EMIRATES DEVELOPMENT BANK

ANNUAL REPORT 2021

"A KEY FINANCIAL ENGINE OF THE UAE'S ECONOMIC DIVERSIFICATION AND INDUSTRIAL TRANSFORMATION AGENDA"

EDB
مصرف الإمارات للتنمية
Emirates Development Bank

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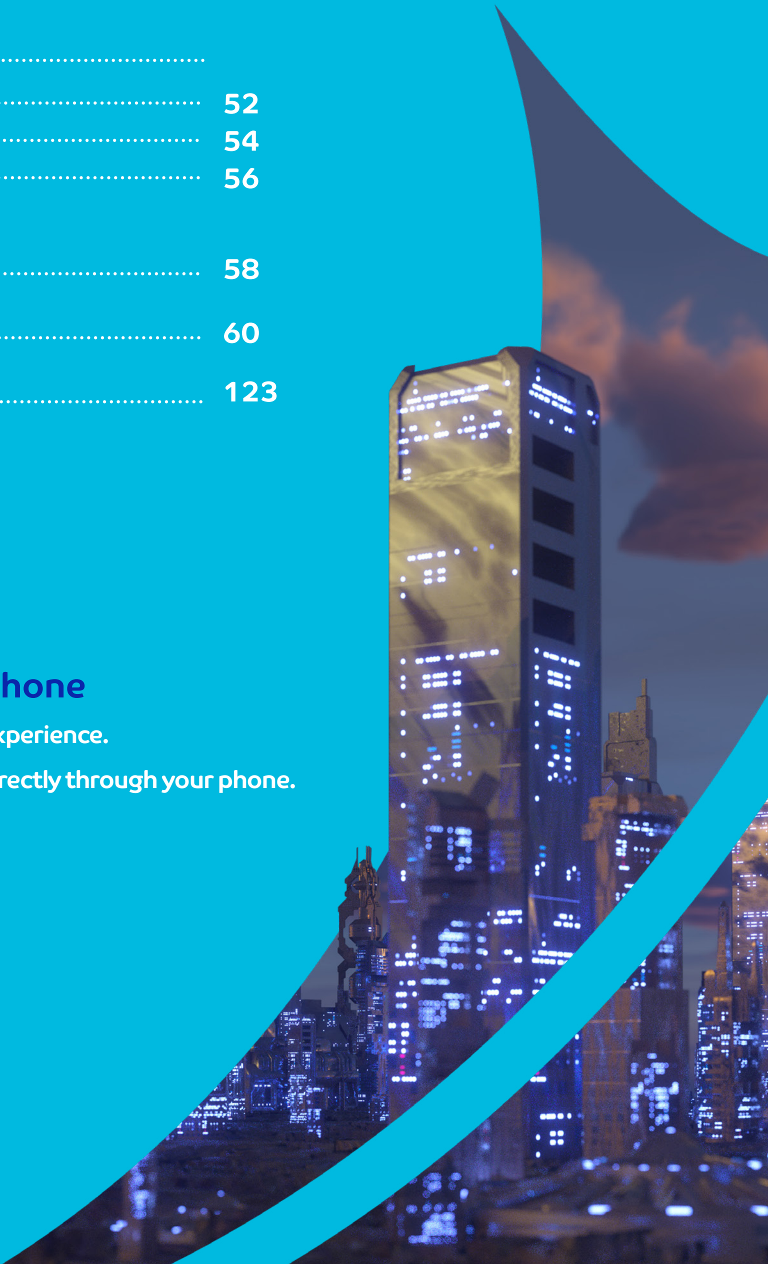


A Message From Our Chairman

Empowering the UAE's economic diversification and industrial transformation for growth

In line with the vision and directives of the UAE leadership, the new strategy of Emirates Development Bank (EDB) was launched in April 2021 with the aim of establishing EDB as one of the key financial engines of the UAE's industrial transformation and economic diversification plans.

This mission places a great responsibility on EDB to support the multinational companies, large corporate enterprises, SMEs and entrepreneurs who will build a sustainable economic future for the UAE.

Under the strategy, the EDB plays a pivotal role in supporting the country's industrial development strategy, accelerating the adoption of advanced technology, empowering SMEs and encouraging start-ups to adopt innovation, in line with national development priorities and initiatives.

To achieve this ambitious goal, the Bank is focusing its efforts on supporting businesses and enterprises across five priority sectors: manufacturing, healthcare, food security, advanced technology, and infrastructure.

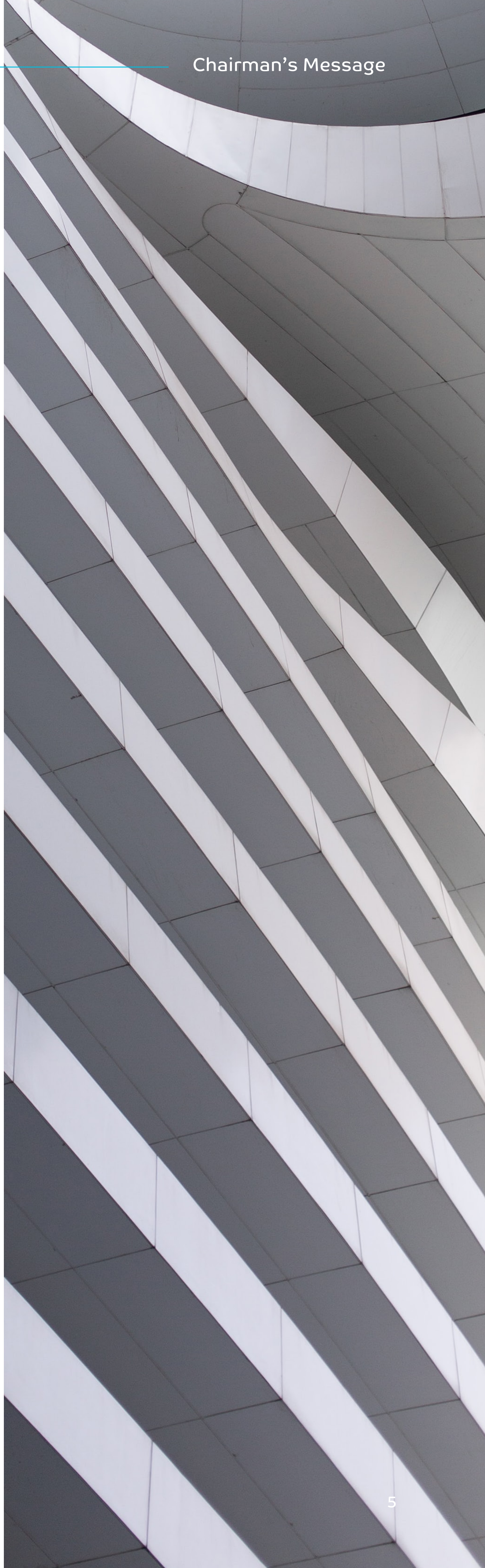
The new strategy began delivering immediately. In 2021, EDB witnessed an increase in its contribution to the UAE's industrial GDP from AED59 million in 2019 to AED464 million, thanks to the efforts of the team to provide direct financing and credit guarantees, while the number of industrial jobs created climbed eight-fold from 272 in 2019 to 1,924 in 2021.

After this strong start, we are focusing on achieving even more ambitious goals. By 2026, the target is for the EDB to provide AED30 billion in support to 13,500 companies, which in turn will generate AED10 billion to national GDP.

In December last year, the nation celebrated a major milestone: the 50th anniversary of its creation in 1971, paying fulsome praise to His Highness Sheikh Zayed and the country's founding fathers. Their example of service and vision has driven the nation both to excel economically over the past 50 years, and to create confident, sustainable plans for the next five decades and beyond.

The Bank looks to the next 50 years with confidence and optimism and will work to implement the objectives of our strategy: delivering a world-beating industrial sector that contributes significantly to the GDP growth of the nation.

His Excellency Dr. Sultan Al Jaber
Chairman, Emirates Development Bank



A Message From Our CEO

Supporting the lifeblood of advanced economies

For Emirates Development Bank, 2021 has been a whirlwind of activity, creativity and – most importantly – success as we build on our mandate to empower the industrial sector, facilitate the adoption of advanced technology, support SMEs and encourage start-ups and innovation – all in line with national development priorities.

Encouraged by the UAE government's far-sighted industrial development initiatives and empowered by the EDB Board's new strategy, the Bank closed the year in a strong position. Over 2021, the Bank financed projects worth AED464 million across the priority sectors of manufacturing, technology, healthcare, food security and infrastructure, supported by credit guarantee partnerships with commercial bank partners worth AED168 million.

In a year of many highlights, some accomplishments stand out. In a transformational move, EDB delivered on one of the strategy's key pillars by launching a division dedicated to handling large corporates, at a stroke ensuring EDB can provide banking services to companies of all sizes and at all stages of the development spectrum.

Also noteworthy was the launch of EDB's new digital banking app in September, which dramatically speeds up access to banking services and which attracted 500 new company accounts by year end. The app won the Best Banking App of the Year accolade at the FinTech Abu Dhabi awards for 2021, a testament to EDB's practical support for start-up businesses and SMEs.

EDB works towards a vision for the national economy that seeks to position the UAE as a global hub for industry, advanced technology and the industries of the future, as well as a magnet for global talents and capabilities. As part of the EDB's mandate to boost its accessibility to capital markets and strengthen its funding profile, the Bank issued a second US dollar-denominated bond issuance of US$750 million in June 2021, an element of our US$3 billion Euro Medium Term Note programme. This bond was heavily oversubscribed, as was the previous issue, and received strong investment grades from the financial ratings agencies (AA- with a Stable outlook, according to both Fitch and S&P Global). Attracting investors from a diverse global base, including GCC, Asian, European and offshore US fixed income markets, this demonstrates not just confidence in EDB's fundamentals, but also wider support for the UAE's industrial ambitions.

EDB strengthened its relationships and co-operation with key Emirati partners who can help the Bank identify eligible projects with high developmental impact and where capital can be quickly deployed. EDB signed Memoranda of Understanding with over a dozen new partners over the period covered by the report, including banks, public and private sector organisations, free zones and chambers of commerce across the UAE.

The EDB's Annual Financial Report for 2021 remains strong, despite continuing financial and business challenges from the pandemic. The audited balance sheet shows an increase of 33% in total assets (to AED12.091 billion, from AED9.059 billion), with an annual profit of AED51.9 million. Just 8% of the Bank's loans are categorised as low-risk, and EDB conducts constant reassessment of credit, market, liquidity, operational and capital risks as part of its prudent risk management strategy.

Over the year, EDB has been proud to build on its important and defining relationship with the Ministry of Industry and Advanced Technology. We are proud to be the key enabler and financial engine of the Ministry's strategic initiatives, providing targeted support to businesses across five priority industries that will build a sustainable industrial future for the UAE.

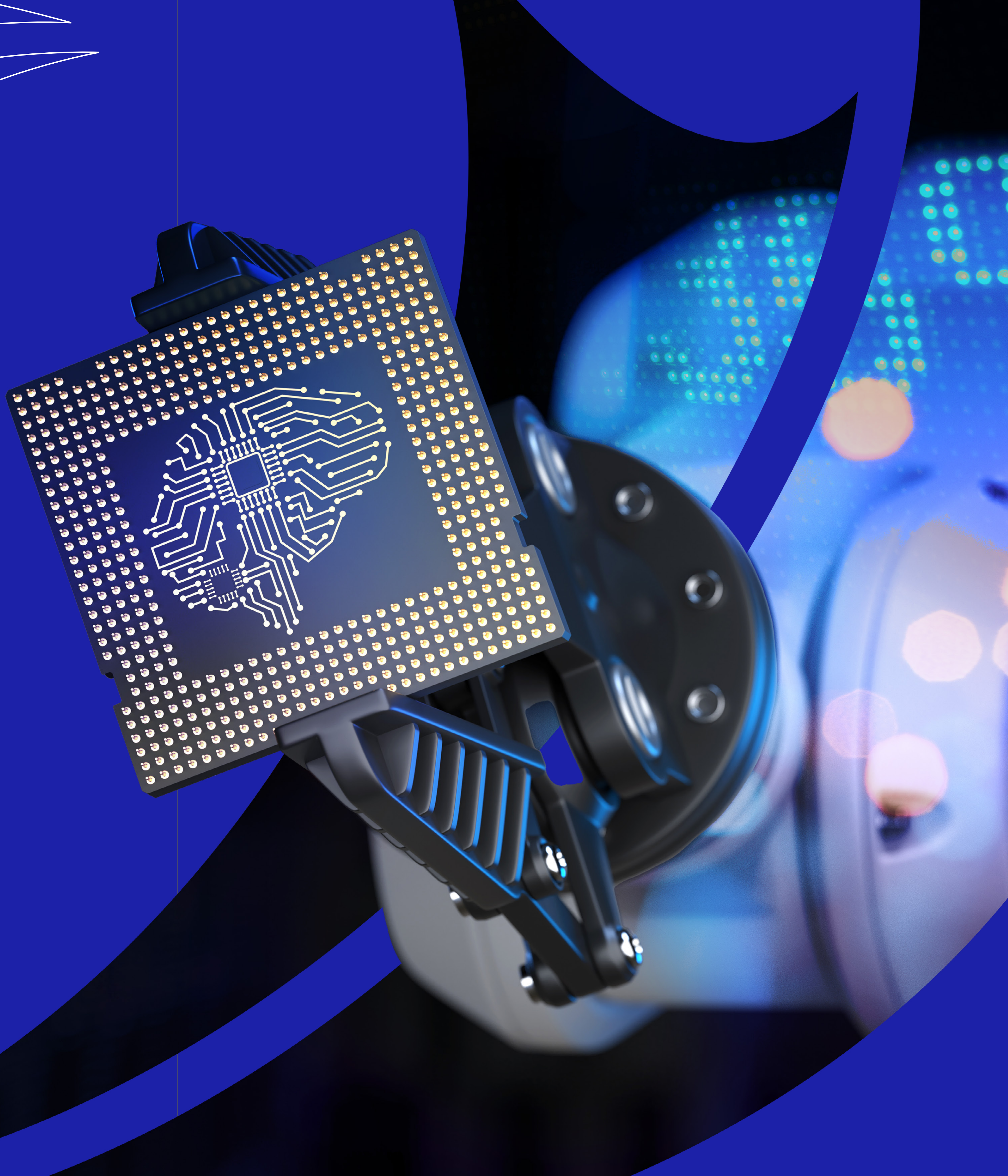
We have clearly demonstrated that EDB is a trusted partner and first choice for modern and innovative banking services for any business, local or international, that is looking to set up or grow their business in the UAE.

I offer my sincere thanks and appreciation to His Excellency the Chairman and the EDB Board for their vision, their clear strategic direction and their belief in EDB's capabilities. I am also most grateful to my team at EDB. We are truly blessed with our structure, strategy and support, and look forward to EDB delivering the strategic plan and another year of success.

Ahmed Mohamed Al Naqbi
CEO, Emirates Development Bank

01 Overview

- About Emirates Development Bank
- EDB’s History
- Vision, Mission and Objectives



About Emirates Development Bank

Emirates Development Bank (EDB) was established by Federal Law No.7 of 2011 under a decree issued by His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE. It officially launched operations in 2015 under the patronage of His Highness Sheikh Mansour bin Zayed Al Nahyan, Deputy Prime Minister and Minister of Presidential Affairs. In 2021, His Highness Sheikh Mohammed Bin Rashid Al Maktoum launched EDB's new strategy, expanding the Bank's role to be the key financial engine of the country's economic diversification and industrial transformation whilst being a key facilitator of the country's industrial development.

For more than a decade, EDB has been committed to supporting the UAE's social development. It provides a suite of financing solutions for large corporates and for small and medium enterprises (SMEs), as well as home finance to enable Emirati citizens to achieve their dream of owning their own property. Over the years, EDB has widened its mandate to align with the national economic agenda and has put in place initiatives and formed strategic partnerships to support UAE's vision of being a sustainable, knowledge-based economy.

The Bank is a key supporter of the UAE's long-term vision for diversification and growth. Its current strategy, launched in early 2021, is focused on new and innovative products that support the UAE's agenda to create a thriving knowledge-based economy. The strategy includes direct and indirect financing of 13,500 SMEs across priority sectors, and the launch of a new Credit Guarantee Scheme to mobilise capital to SMEs.

The Bank's strategic focus remains on serving its customers efficiently, continuously improving its performance, establishing a culture of excellence and reducing financing costs to achieve competitive advantage.

The new strategy is already having a positive impact on the UAE's economy, and will continue to do so until 2026 and beyond. In less than a year, the Bank's contribution to the country's GDP has reached almost half a billion dirhams. By 2026, that contribution is expected to exceed AED10 billion.

