

Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS AND CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2021

These Audited Consolidated Financial Statements are subject to
Central Bank of UAE Approval and adoption by Shareholders at the
Annual General Meeting

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2021

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Abu Dhabi Islamic Bank PJSC

REPORT OF THE BOARD OF DIRECTORS

31 DECEMBER 2021

Abu Dhabi Islamic Bank PJSC

BOARD OF DIRECTORS' REPORT

Year ended 31 December 2021

The Board of Directors have pleasure in submitting their report together with the consolidated financial statements of Abu Dhabi Islamic Bank PJSC (“the Bank”) and its subsidiaries (collectively known as the “the Group”) for the year ended 31 December 2021.

Incorporation and registered office

The Bank was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions and applicable requirements of the laws of the UAE and the Amiri Decree No. 9 of 1997.

Principal activity

The activities of the Bank are conducted in accordance with Islamic Shari’a, which prohibits usury as determined by the Internal Shari’a Supervisory Committee of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), general principles of the Shari’a as determined by the Group’s Internal Shari’a Supervisory Committee and applicable requirements of the laws of the UAE.

Financial commentary

The Group net profit reached a record AED 2,330.1 million (2020: AED 1,604.0 million) for 2021 up by 45.3%. The financial highlights of the full year results are as follows:

- Group net revenue (total operating income net of distribution to depositors) for 2021 was AED 5,559.6 million (2020: AED 5,358.2 million) increased by 3.8%.
- Group operating profit (“margin”) for 2021 increased by 13.5% to reach at AED 3,299.5 million (2020: AED 2,908.2 million).
- Total provisions for impairment for 2021 were AED 954.4 million (2020: AED 1,314.1 million).
- Group net profit for 2021 was AED 2,330.1 million (2020: AED 1,604.0 million) up by 45.3%.
- Group earnings per share increased to AED 0.571 compared to AED 0.364 in 2020.
- Total assets as of 31 December 2021 were AED 136.9 billion (2020: AED 127.8 billion).
- Net customer financing (murabaha, ijara and other Islamic financing) as of 31 December 2021 was AED 88.3 billion (2020: AED 83.4 billion).
- Customer deposits as of 31 December 2021 were AED 109.6 billion (2020: AED 101.3 billion).

Proposed appropriations

The Board of Directors has recommended the following appropriations from retained earnings:

	<i>AED ‘000</i>
• Transfer to general reserves	(226,918)
• Profit paid on Tier 1 sukuk – Listed (second issue) during the year	(196,250)
• Profit paid on Tier 1 sukuk – Government of Abu Dhabi during the year	(58,221)

Abu Dhabi Islamic Bank PJSC

BOARD OF DIRECTORS' REPORT continued Year ended 31 December 2021

Board of Directors

The directors during the year were as follows:

- | | | |
|----|---------------------------------------|--|
| 1. | H.E. Jawaan Awaidha Suhail Al Khaili | Chairman |
| 2. | Faisal Sultan Naser Salem Al Shuaibi | Vice Chairman |
| 3. | Khalifa Matar Al Mheiri | Board Member |
| 4. | Najib Youssef Fayyad | Board Member |
| 5. | Abdulla Ali Musleh Jumhour Al Ahbabi | Board Member |
| 6. | Dhaen Mohamed Dhaen Mahasoon Alhameli | Board Member |
| 7. | Khamis Mohamed Buharoon | Board Member (Resigned on 04 March 2021) |



On behalf of the Board of Directors
H.E. Jawaan Awaidha Suhail Al Khaili
Chairman

07 February 2022
Abu Dhabi

Abu Dhabi Islamic Bank PJSC
CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2021

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Abu Dhabi Islamic Bank PJSC (the "Bank") which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the 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 Bank 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 Bank 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 Bank's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Impairment for financing assets measured at amortised cost – Estimation uncertainty with respect to impairment allowances for financing assets measured at amortised cost

Area of focus

The assessment of the Bank's determination of impairment allowances for financing assets measured at amortised cost requires management to make significant judgements over the staging and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality and the complexity of the judgements applied and assumptions and estimates used in the ECL models. As at 31 December 2021, gross financing assets measured at amortised cost amounted to AED 93.1 billion against which an allowance for impairment of AED 4.9 billion was recorded

Refer to Notes 17 and 18 to the consolidated financial statements for financing assets, Note 3 for the accounting policy, Note 3.4 for critical judgements and estimations used by management and Note 42 for the credit risk disclosure.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC (continued)**

Key Audit Matters (continued)**Impairment for financial assets measured at amortised cost – Estimation uncertainty with respect to impairment allowances for financial assets measured at amortised cost (continued)****Area of focus (continued)**

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 Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective profit rate. The Bank 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 42.2 to the consolidated financial statements.

The material portion of the non-retail portfolio of financing assets measured at amortised cost is assessed individually for the significant increase in credit risk (SICR) or credit impairment and the related 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 Bank's policies and in line with the requirements of IFRS 9 Financial Instruments. 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 retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention, however, it is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and went through a validation process.

Our audit approach

We have 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, which included testing:

- System-based and manual controls over the timely recognition of impaired financing assets;
- Controls over the ECL calculation models;
- Controls over collateral valuation estimates; and
- Controls over governance and approval process related to impairment provisions and ECL Models including continuous reassessment by the management.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC (continued)**

Key Audit Matters (continued)**Impairment for financial assets measured at amortised cost – Estimation uncertainty with respect to impairment allowances for financial assets measured at amortised cost (continued)****Our audit approach (continued)**

We understood and evaluated the theoretical soundness of the ECL models by involving our internal experts to ensure its compliance with the requirements of IFRSs. We tested the mathematical integrity of the ECL model 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.

On a sample basis, we selected individual samples and performed a detailed review of these exposures and challenged the Banks's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions, 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.

For financing assets measured at amortised cost not tested individually, we evaluated controls over the modelling process, including model monitoring, validation and approval. We tested controls over model outputs. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data. We evaluated key assumptions such as thresholds used to determine SICR and forward looking macroeconomic scenarios.

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

We evaluated post model adjustments and management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward looking information incorporated into the impairment calculations by using our specialists.

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.

We have evaluated methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the Bank's forecasts of future economic conditions at the reporting date.

We assessed the disclosures in the consolidated financial statements to determine that they were in compliance with IFRSs.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC (continued)**

Key Audit Matters (continued)**Risk of inappropriate access or changes to information technology systems****Area of focus**

The Bank is vitally dependent on its complex information technology environment for the reliability and continuity of its operations and financial reporting process due to the extensive volume and variety of transactions which are processed daily across the Bank's businesses; this includes cyber risks.

Inappropriate granting of or ineffective monitoring of access rights to IT systems therefore presents a risk to the accuracy of financial accounting and reporting. Appropriate IT controls are required to protect the Bank's IT infrastructure, data and applications, ensure transactions are processed correctly and limit the potential for fraud and error as a result of change to an application or underlying data.

Unauthorised or extensive access rights cause a risk of intended or unintended manipulation of data that could have a material effect on the completeness and accuracy of financial statements. Therefore, we considered this area as key audit matter.

For further information on this key audit matter refer to Note 42.

Our audit approach

Our audit approach depends to a large extent on the effectiveness of automated and IT-dependent manual controls and therefore we updated our understanding of the Bank's IT-related control environment and identified IT applications, databases and operating systems that are relevant for the financial reporting process and to our audit.

For relevant IT-dependent controls within the financial reporting process we identified, with the involvement of our internal IT specialists, supporting general IT controls and evaluated their design, implementation and operating effectiveness. We updated our understanding of applications relevant for financial reporting and tested key controls particularly in the area of access protection, integrity of system interfaces and linkage of such controls to the reliability, completeness and accuracy of financial reporting including computer-generated reports used in financial reporting. Our audit procedures covered, but were not limited to, the following areas relevant for financial reporting:

- IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations;
- Controls regarding initial access granted to IT systems for new employees or employees changing roles, whether that access was subject to appropriate screening and it was approved by authorised persons;
- Controls regarding removal of employee or former employee access rights within an appropriate period of time after having changed roles or leaving the Bank;
- Controls regarding the appropriateness of system access rights for privileged or administrative authorisations (superuser) being subject to a restrictive authorisation assignment procedure and regular review thereof;
- Password protection, security settings regarding modification of applications, databases and operating systems, the segregation of department and IT users and segregation of employees responsible for program development and those responsible for system operations;
- Program developers approval rights in the modification process and their capability to carry out any modifications in the productive versions of applications, databases and operating systems; and
- We performed journal entry testing as stipulated by the International Standards on Auditing.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC (continued)

Other Information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Bank 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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF ABU DHABI ISLAMIC BANK PJSC (continued)**

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than 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 Bank'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 Bank'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 Bank 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 Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with 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.

**INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF FABU DHABI ISLAMIC BANK PJSC (continued)**

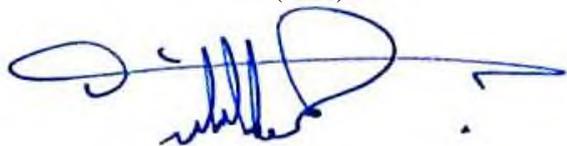
REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the Bank's books of account;
- Note 20 to the consolidated financial statements of the Bank discloses purchased or investment in shares during the financial year ended 31 December 2021;
- Note 40 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which these were conducted and principles of managing conflict of interests;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- Note 44 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2021.

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

Deloitte & Touche (M.E.)



