-	199,517	199,517
	-	10,402	19,318,570	19,328,972

Movements in level 3 financial instruments measured at fair value

There was no movement between the levels of financial instruments during the year was Nil (2021: Nil)

Fair value offinancial assets and liabilities not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements.

Asset for which fair value approximates carrying value

For financial assets and financial liabilities that have short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits and savings accounts without specific maturity.

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit and maturity. For other variable rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

31 Subsequent events

- On 31 January 2022, the UAE Ministry of Finance announced the introduction of a 9% federal corporate tax rate effective for fiscal years commencing on or after 1 June 2023. There are no implications to the financial and reporting period ended 31 December 2021.

- On 5 March 2022, Financial Action Task Force (FATF) included United Arab Emirates on a list of jurisdictions subject to increased monitoring, known as its 'grey' list. Countries on the 'grey' list risk reputational damage, ratings adjustments, trouble obtaining global finance and higher transaction costs.

31 Subsequent events (continued)

- A Russia-Ukraine conflict surfaced in February 2022. According to the external rating agencies, the impact of war between Russia and Ukraine is likely to have only limited and or indirect impact on the UAE organizations.

- As stated in Note 1, the Branch is required to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended. Subsequent to the year end, the UAE Federal Decree Law No. 32 of 2021 is in effect ("Companies Law"). The Branch has 12 months from 2 January 2022, being the effective date of the Companies Law, to comply with its provisions.

- UAE Federal Corporate Tax ('FCT') Subsequent to the year end, UAE announced FCT on 31 January 2022 which will be effective for accounting periods beginning on or after 1 June 2023. It is mentioned in the announcement that the UAE FCT will be applicable across all Emirates and will apply to all business and commercial activities alike, except for the extraction of natural resources which will continue to be subject to Emirate level taxation. The detailed regulation is yet to be issued and enacted. As the Law was not published and substantially enacted as at 31 December 2021, the impact of the announcement has not been considered on the financial position of the Branch as 31 December 2021. Further, due to FCT introduction, there could be some adverse implication on the deferred tax asset recognized by the bank based on Emirate Tax Laws. The Management is currently evaluating the impact on the ETR and deferred tax based on the available information and by considering various scenarios and potential tax rates that might apply to the group. The actual impact will be reflected in the reporting period in which tax regulations are substantially enacted, with such substantial enactment clarifying the revised tax rate and relevant rules applicable on the bank under FCT.

  Management is in the process of evaluating the consequences of the afore-mentioned events to the financial statements and will communicate the conclusion of their evaluation at an appropriate future time.

  There have been no other events subsequent to the statement of financial position date that would significantly affect the amounts reported in the financial statements as at and for the year ended 31 December 2021.

32 Comparative figures

In the prior year, "processing fee" and "fee from postage and SWIFT" amounting to AED 25,4 Million and AED 7.5 million respectively were previously classified as "others" in the "other operating income" (note 20). These amounts have been reclassified to "fee and commission income" (note 18) to acheive fair presentation.