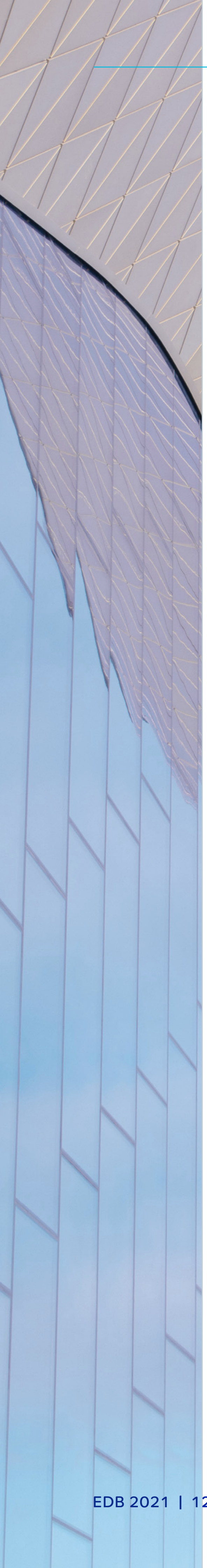
AED **10** billion
Authorised Capital

AED **4.5** billion
Paid Capital

AED **5** billion
Issued Capital

AED **12** billion
Total Assets

AA-
Stable Fitch Ratings



EDB's History

2011
September
Federal Law No (7) of 2011 was issued

2013
May
UAE Government appointed initial EDB Board of Directors

2013
September
EDB Articles of Association established

2013
December
EDB Board of Directors strategy approved

2014
November
Signing of MoU between Ministry of Finance, Sheikh Zayed Housing Programme and EDB

2015
March
Signing of a 5-year banking Services Agreement with Sheikh Zayed Housing Programme

2015
June
HH Sheikh Mansour bin Zayed Al Nahyan inaugurated EDB Head Office in Abu Dhabi

2016
June
New EDB Board members appointed under the Chairmanship of HE Obaid Humaid Al Tayer

2016
September
EDB signed an agreement with the Ministry of Finance to host and operate the Mohammed bin Rashid Innovation Fund (MBRIF)

2016
November
EDB introduces new UAE National Home Finance and Smart Services for UAE nationals

2017
July
Signing of the Emirates Movable Collateral Registry Agreement

2017
September
Launch of housing loans for UAE nationals

2017
December
EDB adopts new financing solutions to support SMEs

2017
December
Registration of Emirates Movable Collateral Registry Corporation

2018
April
Official launch of the Emirates Movable Collateral Registry Corporation

2018
May
EDB adopts news finance solutions to support start-up companies

2018
September
Fitch rates EDB AA-; first federal institution to have such a credit rating and paving the way for the launch of EDB's bond Programme

2018
September
EDB introduces new UAE National Home Finance and Smart Services for UAE nationals

2019
february
EDB launches its Credit Guarantee Scheme

2019
March
EDB closes first federal entity bond issuance of USD 750 million; with an oversubscription rate of 4.7 times and demand from over 130 investors

2019
October
EDB launches new digital platform for superior customer experience

2020
September
New board appointed, chaired by HE Dr. Sultan Al Jaber

2020
September
EDB Board announces updates to strategy and lays foundation for 2021 new strategy launch

2020
October
National Supply Chain Finance platform launched to boost liquidity for SMEs

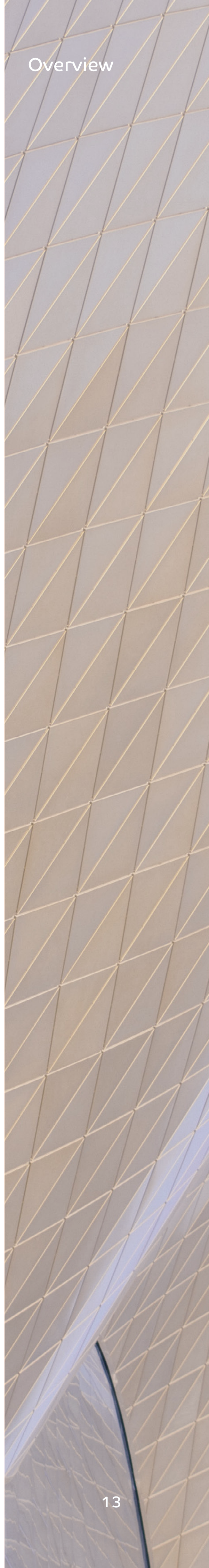
2021
April
Launch of new strategy to support the UAE's industrial development

2021
April
Supporting Make it in the Emirates in partnership with Ministry of Industry and Advanced Technology

2021
June
Strong investor appetite for EDB's second ever bond issuance of AED 750 million which was oversubscribed four times

2021
July
EDB launches credit guarantee and co-lending programme with five partner banks

2021
September
EDB launches its Digital Banking app



Vision, Mission and Objectives

Vision

To be a catalyst for the progressive evolution of the UAE economy

Mission

To support the UAE's economic diversification agenda by enabling individuals, SMEs and corporates in priority industrial sectors, while promoting innovative technologies to build a knowledge-based economy

Objectives

Enable the UAE's industrial development

Accelerate the adoption of advanced technologies

Empower the growth of SMEs in the UAE

Encourage entrepreneurship and innovation

Support UAE nationals in acquiring their home

02

Economic overview

- The Bank's Strategy 2021 - 2026
- Economic Impact

The Bank's Strategy 2021 – 2026

The Emirates Development Bank's strategy, unveiled in April 2021, positions the Bank as a key financial engine for the UAE's industrial development.

In a major step to boost the national economy, the UAE Government approved the strategy, which will enable EDB to provide financial support of AED30 billion to large corporates, SMEs and start-ups over five years. Based on the strategy goals, EDB aims to support the national economy by financing more than 13,500 businesses across five priority industrial sectors.

Launched to support the industrialisation goals of the UAE overseen by the Ministry of Industry and Advanced Technology, the EDB strategy aims to leverage the Bank's role as a key driver of the national economy to provide the largest support network in the UAE to the industrial sector.

The strategy expands the EDB's role from providing home finance and supporting SMEs to being a full development bank operating across priority industrial sectors. Under the provisions of the strategy, EDB has established a division that deals exclusively with large enterprises and multi-nationals, significantly expanding EDB's reach and remit, allowing the Bank to provide efficient, bespoke solutions to all enterprises, regardless of scale.

Review of Performance

Economic impact

Since launch, our strategy has furthered our ambition to become the key financial engine of the UAE's economic diversification and industrial transformation agenda and a key facilitator of the country's industrial development strategy unveiled by the UAE Government.

In 2021, we are proud to have:

Created more than

1,900 jobs

within the industrial sector

Contributed more than

AED425 million

to the UAE's GDP

Supported more than

1,300 industrial SMEs

through CAPEX and supply chain finance

Launched Credit Guarantee Scheme mobilising more than

AED168 million

of capital deployment into the market

03

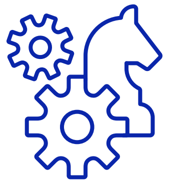
Core Development Solution

- Economic Impact
- Financial Overview
- Core Products and Solutions
- Products and Platforms

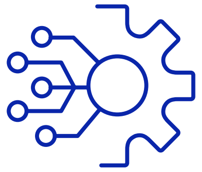
Our Difference

EDB is different from commercial banks as its operations are driven by an economic development mandate, with the goal to maximise economic impact for the UAE and drive GDP growth.

Our Mandate



Support implementation of the UAE's Industrial Development Strategy

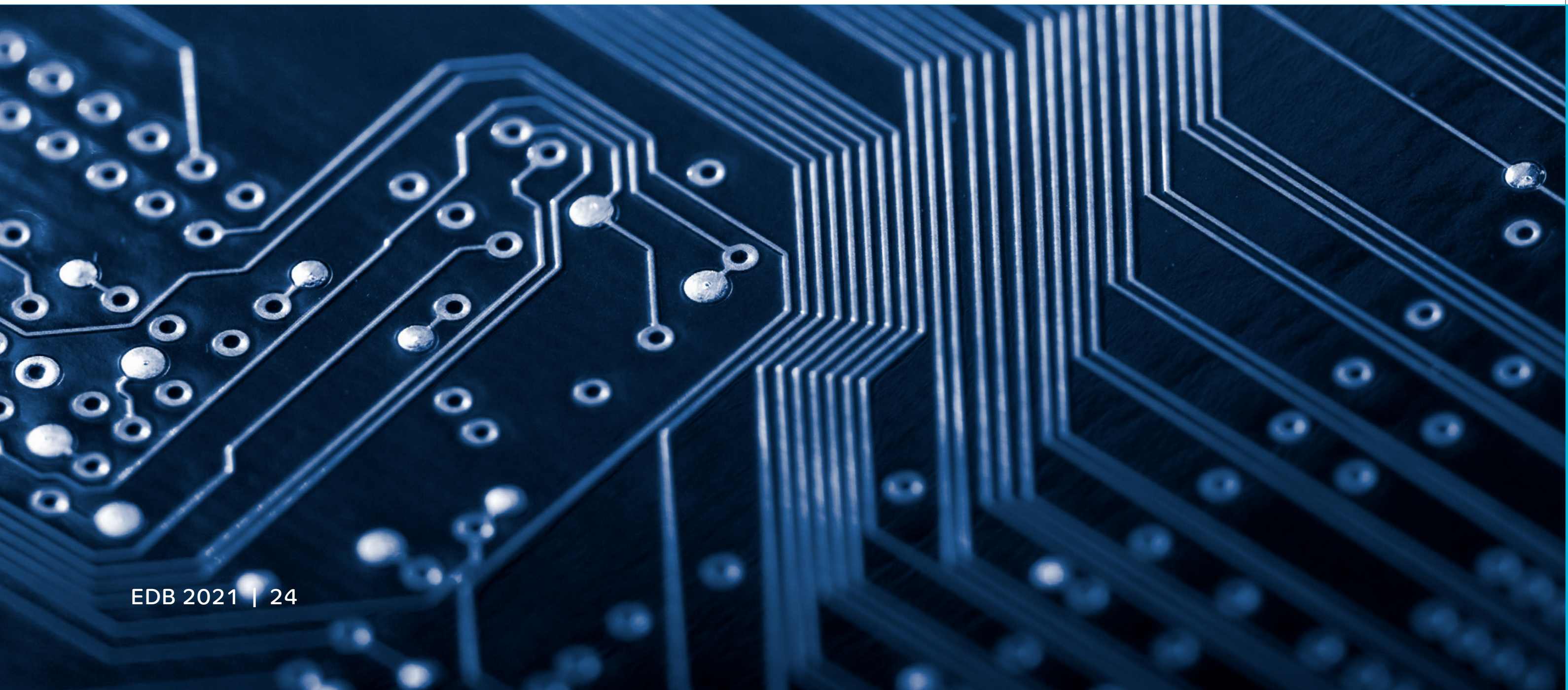


Facilitate the adoption of advanced technology

Empower the SME sector to drive growth and innovation

EDB fills a critical gap in the market by enhancing the bankability of SMEs and supporting projects that offer benefits for the wider economy but are less attractive to commercial banks.

EDB therefore assesses economic development impact criteria on top of the standard risk and profit calculations of commercial banks and offers eligible projects more flexible terms, including interest grace periods, longer tenors, lower financing costs and higher loan-to-value ratios.



When looking to allocate financing, EDB will evaluate a project across three criteria.

DEVELOPMENT IMPACT ASSESSMENT	RISK EVALUATION	EFFICIENT, FAST DEPLOYMENT
To assess the developmental impact, EDB uses a proprietary 'Developmental Impact Scorecard'. This measures both the quantitative and qualitative impact, evaluating criteria such as: project nature; new industry sector; supports an ecosystem of SMEs; attracts foreign direct investment; contributes to local procurement; includes advanced technology; or drives in-country value and export promotion, among others.	In terms of risk evaluation, EDB believes in risk prudence. While the Bank allows for more risk where the development impact potential is greater, the Bank must still be cautious when assessing clients. For example, EDB will not provide financing to companies that are overleveraged or have a negative credit history, or those in the process of seeking debt restructuring or acquisition financing.	Since the launch of EDB's new strategy, the Bank has signed more than a dozen partnerships with economic freezones, chambers of commerce, departments for economic development and government agencies focused on attracting direct investment to the UAE. These partnerships enable the Bank to identify the right clients and projects and move quickly to bring their development plans to reality, therefore accelerating the impact of the projects to the national economy.

The Impact Scorecard

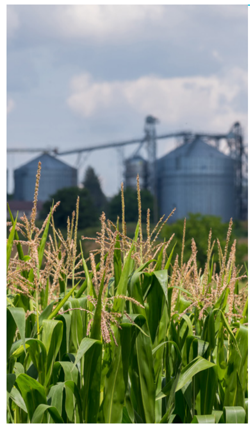
Projects are assessed on both qualitative and quantitative basis to determine their potential contribution to UAE economy.

Priority Sectors

EDB is focused on providing financing across five priority sectors that diversify the economy towards non-oil GDP, and develop sectors that are a national priority for economic self-reliance and those that offer stable and sustainable growth for the future.

Manufacturing

Healthcare



Food Security

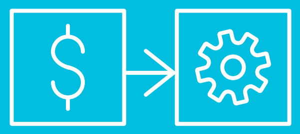
Infrastructure

Advanced Technology

Core Developmental Solutions

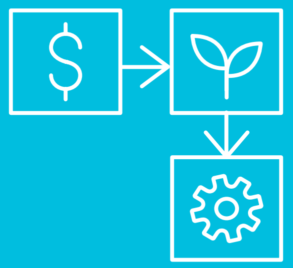
Our core solutions

EDB provides core solutions across three main tracks: direct financing; indirect financing and non financial solutions.



Direct financing

Through direct financing to SMEs and large corporates sponsoring industrial projects, the Bank has set a target to deploy AED24 billion of support to 13,500 companies within the five priority sectors.



Indirect financing

Indirect financing of AED6 billion through our Credit Guarantee Programme, which supports SMEs by guaranteeing loans from our partnership network of commercial banks.

Products and Platforms

Tailored products

EDB offers a patient debt approach with flexible pricing and tailored financing solutions. The Bank does this through both direct and indirect lending, with a focus on financing projects located in the UAE that facilitate high-skill job creation, import substitution, export promotion and investment in advanced technology. The Bank has a particular emphasis on expansion and investments in productive assets, such as capex financing, and enhancing the bankability of SMEs.

Greenfield and brownfield project financing

Specific products that realise EDB's goals include greenfield and brownfield project financing in new projects or capacity expansion via non- or part-recourse project financing structures. The maximum loan-to-value (LTV) is 70% with up to 15 years tenor and grace periods up to two years.

CAPEX financing

EDB offers capex financing for expansion or the development of new business activities, which in turn will contribute to UAE's economic development. These loans are available at 80% of the value of the project with 12 years tenor and a grace period of up to 18 months.

Advanced technology adoption

EDB also offers advanced technology adoption financing to assist in upgrading existing machinery or acquiring more advanced and efficient machinery, especially those based on Industry 4.0 technologies. The Bank can finance up to 90% of the project value, with 12 years maximum tenor and a grace period of up to 18 months.

Renewable and energy efficiency financing

When it comes to renewable and energy efficiency financing, we are very bullish. For investments into alternative or renewable energy, or transitioning to clean and renewable energy sources, we can offer finance up to 100% of the project value with a maximum tenor of 15 years and a two- year grace period.

Digitalisation finance

The Bank also has digitalisation finance to assist a company's digital transformation and the upgrade of IT infrastructure. EDB can finance up to 70% of the project value, with 7 years tenor and a grace period of up to 18 months.

Products and Platforms

Direct and indirect financing

National Supply Chain Finance Platform

The UAE's National Supply Chain platform was established by EDB to support the development of the SME ecosystem in the UAE, with a strong focus on digitalisation.

The platform enables a continual flow of liquidity access for both suppliers and buyers, through a seamless, automated, onboarding process which reduces administrative costs and turnaround time and improves payment efficiency.

This platform gives UAE businesses improved access to working capital by enabling suppliers to gain quicker access to money owed from buyer, while buyers get more time to pay off their invoices.

The project is supported by the UAE Federal Government and was developed through close collaboration between Emirates Development Bank, the International Finance Corporation (IFC), a member of the World Bank Group and HPD LendScape.

The National Supply Chain Finance platform provides support to the critical SME ecosystem within the UAE, as it provides access to liquidity and reduces their cost of working capital. It is beneficial for both anchor organisations and suppliers.

National Supply Chain Platform offers:

- **One platform for buyers and sellers**
- **Fully automated operations**
- **Easy access to finance with mitigated risks**
- **Paperless and efficient KYC process**
- **Bespoke workflows tailored to each buyer programme and to each group of suppliers or even individual suppliers**

Products and Platforms

Direct and indirect financing

Credit Guarantee and Co-lending Programme

In partnership with a number of local banks, EDB is providing a credit guarantee or co-lending programme. Within the scope of EDB's arrangements with its partner banks, they can offer financing to individual SMEs, and 50% (max AED7.5 million) of the facility amount will be either guaranteed or co-lent by EDB.

This offering is aligned to EDB's strategy, providing direct and indirect lending for SMEs (supply chain, project and long-term finance) as well as business advisory services for entrepreneurs, startups and small companies (coaching, consulting, mentoring, market research).