Mohammad Khamees Al Tah
Registration No. 717
7 February 2022
Abu Dhabi
United Arab Emirates

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2021

	<i>Notes</i>	2021 AED '000	2020 AED '000
OPERATING INCOME			
Income from murabaha, mudaraba and wakala with financial institutions		38,703	61,015
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	5	3,635,864	3,765,824
Income from sukuk measured at amortised cost		463,889	565,632
Income from investments measured at fair value	6	177,492	164,647
Share of results of associates and joint ventures	21	315,898	10,781
Fees and commission income, net	7	958,210	992,163
Foreign exchange income		248,405	223,366
Income from investment properties	8	37,031	50,325
Other income		<u>14,018</u>	<u>26,770</u>
		<u>5,889,510</u>	<u>5,860,523</u>
OPERATING EXPENSES			
Employees' costs	9	(1,438,767)	(1,508,212)
General and administrative expenses	10	(526,100)	(619,846)
Depreciation	22 & 25	(240,416)	(267,190)
Amortisation of intangibles	26	(54,752)	(54,752)
Provision for impairment, net	11	<u>(954,399)</u>	<u>(1,314,112)</u>
		<u>(3,214,434)</u>	<u>(3,764,112)</u>
PROFIT FROM OPERATIONS, BEFORE DISTRIBUTION TO DEPOSITORS		2,675,076	2,096,411
Distribution to depositors	12	<u>(329,959)</u>	<u>(502,358)</u>
PROFIT FOR THE YEAR BEFORE ZAKAT AND TAX		2,345,117	1,594,053
Zakat and tax		<u>(15,028)</u>	<u>9,908</u>
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		<u>2,330,089</u>	<u>1,603,961</u>
<i>Attributable to:</i>			
Equity holders of the Bank		2,328,731	1,602,828
Non-controlling interest		<u>1,358</u>	<u>1,133</u>
		<u>2,330,089</u>	<u>1,603,961</u>
Basic and diluted earnings per share attributable to ordinary shares (AED)	13	<u>0.571</u>	<u>0.364</u>

The attached notes 1 to 44 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2021

	<i>Notes</i>	2021 AED '000	2020 AED '000
PROFIT FOR THE YEAR AFTER ZAKAT AND TAX		2,330,089	1,603,961
Other comprehensive loss			
<i>Items that will not be reclassified to consolidated income statement</i>			
Net loss on valuation of equity investments carried at fair value through other comprehensive income	33	(153)	(12,148)
Directors' remuneration paid	40	(7,350)	(7,350)
Loss on revaluation of land	25	(55,300)	-
<i>Items that may subsequently be reclassified to consolidated income statement</i>			
Net movement in valuation of investments in sukuk carried at fair value through other comprehensive income	33	(41,126)	37,504
Exchange differences arising on translation of foreign operations	33	(4,857)	(53,232)
Gain (loss) on hedge of foreign operations	33	5,825	(16,990)
Fair value loss on cash flow hedges	33	(846)	(2,336)
OTHER COMPREHENSIVE LOSS FOR THE YEAR		<u>(103,807)</u>	<u>(54,552)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>2,226,282</u>	<u>1,549,409</u>
Attributable to:			
Equity holders of the Bank		2,224,924	1,548,276
Non-controlling interest		<u>1,358</u>	<u>1,133</u>
		<u>2,226,282</u>	<u>1,549,409</u>

The attached notes 1 to 44 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

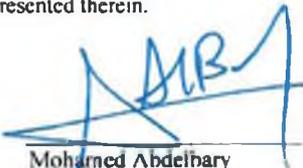
At 31 December 2021

	Notes	2021 AED '000	2020 AED '000
ASSETS			
Cash and balances with central banks	14	21,699,249	19,579,524
Balances and wakala deposits with Islamic banks and other financial institutions	15	3,739,683	2,287,134
Murabaha and mudaraba with financial institutions	16	790,456	132,864
Murabaha and other Islamic financing	17	43,165,461	35,978,091
Ijara financing	18	45,086,882	47,431,270
Investment in sukuk measured at amortised cost	19	9,633,426	10,350,377
Investments measured at fair value	20	4,057,488	3,458,194
Investment in associates and joint ventures	21	1,604,378	1,301,662
Investment properties	22	1,288,988	1,310,347
Development properties	23	713,701	713,701
Other assets	24	2,631,431	2,820,609
Property and equipment	25	2,310,871	2,251,278
Goodwill and intangibles	26	146,335	201,087
TOTAL ASSETS		136,868,349	127,816,138
LIABILITIES			
Due to financial institutions	27	3,535,952	3,773,245
Depositors' accounts	28	109,611,103	101,276,128
Other liabilities	29	3,162,234	3,604,881
Total liabilities		116,309,289	108,654,254
EQUITY			
Share capital	30	3,632,000	3,632,000
Legal reserve	31	2,640,705	2,640,705
General reserve	31	2,633,934	2,407,016
Credit risk reserve	31	400,000	400,000
Retained earnings		6,741,105	5,671,295
Other reserves	33	(254,626)	(354,766)
Tier 1 sukuk	34	4,754,375	4,754,375
Equity attributable to the equity and Tier 1 sukuk holders of the Bank		20,547,493	19,150,625
Non-controlling interest	35	11,567	11,259
Total equity		20,559,060	19,161,884
TOTAL LIABILITIES AND EQUITY		136,868,349	127,816,138
CONTINGENT LIABILITIES AND COMMITMENTS	36	11,690,694	13,913,242

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial condition, results of operation and cash flows of the Group as of, and for, the periods presented therein.


H.E. Jawaan Awaidha Suhail Al Khaifi
Chairman


Nasser Abdullah Al Awadhi
Group Chief Executive Officer


Mohamed Abdelhary
Group Chief Financial Officer

The attached notes 1 to 44 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2021

Attributable to the equity and Tier 1 sukuk holders of the Bank

		<i>Share capital</i>	<i>Legal reserve</i>	<i>General reserve</i>	<i>Credit risk reserve</i>	<i>Retained earnings</i>	<i>Other reserves</i>	<i>Tier 1 sukuk</i>	<i>Total</i>	<i>Non- controlling interest</i>	<i>Total equity</i>
	<i>Notes</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>	<i>AED '000</i>
Balance at 1 January 2020		3,632,000	2,640,705	2,250,033	400,000	5,776,978	(361,775)	4,754,375	19,092,316	11,101	19,103,417
Profit for the year		-	-	-	-	1,602,828	-	-	1,602,828	1,133	1,603,961
Other comprehensive loss		-	-	-	-	(7,350)	(47,202)	-	(54,552)	-	(54,552)
Profit paid on Tier 1 sukuk – Listed (second issue)	34	-	-	-	-	(196,250)	-	-	(196,250)	-	(196,250)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(85,646)	-	-	(85,646)	-	(85,646)
Dividends paid	32	-	-	-	-	(994,313)	-	-	(994,313)	(975)	(995,288)
Dividends paid to charity		-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Zakat payable	38	-	-	-	-	(193,758)	-	-	(193,758)	-	(193,758)
Transfer to Impairment reserve – General	33	-	-	-	-	7,451	(7,451)	-	-	-	-
Transfer to Impairment reserve – Specific	33	-	-	-	-	(61,662)	61,662	-	-	-	-
Transfer to reserves	31	-	-	156,983	-	(156,983)	-	-	-	-	-
Balance at 1 January 2021		3,632,000	2,640,705	2,407,016	400,000	5,671,295	(354,766)	4,754,375	19,150,625	11,259	19,161,884
Profit for the year		-	-	-	-	2,328,731	-	-	2,328,731	1,358	2,330,089
Other comprehensive loss		-	-	-	-	(7,350)	(96,457)	-	(103,807)	-	(103,807)
Profit paid on Tier 1 sukuk – Listed (second issue)	34	-	-	-	-	(196,250)	-	-	(196,250)	-	(196,250)
Profit paid on Tier 1 sukuk – Government of Abu Dhabi	34	-	-	-	-	(58,221)	-	-	(58,221)	-	(58,221)
Dividends paid	32	-	-	-	-	(747,343)	-	-	(747,343)	(1,050)	(748,393)
Dividends paid to charity		-	-	-	-	(20,000)	-	-	(20,000)	-	(20,000)
Zakat payable		-	-	-	-	193,758	-	-	193,758	-	193,758
Transfer to Impairment reserve – General	33	-	-	-	-	(2,420)	2,420	-	-	-	-
Transfer to Impairment reserve – Specific	33	-	-	-	-	(194,177)	194,177	-	-	-	-
Transfer to reserves	31	-	-	226,918	-	(226,918)	-	-	-	-	-
Balance at 31 December 2021		3,632,000	2,640,705	2,633,934	400,000	6,741,105	(254,626)	4,754,375	20,547,493	11,567	20,559,060

The attached notes 1 to 44 form part of these consolidated financial statements.

Abu Dhabi Islamic Bank PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Notes	2021 AED '000	2020 AED '000
OPERATING ACTIVITIES			
Profit for the year		2,330,089	1,603,961
Adjustments for:			
Depreciation on investment properties	22	10,462	16,859
Depreciation on property and equipment		159,060	186,056
Depreciation on right-of-use assets		70,894	64,275
Amortisation of intangibles	26	54,752	54,752
Share of results of associates and joint ventures		(315,898)	(10,781)
Dividend income	6	(4,762)	(495)
Realised (gain)/loss on investments carried at fair value through profit or loss	6	(22,610)	4,004
Unrealised loss/(gain) on investments carried at fair value through profit or loss	6	11,893	(30,207)
Realised gain on sukuk carried at fair value through other comprehensive income	6	(28,114)	(32,092)
Loss on disposal of property and equipment		2,525	2,040
Finance cost on lease liabilities		10,511	9,629
Provision for impairment, net	11	954,399	1,314,112
Provision for end of service benefits		38,248	36,697
Gain on sale of investment properties	8	-	(12,295)
Operating profit before changes in operating assets and liabilities		<u>3,271,449</u>	3,206,515
Decrease in balances with central banks		5,090,581	1,509,238
(Increase)/decrease in balances and wakala deposits with Islamic banks and other financial institutions		(324,911)	736,194
(Increase)/decrease murabaha and mudaraba with financial institutions		(657,758)	282,558
Increase in murabaha and other Islamic financing		(7,567,930)	(1,776,550)
Decrease/(increase) in ijara financing		1,807,234	(1,647,375)
Net movement in investments carried at fair value through profit or loss		(470,351)	(638,878)
Decrease/(increase) in other assets		179,687	(40,985)
(Decrease)/increase in due to financial institutions		(470,490)	382,455
Increase/(decrease) in depositors' accounts		8,340,800	(134,724)
(Decrease)/increase in other liabilities		(302,134)	304,564
Cash from operations		8,896,177	2,183,012
End of service benefits paid		(34,673)	(36,121)
Directors' remuneration paid	40	(7,350)	(7,350)
Net cash from operating activities		<u>8,854,154</u>	<u>2,139,541</u>
INVESTING ACTIVITIES			
Dividend received	6	4,762	495
Net movement in investments carried at fair value through other comprehensive income		(130,609)	(460,354)
Net movement in investments carried at amortised cost		696,019	249,232
Dividends received from associates and joint ventures		8,333	10,416
Proceeds from sale of investment properties		-	25,900
Purchase of property and equipment	25	(313,511)	(256,679)
Net cash from/(used in) investing activities		<u>264,994</u>	<u>(430,990)</u>
FINANCING ACTIVITIES			
Finance cost on lease liability	10	(10,511)	(9,629)
Profit paid on Tier 1 sukuk – Listed (second issue)	34	(196,250)	(196,250)
Profit paid on Tier 1 sukuk to Government of Abu Dhabi	34	(58,221)	(85,646)
Dividends paid		(749,875)	(1,002,787)
Net cash used in financing activities		<u>(1,014,857)</u>	<u>(1,294,312)</u>
INCREASE IN CASH AND CASH EQUIVALENTS		8,104,291	414,239
Cash and cash equivalents at 1 January		<u>6,929,656</u>	<u>6,515,417</u>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	39	<u>15,033,947</u>	<u>6,929,656</u>
Operating cash flows from profit on balances and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, customer financing, sukuk and customer deposits are as follows:			
Profit received		<u>4,167,784</u>	<u>3,980,834</u>
Profit paid to depositors		<u>313,453</u>	<u>532,353</u>