Products and Platforms

Non-financial solutions

Business Lab

The UAE has been a global leader in supporting entrepreneurs and providing them with an integrated system of initiatives and programmes to incubate their projects, accelerate their growth and become a major contributor to our non-oil GDP.

EDB, through its Business Lab, which was launched in 2020, provides free essential resources and content to help entrepreneurs at various stages of their business development. These business courses cover topics such as Strategy, Innovation, Sales, Marketing, and Accounting.

Through short videos, entrepreneurs have the opportunity to get practical professional tips on how to address common business challenges.

This online platform provides

- Business courses, templates and professional video content
- Information on how to turn an idea into a viable business
- Support to start-ups and SMEs for scaling up and expanding their business

Our non-financial services nurture and support growth for entrepreneurs, start-ups and small businesses:

Business coaching and training

- Subject specific programmes to support businesses through common issues
- Targeted towards businesses in need of continuous development

Digital programmes

- Programme to help businesses prioritise, plan and adopt digital investments and technologies

The Bank is also set to launch the following services to further support mSMEs:

Consulting and advisory

- Customised consulting and advisory solutions geared towards businesses which need solutions to context specific and business specific issues

Connectivity and matchmaking

- Online platform to connect startups and mSMEs with large corps, corporates, mentors and other key stakeholders

Market research

- Sector based economic research and market intelligence desired by businesses to analyse market dynamics, trends, and projections

Products and Platforms

Non-financial solutions

Business Banking App

As part of EDB's commitment to innovation and the adoption of advanced technology, in 2021 the Bank launched its 'Business Banking' app, which is powered by Yap, a UAE based FinTech innovator.

The app provides an unmatched digital bank account user experience. Some of the key features of the app are:

24x7 secure, convenient, on-the-go digital banking services

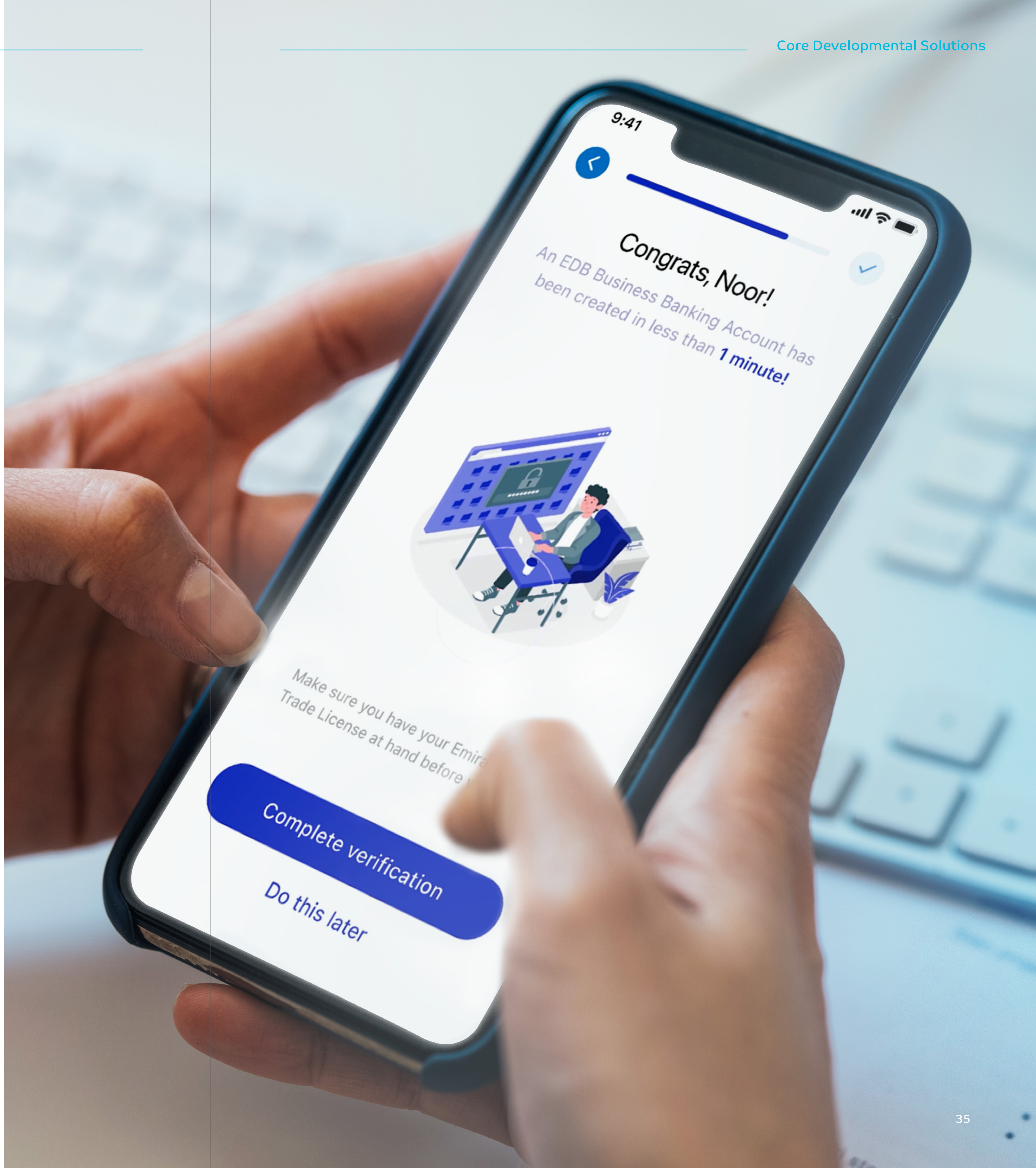
Free and open to all businesses across the Emirates

Complete an application in seconds

IBAN reserved in minutes

Account actived in as little as 48 hours

No minimum balance



04

Awards and Accolades

Awards and Accolades

Among a number of accolades received in 2021, EDB was proud to pick up two major awards that demonstrate its commitment to supporting industrial development and finance innovation in the UAE.

In November, EDB's Business Banking App was conferred **the Product of the Year honour at the Fintech Abu Dhabi Awards 2021.**

The win was a major recognition to the EDB App, coming just three months after its launch. The award recognised the significance of the Business Banking App, which was designed to support the SMEs operating in the UAE.

The prestigious Fintech Abu Dhabi Awards, part of the 5th annual Fintech Abu Dhabi Festival organised in the UAE capital by the Abu Dhabi Global Market (ADGM), highlighted the work and initiatives of fintech startups, entrepreneurs, and established companies within the global fintech arena.

In December, the Bank was honoured with the 2021 **'Ecosystem Enabler of the Year'** award at the Enterprise Agility Award Ceremony organised by *Entrepreneur Middle East.*

The accolade recognises EDB's agility and nimbleness towards accelerating industrial development, adoption of advanced technology, as well as supporting entrepreneurship, innovation and the In-Country Value proposition of the UAE.

05

Strategic Partnerships

- Ministry of Industry and Advanced Technology
- Ministry of Energy and Infrastructure
- Ministry of State for Entrepreneurship and SMEs

Ministry of Industry and Advanced Technology

As a key element of the Emirates Development Bank's commitment to support the UAE in its goals to diversify towards a knowledge-based economy, in February 2021 the Bank signed a Memorandum of Understanding with the Ministry of Industry and Advanced Technology.

وزارة الصناعة
والتكنولوجيا المتقدمة
MINISTRY OF INDUSTRY
& ADVANCED TECHNOLOGY

EDB, in collaboration with the Ministry of Industry amd Advanced Technology, will launch funding solutions that support the development of industry and advanced technology in priority sectors. Together, both parties will promote the integration of advanced technology in key areas including manufacturing, structured finance and equity investments, business expansion funding and green finance.

Moreover, EDB and the Ministry will partner to promote the growth and development of the entrepreneurship ecosystem in the UAE through the provision of financial and non-financial support, including financial and industry consultation, to empower start-ups.

Under the agreement, EDB will facilitate financing to purchase and update machinery and equipment in line with the technological requirements of the Fourth Industrial Revolution, while a subsidiary company will be launched to provide structured financing, capital investments and to find alternative funding sources to support target companies in restructuring their budgets to enable their growth. Moreover, both parties will coordinate with other financing bodies such as investment funds to encourage and secure their support and participation.

Together, EDB and the Ministry will contribute to the advancement of the UAE's industrial agenda.

Ministry of Energy and Infrastructure

Overseen by the Ministry of Energy And Infrastructure, The Sheikh Zayed Housing Programme was established in 1999 to provide suitable housing for UAE nationals and their families in accordance with the best standards and specifications. It is one of the key federal institutions in the UAE offering housing grants and loans, as well as multiple solutions including building or expanding a house within integrated residential neighbourhoods.

وزارة الطاقـــة والبنيـــة التحتيـــة
MINISTRY OF ENERGY & INFRASTRUCTURE

Shortly after the establishment of The Sheikh Zayed Housing Programme, it entered into an historical Memorandum of Understanding with Emirates Development Bank, ushering in the provision of both banking and financing services.

This agreement promotes cooperation and unites both government entities in their joint commitment to further improve Emiratis with access to housing services, thus creating a stable, united community and society for all. EDB provides banking and financing services to the customers of the Sheikh Zayed Housing Programme, as well as developers and construction businesses involved in developing residential properties as part of the programme. The Bank also provides bespoke services to effectively manage and invest the funds of the programme.

The Sheikh Zayed Housing Programme benefits from an additional source of funding for the provision of home finance for Emiratis, to further enhance its already high-quality services.

New Partners and Stronger Ties

Over 2021, the Bank signed 22 MoUs with government and private entities to enhance joint cooperation and strategic partnership to achieve the Bank's objectives, in addition to signing partnerships with a number of local banks to activate the Loan Guarantee Programme..

Partnerships with local banks for the Loan Guarantee Programme	New MoUs with government and private entities
First Abu Dhabi Bank	Ministry of Industry and Advanced Technology
Mashreq Bank	The Ministry of Economy
RAKBANK	Sharjah Chamber of Commerce and Industry
National Bank of Umm Al Quwain	Ajman Chamber of Commerce
Commercial Bank of Dubai	Abu Dhabi Investment Office
Emirates NBD Bank	Abu Dhabi Export Office
National Bank of Fujairah	Ajman Free Zone
Ajman Bank	Abu Dhabi Fund for Development
	Economic Zones - Ras Al Khaimah - RAKEZ
	Abu Dhabi Ports Group - KIZAD
	Dubai Industrial City - DIC
	Fujairah Municipality
	Dubai Corporation for the Development of Industry and Exports
	Dubai Investment Park
	ZOHO Corporation
	Beehive

06 Governance

- Board of Directors

Board of Directors

Under the patronage of His Highness Sheikh Mansour bin Zayed Al Nahyan and the guidance of the Ministry of Finance (MoF), Emirates Development Bank (EDB) is overseen by eminent personalities who constitute its board and are supported by a proficient, highly motivated, and professional management team, which manages the day-to-day activities of the Bank, the Board Audit, Risk and Compliance Committee.

HE DR. SULTAN AHMED AL JABER

Chairman of the Board of Directors

HE DR. AHMAD BELHOUL AL FALASI

Deputy Chairman of the Board of Directors

Chair of the Board Strategy and Transformation Committee

HE YOUNIS HAJI KHOURI

Member of the Board of Directors

Chair of the Board Credit and Investment Committee

HE MARIAM SAEED GHOBASH

Member of the Board of Directors

Chair of the Board Human Resource Committe

Member of the Board Strategy and Transformation Committee

Member of the Board Credit and Investment Committee

HE KHALFAN JUMAA BELHOUL

Member of the Board of Directors

Vice Chair of the Board Strategy and Transformation Committee

Member of the Board Human Resource Committee

HE AHMED ALKUTTAB

Member of the Board of Directors

Member of the Board Strategy and Transformation Committee

Member of the Board Credit and Investment Committee

HE ABDUL WAHED MOHAMMAD AL FAHIM

Member of the Board of Directors

Member of the Board Credit and Investment Committee

HE NAJLA AHMED AL MIDFA

Member of the Board of Directors

Chair of the Board Audit, Risk and Compliance Committee

Member of the Board Strategy and Transformation Committee

HE MOHAMMED SAIF AL SUWAIDI

Member of the Board of Directors

Member of the Board Audit, Risk and Compliance Committee

Member of the Board Human Resource Committee

HE YOUSEF YAQOOB ALMANSOORI

Member of the Board of Directors

Member of the Board Audit, Risk and Compliance Committee

Member of the Board Human Resource Committee

Board Committees

The Board of Directors structured EDB's Board Committees in accordance with Decision No. (29) 2011 of the Council of Ministers on the governance of entities owned by the Federal Government of the UAE to enable committee members to carry out their supervisory responsibilities in the most efficient manner.

Board Strategy and Transformation Committee (BSTC)

The role of the Board Strategy and Transformation Committee (BSTC) is to assist the Board in fulfilling its oversight responsibilities relating to the medium- and long-term strategic direction and development of EDB. The Committee reviews the approved strategy and business plan of the Bank and continuously monitors its achievements. It identifies obstacles to implementation and makes tactical recommendations to the Board of Directors. The Committee also outlines the Bank's asset allocation strategy, investment strategy and governance and regulatory affairs. It conducts regular strategy reviews, providing advice and strategic guidance if required.

HE Dr. Ahmad Belhoul Al Falasi
(Committee Chairman)

HE Khalfan Jumaa Belhoul

HE Ahmed AlKuttab

HE Mariam Saeed Ghobash

HE Najla Ahmed Al Midfa

Board Audit, Risk and Compliance Committee (BARCC)

The Board Audit Risk and Compliance Committee (BARCC) assists the Board in fulfilling its responsibilities relating to internal control, internal and external audit risk management, financial statements and compliance. The Committee oversees the quality and integrity of the accounting, auditing, internal controls and financial reporting practices of the Bank. It sets forth compliance guidelines, Anti-Money Laundering policies and Combating Financing of Terrorism policies, as well as criteria and control mechanisms for all activities involving bank-wide related risks. The Committee also ensures that the financial statements and reports comply with applicable rules for federal institutions and banks in the UAE.

HE Najla Ahmed Al Midfa
(Committee Chairman)

HE Mohammed Saif Al Suwaidi

HE Yousef Yaqoob AlMansoori

Amer Kazim
(BARCC Advisor)

Board Human Resources Committee (BHRC)

The main responsibilities of the Human Resources Committee (BHRC) are remuneration, performance evaluation, and recruitment, organisational structure and HR policies. It nominates candidates for the Bank's leadership functions, defines performance indicators for the executive management and supervises the evaluation of staff performance. The Committee also decides on remuneration policies, as well as associated benefits and incentives and on the compensations of the Bank's executive management. The BHRC receives an annual report on the performance of the CEO's direct reports, reviewing their contribution to the Bank's strategy implementation as well as their compliance with values and ethics.

HE Mariam Saeed Ghobash
(Committee Chairman)

HE Mohammed Saif Al Suwaidi

HE Khalfan Jumaa Belhoul

HE Yousef Yaqoob AlMansoori

Board Credit and Investment Committee (BCIC)

The Board Credit and Investment Committee (BCIC) oversees EDB's credit and investment activities. It reviews proposed credit and investment strategies, policies and execution plans and monitors the Bank's credit and investment overall performance. It also approves credit and investment proposals within the authorities delegated to the committee by the Board of Directors. The Committee has close oversight over non-performing assets and ensures adequate provisioning and follow-up of all non-performing assets.