The attached notes 1 to 44 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

1 LEGAL STATUS AND PRINCIPAL ACTIVITIES

Abu Dhabi Islamic Bank PJSC (“the Bank”) was incorporated in the Emirate of Abu Dhabi, United Arab Emirates (UAE), as a public joint stock company with limited liability, in accordance with the provisions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) and the Amiri Decree No. 9 of 1997. The Federal Law No. 2 of 2015, concerning Commercial Companies has replaced the existing Federal Law No. 8 of 1984. Federal Law No. 32 of 2021 on Commercial Companies (the “New Companies Law”) was issued on 20 September 2021 and will come into effect on 2 January 2022, to entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended (the “2015 Law”). The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

On 23 September 2018, a new Decretal Federal Law No 14 of 2018 regarding the Central Bank and Organization of Financial Institutions and Activities was issued. As per the transitional provisions of the new law, financial institutions are to ensure compliance within 3 years from the date of issuance of the decretal law. The Bank is in the process of adopting the new decretal federal law and will be fully compliant before the transitional provisions deadline.

The Bank and its subsidiaries (“the Group”) carry out full banking services, financing and investing activities through various Islamic instruments such as Murabaha, Istisna’a, Mudaraba, Musharaka, Ijara, Wakalah, Sukuk etc. The activities of the Bank are conducted in accordance with Islamic Shari’a, which prohibits usury as determined by the Internal Shari’a Supervisory Committee of the Bank, and within the provisions of the Articles and Memorandum of Association of the respective entities within the Group.

In addition to its main office in Abu Dhabi, the Bank operates through its 59 branches in UAE (2020: 69 branches) and 3 overseas branches in Iraq, Qatar and Sudan and subsidiaries in the UAE and the United Kingdom. The consolidated financial statements combine the activities of the Bank’s head office, its branches and subsidiaries.

The registered office of the Bank is at P O Box 313, Abu Dhabi, UAE.

The consolidated financial statements of the Group were authorised for issue by the Board of Directors on 07 February 2022.

2 DEFINITIONS

The following terms are used in the consolidated financial statements with the meanings specified:

Murabaha

A sale contract, in which the Group sells to a customer a physical asset, goods, or shares already owned and possessed (either physically or constructively) at a selling price that consists of the purchase cost plus a mark-up profit.

Istisna’a

A sale contract, in which the Group (Al Saanee) sells an asset to be developed using its own materials to a customer (Al Mustasnee) according to pre-agreed upon precise specification, at a specific price, installments dates and to be delivered on a specific date. This developed asset can be either developed directly by the Group or through a subcontractor and then it is handed over to the customer on the pre-agreed upon date.

Ijara

A lease contract whereby the Group (the Lessor) leases to a customer (the Lessee) a service or the usufruct of an owned or rented physical asset that either exists currently or to be constructed in future (forward lease) for a specific period of time at specific rental installments. The lease contract could be ended by transferring the ownership of a leased physical asset through an independent mode to the lessee.

Qard Hasan

A non-profit bearing loan that enables the borrower to use the borrowed amount for a specific period of time, at the end of which the same borrowed amounts would be repaid free of any charges or profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

2 DEFINITIONS continued

Musharaka

A contract between the Group and a customer to entering into a partnership in an existing project (or to be established), or in the ownership of a specific asset, either on ongoing basis or for a limited time, during which the Group enters in particular arrangements with the customer to sell to him/her its share in this partnership until he/she becomes the sole owner of it (diminishing musharaka). Profits are distributed according to the mutual agreement of the parties as stipulated in the contract; however, losses are borne according to the exact shares in the Musharaka capital on a pro-rata basis.

Mudaraba

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

Wakalah

A contract between the Group and a customer whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the principal.

Sukuk

Certificates which are equal in value and represent common shares in the ownership of a specific physical asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

3 BASIS OF PREPARATION

3.1 (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), general principles of the Shari’a as determined by the Group’s Internal Shari’a Supervisory Committee and applicable requirements of the laws of the UAE.

3.1 (b) Accounting convention

The consolidated financial statements have been prepared under the historical cost convention except for investments carried at fair value through profit or loss, investments carried at fair value through other comprehensive income, Shari’a compliant alternatives of derivative financial instruments which have been measured at fair value and land, held as property and equipment, which has been carried at revalued amount.

The consolidated financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Bank and all values are rounded to the nearest thousand AED except where otherwise indicated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.1 (c) Basis of consolidation

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

	<i>Activity</i>	<i>Country of incorporation</i>	<i>Percentage of holding</i>	
			2021	2020
Abu Dhabi Islamic Securities Company LLC	Equity brokerage services	United Arab Emirates	95%	95%
Burooj Properties LLC	Real estate investments	United Arab Emirates	100%	100%
MPM Properties LLC	Real estate services	United Arab Emirates	100%	100%
ADIB Invest 1	Equity brokerage services	BVI	100%	100%
Kawader Services LLC	Manpower supply	United Arab Emirates	100%	100%
ADIB (UK) Limited	Other services	United Kingdom	100%	100%
ADIB Holdings (Jersey) Ltd* (under liquidation)	Special purpose vehicle	British Channel Islands	-	-
ADIB Sukuk Company Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Sukuk Company II Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 1 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Capital Invest 2 Ltd*	Special purpose vehicle	Cayman Island	-	-
ADIB Alternatives Ltd*	Special purpose vehicle	Cayman Island	-	-

*The Bank does not have any direct holding in these entities and they are considered to be a subsidiary by virtue of control.

These consolidated financial statements include the operations of the subsidiaries over which the Bank has control. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. All intra-group balances, transactions, income and expenses and gains and losses resulting from intra-group transactions are eliminated in full.

Non-controlling interest represent the portion of the net income or loss and net assets of the subsidiaries not held by the Group and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from shareholders' equity of the Bank.

3.2 CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2021. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current year but may affect the accounting for the Group's future transactions or arrangements.

Amendments to References to the Conceptual Framework in IFRS Standards

Amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32 to update those pronouncements with regard to references to and quotes from the framework or to indicate where they refer to a different version of the Conceptual Framework.

Amendment to IFRS 3 Business Combinations relating to definition of a business

The amendments in Definition of a Business (Amendments to IFRS 3) are changes to Appendix A Defined terms, the application guidance, and the illustrative examples of IFRS 3 only.

Amendments to IAS 1 and IAS 8 relating to Definition of Material

The amendments in Definition of Material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.2 CHANGES IN ACCOUNTING POLICIES continued

Covid-19-related Rent Concessions (Amendment to IFRS 16)

The amendment was published by International Accounting Standard Board in May 2020 to provide practical relief to lessees in accounting for rent concessions arising as a result of Covid-19.

Profit Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (IBOR reform Phase 2)

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.

Based on the decision by global regulators to phase out IBORs and replace them with alternative reference rates (RFRs), the Bank has established a project in 2020, in coordination with an external consultant to manage the transition for any of its contracts that could be affected. The Group has exposure to contracts referencing benchmark rates, such as LIBOR, that mature after 2021. The project is significant in terms of scale and complexity and has a cross-functional impact on the Bank from customer contracts and dealings to the Bank's risk management processes and earnings. The project is being led by senior representatives from functions across the Bank including the client facing teams, Treasury, Finance, Shari'a, Legal, Operations and Technology. The Bank is in the process of setting up detailed plans, processes and procedures to support the transition of its IBOR exposure to RFRs. Moreover, the Bank will look to determine the extent of changes required in its risk management approach and strategy as a result of the IBOR reform. In 2021, the Bank established the Governance Framework for this project which includes an internal reporting framework to provide regular updates to an IBOR Reform Steering Committee. The Bank has also set up a monthly review of its exposure and contracts to monitor the scale of transition required from IBOR to RFRs. The Group's exposure to cash flow hedges and fair value hedges linked to benchmark rates maturing beyond the year 2021 is not considered material.

IBOR reform exposes the Group to various risks, which the project is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.
- Financial risk to the Bank and its clients that markets are disrupted due to IBOR reform giving rise to financial losses.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Bank's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available .
- Accounting risk if the Bank's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

The Group continues to engage with internal and external stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IAS 16 <i>Property, Plant and Equipment</i> , Proceeds before intended use	1 January 2022
Annual Improvements 2018-2020 cycle	1 January 2022
Amendments to IFRS 3 <i>Business Combination</i>	1 January 2022
Amendments to IAS 37 <i>Onerous Contracts</i> , Cost of fulfilling a contract	1 January 2022
Amendments to IAS 1 <i>Classification of Liabilities as Current or Non-Current</i>	1 January 2023
IFRS 17 <i>Insurance Contracts</i>	1 January 2023
Amendments to IFRS 10 <i>Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (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.

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.

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements in conformity with the International Financial Reporting Standards 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Following estimates and judgements which are applicable from 1 January 2021.

IFRS 9: Financial instruments:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss: changes to the assumptions and estimation uncertainties that have a significant impact on expected credit losses for the year ended 31 December 2021 pertain to the changes introduced as a result of adoption of IFRS 9 (ECL): Financial instruments. The impact is mainly driven by inputs, assumptions and techniques used for ECL calculation under IFRS 9 methodology.

Key Considerations: Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Group while determining the impact assessment, are:

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

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

- (i) The Group has established thresholds for significant increases in credit risk based on movement in Probability of Default (PD) as determined by the Obligor Risk Rating (ORR) relative to initial recognition as well as PD thresholds.
- (ii) Additional qualitative reviews will be performed to assess the staging results and make adjustments, as necessary, to better reflect the positions which have significantly increased in risk.
- (iii) IFRS 9 contains a rebuttable presumption that instruments which are 30 days past due have experienced a significant increase in credit risk. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios: The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD and Loss Given Default (LGD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Group's expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

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

Base-case, Upside and Downside scenarios, will be based on macroeconomic forecasts received from an external reputable source. These scenarios will be updated on a quarterly basis and more frequently if conditions warrant.

All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

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

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

Governance: The Group has established an internal Committee to provide oversight to the IFRS 9 impairment process. The Committee is comprised of senior representatives from Finance and Risk Management and will be responsible for reviewing and approving key inputs and assumptions used in the Group's expected credit loss estimates. It also assesses the appropriateness of the overall allowance results to be included in the Group's financial statements.

Going concern

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

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of probability of occurrence of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Operating lease commitments - Group as lessor

The Group has entered into commercial property lease arrangements on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties therefore, accounts for the contracts as operating leases.

Classification and measurement of financial assets

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. The Group's investments in securities are appropriately classified and measured.

Investment and development properties

The Group hired services of professional real estate valuer to provide reliable estimates of the market value of investment properties for determining the fair values as of the reporting date, for disclosure purposes and assessing the impairment, if any. The basis of estimate and method used by the valuer has been disclosed in the note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position that cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of the financial instruments.

Classification of properties

In the process of classifying properties, management has made various judgments. Judgment is needed to determine whether a property qualifies as an investment property, development property or property and equipment. The Group develops criteria so that it can exercise that judgment consistently in accordance with the definitions of investment property, development property and property and equipment. In making its judgment, management considers the detailed criteria and related guidance for the classification of properties as set out in IAS 2, IAS 16 and IAS 40, in particular, the intended usage of property as determined by the management.

Impairment of investments in associates and joint ventures

Management regularly reviews its investment in associates and joint venture for indicators of impairment. This determination of whether investments in associates is impaired, entails management's evaluation of the specific investee's profitability, liquidity, solvency and ability to generate operating cash flows from the date of acquisition and until the foreseeable future. If managements' review results in impairment, the difference between the estimated recoverable amount and the carrying value of investment in associates and joint venture is recognised as an expense in the consolidated income statement.

Impairment review of investment properties, development properties and advances paid against purchase of properties

Investment properties, development properties and advances paid against purchase of properties are assessed for impairment based on assessment of cash flows on individual cash-generating units when there is indication that those assets have suffered an impairment loss. Cash flows are determined with reference to recent market conditions, prices existing at the end of the reporting period, contractual agreements and estimations over the useful lives of the assets and discounted using a range of discount rates that reflects current market assessments of the time value of money and the risks specific to the asset. The net present values are compared to the carrying amounts to assess any impairment.

The assessment of current market conditions, including cost of project completion, future rental and occupancy rates and assessment of the projects capital structure and discount rates requires management to exercise its judgment. Management uses internal and external experts to exercise this judgment.

Impairment of goodwill

On an annual basis, the Group determines whether goodwill is impaired. This requires an estimation of the recoverable amount using value in use of the cash generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Useful life of property and equipment and investment properties

The cost of property and equipment and investment properties are depreciated over its estimated useful life, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

3 BASIS OF PREPARATION continued

3.4 SIGNIFICANT JUDGEMENTS AND ESTIMATES continued

Business combinations

Accounting for the acquisition of a business requires the allocation of the purchase price to the various assets and liabilities of the acquired business. For most assets and liabilities, the purchase price allocation is accomplished by recording the asset or liability at its estimated fair value. Determining the fair value of assets acquired and liabilities assumed requires estimation by management and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, the useful lives of intangibles other assets and market multiples. The Group's management uses all available information to make these fair value determinations. The Group has, if necessary, up to one year after acquisition closing date to complete these fair value determinations and finalise the purchase price allocation.

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of 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.

Lease accounting under IFRS 16

The following are the critical judgments and estimates in the application of IFRS 16, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised;
- classification of lease arrangements (when the entity is a lessor);
- determination of the appropriate rate to discount the lease payments; and
- assessment of whether a right-of-use asset is impaired.

4 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are set out below:

Revenue recognition

Murabaha

Murabaha income is recognised on a time apportioned basis over the period of the contract based on the principal amounts outstanding.

Istisna'a

Istisna'a revenue and the associated profit margin (difference between the cash price of al-masnoo to the customer and the Bank's total Istisna'a cost) is accounted for on a time apportioned basis.

Ijara

Ijara income is recognised on a time apportioned basis over the lease term.

Musharaka

Income is accounted for on the basis of the reducing balance of Musharaka on a time apportioned basis that reflects the effective yield on the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Revenue recognition continued

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the Bank's consolidated income statement on their declaration by the Mudarib.

Sukuk

Income is accounted for on a time apportioned basis over the terms of the Sukuk.

Revenue from sale of properties, net

Revenue is recognized when (or as) the Group satisfies the performance obligation at an amount that reflects the consideration to which the Group is entitled in exchange for transferring goods or services to a customer. A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer).

Cost of sale of properties includes the cost of development. Development costs include the cost of infrastructure and construction.

Cost of sale of land represents the carrying amount at which it is recorded in the consolidated financial statements of the Group.

Fee and commission income

Fee income is earned from a diverse range of services provided by the Bank to its customers and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. The Bank recognises revenue when it transfers control over a product or service to a customer.

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, Brokerage fees and commission);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, Projects and property management fees, arrangement fees and Accounts services fees; and
- Other fees and commission income and expense are recognised as the related services are performed or received.

Operating lease income

Operating lease income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Gain on sale of investments

Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Gain or loss on disposal of fair value through other comprehensive income investments represents the difference between sale proceeds and their original cost less associated selling costs and is recognised through consolidated statement of comprehensive income and are included within cumulative changes in fair value reserve within equity and not recognised in the consolidated income statement.

Dividends

Dividends from investments in equities are recognised when the right to receive the dividend is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments

Recognition and measurement

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Customer financing.
- Balances and wakala deposits with Islamic banks and other financial institutions;
- Murabaha and mudaraba with financial institutions;
- Investment in sukuk;
- Investment in equity instruments;
- Trade and other receivables; and
- Sharia compliant alternatives of derivatives.

The Group's customer financing comprises the following:

- Murabaha and other Islamic financing; and
- Ijara financing.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Classification

Financial assets at amortised cost

Balances and wakala deposits with Islamic banks and other financial institutions, Murabaha and mudaraba with financial institutions, Acceptances, Murahaba and other Islamic financing (excluding Istisna'a) and investment in sukuk, are measured at amortised cost, if both the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss ("FVTPL")

Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. As a fair value option, a financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of financial assets that are designated as FVTPL on initial recognition as fair value option is not allowed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Classification continued

Financial assets at fair value through other comprehensive income (“FVTOCI”)

At initial recognition, the Group can make an irrevocable election (on instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

A financial asset is FVTPL if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is part of identified financial instrument that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a Shari'a compliant alternatives of derivative financial instruments and not designated and effective as a hedging instrument or a financial guarantee.

Measurement

Financial assets or financial liabilities carried at amortised cost

Financial assets are recorded at amortised cost, which includes Balances and wakala deposits with Islamic banks and other financial institutions, Murabaha and mudaraba with financial institutions, Acceptances, Murahaba and other Islamic financing (excluding Istisna'a) and investment in sukuk, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Balances and wakala deposits with Islamic banks and other financial institutions are stated at amortised cost less amounts written off and provision for impairment, if any.

Murabaha and mudaraba with financial institutions are stated at amortised cost (which excludes deferred income or expected profits) less provisions for impairment.

Islamic financing consist of murabaha receivables, mudaraba, Istisna'a, Islamic covered cards (murabaha based) and other Islamic financing.

Istisna'a cost is measured and reported in the consolidated financial statements at a value not exceeding the cash equivalent value.

Other Islamic financing are stated at amortised cost (which excludes deferred income) less any provisions for impairment.

The Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Financial assets at fair value through profit or loss (“FVTPL”)

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement is included within 'investment income' in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Measurement continued

Financial assets at fair value through other comprehensive income ("FVTOCI")

Investments in equity instruments 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 the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed off, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets (equity instruments) measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed off, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to consolidated income statement. Financial assets (Sukuk instruments) measured at FVTOCI are tested for impairment.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

Dividends on investment in equity instruments are recognised in the consolidated income statement when the Group's right to receive the dividend is established, unless the dividends clearly represent a recovery of part of the cost of investment.

(i) Recognition / De-recognition

The Group initially recognises financial assets at fair value through profit or loss, financial assets at amortised cost and financial assets at fair value through other comprehensive income on the settlement date at which the Group becomes a party to the contractual provisions of the instrument.

Financing to customers are recognised on the day they are disbursed. A financial liability is recognised on the date the Group becomes a party to contractual provisions of the instrument.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial asset expires or when it transfers the financial asset. A financial liability is de-recognised when it is extinguished i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets designated at fair value through profit or loss, and financial assets at fair value through other comprehensive income that are sold are de-recognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The Group uses the specific identification method to determine the gain or loss on de-recognition.

(ii) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right and under Sharia'a framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Impairment assessment:

The Group assesses whether financial assets carried at amortised cost and carried at FVTOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

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

Measurement of Expected Credit Losses (ECL):

The impairment of financial assets are calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

Stage 1: 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk (SICR) since origination and are not credit impaired. The ECL will be computed using a factor that represents the Probability of Default (PD) occurring over the next 12 months and Loss Given Default (LGD).