HE Younis Haji Khouri
(Committee Chairman)

HE Abdul Wahed Mohammad Al Fahim

HE Mariam Saeed Ghobash

HE Ahmed AlKuttab

Executive Management

Ahmed Mohamed Al Naqbi

Chief Executive Officer

Abeer Abdulla Al Sumaiti

Chief Human Resources Officer

Ahmed A. Abdullah

Chief Risk and Compliance Officer

Bassam Moussa

Chief Legal Officer and Board Secretary

Hakam Abu-Zarour

Chief Operating Officer

Karolos Travassaros

Transformation Advisor

Samer Babelli,

Chief Financial Officer

Ruben Omar Fernandez

Chief Treasury and Investments Officer

Vivek Vohra

Chief Wholesale and Institutional Banking Officer

Tanu Gopal Krishna Goel,

Chief Internal Audit Officer

Shaker Fareed Abdulrahman Zainal

Chief mSMEs Officer

Mariam Saif Al Nuaimi

Director, Home Finance

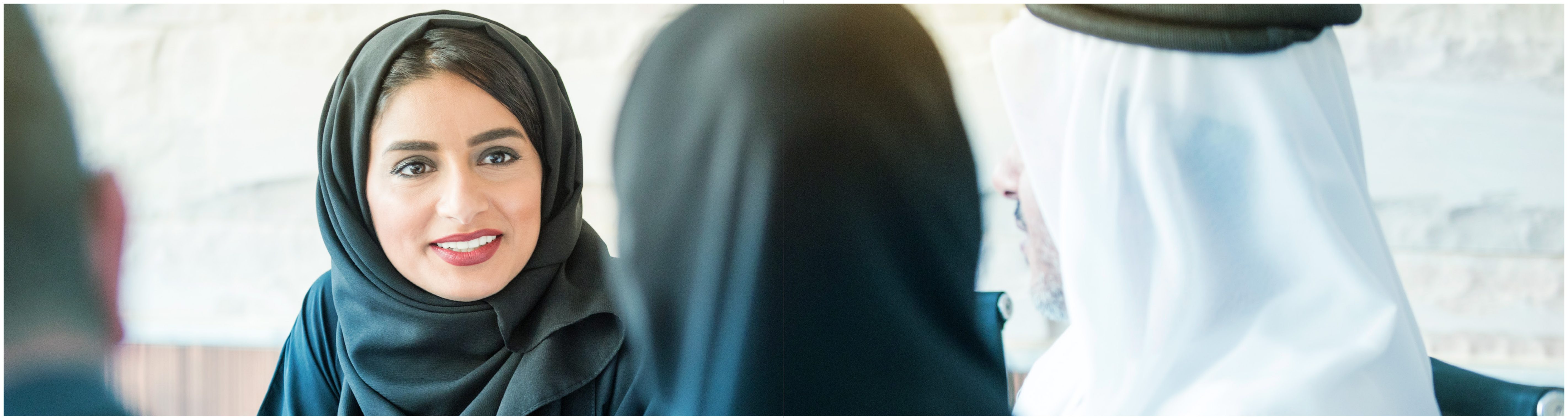
Radwa Nasraldin Shehab

Head of Marketing and Corporate Communications

Saif Saeed Al Dhanhani

Senior Vice President, EIRC

Executive Management Committees



Management Committee (MANCOM)

MANCOM is accountable for overall activities of EDB. Its wide range of responsibilities allows the Committee to play a critical role in decision-making across all key functions. MANCOM advises the Board on the strategic direction and planning, subsequently overseeing the implementation and reporting on progress. It also ensures that all activities are aligned with the Bank's vision and mission, while supporting its values and ethics. MANCOM has financial oversight of the Bank aiming to ensure effective financial performance and management of its financial resources.

Management Risk and Compliance Committee (MRCC)

MRCC oversees the Bank's risk management as well as its operations control and compliance activities. It reviews proposed priorities and actions and monitors the Bank's risk management framework, risk appetite statement and risk profile. MRCC reviews all operational risk matters including incident management, risk and control self-assessment and business continuity management. It also reviews the compliance disclosures and special reporting of any irregular matters. MRCC is also responsible for reviewing and recommending to the BARCC all matters relating to risk and compliance issues.

Management Credit and Investment Committee (MCIC)

MCIC oversees the Bank's credit and investment management activities. It reviews proposed priorities and actions and monitors the elements related to credit exposure at management level. MCIC reviews all credit applications and investment proposals. It also reviews and recommends changes to all credit related policies, procedures and systems as deemed necessary. MCIC is also responsible for reviewing and recommending to the BCIC / Board credit and investment proposals in line with the Delegation of Authority.

Asset and Liability Committee (ALCO)

ALCO is responsible for monitoring compliance with the Bank's asset/liability framework and monitoring the Bank's exposure to market risk. It continuously reviews macro-economic and micro-economic information and implements effective processes for interest rate risk, liquidity risk and market risk management, adopting relevant policies and risk limits where required. ALCO also ensures compliance with treasury limits and ratios approved by the Board of Directors, the Central Bank or senior management. The Committee recommends corrective actions to the Board Credit and Investment Committee (BCIC) overseeing asset/liability management.

A Look Ahead

2022/2023
Advancing financing for economic diversification

The year 2021 saw one of the most significant developments in EDB's history to date, with the launch in April of our new strategy which will see us focus more on our developmental mandate on the macro scale. This has clearly set us on our path as a full-fledged development bank that will accelerate industrial development in the UAE and significantly contribute the nation's gross domestic product.

We will double down on efforts to support those sectors that diversify the UAE's economy towards non-oil growth and develop sectors that are a national priority for economic self-reliance and which offer stable and sustainable growth.

These are: manufacturing, and in particular, petrochemicals, plastics, metals, machinery, electrical equipment, and renewable energy equipment; healthcare, including pharmaceuticals, biotechnology, medical equipment, and hospital services; food security, which includes agriculture, fisheries, aquaculture, and water desalination; advanced technology, which is a major pillar of the UAE's economic future and includes technologies such as robotics and artificial intelligence; and infrastructure, encompassing energy and utilities, waste management, transportation, broadband connectivity, digital Infrastructure, and the circular economy.

Under our new strategy, we have put in place a division that is dedicated to working with and supporting large corporations and multinationals. This significantly increases the range and scale of our activities: from now, we can take a holistic view of entire industries, and provide the necessary support to all enterprises – from nascent start-ups to established global players – ensuring a balanced and cohesive approach to economic develop across all priority sectors.

In doing so we look forward to building on the strong partnerships we have established in the public and private sector. In particular, we look forward to working with our closest strategic partner, the Ministry of Industry and Advanced Technology, in ensuring the success of important initiatives including Make it In the Emirates. In supporting this, we aim to raise the Bank's contribution to the national GDP by more than AED10 billion by 2026 – a twenty-fold increase from 2021.

This will entail expanding our development finance solutions, to focus on high-skill job creation, import substitution, export promotion and investment in advanced technology.

As part of EDB's commitment to innovation and adoption of advanced technology, we will be adding new features to our ground-breaking Business Banking App, which is already helping our users access key services more efficiently. Future features will include more integration with the UAE e-government eco-system, wider payment options, and loyalty programme.

We will continue our pioneering work with SMEs, which account for more than 90% of the UAE's business activity and employ 84% of private sector workers. We are committed to rolling out ever more accessible, innovative, and efficient finance solutions to SMEs to ensure they play their part in building the UAE's strong industrial future. We will also focus on supporting start-ups across all priority sectors, including targeted assistance for Emirati entrepreneurs, with 'micro-finance' solutions aimed at helping citizens bootstrap exciting and innovative new ventures.

To conclude, we look forward to accelerating our efforts in helping to build a sustainable economy for future generations, in line with government initiatives and through our role as the engine for the advancement of the industry in the UAE.

2021 Consolidated Financial Statements

Independent auditor's report

to the shareholders of Emirates Development Bank PJSC

Deloitte.

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Emirates Development Bank PJSC (the "Bank") and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Key audit matters

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

Key audit matters	How our audit addressed the key audit matter
Estimation uncertainty with respect to impairment allowance for financing assets measured at amortised cost	
The Group's financing assets are carried in the statement of financial position at AED 6.0 billion as at 31 December 2021 (2020: AED 4.2 billion). The expected credit loss (ECL) allowance was AED 253.0 million (2020: AED 233.0 million) as at this date, which comprised an allowance of AED 63.2 million (2020: AED 53.2 million) against Stage 1 and 2 exposures and an allowance of AED 189.8 million (2020: AED 179.8 million) against exposures classified under Stage 3. The audit of the impairment of credit facilities and financing assets is a key area of focus because of its size (representing 49.7% of total assets) and due to the significance of the estimates and judgments used in classifying credit facilities and financing assets into various stages, determining related allowance requirements and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 3.3.7 to the financial statements for the accounting policy, Note 4 for critical judgements and estimates used by management and Note 5.2 for disclosures about credit risk.	We obtained a detailed understanding of the financing origination process, credit risk management process and the estimation process of determining impairment allowances for financial assets measured at amortised cost and tested the design, implementation and operating effectiveness of relevant controls within these processes. We understood and evaluated the theoretical soundness of the ECL models by involving our internal specialists to ensure its compliance with the requirements of IFRSs. We tested the mathematical integrity of the ECL models by performing recalculations on a sample of the financing assets measured at amortised cost and assessed the consistency of the various inputs and assumptions used by management to determine impairment.

Key audit matters	How our audit addressed the key audit matte
Estimation uncertainty with respect to impairment allowance for financing assets measured at amortised cost (continued)	
The Group recognises allowances for ECLs at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate. The Group employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 5.2 to the consolidated financial statements. The material portion of the corporate and SME, government entities and financial institutions portfolio of financing assets measured at amortised cost is assessed individually for the SICR and measurement of ECL. There is the risk that management does not capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management bias may also be involved in manual staging override in accordance with the Group's policies. There is also the risk that judgements, assumptions, estimates, proxies and practical expedients implemented previously, are not consistently applied throughout the current reporting period or there are any unjustified movements in management overlays. The measurement of ECL amounts for the exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and went through a validation process. For further information on the accounting policies relating to impairment of financing assets measured at amortised cost as well as the Group's management of credit risk, refer to Note 5.2 to the consolidated financial statements.	For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's methodology to determine the allowance, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Group's determination of the significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we assessed the appropriateness of the Group's staging. For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information. On a sample basis, we selected individual samples and performed a detailed review of these exposures and challenged the Group's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions, such as estimated future cash flows, collateral valuations and estimates of recovery, underlying the impairment allowance calculation. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for the computation of impairment allowances for the financing assets measured at amortised cost. We evaluated management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied. We evaluated methodology and framework designed and implemented by the Group as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the Group's forecasts of future economic conditions at the reporting date. We assessed the adequacy of the disclosures in the consolidated financial statements against the requirements of IFRSs.

Independent auditor's report

to the shareholders of Emirates Development Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matter
Valuation of unquoted equity investment securities The Group has investments in unquoted equity securities with a carrying amount of AED 117.1 million as at 31 December 2021 (2020: AED 138.0 million). These instruments are classified as financial assets at fair value through other comprehensive income. As disclosed in Note 5.7, the valuation of investments in unquoted securities uses inputs other than observable market data and therefore are inherently subjective. It also requires significant judgement to be applied by management in determining the appropriate valuation methodology and the use of various assumptions, for example financial multiples of comparable entities, discount rates, market risk adjustments etc. The valuations were performed by management of the Group. Given the inherent subjectivity and judgment required in the valuation of unquoted investments, which are classified under level 3 of the fair value hierarchy, we determined this to be a key audit matter.	We obtained an understanding of the process adopted by management to determine the fair value of unquoted securities. We assessed the design and implementation of controls in the valuation of unquoted securities. We assessed the competence, independence and integrity of the independent valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. With the assistance of our internal specialists, we assessed both the methodology and assumptions including key inputs used by management appointed independent valuation experts in estimating the fair values, including any changes made to the key assumptions during the year. We considered whether the application of methodologies is consistent with generally accepted valuation methodologies and prior periods and that assumptions and inputs used are consistent, in all material respects, with the business' past performance and management business strategy. We agreed the inputs into the valuation to supporting documentation on a sample basis, where applicable. We further involved our internal valuation specialists in assessing market related information for the valuation of a sample of direct investments (level 3), and in assessing whether the valuations were within a pre-defined range. We assessed the accuracy of key inputs and assumptions driving the valuation, which includes the assessment of the appropriateness of comparable market multiples, adjusted for comparability differences such as size and liquidity, and the assessment of the reasonability of the expected cash flows, risk free rates and credit spreads. We performed sensitivity analysis in consideration of the potential impact of reasonably possible upside or downside changes in these key assumptions. We assessed the adequacy of the Group's disclosures including the accuracy of the categorisation into the fair value measurement hierarchy and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, and the sensitivity to key assumptions.

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matter
Valuation of investment properties The Group's investment property portfolio amounted to AED 491.0 million as at 31 December 2021 (2020: AED 509.8 million) and the net fair value loss recorded in the consolidated statement of profit or loss amounted to AED 18.8 million (2020: AED 25.6 million). The Group measures its investment properties at fair value. The determination of fair value of these investment properties is based on external valuations using an investment approach and market comparable approach. The Group's undiscounted future cash flows analysis and the assessment of the expected remainingholding period and income projections on the existing operating assets requires management to make significant estimates and assumptions related to future rental rates, capitalisation rates and discount rates. The valuation of the portfolio is a significant judgement area and is based on a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value could lead to a material misstatement in the consolidated financial statements. In the event that the fair value of a real estate asset is higher or lower than its carrying amount, the Group will recognise a fair value adjustment in its consolidated statement of profit or loss. We have identified the of investment properties as a key audit matter as the fair value is determined based on level 3 valuation methodologies and it requires management to apply significant judgements in determining the fair value of investment property. Refer to note 5.7 for disclosures relating to this matter.	We evaluated the design and implementation of controls in the determination of the fair value of investment properties. We assessed the competence, independence and integrity of the independent valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work. With the assistance of our internal specialists, we performed an understanding and reviewed the methodology and assumptions used in the valuation of investment properties. We held a meeting with the independent valuers to understand the valuation process adopted and to identify and challenge the critical judgment areas in the valuation model, including any changes made to the key assumptions during the year. We assessed whether the valuation approach is in accordance with appraisal and valuation standards suitable for use in determining the fair value in the consolidated statement of financial position in line with the requirements of IFRS 13 Fair Value Measurement. We assessed the accuracy of the input data, on a sample basis, used by the independent valuers, such as rental income, occupancy rates, discount rate and terminal capitalisation rate, by agreeing them back to management's records and other supporting documents. We assessed the reasonableness of forecasted rental income and related expenses by comparing them against current year actual results and historical growth rates. We challenged the key assumptions used by the independent valuers, including discount rates and terminal capitalisation rates applied on income streams generated by the properties, by comparing the rates to those adopted in the previous year and the rates adopted by comparable entities. We assessed the adequacy of the disclosures in the consolidated financial statements against the requirements of IFRSs.

Independent auditor's report

to the shareholders of Emirates Development Bank PJSC (continued)

Key Audit Matters (continued)

Key audit matters	How our audit addressed the key audit matter
Risk of inappropriate access or changes to information technology systems	
We identified IT systems and controls over the Group's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Group and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Therefore, we considered this area as key audit matter.	Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems: We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications, including any changes in the key applications and system migrations during the year. We tested IT general controls relevant to automated controls and computer-generated information covering access security, programme changes, data centre and network operations. We examined computer generated information used in financial reports from relevant applications and key controls over their report logics. We performed testing on the key automated controls on significant IT systems relevant to business processes.

Other Information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (7) of 2011, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Independent auditor's report

to the shareholders of Emirates Development Bank PJSC (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

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

Deloitte and Touche (M.E.)

Abu Dhabi United Arab Emirates

Consolidated statement of financial position

as at 31 December 2021

	Notes	31 December 2021 AED'000	31 December 2020 AED'000
Assets			
Cash and balances with the UAE Central Bank	*27*	**137,906**	167,893
Balances and deposits with banks	*6*	**3,784,967**	2,731,048
Loans and advances to customers	*7*	**4,375,327**	3,182,761
Islamic finance	*8*	**1,630,517**	1,061,109
Investment securities	*9*	**1,580,345**	1,322,659
Investment properties	*10*	**491,015**	509,837
Property and equipment	*12*	**30,472**	31,742
Other assets	*11*	**60,275**	51,944
Total assets		**12,090,824**	9,058,993
Liabilities			
Due to banks		**28,000**	-
Deposits and funds	*13*	**842,389**	865,673
Term borrowings	*14*	**5,504,398**	2,752,343
Other liabilities	*15*	**255,461**	166,296
Total liabilities		**6,630,248**	3,784,312
Equity			
Paid up capital	*16*	**4,558,390**	4,458,390
Special reserve	*17*	**582,948**	577,757
Retained earnings		**270,074**	174,576
Investment revaluation reserve		**31,309**	46,103
Revaluation surplus		**17,855**	17,855
Total equity		**5,460,576**	5,274,681
Total liabilities and equity		**12,090,824**	9,058,993

H.E. Dr. Sultan Ahmed Al Jaber
Chairman

Ahmed Mohamed Al Naqbi
Chief Executive Officer

Samer Babelli
Chief Financial Officer

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

Consolidated statement of profit or loss

for the year ended 31 December 2021

	Note	2021 AED'000	2020 AED'000
Income			
Interest income	19	**231,841**	226,475
Interest expense	20	**(125,202)**	(101,037)
Net interest income		**106,639**	125,438
Profit from Islamic Finance		**49,667**	31,146
Net interest and profit income		**156,306**	156,584
Investment income	21	**16,348**	11,850
Fees and commission income – net	22	**13,875**	11,898
Other income	23	**15,677**	21,524
Total operating income		**202,206**	201,856
Expenses			
Salaries and employee benefits		**(68,857)**	(55,169)
Operating and administrative expenses	24	**(36,636)**	(29,858)
Impairment charge	25	**(21,970)**	(25,448)
Profit before fair value changes on investment properties and financial assets at fair value through profit or loss (FVTPL)		**74,743**	91,381
Net fair value change on investment properties and financial assets at FVTPL	9, 10	**(22,833)**	(19,743)
Profit for the year		**51,910**	71,638

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

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Note	2021 AED'000	2020 AED'000
Profit for the year		51,910	71,638
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value gain/ (loss) on investments in equity instruments designated at fair value through other comprehensive income ("FVTOCI")		**33,985**	(29,698)
Total comprehensive income for the year		**85,895**	41,940

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

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Paid up capital AED'000	Special reserve AED'000	Retained earnings AED'000	Investment revaluation reserve AED'000	Revaluation surplus AED'000	Total equity AED'000
Balance at 1 January 2020	4,008,390	570,593	111,802	74,101	17,855	4,782,741
Increase in paid up capital	450,000	–	–	–	–	450,000
Transfer to special reserve	–	7,164	(7,164)	–	–	–
Profit for the year	–	–	71,638	–	–	71,638
Fair value gain on investments in equity instruments designated at FVTOCI	–	–	–	(29,698)	–	(29,698)
Total comprehensive income for the year	–	–	71,638	(29,698)	–	41,940
Fair value loss transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	–	–	(1,700)	1,700	–	–
Balance at 31 December 2020	4,458,390	577,757	174,576	46,103	17,855	5,274,681
Increase in paid up capital	100,000	–	–	–	–	100,000
Transfer to special reserve	–	5,191	(5,191)	–	–	–
Profit for the year	–	–	51,910	–	–	51,910
Fair value loss on investments in equity instruments designated at FVTOCI	–	–		33,985	–	33,985
Total comprehensive income (loss) for the year	–	–	51,910	33,985	–	85,895
Fair value loss transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	–	–	48,779	(48,779)	–	–
Balance at 31 December 2021	**4,558,390**	**582,948**	**270,074**	**31,309**	**17,855**	**5,460,576**

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

Consolidated statement of cash flows

for the year ended 31 December 2021

	Notes	2021 AED'000	2020 AED'000
Cash flows from operating activities			
Profit for the year		**51,910**	71,638
Adjustments for:			
Depreciation	12	**3,523**	7,163
Fair value changes on financial assets at FVTPL	9	**4,011**	(5,900)
Fair value changes on investment properties	10	**18,822**	25,643
Dividend income	21	**(16,208)**	(11,365)
Amortisation of premium on investment securities		**2,359**	1,144
Amortisation of issuance cost – term borrowing		**1,193**	810
Provision for employees' end of service benefits		**1,551**	1,433
Provision for impairment of loans and advances to customers	25	**21,970**	25,448
Operating cash flow before changes in working capital		**89,131**	116,014
Working capital changes:			
Deposits with banks maturing after three months		**(1,155,000)**	2,180,000
Loans and advances to customers		**(1,207,024)**	(1,849,300)
Islamic Finance		**(574,981)**	(470,783)
Other assets		**(8,331)**	14,254
Due to banks		**28,000**	–
Deposits and funds		**(23,284)**	170,792
Other liabilities		**86,352**	(129,976)
Employees' end of service benefits paid		**(537)**	(354)
Net cash (used in) / generated from operating activities		**(2,765,674)**	30,647
Cash flows from investing activities			
Purchase of property and equipment	12	**(2,253)**	(4,600)
Dividend received		**16,208**	11,365
Investment securities purchased	9	**(512,094)**	(400,000)
Investment securities sold	9	**282,177**	249,162
Net cash used in investing activities		**(215,962)**	(144,073)
Cash flows from financing activities			
Increase in paid up capital		**100,000**	450,000
Issuance of term borrowing – net of issuance costs		**2,750,862**	–
Net cash generated from financing activities		**2,850,862**	450,000
Net (decrease)/ increase in cash and cash equivalents		**(130,774)**	336,574
Cash and cash equivalents at 1 January		**1,019,992**	683,418
Cash and cash equivalents at 31 December (note 27)		**889,218**	1,019,992

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

Notes to the consolidated financial statements

for the year ended 31 December 2021

1 | Legal status and principal activities

Emirates Development Bank ("EDB" or "the Bank"), was incorporated as a shareholding company, fully owned by the Federal Government of United Arab Emirates as per the decree issued by the President, Sheikh Khalifa bin Zayed Al Nahyan, Federal Law No. 7 (the "EDB Law") issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank ("EIB") and Real Estate Bank ("REB"), both existing Federal banks that were established under separate laws ("the merged banks"). The EDB Law became effective from 30 September 2011.

The main objectives of the Bank are to promote economic development growth in the United Arab Emirates and diversify its sources of income through establishing new industries and strengthening existing ones.

The Bank, together with its subsidiary, Emirates Integrated Registries Company, (together referred to as the "Group") is engaged in providing industrial and real estate loans; and managing the integrated registries services in UAE.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, United Arab Emirates.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 February 2022.2 Basis of preparation

2 | Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the Federal Decree Law No. 7 issued on 18 September 2011.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of investment properties, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are carried at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are prepared and presented in United Arab Emirates Dirham ("AED"), which is the Group's functional and presentation currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2.4 Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's 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 estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.5 Basis of consolidation

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2 | Basis of preparation (continued)

2.5 Basis of consolidation (continued)

Transactions eliminated on consolidation (continued)

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiary:

Legal Name	Country of incorporation	Year of incorporation	Holding %
Emirates Integrated Registries Company - Sole Proprietorship L.L.C	United Arab Emirates	2018	100%

3 | Summary of significant accounting policies

3.1 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs that are mandatorily effective for accounting periods that begins on or after 1 January 2020 have been adopted by the Group. The application of these revised IFRSs has not had any material impact on the disclosures or on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

Effective from 1 January 2021, the Phase 2 of the IBOR benchmark reform - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 is applicable. The areas impacted by the amendments include application of practical expedient for accounting for modifications of financial assets and financial liabilities when transactions are updated for the new IBOR benchmark rates (will not result in derecognition), relief on changes to hedge designations and hedge documentation (a change to hedge designations and hedge documentation required by IBOR reform would not result in discontinuation of hedge accounting) and providing disclosures that enable users to understand nature and extent of risks arising from interest rate benchmark reform to which the Group is exposed and how it manages those risks. The amendments are applied retrospectively with no restatement required for prior periods.

The impact of the replacement of interbank offered rates (IBOR) with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has exposure to contracts referencing IBOR, such EIBOR, extending past 2021 when it is likely that these IBORs will cease being published.

As at 31 December 2021, the Group's exposure is limited to the financing portfolio, which is mainly linked to EIBOR only. Further, the Group does not have exposure to cash flow hedges and fair value hedges linked to IBOR maturing beyond the year 2021.

The Group continues to assess the impact and consider the potential changes if applicable in its products, services, systems and reporting to support an orderly transition and to mitigate the risks resulting from the transition.

3.2 Standards and Interpretations in issue but not yet effective and not early adopted

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 16 *Property, Plant and Equipment,* Proceeds before intended use	1 January 2022
Annual Improvements 2018-2020 cycle	1 January 2022
Amendments to IFRS 3 *Business Combination*	1 January 2022
Amendments to IAS 37 *Onerous Contracts*, Cost of fulfilling a contract	1 January 2022
Amendments to IAS 1 *Classification of Liabilities* as Current or Non-Current	1 January 2023
IFRS 17 *Insurance Contracts*	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 *Disclosure of Accounting Policies*	1 January 2023
Amendments to IAS 8 *Definition of Accounting Estimates*	1 January 2023
Amendments to IAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 I*nvestments in Associates and Joint Ventures (2011)* relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

3 | Summary of significant accounting policies (continued)

3.2 Standards and Interpretations in issue but not yet effective and not early adopted (continued)

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

3.3 Financial Assets and Financial Liabilities

3.3.1 Recognition

The Group initially recognises loans and advances to customers, Islamic Finance, balances and deposits with banks and Central Bank, investment securities, deposits and funds from governmental institutions, term borrowing and other financial assets and liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3.3.2 Classification and Initial Measurement

Financial Assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI or FVTPL.

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

- The financial 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 FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:
- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the 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.

By default, all other financial assets are measured subsequently at FVTPL.

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

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

Business model assessment

The Group makes an assessment of the objective of a business model in which a financial 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;
- How the performance of the portfolio is evaluated and reported to the Group's management;

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.2 Classification and Initial Measurement (continued)

Financial Assets (continued)

Business model assessment (continued)

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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

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, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration of the time value of money.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

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

Debt instruments measured at FVTOCI

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

- Interest revenue using the effective interest method;
- Expected credit losses (ECL) and reversals; and
- Foreign exchange gains and losses.

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

Equity instruments designated at FVTOCI

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

3 Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.2 Classification and Initial Measurement (continued)

Financial Assets (continued)

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Reclassifications

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

Islamic financing

Following terminologies in Islamic financing, classified under each of the financial instrument classification mentioned above, have been used in the preparation of these consolidated financial statements:

Estisnaa contracts represent financing for the construction of industrial civil works on a deferred payment basis. An Estisnaa contract is recognised when money is disbursed to the contractor for the construction of civil works for the borrower.

Other Estisnaa contracts are followed by Ijarah contract between the Bank and Emirates Real Estate Corporation, whereby Emirates Real Estate Corporation, based on an order from the Bank, undertakes to construct and subsequently lease the subject matter of the contract according to a specific price and method of payment.

Ijarah contracts are finance lease contracts. The Ijarah contract term constitutes the major part of the economic life of the asset, and the significant risks and rewards incidental to ownership, are substantially transferred to the lessee. Title may or may not eventually be transferred to the lessee.

Financial Liabilities

The Group has classified and measured its financial liabilities at amortised cost.

3.3.3 Derecognition

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control of the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

3 | Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.3 Derecognition (continued)

Financial Assets (continued)

Derecognition of financial assets(continued)
On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

Financial Assets
If the terms of a financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

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. If the Group 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 evaluation 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 FVTOCI does not result in derecognition of the financial asset, then the Group 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 profit or loss. 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. 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 Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in 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 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.

3 | Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.5 Offsetting
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

3.3.6 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 market of the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which the Group has access to as at that date. The fair value of a liability reflects its non-performance risk.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Further information on the carrying amounts of these assets and the sensitivity of those amounts to changes in unobservable inputs are provided in note 5.7.1.

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

- Financial assets that are debt instruments; and
- Loan commitments and financial guarantee contracts.
- The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.
- No impairment loss is recognised on equity instruments.
- The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:
- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on financial instruments that are possible with the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1".

Life-time ECL are the ECL that results from all possible default events over the expected life of the financial instruments. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as "Stage 2".

Impairment and ECL are used interchangeably throughout these consolidated financial statements.

3 | Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.7 Impairment(continued)

Measurement of ECL

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

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

For more details in relation to ECL measurement, please refer to note 5.2.6.

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 ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset 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 Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit impaired. Credit-impaired financial assets are referred to as “Stage 3”. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

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:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision; and
- debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

3 | Summary of significant accounting policies (continued)

3.3 Financial Assets and Financial Liabilities (continued)

3.3.8 Write-off

Loans and debt securities shall be written off (either partially or in full) when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group’s procedures for recovery of amounts due. Recoveries of amounts previously written off are included in ‘Impairment charge’ in the statement of profit or loss.

3.4 Provision for staff end of service benefits

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. 7, 1999 for Pension and Social Security. The provision for staff end of service benefits, a defined benefit scheme, is calculated as per the approved Group staff regulations is usually higher than the estimated provision based on actuarial techniques in accordance with IAS 19.

A provision is made for the estimated liability for employees’ entitlements to annual leave and leave passage as a result of services rendered by the employees up to the date of the statement of financial position. Provision is also made for the end of service benefits due to employees in accordance with the UAE Labour Law and the Group’s policy and internal regulations for their periods of service up to the date of the statement of financial position.

An actuarial valuation has not been performed on employees’ end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

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

3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with the UAE Central Bank, money in call accounts, placements and balances and deposits with banks with original maturities of less than three months.

3.6 Balances and deposits with banks

Balances and deposits with banks are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Balances and deposits with banks are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, these are stated at amortised cost.

3.7 Investment properties

Investment properties principally comprise of commercial lands and buildings held by the Group for long term rental yields or for capital appreciation or both. Such properties are measured initially at cost including all transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Changes in fair values are recorded in the statement of profit or loss in the period in which they arise. When the use of a property changes such that it is transferred from investment property, the property’s deemed cost for subsequent accounting is its fair value at the date of change in use.

The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair value of the Group’s investment property has been arrived at on the basis of a valuation carried out at the end of reporting period by the independent valuers engaged by the Group. The valuation conforms to Royal Institution of Chartered Surveyors Valuation – Global Standards. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and investment approach that is determined through the analysis of income flow and projected expenditures of the property.

Investment properties is derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains or losses arising from the retirement or disposal of investment properties, calculated as the difference between the net disposal proceeds and the carrying amount are included in the statement of profit or loss in the period in which the property is derecognised.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

3 | Summary of significant accounting policies (continued)

3.7 Investment properties (continued)

The Bank shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. If an owner-occupied property becomes an investment property that will be carried at fair value, the Bank shall apply IAS 16 for owned property up to the date of change in use. Any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value shall be treated in the same way as a revaluation in accordance with IAS 16.

Investment properties under development

Investment properties under development that are being constructed or developed for future use as investment property, are measured initially at cost, including including all direct costs attributable to the design and construction of the property including related staff costs. Upon completion of construction or development, such properties are transferred to completed investment properties. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated income statement in the period in which they arise.

3.8 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Group at the spot exchange rates at the date of the transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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

3.9 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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 virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.10 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on straight-line basis so as to write down the cost of assets over its useful life. Lands granted from the Federal Government (shareholder) are not depreciated and are measured at nominal amount of AED 1.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of property or equipment have different useful lives then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in profit or loss.

3 | Summary of significant accounting policies (continued)

3.10 Property and equipment (continued)

Subsequent expenditure is capitalised only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The Group annually reviews the useful life estimates for all major asset categories and revises these to align them with reassessed expected useful lives, if required.

Asset class	Estimated useful life
Buildings	40 years
Furniture, fixtures and vehicles	5 years
Computers	3 to 5 years

3.11 Impairment of non-financial assets

At the end of each reporting date, the Group reviews the carrying amounts of its assets in order to assess whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.12 Leases

At inception of a contract, the Group 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 Group uses the definition of a lease in IFRS 16.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

3 | Summary of significant accounting policies (continued)

3.12 Leases (continued)

Group acting as a lesse

The Group 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.

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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group 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 Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group 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 Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group 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. 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 profit or loss if the carrying amount of the right-of- use asset has been reduced to zero.

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

Short-term leases and leases of low-value assets

The Group 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 Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group acting as a lessor

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Subsequent to initial recognition, the Group regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of IFRS 9, recognising an allowance for ECL on the receivables.

3 | Summary of significant accounting policies (continued)

3.13 Deposits and funds

Deposits and funds from Sheikh Zayed Housing Programme, Mohammad Bin Rashid Innovation Fund and the Ministry of Finance vested with and managed by the Group are accounted for within the financial liabilities of the Group (note 13).

3.14 Term borrowings

Term borrowings consist of debt securities and are the Group's sources of debt funding. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Debt securities in issue are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method.

3.15 Proceeds from sale of investment properties

Proceeds from sale of apartment units of the investment properties are recognised as a liability until the delivery of the unit and transfer of risks and rewards to the customer.

3.16 Dividend distribution

Dividend distribution to the Bank's shareholder is recognised as a liability in the Group's financial statement in the period in which the dividends are approved by the shareholder.

3.17 Revenue and expense recognition

Interest income and expense

Interest income and expense for financial instruments are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the statement of profit or loss using the effective interest method.

The interest income or expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI), the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Profit from Islamic Finance

Profit on Islamic Finance are recognised on accrual basis and time-apportioned using the effective profit rate method.

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Fees and commission income

Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for providing a transaction service, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and others.

Fee and commission expenses with regards to services are accounted for as the services are received.

Rental income

Rent arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is presented as part of 'Other income' in profit or loss.

Fair value gain / (loss) on investment properties and financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss to the extent they are not part of a designated hedging relationship.

Gains or losses arising from changes in the fair value of investment property are included in profit or loss in the period in which they arise.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

3 | Summary of significant accounting policies (continued)

3.18 Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below- market interest rate are included within other liabilities.

4 | Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Following are the estimates and judgements which are applicable from 1 January 2020.

Impairment charge on financial assets

a) Significant increase in credit risk

As explained in note 5.2.6, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

b) Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Classification and measurement of investment securities

The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group's investment in securities are appropriately classified and measured. Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Financial assets that are measured at FVTOCI are investments in equity instruments that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

For more details on the valuation of investment securities, refer note 5.7.

4 | Critical accounting estimates and judgments (continued)

Fair valuation of investment securities

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in assumptions about these factors could affect the reported fair value of the investment securities.

Valuation techniques used to calculate fair values are discussed in note 5.7.1.

Fair valuation of investment properties

The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on the comparable method of valuation, the investment valuation method and the residual valuation method, refer to note 10 for more details.

5 | Risk management

5.1 Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. Below are the type of risks the Group is exposed to:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Group has management committees to oversee the risk management process. The Board Risk and Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks. The Group also has a Credit Risk function, which independently reviews adherence to all risk management policies and procedures. The Group's internal audit function, which is part of risk framework, primarily evaluates the effectiveness of the controls addressing operational risk.

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

5.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities.

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

Management is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

The credit policy provides the development of a systematic and consistent approach to identifying and managing borrower and counter party risks.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

5 | Risk management (continued)

5.2 Credit risk (continued)

The credit risk function in addition to the credit team are responsible for the recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the Group's credit policy. The Group manages limits and controls concentration of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries.