Stage 2: Under Stage 2, where there has been a SICR since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the lifetime ECL will be recorded which is computed using lifetime PD, LGD and Exposure at Default (EAD) measures. Provisions are expected to be higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3: Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Group has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group developed a statistical model and for other portfolios judgmental models were developed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Financial instruments continued

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

When 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 finance customer, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the exiting asset, then the expected cash flows arising from the modified financial asset are included in calculating the gross carrying amount of the financial asset as the present value of the renegotiated or modified cash flows, that are discounted at the financial asset at the original effective profit rate and shall recognize the modification gain or loss in the profit or loss.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Purchased or originated credit impaired assets (POCI)

POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and profit income is subsequently recognized based on a credit-adjusted expected profit rate. Life time ECLs are only recognised or released to the extent that there is a subsequent change in the ECL.

Covered card facilities

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

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

Write-off

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

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Impairment of non-financial assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the assets' recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the consolidated income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Fair value measurements

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

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (note 43).

Business combinations

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

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits, respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share based payment arrangements of the Bank entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Business combinations continued

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

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

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

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

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

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date which is regarded as their cost. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The rates of amortisation are based upon the following estimated useful lives:

- Customer relationship 8 years
- Core deposit intangible 8 years

Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Bank's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in consolidated income statement.

For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units which are expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associates

The Group's investment in associates is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and that is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Investment in joint ventures

The Group has investment in joint ventures, which are jointly controlled entities, whereby venturers have a contractual arrangement that establishes joint control over the economic activities of the entities. The Group's investment in joint ventures is accounted for using the equity method of accounting.

Under the equity method, the investment in the joint ventures is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the joint venture. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not amortised or separately tested for impairment. The consolidated income statement reflects the share of the results of the joint venture. Where there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The financial statements of the ventures are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its joint venture. The Group determines at each reporting date whether there is any objective evidence that the investment in the joint venture is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value and recognises the amount in the consolidated income statement.

Investment properties

Properties held for rental or capital appreciation purposes as well as those held for undetermined future use are classified as investment properties. Investment properties are measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is charged on a straight-line basis over the assets' estimated useful lives. The useful life of buildings is estimated to be 25 - 40 years.

Investment properties are derecognized when either they have been disposed of or when the investment properties are permanently withdrawn from use and no future economic benefits are expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated income statement.

Development properties

Properties in the course of construction for sale or completed properties held for sale are classified as development properties. Completed properties held for sale are stated at the lower of cost or net realizable value. Properties in the course of development for sale are stated at lower of cost or net realizable value. The cost of development properties includes the cost of land and other related expenditure which are capitalized as and when activities that are necessary to get the properties ready for sale are in progress. Net realizable value represents the estimated selling price less costs to be incurred in selling the property.

The property is considered to be complete when all related activities, including the infrastructure and facilities for the entire project, have been completed.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is recorded at revalued amount in the consolidated financial statements.

Depreciation is provided on a straight-line basis over the estimated useful lives of property and equipment, other than freehold land which is deemed to have an indefinite life. The rates of depreciation are based upon the following estimated useful lives:

- | | |
|--|---------------|
| • Buildings | 25 - 40 years |
| • Furniture and leasehold improvements | 3 - 7 years |
| • Computer and office equipment | 4 - 8 years |
| • Motor vehicles | 4 years |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Property and equipment continued

The carrying values of properties and equipment are reviewed for impairment when events of changes in circumstances indicate the carrying value may not be recoverable. If any such conditions exist and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Any subsequent expenditure is capitalized only when it increases future economic benefits of the related item of property and equipment. All other expenditure is recognized in the consolidated income statement as the expense is incurred.

An item of property and equipment is derecognized upon disposal or when no further economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is included in the consolidated income statement in the year the asset is derecognized.

Capital work-in-progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated.

When an asset is revalued, any increase in the carrying amount arising on revaluation is recorded through other comprehensive income and credited to the revaluation reserve in equity, except to the extent that a revaluation increase merely restores the carrying value of an asset to its original cost, whereby it is recognized as income i.e., to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense. A decrease resulting from a revaluation is initially charged directly against any related revaluation surplus held in respect of that asset and the remaining portion being charged as an expense. On disposal, the related revaluation surplus is credited directly to retained earnings.

Leases

In cases where Group is a Lessee, all leases and the associated contractual rights and obligations is generally recognize in the Group's financial position, unless the term is 12 months or less or the lease for low value asset. For each lease, the lessee recognizes a liability for the lease obligations incurred in the future. Correspondingly, a right to use the leased asset is capitalized, which is generally equivalent to the present value of the future lease payments plus directly attributable costs and which is amortized over the useful life.

Right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or lease payments relating to that lease recognised in the consolidated statement of financial position.

The recognised right-of-use assets are related to and included in property and equipment and corresponding lease liabilities under other liabilities the consolidated statement of financial position.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The assumed finance cost is charged to consolidated income statement over the lease period so as to produce a constant periodic rate of profit on the remaining balance of the liability for each period (the "finance cost on lease liabilities"). The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4 SIGNIFICANT ACCOUNTING POLICIES continued

Leases continued

The lease payments are discounted using the profit rate implicit in the lease. If that rate cannot be determined, the lessee's incremental financing rate is used, being the rate that the lessee would have to pay to obtain financing for the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. The Group has used weighted average incremental financing rate for calculating the net present value of lease liabilities.

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

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date.

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

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches in accordance with the fiscal regulations of the respective countries in which the Bank operates.

Acceptances

Acceptances are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Deposits

Customer deposits and due to banks and other financial institutions are carried at amortised cost.

Sukuk financing instruments

Sukuk financing instruments are initially measured at fair value and then are subsequently measured at amortised cost using the effective profit rate method, with profit distribution recognised on an effective yield basis.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Employees' pension and end of service benefits

The Group provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are included within 'other liabilities' in the consolidated statement of financial position.

With respect to its UAE national employees, the Group makes contributions to a pension fund established by the General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are recognised in the consolidated income statement when due.

Shari'a compliant alternatives of derivative financial instruments

The Bank enters into a Shari'a compliant alternatives of derivative financial instruments to manage the exposure to profit rate risks, including unilateral promise which represents Shari'a compliant alternatives of swap. Those financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shari'a compliant alternatives of derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

The Bank enters into cash flows hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognized asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Cash flow hedges

The effective portion of changes in the fair value of Shari'a compliant alternatives of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognized immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a nonfinancial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in consolidated statement of comprehensive income within foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is directly responsible of the payment of the Zakat amount of the shares that he/she owns. In accordance with the Articles and Memorandum of Association of the Bank, Zakat is computed by the Bank and it is approved by the Internal Shari'a Supervisory Committee of the Bank. However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible of Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total zakat amount and the Zakat amount per each outstanding share.

Zakat per share is calculated in accordance with AAOIFI's Shari'a Standard number 35 on Zakat, and the Group's Internal Shari'a Supervisory Committee Resolutions.

In accordance with the Memorandum of Association, the Group communicates the amount of Zakat per share and it is the responsibility of each shareholder to directly dispose personally his/her own Zakat amount (note 38).

Profit distribution

Profits or losses of Mudaraba based depositors' accounts are calculated and distributed in accordance with the Banking Service Agreement between the Bank and the investment account holders. Investment in subsidiaries is funded from the shareholders' funds, hence profit or losses from the subsidiaries are not distributed to the investment account holders. Investment in associates is funded jointly from the shareholders and investment account holders' funds, therefore, profits and losses of the associates are distributed among the shareholders and investment account holders. A part of the deserved profits relating to the Mudaraba based investment accounts profit can be reserved as "Investment Risk Reserve" and shall be subsequently utilized in order to maintain certain level of profit distribution to the account holders.

The same allocation is applicable to Wakala deposits and any share of profit above the fixed Wakala fee and the initially expected profit agreed with the investment account holder, shall pertain to the Wakil (the Bank).

Cash and cash equivalents

For the purpose of preparation of the consolidated statement of cash flow, cash and cash equivalents are considered to be cash and balances with central banks, due from banks and international murabahat. Cash equivalents are short-term liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less.

Trade and settlement date accounting

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

Prohibited income

According to the Internal Shari'a Supervisory Committee "ISSC", the Group is required to avoid any transaction or activity deemed to be not acceptable by Shari'a and to identify any income from such source and to set it aside in a separate account (charity account) to be disposed to charity by the Group under the supervision of the ISSC (as purification amount).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

4 SIGNIFICANT ACCOUNTING POLICIES continued

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

Foreign currencies

The Group's consolidated financial statements are presented in AED, which is the Bank's functional currency. That is the currency of the primary economic environment in which the Group operates. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The assets and liabilities of foreign operations are translated into AED at the rate of exchange prevailing at the reporting date and their income statement is translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recorded in the other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees consisting of letters of credit, letters of guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the consolidated income statement in 'net fees and commission income' over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the consolidated income statement in 'credit loss expense'. Any financial guarantee liability remaining is recognized in the consolidated income statement in 'net fees and commission income' when the guarantee is discharged, cancelled or expires.

Segment reporting

The Bank has presented the segment information in respect of its business and geographical segments in the same way as it is presented internally to the management.