The Group manages credit risk through diversification of investment activities to avoid undue concentrations of risks in specific locations or industry segments. The Group also monitors credit exposures by limiting transactions with specific counterparties, and continually assesses the creditworthiness of counterparties.

The carrying amount of financial assets represents the maximum credit exposure.

For risk management purposes, credit risk arising on financial assets at fair value through profit or loss is managed independently, and reported as a component of market risk exposure.

The Group's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit Manager, the Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing all credit exposures in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investments).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of ten grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Group manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments, if any, is limited to those with positive fair values.

5.2.1 Collateral and other credit enhancements

Collateral risk

The Group obtains collateral and other credit enhancements in ordinary course of business from counterparties. Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

On an overall basis, during the year there was no material deterioration in the quality of collateral held by the Group. In addition, there were no changes in collateral policies of the Group.

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.1 Collateral and other credit enhancements (continued)

As at 31 December 2021, the Group held credit risk mitigants with an estimated value of AED 66,720 thousand (2020: AED 68,820 thousand) against watch list and credit impaired receivables from Loans and advances to customers, Islamic Finance and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well-reputed local or international banks, well-established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against placements with banks and other financial institutions, and no such collateral was held at 31 December 2021 or 31 December 2020.

The table below stratifies credit exposures from mortgage loans and advances (including Islamic facilities) to retail customers by ranges of loan-to-value (LTV) ratio.

	2021 AED'000	2020 AED'000
LTV ratio		
Less than 50%	**7,428**	5,267
51 - 70%	**38,637**	32,723
71 - 90%	**390,881**	313,453
91 - 100%	**2,663,088**	2,050,355
At 31 December	**3,100,034**	2,401,798

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

The gross exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon.

	2021 AED'000	2020 AED'000
Cash and balances with the UAE Central Bank	**137,906**	167,893
Balances and deposits with banks	**3,786,312**	2,732,099
Loans and advances	**4,612,829**	3,405,806
Islamic Finance	**1,646,026**	1,071,044
Investment securities - debt securities	**1,301,701**	1,017,874
Other assets - interest receivable	**42,634**	39,161
At 31 December	**11,527,408**	8,433,877
Off-balance sheet – credit guarantees	**88,984**	–

The above table represents the maximum exposure of credit risk for amortised cost financial instruments and off-balance sheet financial instruments as at 31 December 2021 and 31 December 2020, without taking into account any collateral held or other credit enhancements attached.

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.3 Concentration of credit risk

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.
An analysis of concentration of credit risk at the reporting date by sectors is shown below.

	Public Sector AED'000	Financial Sector AED'000	Private / retail Sector AED'000	Total AED'000
31 December 2021				
Cash and balances with UAE Central Bank	**137,906**	**–**	**–**	**137,906**
Balances and deposits with banks	**–**	**3,784,967**	**–**	**3,784,967**
Loans and advances to customers	**2,307,303**	**26,736**	**2,041,288**	**4,375,327**
Islamic Finance	**–**	**–**	**1,630,517**	**1,630,517**
Investment securities - debt instruments	**562,022**	**659,452**	**79,747**	**1,301,221**
Other assets - interest receivable	**8,620**	**24,754**	**9,260**	**42,634**
	3,015,851	**4,495,909**	**3,760,812**	**11,272,572**

	Public Sector AED'000	Financial Sector AED'000	Private / retail Sector AED'000	Total AED'000
31 December 2020				
Cash and balances with the UAE Central Bank	167,893	–	–	167,893
Balances and deposits with banks	–	2,731,048	–	2,731,048
Loans and advances to customers	1,510,117	30,529	1,642,115	3,182,761
Islamic Finance	–	–	1,061,109	1,061,109
Investment securities - debt instruments	317,186	661,119	38,935	1,017,240
Other assets - interest receivable	14,855	17,892	6,414	39,161
	2,010,051	3,440,588	2,748,573	8,199,212

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by geographical location is shown below.

	UAE AED'000	GCC AED'000	Total AED'000
31 December 2020			
Cash and balances with the UAE Central Bank	**137,906**	**–**	**137,906**
Balances and deposits with banks	**3,784,967**	**–**	**3,784,967**
Loans and advances to customers	**4,370,741**	**4,586**	**4,375,327**
Islamic Finance	**1,630,517**	**–**	**1,630,517**
Investment securities - debt instruments	**1,301,221**	**–**	**1,301,221**
Other assets - interest receivable	**42,634**	**–**	**42,634**
	11,267,986	**4,586**	**11,272,572**

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.3 Concentration of credit risk (continued)

	UAE AED'000	GCC AED'000	Total AED'000
31 December 2020			
Cash and balances with the UAE Central Bank	167,893	–	167,893
Balances and deposits with banks	2,731,048	–	2,731,048
Loans and advances to customers	3,178,175	4,586	3,182,761
Islamic Finance	1,061,109	–	1,061,109
Investment securities - debt instruments	1,017,240	–	1,017,240
Other assets - interest receivable	39,161	–	39,161
	8,194,626	4,586	8,199,212

5.2.4 Impact of COVID-19 and Expected credit loss

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

The Group has considered the impact of the pandemic on its customers (i.e. individuals, corporate, financial institutions and government related entities (GREs)), based upon available information. The UAE Government and the Central Bank have introduced considerable stimulus economic packages to support the banking industry in UAE through this disruption.

In 2020, the Group has undertaken some measures in response to the COVID-19 outbreak, which includes approval of various payment holidays to certain customers ranging from 1 to 6 months deferrals. The Management Risk and Credit Committee has approved a detailed delegation of authority in order to facilitate the deferral of payment process and extensively reviewed the customers' profile and payment history of customers requesting for deferral, prior to approval. A more intensive approval and requirement process was implemented for those customers applying for payment deferral who have lost their jobs or are on temporary unpaid leave or are subject to a deduction of salary due to the pandemic.

The Group continues to assess borrowers for other indicators of unlikeliness to pay, taking into consideration the underlying cause of any financial difficulty and whether it is likely to be temporary as a result of COVID-19 or long term.
The Group continues to support its impacted customers through a programme of payment relief that was initiated in 2020 by deferring interest/principal due. These payment reliefs are considered as short-term liquidity support to address borrower cash flow issues. In 2021, minimal number of customers applied for a 1 to 2 month payment deferral.

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

5.2.5 Credit quality

The Group has management committees to oversee the risk management process. The Board Risk and Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks.

The Group maintains a risk grading system in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of ten grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.5 Credit quality (continued)

Balances and deposits with banks

As at 31 December 2021, the Group's money market placements and balances in current and call accounts with banks, with gross amounts amounting to AED 3,786 thousand (2020: AED 2,732 thousand) are deposited only in banks that are directly, or comparably with the peer institutions, rated as investment grade (i.e. ranges from 'BBB+' to 'A-') by a global external rating agency. Accordingly, placements in these banks are considered to be low credit risk investments and are classified as Stage 1. These are carried at amortised cost.

Loans and advances to customers and Islamic finance

The following table sets out information about loans and advances to customers and Islamic finance. These are carried at amortised cost.

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	5,889,804	–	–	5,889,804
Watch list	–	112,450	–	112,450
Doubtful	–	–	116,566	116,566
Loss	–	–	140,035	140,035
	5,889,804	112,450	256,601	6,258,855
Less: Allowance for impairment	(56,313)	(6,936)	(189,762)	(253,011)
Carrying amount	5,833,491	105,514	66,839	6,005,844

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	4,180,591	–	–	4,180,591
Watch list	–	53,554	–	53,554
Doubtful	–	–	116,934	116,934
Loss	–	–	125,771	125,771
	4,180,591	53,554	242,705	4,476,850
Less: Allowance for impairment	(49,910)	(3,279)	(179,791)	(232,980)
Carrying amount	4,130,681	50,275	62,914	4,243,870

Following table sets out information about the movement in gross exposures by stages of loans and advances to customers, Islamic Finance.

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January	4,180,591	53,554	242,705	4,476,850
Transfer to Stage 1	–	–	–	–
Transfer to Stage 2	(42,880)	42,880	17,505	–
Transfer to Stage 3	(3,508)	(13,997)	2,947	–
New financial assets originated	2,310,202	6,410	–	2,319,559
De-recognition of financial assets	(233,341)	(3,665)	(1,747)	(238,753)
Write offs	–	–	–	–
Other movements within the same stage	(321,260)	27,268	(4,809)	(298,801)
Balance as at 31 December	5,889,804	112,450	256,601	6,258,855

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.5 Credit quality (continued)

Loans and advances to customers and Islamic finance (continued)

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January	1,848,656	59,020	254,326	2,162,002
Transfer to Stage 1	34,556	(34,556)	–	–
Transfer to Stage 2	(15,827)	26,202	(10,375)	–
Transfer to Stage 3	(2,916)	(4,452)	7,368	–
New financial assets originated	2,368,219	15,161	–	2,383,380
De-recognition of financial assets	(64,114)	(7,334)	(1,189)	(72,637)
Write offs	–	–	(4,583)	(4,583)
Other movements within the same stage	12,017	(487)	(2,842)	8,688
Balance as at 31 December	4,180,591	53,554	242,705	4,476,850

Investment securities

The following table sets out information about debt investment securities which are carried at amortised cost:

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	962,294	–	–	962,294
Less: Allowance for impairment	(480)	–	–	(480)
Carrying amount	961,814	–	–	961,814

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	677,008	–	–	677,008
Less: Allowance for impairment	(634)	–	–	(634)
Carrying amount	676,374	–	–	676,374

During the year, no transfers to other stages occurred in the gross exposures of debt securities carried at amortised cost. Movement within the same stage (Stage 1) is disclosed in note 9.

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	88,984	–	–	88,984
Less: Allowance for impairment	(1,799)	–	–	(1,799)
Carrying amount	87,185	–	–	87,185

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment

a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience and forward-looking information. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure. The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

b) Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

c) Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has exposures.

d) Renegotiated financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Facilities which are restructured due to credit reasons in past 12 months are classified under Stage 2. A borrower would need to demonstrate consistently good payment history over a period of time before the exposure is no longer considered to be credit-impaired and the exposure is upgraded to Stage 1.

e) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held);
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation ;or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

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

- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group;
- qualitative - e.g. borrowers' cooperation and the clarity and availability of the information requested; and
- based on data developed internally and obtained from external sources.

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

e) Definition of default (continued)

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

f) Curing

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period of 12 months, defined by the Group. An account shall move from Stage 3 to Stage 2 when objective evidence of impairment fails to exist, post which it shall follow the curing period of 12 months before it can be transferred to Stage 1. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macro - economic parameters are statistically significant or the results of forecasted PDs deviate from the present forecast of the economic conditions, qualitative PD overlays are used by management after analysing the portfolio.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. The Group uses mathematical function, which links the credit cycle index (CCI) with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of instrument, a mean reversion approach has been used.

Scenarios are incorporated through the forward looking factors selected which are CCI factors that are conditioned and then used as an input to the various ECL components. The CCI calculation is derived through the construction of suitable credit cycles based on economic variables that can be used as proxy to describe credit activities within each country of operation. CCI can be derived from a number of historical factors, such as risky yields, credit growth, credit spreads, default or NPL rates data. Interdependency exists between macro-economic factors such as GDP 2.2 % to 3.1% and the CCI, given its integral part in driving the economic or business cycles.

h) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

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

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.

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

h) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

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:

- credit risk grading;
- product type; and
- geographic location of the borrower.

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

i) Credit risk monitoring

For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

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

j) Collateral management

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

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

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.7 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

Balances and deposits with banks

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	**1,051**	**–**	**–**	**1,051**
Net re-measurement of loss allowance	**–**	**–**	**–**	
New financial assets originated	**1,345**	**–**	**–**	**1,345**
De-recognition of financial assets	**(1,051)**	**–**	**–**	**(1,051)**
Balance as at 31 December	**1,345**	**–**	**–**	**1,345**

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	2,428	–	–	2,428
Net re-measurement of loss allowance	–	–	–	–
New financial assets originated - net	1,051	–	–	1,051
De-recognition of financial assets	(2,428)	–	–	(2,428)
Balance as at 31 December	1,051	–	–	1,051

Loans and advances to customers and Islamic finance

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	**49,910**	**3,279**	**179,791**	**232,980**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(2,851)**	**2,851**	**–**	**–**
Transfers to Stage 3	**(2,197)**	**(8,982)**	**11,179**	**–**
Net re-measurement of loss allowance	**(793)**	**9,400**	**(515)**	**8,092**
New financial assets originated	**13,804**	**554**	**1,054**	**15,412**
De-recognition of financial assets	**(1,560)**	**(166)**	**(1,747)**	**(3,473)**
Balance as at 31 December	**56,313**	**6,936**	**189,762**	**253,011**

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	48,851	3,760	158,976	211,587
Transfers to Stage 1	296	(296)	–	–
Transfers to Stage 2	(1,201)	2,006	(805)	–
Transfers to Stage 3	(1,451)	(2,973)	4,424	–
Net remeasurement of loss allowance	(6,756)	435	21,779	15,458
New financial assets originated - net	10,483	596	–	11,079
Write off	–	–	(4,583)	(4,583)
De-recognition of financial assets	(312)	(249)	–	(561)
Balance as at 31 December	49,910	3,279	179,791	232,980

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

5 | Risk management (continued)

5.2 Credit risk (continued)

5.2.7 Loss allowance (continued)

Loans and advances to customers and Islamic finance(continued)
For the impairment of loans and advances to customers and Islamic finance, the Bank maintains a management overlay to capture the characteristics of the market and associated risks which are not captured in the existing ECL model. As at 31 December 2021, management overlay amounted to AED 24.7 million (*2020: AED 25.3 million*).

Investment securities (Debt)

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	634	–	–	634
Net remeasurement of loss allowance	(187)	–	–	(187)
New financial assets originated	33	–	–	33
Balance as at 31 December	480	–	–	480

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	437	–	–	437
Net remeasurement of loss allowance	173	–	–	173
New financial assets originated - net	30	–	–	30
Derecognition of financial assets	(6)	–	–	(6)
Balance as at 31 December	634	–	–	634

Credit Guarantees

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	–	–	–	–
Net remeasurement of loss allowance	–	–	–	–
New financial assets originated	1,799	–	–	1,799
De-recognition of financial assets	–	–	–	–
Balance as at 31 December	1,799	–	–	1,799

5.3 Market risk

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

Price risk
The Group is exposed to equity securities price risk because of investments held by the Group and classified on the statement of financial position at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the management.

5 | Risk management (continued)

5.3 Market risk (continued)

Price risk (continued)
The table below summarises the impact of a 10% increase / decrease of the prices of this portfolio, on the Group's results and equity for the year ended 31 December 2021 and 2020. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Group's investments moved according to the historical correlation of the relevant index.

	Impact on equity of the Group	
	2021 AED'000	2020 AED'000
+/-10 % change in equity prices:	+/-27,912	+/-30,542

Cash flow and fair value interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's management monitors interest rates on a regular basis.

Interest sensitivity of assets and liabilities
The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities with this regard.

A portion of the Group's assets and liabilities are re-priced within three months. Accordingly, there is a limited exposure to interest rate risk in this regard.

The effective interest rate is the rate that, when applied in a present value calculation of future contractual cash flows, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

The following table sets out the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

5 | Risk management (continued)

5.3 Market risk (continued)

Interest sensitivity of assets and liabilities (continued)

At 31 December 2021	Up to 3 months AED'000	3 to 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	–	–	137,906	137,906
Balances and deposits with banks	1,804,330	1,819,325	161,312	3,784,967
Loans and advances to customers	1,073,241	3,302,086	–	4,375,327
Islamic Finance	487,345	1,143,172	–	1,630,517
Investment securities	91,785	–	1,488,560	1,580,345
Other assets - Interest receivable	–	–	42,634	42,634
	3,456,701	6,264,583	1,830,412	11,551,696
Liabilities				
Due to banks	28,000	–	–	28,000
Deposits and funds	301,123	312,000	229,266	842,389
Term borrowings	–	–	5,504,398	5,504,398
Other liabilities	–	–	255,461	255,461
	329,123	312,000	5,989,125	6,630,248
Net gap	3,127,578	5,952,583	(4,158,713)	4,921,448

At 31 December 2020	Up to 3 months AED'000	3 to 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	–	–	167,893	167,893
Balances and deposits with banks	1,199,529	1,479,420	52,099	2,731,048
Loans and advances to customers	131,966	3,050,795	–	3,182,761
Islamic Finance	130,913	930,196	–	1,061,109
Investment securities	95,088	–	1,227,571	1,322,659
Other assets - Interest receivable	–	–	39,161	39,161
	1,557,496	5,460,411	1,486,724	8,504,631
Liabilities				
Deposits and funds	865,673	–	–	865,673
Term borrowings	–	–	2,752,343	2,752,343
Other liabilities	–	–	166,296	166,296
	865,673	–	2,918,639	3,784,312
Net gap	691,823	5,460,411	(1,431,915)	4,720,319

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

	2021 AED'000	2020 AED'000
Effect of a +/- 25 bps change in EIBOR gain or loss	+/- 13,015	+/- 6,996

5 | Risk management (continued)

5.3 Market risk (continued)

Interest sensitivity of assets and liabilities (continued)

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 7,872 million (2020: AED 5,945 million) interest bearing assets and AED 641 million *(2020: AED 866 million*) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure.