Dividends on ordinary shares

Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Bank's shareholders. Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Treasury shares and contracts on own equity instruments

Own equity instruments of the Bank which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Bank's own equity instruments is recognised directly in equity. No gain or loss is recognised in consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5 INCOME FROM MURABAHA, MUDARABA, IJARA AND OTHER ISLAMIC FINANCING FROM CUSTOMERS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Vehicle murabaha	224,180	231,457
Goods murabaha	160,265	116,786
Share murabaha	864,001	957,506
Commodities murabaha – Al Khair	354,228	360,389
Islamic covered cards (murabaha)	274,317	283,780
Other murabaha	<u>210,426</u>	<u>182,650</u>
Total murabaha	2,087,417	2,132,568
Mudaraba	36	387
Wakala	1,527,027	23,049
Ijara	21,366	1,609,601
Istisna'a	<u>18</u>	<u>219</u>
	<u>3,635,864</u>	<u>3,765,824</u>

6 INCOME FROM INVESTMENTS MEASURED AT FAIR VALUE

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Income from sukuk measured at fair value through profit or loss	54,714	52,998
Income from sukuk measured at fair value through other comprehensive income	57,880	55,595
Realised gain (loss) on investments carried at fair value through profit or loss	22,610	(4,004)
Unrealised (loss) gain on investments carried at fair value through profit or loss	(11,893)	30,207
Realised gain on sukuk carried at fair value through other comprehensive income	28,114	32,092
Gain (loss) from other investment assets	21,305	(2,736)
Dividend income	<u>4,762</u>	<u>495</u>
	<u>177,492</u>	<u>164,647</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7 FEES AND COMMISSION INCOME, NET

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Fees and commission income		
Fees and commission income on cards	856,238	709,865
Trade related fees and commission	68,949	63,420
Takaful related fees	49,485	156,209
Accounts services fees	95,297	76,300
Projects and property management fees	40,876	40,926
Risk participation and arrangement fees	88,151	120,688
Brokerage fees and commission	31,975	20,866
Other fees and commissions	<u>395,047</u>	<u>358,997</u>
Total fees and commission income	<u>1,626,018</u>	<u>1,547,271</u>
Fees and commission expenses		
Card related fees and commission expenses	(560,890)	(498,215)
Other fees and commission expenses	<u>(106,918)</u>	<u>(56,893)</u>
Total fees and commission expenses	<u>(667,808)</u>	<u>(555,108)</u>
Fees and commission income, net	<u>958,210</u>	<u>992,163</u>

8 INCOME FROM INVESTMENT PROPERTIES

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Proceeds from sale of investment properties	-	25,900
Less: net book value of properties sold	<u>-</u>	<u>(13,605)</u>
Gain on sale of investment properties	-	12,295
Rental income (note 22)	<u>37,031</u>	<u>38,030</u>
	<u>37,031</u>	<u>50,325</u>

9 EMPLOYEES' COSTS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Salaries and wages	1,276,447	1,365,404
End of service benefits	67,380	65,485
Other staff expenses	<u>94,940</u>	<u>77,323</u>
	<u>1,438,767</u>	<u>1,508,212</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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10 GENERAL AND ADMINISTRATIVE EXPENSES

	2021	2020
	AED '000	AED '000
Legal and professional expenses	60,666	122,134
Premises expenses	76,584	102,813
Marketing and advertising expenses	51,355	57,789
Communication expenses	88,347	82,558
Technology related expenses	158,264	161,549
Finance cost on lease liabilities	10,511	9,629
Other operating expenses	<u>80,373</u>	<u>83,374</u>
	<u>526,100</u>	<u>619,846</u>

11 PROVISION FOR IMPAIRMENT, NET

	<i>Notes</i>	2021	2020
		AED '000	AED '000
Murabaha and other Islamic financing		398,707	417,203
Ijara financing		537,154	696,546
Direct write-off, net of recoveries		(18,147)	8,821
Investment in sukuk measured at amortised cost		20,932	59,011
Investment properties	22	-	625
Development properties	23	-	31,148
Others		<u>15,753</u>	<u>100,758</u>
		<u>954,399</u>	<u>1,314,112</u>

The above provision for impairment includes nil (2020: AED 31,773 thousand) pertaining to Burooj Properties LLC, a real estate subsidiary of the Bank.

12 DISTRIBUTION TO DEPOSITORS

	2021	2020
	AED '000	AED '000
Saving accounts	197,951	184,407
Investment accounts	<u>132,008</u>	<u>317,951</u>
	<u>329,959</u>	<u>502,358</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

13 BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year, adjusted for the effects of any financial instruments with dilutive effects.

The following reflects the income and shares data used in the earnings per share computations:

	<i>Notes</i>	2021	2020
Profit for the year attributable to equity holders (AED '000)		2,328,731	1,602,828
Less: profit attributable to Tier 1 sukuk holder			
- Listed (second issue) (AED '000)	34	(196,250)	(196,250)
- Government of Abu Dhabi (AED '000)	34	<u>(58,221)</u>	<u>(85,646)</u>
Profit for the year attributable to equity holders after deducting profit relating to Tier 1 sukuk (AED '000)		<u>2,074,260</u>	<u>1,320,932</u>
Weighted average number of ordinary shares at 31 December in issue (000's)		<u>3,632,000</u>	<u>3,632,000</u>
Basic and diluted earnings per share (AED)		<u>0.571</u>	<u>0.364</u>

The Bank does not have any instruments which would have a dilutive impact on earnings per share when converted or exercised. Profit on Tier 1 sukuk is reflected in the EPS computation on the payment of such profit.

14 CASH AND BALANCES WITH CENTRAL BANKS

	2021	2020
	AED '000	AED '000
Cash on hand	2,023,205	1,541,178
Balances with central banks:		
- Current accounts	1,421,122	1,023,920
- Statutory reserve	9,252,359	9,013,897
- Islamic certificate of deposits	<u>9,002,563</u>	<u>8,000,529</u>
	<u>21,699,249</u>	<u>19,579,524</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

14 CASH AND BALANCES WITH CENTRAL BANKS continued

The Bank is required to maintain statutory reserves with the Central Bank of the UAE, Iraq and Sudan on demand, time and other deposits. The statutory reserves are not available for use in the Bank's day-to-day operations and cannot be withdrawn without the approval of the Central Bank. Cash on hand and current accounts are not profit-bearing. Islamic certificate of deposits are profit bearing, which is based on entering into international commodities Murabaha transaction in which Central Bank of the UAE and Central Bank of Iraq are the buyers and the Bank is the seller.

The distribution of the cash and balances with central banks by geographic region is as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
UAE	19,943,492	18,217,266
Rest of the Middle East	1,557,219	1,187,942
Others	<u>198,538</u>	<u>174,316</u>
	<u>21,699,249</u>	<u>19,579,524</u>

15 BALANCES AND WAKALA DEPOSITS WITH ISLAMIC BANKS AND OTHER FINANCIAL INSTITUTIONS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Current accounts	725,390	430,049
Wakala deposits	<u>3,028,414</u>	<u>1,871,662</u>
	3,753,804	2,301,711
Less: provision for impairment	<u>(14,121)</u>	<u>(14,577)</u>
	<u>3,739,683</u>	<u>2,287,134</u>

In accordance with Shari'a principles, deposits are invested only with Islamic financial institutions. The Bank does not earn profits on current accounts with banks and financial institutions.

The distribution of the balances and wakala deposits with Islamic banks and other financial institutions by geographic region is as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
UAE	985,230	143,180
Rest of the Middle East	1,707,346	1,250,374
Europe	297,035	142,506
Others	<u>764,193</u>	<u>765,651</u>
	<u>3,753,804</u>	<u>2,301,711</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

16 MURABAHA AND MUDARABA WITH FINANCIAL INSTITUTIONS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Murabaha	790,670	132,912
Less: provision for impairment	<u>(214)</u>	<u>(48)</u>
	<u>790,456</u>	<u>132,864</u>

In accordance with Shari'a principles, Mudaraba are with Islamic financial institutions or provided for the activities that are entirely Sharia' compliant.

The distribution of the gross murabaha and mudaraba with financial institutions by geographic region is as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
UAE	707,138	45,096
Rest of the Middle East	<u>83,532</u>	<u>87,816</u>
	<u>790,670</u>	<u>132,912</u>

17 MURABAHA AND OTHER ISLAMIC FINANCING

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Vehicle murabaha	4,984,670	5,041,904
Goods murabaha	11,065,853	5,845,608
Share murabaha	15,377,270	16,027,978
Commodities murabaha – Al Khair	7,223,919	7,049,669
Islamic covered cards (murabaha)	8,160,050	11,444,899
Other murabaha	<u>7,151,124</u>	<u>5,686,406</u>
Total murabaha	53,962,886	51,096,464
Mudaraba	28,818	28,379
Wakala	2,361,809	1,096,471
Istisna'a	92,123	93,950
Other financing receivables	<u>51,882</u>	<u>60,676</u>
Total murabaha and other Islamic financing	56,497,518	52,375,940
Less: deferred income on murabaha	<u>(11,013,757)</u>	<u>(14,423,716)</u>
	45,483,761	37,952,224
Less: provision for impairment	<u>(2,318,300)</u>	<u>(1,974,133)</u>
	<u>43,165,461</u>	<u>35,978,091</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

17 MURABAHA AND OTHER ISLAMIC FINANCING continued

The distribution of the gross murabaha and other Islamic financing by industry sector and geographic region was as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Industry sector:		
Government	517,224	294,591
Public sector	6,045,453	3,263,132
Corporates	2,971,019	2,011,543
Financial institutions	2,864,860	1,441,073
Individuals	32,666,265	30,597,204
Small and medium enterprises	<u>418,940</u>	<u>344,681</u>
	<u>45,483,761</u>	<u>37,952,224</u>
Geographic region:		
UAE	38,410,899	34,309,824
Rest of the Middle East	3,383,540	1,584,497
Europe	2,386,750	1,512,329
Others	<u>1,302,572</u>	<u>545,574</u>
	<u>45,483,761</u>	<u>37,952,224</u>

18 IJARA FINANCING

This represents net investment in assets leased for periods which either approximate or cover major parts of the estimated useful lives of such assets. The documentation includes a separate undertaking from the Bank to sell the leased assets to the lessee upon the maturity of the lease.

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
The aggregate future lease receivables are as follows:		
Due within one year	8,766,151	10,041,304
Due in the second to fifth year	22,903,721	21,777,280
Due after five years	<u>28,639,676</u>	<u>30,437,991</u>
Total Ijara financing	60,309,548	62,256,575
Less: deferred income	<u>(12,664,162)</u>	<u>(12,802,018)</u>
Net present value of minimum lease payments receivable	47,645,386	49,454,557
Less: provision for impairment	<u>(2,558,504)</u>	<u>(2,023,287)</u>
	<u>45,086,882</u>	<u>47,431,270</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 IJARA FINANCING continued

The distribution of the gross ijara financing by industry sector and geographic region was as follows:

	2021 AED '000	2020 AED '000
Industry sector:		
Government	615,773	-
Public sector	8,643,742	9,578,891
Corporates	16,475,656	17,725,429
Individuals	21,692,607	21,904,338
Small and medium enterprises	83,219	101,598
Non-profit organisations	<u>134,389</u>	<u>144,301</u>
	<u>47,645,386</u>	<u>49,454,557</u>
Geographic region:		
UAE	45,501,845	47,808,671
Rest of the Middle East	1,303,631	1,017,418
Europe	271,411	381,501
Others	<u>568,499</u>	<u>246,967</u>
	<u>47,645,386</u>	<u>49,454,557</u>

19 INVESTMENT IN SUKUK MEASURED AT AMORTISED COST

	2021 AED '000	2020 AED '000
Sukuk - Quoted	9,744,063	10,440,082
Less: provision for impairment	<u>(110,637)</u>	<u>(89,705)</u>
	<u>9,633,426</u>	<u>10,350,377</u>

The distribution of the gross investments by geographic region was as follows:

	2021 AED '000	2020 AED '000
UAE	7,034,430	7,930,840
Rest of the Middle East	2,234,448	2,093,403
Others	<u>475,185</u>	<u>415,839</u>
	<u>9,744,063</u>	<u>10,440,082</u>

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20 INVESTMENTS MEASURED AT FAIR VALUE

	2021 AED '000	2020 AED '000
<i>Investments carried at fair value through profit or loss</i>		
Quoted investments		
Equities	21,482	5,983
Sukuk	<u>2,111,997</u>	<u>1,646,428</u>
	<u>2,133,479</u>	<u>1,652,411</u>
<i>Investments carried at fair value through other comprehensive income</i>		
Quoted investments		
Equities	40,579	25,693
Sukuk	<u>1,744,142</u>	<u>1,638,636</u>
	<u>1,784,721</u>	<u>1,664,329</u>
Unquoted investments		
Sukuk	72,398	72,437
Funds	23,351	34,365
Private equities	<u>58,531</u>	<u>50,426</u>
	<u>154,280</u>	<u>157,228</u>
	<u>1,939,001</u>	<u>1,821,557</u>
	<u>4,072,480</u>	3,473,968
Less: provision for impairment	<u>(14,992)</u>	<u>(15,774)</u>
Total investments measured at fair value	<u>4,057,488</u>	<u>3,458,194</u>

The distribution of the gross investments by geographic region was as follows:

	2021 AED '000	2020 AED '000
UAE	1,788,037	2,141,586
Rest of the Middle East	1,279,826	623,276
Europe	15,006	383
Others	<u>989,611</u>	<u>708,723</u>
	<u>4,072,480</u>	<u>3,473,968</u>

Abu Dhabi Islamic Bank PJSC

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21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES

	2021 <i>AED '000</i>	2020 <i>AED '000</i>
The movement in the carrying amount during the year was as follows:		
At 1 January	1,317,769	1,296,784
Share of results	315,898	10,781
Dividends received	(8,333)	(10,416)
Foreign currency translation	<u>(4,956)</u>	<u>20,620</u>
	1,620,378	1,317,769
Less: provision for impairment	<u>(16,000)</u>	<u>(16,107)</u>
At 31 December	<u>1,604,378</u>	<u>1,301,662</u>

The movement in the provision for impairment during the year was as follows:

	2021 <i>AED '000</i>	2020 <i>AED '000</i>
At 1 January	16,107	16,535
Reversals for the year (note 11)	<u>(107)</u>	<u>(428)</u>
At 31 December	<u>16,000</u>	<u>16,107</u>

Details of the Bank's investment in associates and joint ventures at 31 December is as follows:

	<i>Place of incorporation</i>	<i>Proportion of ownership interest</i>		<i>Principal activity</i>
		2021 %	2020 %	
<i>Associates</i>				
Abu Dhabi National Takaful PJSC	UAE	42	42	Islamic insurance
Bosna Bank International D.D	Bosnia	27	27	Islamic banking
The Residential REIT (IC) Limited	UAE	29	30	Real estate fund
<i>Joint ventures</i>				
Abu Dhabi Islamic Bank – Egypt (S.A.E.)	Egypt	49	49	Islamic Banking
Saudi Finance Company CSJC	Kingdom of Saudi Arabia	51	51	Islamic Retail Finance
Arab Link Money Transfer PSC (under liquidation)	UAE	51	51	Currency Exchange
Abu Dhabi Islamic Merchant Acquiring Company LLC	UAE	51	51	Merchant acquiring

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21 INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

As of 31 December 2021, the Bank's share of the contingent liabilities and commitments of associates and joint ventures amounted to AED 1,066,968 thousand (2020: AED 1,324,465 thousand). The equity instruments of Abu Dhabi National Takaful PJSC are quoted in Abu Dhabi Securities Exchange, UAE and the quoted value of the Banks' share of investment at 31 December 2021 amounted to AED 256,652 thousand (2020: AED 162,490 thousand) and its carrying value as of 31 December 2021 amounted to AED 297,978 thousand (2020: AED 266,427 thousand).

22 INVESTMENT PROPERTIES

The movement in investment properties balance during the year was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2021			
Cost:			
Balance at 1 January	988,572	518,735	1,507,307
Disposals	-	<u>(10,897)</u>	<u>(10,897)</u>
Gross balance at 31 December	988,572	507,838	1,496,410
Less: provision for impairment	<u>(106,033)</u>	<u>(13,038)</u>	<u>(119,071)</u>
Net balance at 31 December	<u>882,539</u>	<u>494,800</u>	<u>1,377,339</u>
Accumulated depreciation:			
Balance at 1 January	-	77,889	77,889
Charge for the year	-	<u>10,462</u>	<u>10,462</u>
Balance at 31 December	-	<u>88,351</u>	<u>88,351</u>
Net book value at 31 December	<u>882,539</u>	<u>406,449</u>	<u>1,288,988</u>
2020			
Cost:			
Balance at 1 January	988,572	541,159	1,529,731
Disposals	-	<u>(22,424)</u>	<u>(22,424)</u>
Gross balance at 31 December	988,572	518,735	1,507,307
Less: provision for impairment	<u>(106,033)</u>	<u>(13,038)</u>	<u>(119,071)</u>
Net balance at 31 December	<u>882,539</u>	<u>505,697</u>	<u>1,388,236</u>
Accumulated depreciation:			
Balance at 1 January	-	69,849	69,849
Charge for the year	-	16,859	16,859
Relating to disposals	-	<u>(8,819)</u>	<u>(8,819)</u>
Balance at 31 December	-	<u>77,889</u>	<u>77,889</u>
Net book value at 31 December	<u>882,539</u>	<u>427,808</u>	<u>1,310,347</u>

The property rental income earned by the Group from its investment properties, that are leased out under operating leases, amounted to AED 37,031 thousand (2020: AED 38,030 thousand).

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22 INVESTMENT PROPERTIES continued

The fair values of investment properties at 31 December 2021 amounted to AED 1,608,517 thousand (2020: AED 1,517,814 thousand) are as per valuation conducted by professional valuers employed by a subsidiary of the Bank. The professional valuer is a member of various professional valuers' associations and has appropriate qualifications and experience in the valuation of properties in the UAE. The fair value of the properties has been determined either based on transactions observable in the market or valuation models.

The valuation methodologies considered by external valuers include:

- a) Comparison method: This method derives the value by analyzing recent sales transactions of similar properties in a similar location.
- b) Investment method: This method derives the value by converting the future cash flow to a single current capital value.

The movement in provision for impairment during the year was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
At 1 January 2020	106,033	12,413	118,446
Charge for the year (note 11)	<u>-</u>	<u>625</u>	<u>625</u>
At 1 January 2021	106,033	13,038	119,071
Charge for the year (note 11)	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2021	<u>106,033</u>	<u>13,038</u>	<u>119,071</u>

The distribution of investment properties by geographic region was as follows:

	<i>Land</i> <i>AED '000</i>	<i>Other</i> <i>properties</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
2021:			
UAE	980,358	419,487	1,399,845
Rest of the Middle East	<u>8,214</u>	<u>-</u>	<u>8,214</u>
	<u>988,572</u>	<u>419,487</u>	<u>1,408,059</u>
2020:			
UAE	980,358	440,846	1,421,204
Rest of the Middle East	<u>8,214</u>	<u>-</u>	<u>8,214</u>
	<u>988,572</u>	<u>440,846</u>	<u>1,429,418</u>

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23 DEVELOPMENT PROPERTIES

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Development properties	837,381	837,381
Less: provision for impairment	<u>(123,680)</u>	<u>(123,680)</u>
	<u>713,701</u>	<u>713,701</u>

The movement in the provision for impairment during the year was as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
At 1 January	123,680	92,532
Charge for the year (note 11)	<u>-</u>	<u>31,148</u>
At 31 December	<u>123,680</u>	<u>123,680</u>

Development properties include land with a carrying value of AED 707,468 thousand (2020: AED 707,468 thousand) pertaining to a subsidiary of the Bank.

All development properties are located in the UAE.

24 OTHER ASSETS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Acceptances	136,325	258,622
Assets acquired in satisfaction of claims	78,252	88,737
Trade receivables	242,977	243,212
Prepaid expenses	823,676	613,289
Accrued profit	114,395	223,727
Other receivables (note 40)	-	183,625
Positive fair value of Shari'a compliant alternatives of derivative financial instruments (note 37)	-	2,796
Others, net	<u>1,235,806</u>	<u>1,206,601</u>
	<u>2,631,431</u>	<u>2,820,609</u>

Assets acquired in exchange for claims in order to achieve an orderly realization are recorded as "Assets acquired in satisfaction of claims". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the claim (net of provision for impairment) at the date of exchange.