As at 31 December 2021, the Group had exposures denominated in US Dollars amounting to net short exposures of AED 4,073 million *(2020: net short exposure of AED 1,718 million).* As AED is pegged against US Dollar, the Group's risk exposure to this currency is limited.

Management of market risks

Overall authority for market risk is vested in ALCO, which sets up limits for each type of risk in aggregate and for portfolios. Management responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

5.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to fulfil commitments to lend. The Group's liquidity risk monitoring process is performed by Group's management.

The following table analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the date of the statement of financial position to the contracted maturity date:

At 31 December 2021	Up to 12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	137,906	–	–	137,906
Balances and deposits with banks	3,784,967	–	–	3,784,967
Loans and advances	770,360	3,604,967	–	4,375,327
Islamic Finance	38,711	1,591,806	–	1,630,517
Investment securities	282,426	1,018,795	279,124	1,580,345
Other assets - Interest receivable	42,634	–	–	42,634
	5,057,004	6,215,568	279,124	11,551,696
Liabilities				
Due to banks	28,000	–	–	28,000
Deposits and funds	842,389			842,389
Term borrowings	–	5,504,398	–	5,504,398
Other liabilities	148,296	–	107,165	255,461
	1,018,685	5,504,398	107,165	6,630,248
Net liquidity availability	4,038,319	711,170	171,959	4,921,448

5 | Risk management (continued)

5.4 Liquidity risk (continued)

At 31 December 2020	Up to 12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	167,893	–	–	167,893
Balances and deposits with banks	2,731,048	–	–	2,731,048
Loans and advances	87,251	3,095,510	–	3,182,761
Islamic Finance	–	1,061,109	–	1,061,109
Investment securities	284,059	733,181	305,419	1,322,659
Other assets - Interest receivable	39,161	–	–	39,161
	3,309,412	4,889,800	305,419	8,504,631
Liabilities				
Deposits and funds	865,673	–	–	865,673
Term borrowings	–	2,752,343	–	2,752,343
Other liabilities	73,705	–	92,591	166,296
	939,378	2,752,343	92,591	3,784,312
Net liquidity availability	2,370,034	2,137,457	212,828	4,720,319

Maturity of assets and liabilities is determined on the basis of the remaining period from the date of the statement of financial position to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase 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 Group and its exposure to changes in interest rates and exchange rates.

5.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Management is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

5 | Risk management (continued)

5.6 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not exposed to capital risk due to the availability of surplus funds.

5.7 Fair value hierarchy

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are measured at fair value by reference to published price quotations in an active market.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group has adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group measures the fair values of its quoted financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss using the quoted market price (unadjusted) in active market for an identical instrument (Level 1). For the unquoted securities and managed funds, the Group measures its fair value based on Level 3, using a market comparison technique which is mainly based on market multiples derived from financial information of companies comparable to the investee and the expected EBITDA of the investee, among others. The estimate is adjusted for the effect of non-marketability of the equity securities.

The fair values of balance with the UAE Central Bank, balances and deposits with banks, deposits from governmental authorities and corporate customers, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their carrying amount. The Group estimates that the fair value of its conventional housing portfolio and Ijarah and Estisnaa portfolios not to be materially different from its carrying amount since all of these balances carry floating market rates of interest and are re-priced on semiannual basis.

As at 31 December 2021, the fair values of the financial investments measured at amortised cost amounted to AED 979.2 million *(2020: AED 703.8 million)*. As at 31 December 2021, the fair values of the term borrowings amounted to AED 5.6 billion *(2020: AED 3.0 billion)*.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

At 31 December 2021	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL	**339,407**	**–**	**–**	**339,407**
Financial assets at FVTOCI	**161,980**	**–**	**117,144**	**279,124**

At 31 December 2020	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Financial assets at FVTPL	340,866	–	–	340,866
Financial assets at FVTOCI	167,469	–	137,950	305,419

5 | Risk management (continued)

5.7 Fair value hierarchy (continued)

During the period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

5.7.1 Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Unquoted Equities	*Market comparison technique* The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities.	EBITDA / Forecasted EBITDA Marketability discounts *(ranges from 10% to 25% for 2021 and 2020)* Performance discounts *(ranges from 5% to 25% for 2021 and 2020)* Financial multiples of comparable entities: - Average P/E (ranges from 7.3x to 8.1x)(*2020: 7.3x to 8.1x*)- *EV/LTM EBITDA* (ranges from 7.3x to 13.7x) - EV/Average EBITDA (*ranges from 9x to 10x*)	The estimated fair value would increase (decrease): - if the EBITDA margin were higher (lower) - if the marketability discounts were lower (higher) - if the performance discounts were lower (higher) - if the financial multiples of comparable entities were higher (lower) Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.
	NAV approach This is based on the assumption that the value of the business equates to the sum of its underlying assets, and that no rational investor will pay more for the business than the cost of procuring assets of similar economic utility	Marketability discounts (*ranges from 10% to 25%*) Net assets	The estimated fair value would increase (decrease): - if the marketability discounts were lower (higher) - the net assets were higher (lower)

5 | Risk management (continued)

5.7 Fair value hierarchy (continued)

5.7.1 Valuation techniques and significant unobservable inputs (continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Investment properties	*Comparable evidence approach* Fair value of the subject property was calculated by adopting comparable market transaction information where available, current asking prices and compares the subject property's characteristics with those comparable properties which have recently been marketed in similar transactions in the market	Comparable sales price of office and land plots (ranges from AED 57.5 to 265 per sq./ft.) and apartment building (ranges from AED 774 to 1,552 per sq/ft) *(2020: Comparable sales price of office and land plots ranges from AED 70 to 270 per sq./ft. and apartment building from AED 758 to 1,185 per sq./ft.)*	The estimated fair value would increase (decrease) if the comparable sales prices were higher (lower).
	Investment approach The market value of the Property has been determined through analysis of the income flow achievable for the investment property and takes into account the projected annual expenditure	Capitalisation rate *(8.25%) (2020: ranges from 8.00% to 8.25%)* Rental income *(ranges from AED 80 to 150 per sq./ft.) (2020: AED 80 to 150 per sq./ft.)*	An increase in the capitalisation rate used would result in a decrease in fair value, and vice versa. An increase in the market rent used would result in an increase in fair value, and vice versa. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

5.7.2 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2021 AED'000	2020 AED'000
Investment properties		
Balance as at 1 January	**509,837**	535,480
Net fair value change during the year	**(18,822)**	(25,643)
Balance as at 31 December	**491,015**	509,837
Financial assets at FVTOCI		
Balance as at 1 January	**137,950**	157,550
Purchases during the year	**–**	(14,975)
Disposals during the year	**(3,673)**	(6,600)
Net fair value change during the year	**(17,133)**	(13,000)
Balance as at 31 December	**117,144**	137,950

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for the year ended 31 December 2021 (continued)

6 | Balances and deposits with bank

	2021 AED'000	2020 AED'000
Money market placements	**3,625,000**	2,680,000
Current and call accounts	**161,312**	52,099
	3,786,312	2,732,099
Less: allowance for impairment	**(1,345)**	(1,051)
	3,784,967	2,731,048

Placements include deposits received by the Group from governmental institutions amounting to AED 301.1 million *(2020: AED 300 million)* (Note 13).

7 | Loans and advances to customers

	2021 AED'000	2020 AED'000
Loans to government entities	**2,307,385**	1,510,117
Loans to corporates and SMEs	**738,295**	448,001
Loans to financial institutions	**113,141**	116,934
Housing loans	**1,454,008**	1,330,754
Gross loans and advances to customers	**4,612,829**	3,405,806
Less: allowance for impairment	**(237,502)**	(223,045)
	4,375,327	3,182,761

Loans to financial institutions originally represent placements with two financial institutions, which are impaired and for which the Group holds no related collateral. These loans have been renegotiated in 2014. The provision accumulated on these loans amounted to AED 86 million *(31 December 2020: AED 86 million).*

The total non-performing loans amounted to AED 253 million (31 December 2020: AED 241 million). The specific provisions held against those loans amounted to AED 187.2 million *(31 December 2020: AED 178.7 million).*

Movement in provision for impairment of loans:

	2021 AED'000	2020 AED'000
Balance at 1 January	**223,045**	202,188
Loss allowance – Stage 1 and 2	**5,868**	(3,511)
Loss allowance – Stage 3	**11,495**	24,678
Write off and write backs	**(2,906)**	(310)
Balance at 31 December	**237,502**	223,045

7 | Loans and advances to customers(continued)

By industrial economic sector:

	2021 AED'000	2020 AED'000
Real estate	**3,761,394**	2,869,267
Construction material	**165,685**	124,956
Food and beverages	**157,670**	53,877
Financial services	**113,141**	116,934
Paper products	**104,469**	24,558
Education	**91,192**	78,743
Medical products and services	**86,759**	79,633
Metals	**46,378**	17,885
Oil and gas	**36,586**	–
Plastic products	**31,848**	31,798
Transport	**735**	431
Information technology	**630**	–
Other	**16,342**	7,724
	4,612,829	3,405,806
Less: allowance for impairment	**(237,502)**	(223,045)
At 31 December	**4,375,327**	3,182,761

8 | Islamic Finance

	2021 AED'000	2020 AED'000
Islamic home finance	**1,646,026**	1,071,044
	1,646,026	1,071,044
Less: allowance for impairment	**(15,509)**	(9,935)
Net Murabaha, Ijarah and Estisnaa contracts	**1,630,517**	1,061,109

Islamic home finance take the form of Ijara and Estisnaa contracts. These are granted to UAE nationals for the purpose of purchasing or construction of their home.

	2021 AED'000	2020 AED'000
Gross investment in Ijarah	**1,467,795**	985,679
Less: deferred Ijarah profits	**(462,182)**	(307,530)
	1,005,613	678,149

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

8 | Islamic Finance (continued)

At 31 December, the future minimum Ijarah payments were payable as follows:

31 December 2021	Minimum Ijarah payments AED'000	Present value of minimum Ijarah payments AED'000
Within one year	**139,006**	**68,028**
2 years to 5 years	**276,556**	**149,961**
More than five years	**1,052,233**	**787,624**
	1,467,795	**1,005,613**

31 December 2020	Minimum Ijarah payments AED'000	Present value of minimum Ijarah payments AED'000
Within one year	47,510	23,096
2 years to 5 years	190,016	101,165
More than five years	748,153	553,888
	985,679	678,149

The total gross non-performing Islamic finance amounted to AED 3.7 million *(31 December 2020: AED 2 million)*. The specific provisions held against those finance amounted to AED 2.5 million *(31 December 2020: AED 1.1 million)*

	2021 AED'000	2020 AED'000
Movement in provision for impairment:		
Balance at 1 January	**9,935**	9,399
Loss allowance – Stage 1 and 2	**4,193**	4,089
Loss allowance – Stage 3	**1,381**	720
Write off and write backs	**–**	(4,273)
	15,509	9,935

	2021 AED'000	2020 AED'000
By economic sector:		
Real estate	**1,646,026**	1,071,044
	1,646,026	1,071,044
Less: allowance for impairment	**(15,509)**	(9,935)
	1,630,517	1,061,109

9 | Investment securities

	2021 AED'000	2020 AED'000
Financial assets at FVTPL	**339,407**	340,866
Financial assets at FVTOCI	**279,124**	305,419
Financial assets at amortised cost	**961,814**	676,374
	1,580,345	1,322,659

9 | Investment securities (continued)

The financial assets at fair value through profit or loss comprises of the following:

	2021 AED'000	2020 AED'000
Debt instruments	**190,682**	189,043
Perpetual Sukuk instruments	**148,725**	151,823
	339,407	340,866

Movement in financial assets at fair value through profit or loss:

	2021 AED'000	2020 AED'000
Balance as at 1 January	**340,866**	309,308
Securities purchased	**189,373**	131,170
Securities sold	**(186,821)**	(105,512)
Changes in fair value	**(4,011)**	5,900
As at 31 December	**339,407**	340,866

The financial assets at fair value through other comprehensive income are denominated in UAE Dirhams and comprises of the following:

	2021 AED'000	2020 AED'000
Quoted local shares	**161,980**	167,469
Un-quoted local shares	**117,144**	137,950
	279,124	305,419

Movement in financial investments at fair value through other comprehensive income:

	2021 AED'000	2020 AED'000
Balance as at 1 January	**305,419**	343,417
Securities sold	**(60,280)**	(8,300)
Changes in fair value	**33,985**	(29,698)
As at 31 December	**279,124**	305,419

During the year, the Group disposed of FVTOCI equity investments fair valued at AED 50,673 thousand as at 31 December 2020 (2020: AED 6,600 thousand as at 31 December 2019), with accumulated fair value gain transferred to retained earnings of AED 44,871 thousand (2020: loss of AED 1,700 thousand) upon disposal.

Movement in financial assets measured at amortised cost:

	2021 AED'000	2020 AED'000
Balance as at 1 January	**676,374**	544,235
Securities purchased	**322,721**	268,830
Securities sold	**(35,076)**	(135,350)
Amortisation of discount	**(2,359)**	(1,144)
Less: allowance for impairment	**154**	(197)
Balance as at 31 December	**961,814**	676,374

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for the year ended 31 December 2021 (continued)

9 | Investment securities (continued)

Investments measured at amortised cost consist of US Dollar denominated bonds that carry coupon rates between 3.20% to 5.00% p.a. with maturities between 07 March 2022 to 28 February 2030.

10 | Investment properties

Investment properties comprise of the following:

	Land AED'000	Buildings AED'000	Properties under development AED'000	Total AED'000
At 1 January 2020	105,500	337,680	92,300	535,480
Change in fair value during the year	(14,260)	(7,183)	(4,200)	(25,643)
At 31 December 2020	91,240	330,497	88,100	509,837
Change in fair value during the year	(2,445)	(14,677)	(1,700)	(18,822)
At 31 December 2020	**88,795**	**315,820**	**86,400**	**491,015**

The above investment properties are located in various Emirates within the UAE as follows:

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land and properties under development	**27,500**	**145,495**	**2,200**	**175,195**
Buildings	**182,670**	**133,150**	**–**	**315,820**
At 31 December 2021	**210,170**	**278,645**	**2,200**	**491,015**

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land and properties under development	28,700	148,340	2,300	179,340
Buildings	188,360	142,137	–	330,497
At 31 December 2020	217,060	290,477	2,300	509,837

Investment properties are stated at fair value, which have been determined based on valuations performed by an industry specialist as at 31 December 2021 and 2020.

The valuation, conforms with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards ("RICS") and the relevant statements of the International Valuations Standards, was arrived at by using recognised valuation methods comprising the comparable method of valuation, the investment valuation method and the residual valuation method.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property.

Investment properties under development value includes, an amount of AED 40.3 million *(2020: AED 40.3 million)* being costs incurred to date on foundation and earthworks. Based on the latest valuation, a decrease in fair value of AED 1.7 million *(2020: AED 4.2 million)* has been recognised against this project.

10 | Investment properties (continued)

Income from investment properties – net:

	2021 AED'000	2020 AED'000
Rental income	**21,517**	26,732
Service charges	**(6,047)**	(6,224)
	15,470	20,508

Rental income from investment properties are disclosed as other operating income (Note 23).

11 | Other assets

	2021 AED'000	2020 AED'000
Prepayments and other assets	**17,641**	12,783
Interest receivable	**42,634**	39,161
	60,275	51,944

12 | Property and equipment

	Land and buildings AED'000	Furniture and fixtures AED'000	Computers AED'000	Software and Licenses AED'000	Motor vehicles AED'000	Work-in-progress AED'000	Total AED'000
Cost							
At 1 January 2020	52,642	12,294	12,140	22,387	430	6,850	106,743
Additions	128	27	218	408	–	3,819	4,600
Write-off	–	–	(63)	–	–	–	(63)
Transfers	–	–	–	7,058	–	(7,058)	–
At 31 December 2020	52,770	12,321	12,295	29,853	430	3,611	111,280
Additions	–	36	1,506	408	–	177	2,253
Write-off	–	–	–	–	–	–	–
Transfers	177	–	821	7,058	–	(998)	–
At 31 December 2021	**52,947**	**12,357**	**12,829**	**32,180**	**430**	**2,790**	**113,533**
Accumulated depreciation							
At 1 January 2020	31,301	11,531	9,917	19,521	168	–	72,438
Charge for the year	2,198	654	878	3,329	104	–	7,163
Write-off	–	–	(63)	–	–	–	(63)
At 31 December 2020	33,499	12,185	10,732	22,850	272	–	79,538
Charge for the year	667	104	730	1,918	104	–	3,523
At 31 December 2021	**34,166**	**12,289**	**11,462**	**24,768**	**376**	**–**	**83,061**
Net book value							
At 31 December 2021	**18,781**	**68**	**1,367**	**7,412**	**54**	**2,790**	**30,472**
At 31 December 2020	19,271	136	1,563	7,003	158	3,611	31,742

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

12 | Property and equipment(continued)

The buildings above include plots of land at a nominal amount of AED 1 as follows:

- The Group's building in Abu Dhabi is constructed on land granted by the government of Abu Dhabi in the year 2000 for no consideration. This land is booked at nominal amount of AED 1. As at 31 December 2021, the carrying amount of the land and building amounted to AED 11.8 million (2020: AED 12.3 million). The Group carried a valuation by an external valuer on its Abu Dhabi building including the land as of 31 December 2021. The fair value at that date amounted to AED 36.9 million (2020: AED 36.9 million).

- The Group's building in Dubai is constructed on a land granted by the government of Dubai in the year 2000 for no consideration. The book value of this land is booked at nominal amount of AED 1. As at 31 December 2021, the carrying amount of the land and building amounted to AED 6.9 million (2020: AED 6.9 million). The Group carried a valuation by an external valuer on its Dubai building including the land as of 31 December 2021. The fair value of the portion of the building classified as property and equipment amounted to AED 12.7 million (2020: AED 13.8 million).

Valuations of the Group's buildings and lands constructed thereon are based on the investment valuation method, and are classified as level 3 under the fair value hierarchy.

In 2001, the government of Ras Al Khaimah granted the Group a plot of land in Ras Al Khaimah for no consideration, subject to constructing a branch. The book value of this land is booked at nominal amount of AED 1. The fair value determined by the external valuer as at 31 December 2021 amounted to AED 36.9 million *(2020: AED 36.9 million).*

Property and equipment included fully depreciated and still in use items with cost amounting to AED 54.5 million as of 31 December 2021 *(2020: AED 54 million).*

As at 31 December 2021, right of use assets related to leases of motor vehicles and computers is nil *(31 December 2020: AED 43 thousand).*

13 | Deposits and funds

	2021 AED'000	2020 AED'000
Deposits from governmental institutions		
Mohammad Bin Rashid Innovation Fund	**301,123**	300,000
Funds from governmental institutions		
Sheikh Zayed Housing Programme	**227,914**	564,563
Mohammad Bin Rashid Innovation Fund	**1,352**	1,110
Corporate deposits		
Time deposits	**312,000**	–
	842,389	865,673

Sheikh Zayed Housing Programme

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Programme ("the Programme") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Programme signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

This agreement lays out specific services that are to be provided by the Bank to the Programme, the terms and conditions the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Programme's rights and responsibilities and details the fees that are to be charged by the Bank to the Programme in exchange.

13 | Deposits and funds (continued)

Sheikh Zayed Housing Programme (continued)

The services to be provided include receiving funds pertaining to the Programme and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Programme and beneficiary, then administering the loans as per agreement. Additionally, the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Programme to the current account of the Group with the UAE Central Bank. The Programme earns interest on the funds invested with the Group as per the agreement signed.

The substantial risk and rewards associated with the Programme's funds rest with the Group. Therefore, the funds of the Programme under the management of the Bank are disclosed as part of the assets (call account and placements) of the Group. The Programme loans, however, do not carry any risk to the Bank and therefore are not included in the Group's statement of financial position.

Ministry of Finance - Sheikh Mohammed bin Rashid Innovation Fund

The Mohammed Bin Rashid Innovation Fund ("the Fund") is a government initiative created by the United Arab Emirates Prime Minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, as a fund to finance and foster innovation. The Ministry of Finance ("MoF") was appointed to be responsible for its implementation. EDB was subsequently appointed by the MoF to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the Fund, MoF, and the Bank).

The scope of the Bank's responsibilities includes review and comment on the Fund's policy, guidelines, and terms and conditions, host and collaborate the development of the Fund's operating Manual, support in the sourcing and contracting of the Decision and Advisory Committee experts, support in the contracting of strategic partners, promoting and marketing the Fund, approve the operations team, manage the Fund account, manage the annual report, host and maintain the Fund's website, and oversee the operations team's performance.

The Fund's annual expenses budget is to be prepared by the Bank and submitted to the MoF, which will in turn pay the Bank on a monthly basis as per the annually agreed expenses budget.

14 | Term borrowings

	2021 AED'000	2020 AED'000
USD senior bonds	**5,509,500**	2,754,750
Less: Issuance cost	**(5,102)**	(2,407)
	5,504,398	2,752,343

In February 2019, the Bank established a Euro Medium Term Note Programme for USD 3,000 million (the "Programme"). As part of the Programme, the first issuance amounted to USD 750 million (AED 2,755 million) and was listed on Nasdaq Dubai on 6 March 2019. The bond is due in March 2024 and carries a coupon rate of 3.516% per annum, payable semi-annually.

The second issuance under the Programme amounted to USD 750 million bond (AED 2,755 million) and was listed in Nasdaq Dubai on 15 June 2021. The bond is due in June 2026 and carries a coupon rate of 1.639% per annum, payable semi-annually.

Notes to the consolidated financial statements
for the year ended 31 December 2021 (continued)

15 | Other liabilities

	2021 AED'000	2020 AED'000
Customer settlement account	**91,178**	34,353
Customer deposits towards reserving residence	**57,616**	39,209
Interest payable against term borrowings	**32,947**	30,940
Accrued expenses	**21,911**	26,855
Accrual for staff costs and others	**18,025**	11,126
Deferred rent income	**6,068**	6,648
Accrual for directors' remuneration	**2,778**	1,729
Impairment allowance on credit guarantees	**1,799**	–
Interest payable against deposits and funds	**858**	–
Others	**22,281**	15,436
	166,296	295,193

16 | Paid up capital
As per the EDB Law, the authorised share capital is 10 billion shares at AED 1 each with paid up capital of AED 5 billion required to be fully paid by the Federal Government. The issued share capital at 31 December 2021 comprises of 5,000,000 thousand ordinary shares of AED 1 each (31 December 2020: 5,000,000 thousand ordinary shares of AED 1 each). As at 31 December 2021, the shares are not yet fully paid-up.

During the year, additional capital was injected by the Federal Government amounting to AED 100,000 thousand (2020: AED 450,000 thousand).

Article (27) of Law No. (1) of 1981 relating to the incorporation of the Real Estate Bank specified that the responsibilities and authority of the National Housing Council, which were established by virtue of Law No. (6) for the year 1979 and its principle responsibilities relating to granting loans to UAE nationals for constructing residential properties, shall be transferred to the Bank. Furthermore, the article stated that the responsibilities, authorities and rights of the Settlement Committee, which relates to the settlement of real estate loans given to the UAE Nationals by commercial banks within the UAE as per the Ministerial Decree No. (2) of 1980 Concerning Settlement of Real Estate Loans, shall be transferred to the Real Estate Bank. Thus, these amounts were recognised as a liability until a resolution from the Bank's Board on their treatment and recognition was passed. During 2017, the liability mentioned above was approved to be recognised as paid up capital and there has been a transfer from other liabilities to proposed capital injection amounting to AED 10.7 million. This amount has been added to share capital after ratification of the Board decision by the UAE Cabinet.

17 | Special reserve
The special reserve is created based on Article 43 of the Bank's Articles of Association, wherein 10% of the Bank's profit for the year shall be transferred to the special reserve until it reaches 50% of the nominal value of the paid up share capital.

18 | Commitments and contingent liabilities

	2021 AED'000	2020 AED'000
Unwithdrawn credit commitments - revocable	**595,292**	255,178
Guarantees	**101,844**	29,061

Revocable unwithdrawn credit commitments represent contractual commitments to provide loans and credit facilities which can be cancelled by the Bank unconditionally without any contractual obligations. These commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

18 | Commitments and contingent liabilities (continued)
Credit guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. In 2021, the Bank entered into an agreement with local banks ("lenders") to provide credit guarantees to the lender's SME customers. As at 31 December 2021, related credit guarantees amounted to AED 89.0 million. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

The Group has issued financial guarantees in favour of other lending banks who have granted loans to the customers of Mohammad Bin Rashid Innovation Fund. The Group also have a reciprocal arrangement with Ministry of Finance to claim the guarantee amount in case of any default by the customer. As at 31 December 2021, MBRIF-related guarantees amounted to AED 12.8 million *(2020: AED 29 million)*

There are no other contingencies and commitments as at year-end.

19 | Interest income

	2021 AED'000	2020 AED'000
Loans and advances	**150,293**	101,963
Balances and deposits with banks	**42,375**	87,170
Fixed income securities	**39,173**	37,152
Cash and balances with the UAE Central Bank	**-**	190
	231,841	226,475

20 | Interest expense

	2021 AED'000	2020 AED'000
Term borrowing	**122,632**	97,627
Deposits and funds from governmental institutions	**1,138**	2,766
Due to banks and corporate deposits	**1,411**	604
Others	**21**	40
	125,202	101,037

21 | Investment income

	2021 AED'000	2020 AED'000
Dividend income	**16,208**	11,365
Gain on sale of financial investments at FVTPL	**140**	459
Others	**-**	26
	16,348	11,850

22 | Fees and commission income - net

	2021 AED'000	2020 AED'000
Fee from Sheikh Zayed Housing Programme	**13,000**	12,022
Fee from Emirates Integrated Registries Company	**1,315**	1,332
Fee expenses	**(440)**	(1,456)
	13,875	11,898

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

23 | Other income

	2021 AED'000	2020 AED'000
Rental income on investment properties	**21,517**	26,732
Service charges	**(6,047)**	(6,690)
Other income	**207**	1,482
	15,677	21,524

24 | Operating and administrative expenses

	2021 AED'000	2020 AED'000
General and administrative expenses	**33,113**	22,695
Depreciation and amortisation	**3,523**	7,163
	36,636	29,858

25 | Impairment charge

	2021 AED'000	2020 AED'000
Provision for (reversal of) impairment allowance on:		
- Loans and advances to customers	**17,363**	21,167
- Islamic Finance	**5,574**	4,809
- Credit guarantees	**1,799**	–
- Balances and deposits with banks	**294**	(1,377)
- Investment securities at amortised cost	**(154)**	197
- Other assets	**–**	957
Write backs and recoveries	**(2,906)**	(305)
	21,970	25,448

26 | Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Group had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the Group's management.

The Group carries out various transactions in the normal course of business with its shareholder, directors and officers and investee companies. These are conducted at terms agreed by the Directors and management.

26 | Related party transactions and balances (continued)

Significant balances and transactions with related parties during the year were as follows:

	2021 AED'000	2020 AED'000
a) Related parties' balances		
Cash balances with UAE Central Bank	**137,800**	167,819
Loans and advances	**2,307,385**	1,510,117
Deposits from governmental institutions	**(301,123)**	(300,000)
Funds from governmental institutions	**(229,266)**	(565,673)
Corporate time deposits	**(312,000)**	–
b) Related parties' transactions during the year		
Key Management compensation	**(13,619)**	(12,242)
Directors' remuneration	**(2,650)**	(1,620)
Interest income from loans and deposits	**71,416**	43,029
Fee income	**13,000**	12,022
Interest expense to governmental institutions	**(1,718)**	(3,370)
Interest expense to corporate deposits	**(818)**	–
Paid up capital	**100,000**	450,000

27 | Cash and cash equivalents

Investment properties comprise of the following:

	2021 AED'000	2020 AED'000
Cash and balances with UAE Central Bank	**137,906**	167,893
Balances and deposits with banks	**3,784,967**	2,731,048
	3,922,873	2,898,941
Less: balances with original maturities over three months	**(3,033,655)**	(1,878,949)
	889,218	1,019,992

28 | Financial instruments

The fair values and carrying amounts of financial assets and financial liabilities in the consolidated statement of financial position are as follows:

As at 31 December 2021	Amortised cost AED'000	FVTOCI AED'000	FVTPL AED'000	Total AED '000
Cash and balances with UAE Central Bank	**137,906**	**–**	**-**	**137,906**
Balances and deposits with banks	**3,784,967**	**–**	**-**	**3,784,967**
Loans and advances to customers	**4,375,327**	**-**	**-**	**4,375,327**
Islamic Finance	**1,630,517**	**-**	**-**	**1,630,517**
Investment securities	**961,814**	**279,124**	**339,407**	**1,580,345**
Other assets - interest receivable	**42,634**	**–**	**-**	**42,634**
Total financial assets	**10,933,165**	**279,124**	**339,407**	**11,551,696**
Due to banks	**28,000**	**–**	**–**	**28,000**
Deposits and funds	**842,389**	**–**	**–**	**842,389**
Term borrowings	**5,504,398**	**–**	**–**	**5,504,398**
Other liabilities	**255,461**	**–**	**–**	**255,461**
Total financial liabilities	**6,630,248**	**–**	**–**	**6,630,248**

As at 31 December 2020	Amortised cost AED'000	FVTOCI AED'000	FVTPL AED'000	Total AED'000
Cash and balances with the UAE Central Bank	167,893	–	–	167,893
Balances and deposits with banks	2,731,048	–	–	2,731,048
Loans and advances	3,182,761	–	–	3,182,761
Islamic Finance	1,061,109	–	–	1,061,109
Investment securities	676,374	305,419	340,866	1,322,659
Other assets - interest receivable	39,161	–	–	39,161
Total financial assets	7,858,346	305,419	7,289,730	8,504,631
Deposits and funds	865,673		–	865,673
Term borrowing	2,752,343	–	–	2,752,343
Other liabilities	166,296	–	–	166,296
Total financial liabilities	3,784,312	–	–	3,784,312

29 | Segment information

Operating Segments

The Group along with its subsidiary operates within the United Arab Emirates. The operating segments consist of the Home Finance, Business Finance, and Investments and Treasury business units.

For each business unit, the key management reviews internal management reports on at least a quarterly basis. Information reported to the Group's Executive Management (the Chief Operating Decision Maker (CODM)) for the purposes of resource allocation and assessment of segment performance is focused on the type of products and business unit's operations. The following business units offer different products and services and are managed separately because they require different strategies.

29 | Segment information(continued)

Home Finance

The Group offers affordable financial solutions to UAE nationals that facilitate their purchase, construction or expansion of a home. The Group provides a variety of customised finance solutions for UAE nationals, including loans complementing the offering of federal and local housing authorities, as well as direct financing products such as mortgage loans or loans for home construction. The Group also administers loans made by the SZHP to its customers - these loans are agreed between the SZHP and the customer, and the Group's role is to disburse the funds which it has received from the MoF on behalf of the SZHP and subsequently administer the loans.

Business Finance

The objective of the Business Finance unit to support the UAE development agenda including GDP growth, economic diversification and job creation through providing funding to corporates and small and medium-sized enterprises ("SMEs"). The Group offers affordable finance to SMEs which are majority owned by UAE nationals in the form of: asset-backed financing, purchase financing (pre-sales financing), receivables financing (post-sales financing); and business expansion loan and project financing.

Investments and Treasury

The role of Investments and Treasury is to manage the Group's liquidity and cash flows as well as its foreign exchange positions, its investment securities and its other assets and liabilities. In addition, the department acts as the custodian of the Group's cash and other liquid assets. The department seeks to achieve portfolio diversification by maintaining high quality assets portfolio focused on achieving strong and sustainable returns. Through treasury liabilities products, the Group also aims to obtain long-term, risk-free, stable deposits cheaply to fund its assets and develop sustainable long-term relationships.

The other activities under this segment include managing the investment properties of the Group.

	Home Finance AED '000	Business Finance AED '000	Investments and Treasury AED '000	Unallocated transactions and others AED '000	Total AED '000
For the year ended 31 December 2021					
Net interest income and profit from Islamic finance	**100,866**	**99,094**	**81,548**	**(125,202)**	**156,306**
Net fee and commission income	**11,656**	**1,413**	**(509)**	**1,315**	**13,875**
Income from investment securities	**–**	**–**	**16,348**	**–**	**16,348**
Income from investment properties	**–**	**–**	**15,470**	**–**	**15,470**
Other income	**–**	**–**	**–**	**207**	**207**
Net operating income	**112,522**	**100,507**	**112,857**	**(123,680)**	**202,206**
As at 31 December 2021					
Total assets	**3,088,491**	**2,943,329**	**5,994,233**	**64,771**	**12,090,824**
Total liabilities	**58,222**	**27,291**	**6,374,787**	**169,948**	**6,630,248**

Notes to the consolidated financial statements

for the year ended 31 December 2021 (continued)

29 | Segment information (continued)

	Home Finance AED '000	Business Finance AED '000	Investments and Treasury AED '000	Unallocated transactions and others AED '000	Total AED '000
For the year ended 31 December 2020					
Net interest income / profit from Islamic finance	73,436	59,672	124,513	(101,037)	156,584
Net fee and commission income	10,749	485	(668)	1,332	11,898
Income from investment securities	–	–	11,850	–	11,850
Income from investment properties	–	–	20,042	–	20,042
Other income	–	–	–	1,482	1,482
Net operating income	84,185	60,157	155,737	(98,223)	201,856
As at 31 December 2020					
Total assets	2,393,325	1,903,734	4,731,437	30,497	9,058,993
Total liabilities	–	–	3,618,016	166,296	3,784,312

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