Abu Dhabi Islamic Bank PJSC

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25 PROPERTY AND EQUIPMENT

	<i>Land</i> AED '000	<i>Buildings</i> AED '000	<i>Furniture and fixtures</i> AED '000	<i>Computer and office equipment</i> AED '000	<i>Motor vehicles</i> AED '000	<i>Capital work-in- progress</i> AED '000	<i>Right -of use assets</i> AED '000	<i>Total</i> AED '000
2021								
Cost or revaluation:								
At 1 January	291,178	781,395	567,668	1,679,271	9,831	338,179	381,124	4,048,646
Exchange differences / other adjustments	-	-	(4,894)	(1,200)	(80)	-	6,156	(18)
Revaluation during the year	(55,300)	-	-	-	-	-	-	(55,300)
Additions	-	3,046	34,455	13,715	-	262,295	(6)	313,505
Transfers from capital work-in-progress	-	-	2	170,882	-	(170,884)	-	-
Disposals	-	-	(194,937)	(173,597)	(3,832)	-	-	(372,366)
	<u>235,878</u>	<u>784,441</u>	<u>402,294</u>	<u>1,689,071</u>	<u>5,919</u>	<u>429,590</u>	<u>387,274</u>	<u>3,934,467</u>
Less: provision for impairment	-	(1,487)	-	-	-	-	-	(1,487)
At 31 December	<u>235,878</u>	<u>782,954</u>	<u>402,294</u>	<u>1,689,071</u>	<u>5,919</u>	<u>429,590</u>	<u>387,274</u>	<u>3,932,980</u>
Depreciation:								
At 1 January	-	119,170	403,573	1,136,952	9,831	-	126,355	1,795,881
Exchange differences / other adjustments	-	-	(2,090)	2,102	(732)	-	(33,165)	(33,885)
Charge for the year	-	19,952	42,848	95,608	652	-	70,894	229,954
Relating to disposals	-	-	(193,021)	(172,988)	(3,832)	-	-	(369,841)
At 31 December	<u>-</u>	<u>139,122</u>	<u>251,310</u>	<u>1,061,674</u>	<u>5,919</u>	<u>-</u>	<u>164,084</u>	<u>1,622,109</u>
Net book value:								
At 31 December	<u>235,878</u>	<u>643,832</u>	<u>150,984</u>	<u>627,397</u>	<u>-</u>	<u>429,590</u>	<u>223,190</u>	<u>2,310,871</u>
2020								
Cost or revaluation:								
At 1 January	291,178	768,222	538,857	1,548,252	9,378	309,135	402,026	3,867,048
Exchange differences / other adjustments	-	-	(4,932)	(4,525)	(144)	2	(37,953)	(47,552)
Additions	-	13,173	58,471	37,625	674	146,736	17,051	273,730
Transfers from capital work-in-progress	-	-	56	117,638	-	(117,694)	-	-
Disposals	-	-	(24,784)	(19,719)	(77)	-	-	(44,580)
	<u>291,178</u>	<u>781,395</u>	<u>567,668</u>	<u>1,679,271</u>	<u>9,831</u>	<u>338,179</u>	<u>381,124</u>	<u>4,048,646</u>
Less: provision for impairment	-	(1,487)	-	-	-	-	-	(1,487)
At 31 December	<u>291,178</u>	<u>779,908</u>	<u>567,668</u>	<u>1,679,271</u>	<u>9,831</u>	<u>338,179</u>	<u>381,124</u>	<u>4,047,159</u>
Depreciation:								
At 1 January	-	95,693	387,054	1,045,919	7,789	-	60,473	1,596,928
Exchange differences / other adjustments	-	-	(6,918)	(4,543)	1,016	-	1,607	(8,838)
Charge for the year	-	23,477	48,221	113,332	1,026	-	64,275	250,331
Relating to disposals	-	-	(24,784)	(17,756)	-	-	-	(42,540)
At 31 December	<u>-</u>	<u>119,170</u>	<u>403,573</u>	<u>1,136,952</u>	<u>9,831</u>	<u>-</u>	<u>126,355</u>	<u>1,795,881</u>
Net book value:								
At 31 December	<u>291,178</u>	<u>660,738</u>	<u>164,095</u>	<u>542,319</u>	<u>-</u>	<u>338,179</u>	<u>254,769</u>	<u>2,251,278</u>

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26 GOODWILL AND INTANGIBLES

	<i>Other intangible assets</i>			<i>Total</i> AED '000
	<i>Goodwill</i> AED '000	<i>Customer relationships</i> AED '000	<i>Core deposit</i> AED '000	
At 1 January 2020	109,888	121,557	24,394	255,839
Amortisation during the year	—	<u>(45,600)</u>	<u>(9,152)</u>	<u>(54,752)</u>
At 1 January 2021	109,888	75,957	15,242	201,087
Amortisation during the year	—	<u>(45,600)</u>	<u>(9,152)</u>	<u>(54,752)</u>
At 31 December 2021	<u>109,888</u>	<u>30,357</u>	<u>6,090</u>	<u>146,335</u>

On 6 April 2014, the Bank acquired retail banking business of Barclays Bank in the U.A.E. During the second quarter 2014, the acquisition was approved by the Central Bank of the UAE. Based on the purchase price allocation, the Bank has recognized AED 438,012 thousand as intangible asset and AED 109,888 as goodwill.

Goodwill

For the purpose of impairment testing, goodwill is allocated to the Bank's operating divisions which represent the lowest level within the Bank at which the goodwill is monitored for internal management purposes.

Other intangible assets

Customer relationships Customer relationship intangible asset represents the value attributable to the business expected to be generated from customers that existed at the acquisition date. In determining the fair value of customer relationships, covered cards customers were considered separately, given their differing risk profiles, relationships and loyalty. The relationships are expected to generate material recurring income in the form of customer revenues, fees and commissions.

Core deposit The value of core deposit intangible asset arises from the fact that the expected profit distribution on these deposits, governed by their contractual terms, are expected to be lower than other wholesale or treasury sukuk instruments' expected profit distributions. The spread between the expected profit distributions on these deposits and sukuk instruments represents the value of the core deposit intangible.

Impairment assessment of goodwill

No impairment losses on goodwill were recognised during the year ended 31 December 2021 (2020: Nil).

The recoverable amounts have been assessed based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of this operating division.

The recoverable amount of goodwill of cash generating unit, determined on the basis of value in use calculation, uses cash flow projections covering a five year period, with a terminal growth rate of 2.0% (2020: 2%) applied thereafter. The forecast cash flows have been discounted at a rate of 6.3% (2020: 4.5%).

Sensitivity to a one percentage point changes in the discount rate or the terminal growth rate and based on the results; management believes that no reasonably possible change in any of the above mentioned key assumptions would cause the carrying value to exceed the recoverable amount.

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27 DUE TO FINANCIAL INSTITUTIONS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Current accounts	1,764,574	2,795,295
Funding under the CBUAE TESS	-	665,000
Investment deposits	<u>1,752,528</u>	<u>280,356</u>
	3,517,102	3,740,651
Current account – Central Bank of UAE	<u>18,850</u>	<u>32,594</u>
	<u>3,535,952</u>	<u>3,773,245</u>

Funding under the CBUAE Targeted Economic Support Scheme (TESS) program availed by the Group amounts to nil (2020: 665,000 thousand) which has been fully utilized to provide payment relief to the impacted customers.

The distribution of due to financial institutions by geographic region was as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
UAE	1,094,471	714,312
Rest of the Middle East	570,659	1,077,991
Europe	113,015	65,136
Others	<u>1,757,807</u>	<u>1,915,806</u>
	<u>3,535,952</u>	<u>3,773,245</u>

28 DEPOSITORS' ACCOUNTS

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
Current accounts	34,556,062	31,512,411
Investment accounts	74,331,596	69,079,821
Investment risk reserve	<u>723,445</u>	<u>683,896</u>
	<u>109,611,103</u>	<u>101,276,128</u>

The movement in the investment risk reserve during the year was as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
At 1 January	683,896	677,848
Share of profit for the year	51,858	41,822
Paid during the year	<u>(12,309)</u>	<u>(35,774)</u>
At 31 December	<u>723,445</u>	<u>683,896</u>

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28 DEPOSITORS' ACCOUNTS continued

The distribution of the gross depositors' accounts by industry sector, geographic region and currency was as follows:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
<i>Industry sector:</i>		
Government	13,870,693	9,892,653
Public sector	6,116,992	7,639,002
Corporates	5,378,659	6,028,698
Financial institutions	2,435,535	1,393,956
Individuals	68,010,942	64,388,678
Small and medium enterprises	11,108,555	9,265,891
Non-profit organisations	<u>2,689,727</u>	<u>2,667,250</u>
	<u>109,611,103</u>	<u>101,276,128</u>
<i>Geographic region:</i>		
UAE	104,369,133	97,979,972
Rest of the Middle East	2,814,240	1,558,781
Europe	413,492	404,750
Others	<u>2,014,238</u>	<u>1,332,625</u>
	<u>109,611,103</u>	<u>101,276,128</u>
<i>Currencies:</i>		
UAE Dirham	95,372,621	87,279,150
US Dollar	11,620,920	12,469,964
Euro	953,836	666,191
Sterling Pound	916,017	315,916
Others	<u>747,709</u>	<u>544,907</u>
	<u>109,611,103</u>	<u>101,276,128</u>

The Bank invests all of its investment accounts including saving accounts, adjusted for UAE, Iraq and Sudan Central Bank reserve requirements and the Group's liquidity requirements.

With respect to investment deposits, the Bank is liable only in case of misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

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29 OTHER LIABILITIES

	2021 <i>AED '000</i>	2020 <i>AED '000</i>
Accounts payable	484,010	339,269
Acceptances	136,325	258,622
Lease liabilities	236,178	265,549
Accrued profit for distribution to depositors and sukuk holders	56,653	210,342
Bankers' cheques	645,454	542,148
Provision for staff benefits and other expenses	398,087	414,079
Retentions payable	11,088	11,005
Advances from customers	70,441	60,008
Accrued expenses	293,502	415,256
Unclaimed dividends	91,767	93,249
Deferred income	127,914	108,017
Charity account	872	2,531
Donation account	18,030	18,627
Zakat payable	-	193,758
Negative fair value of Shari'a compliant alternatives of derivative financial instruments (note 37)	846	-
Others	<u>591,067</u>	<u>672,421</u>
	<u>3,162,234</u>	<u>3,604,881</u>

30 SHARE CAPITAL

	2021 <i>AED '000</i>	2020 <i>AED '000</i>
<i>Authorised share capital:</i>		
4,000,000 thousand (2020: 4,000,000 thousand) ordinary shares of AED 1 each (2020: AED 1 each)	<u>4,000,000</u>	<u>4,000,000</u>
<i>Issued and fully paid share capital:</i>		
3,632,000 thousand (2020: 3,632,000 thousand) ordinary shares of AED 1 each (2020: AED 1 each)	<u>3,632,000</u>	<u>3,632,000</u>

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31 RESERVES

31.1 Legal reserve

As required by the Federal Law No. 2 of 2015, concerning Commercial Companies and the Articles of Association of the Bank and its subsidiaries, 10% of the profit for the year is transferred to the legal reserve. The Bank shall resolve to discontinue such annual transfers as the reserve equals to or more than 50% of the paid up share capital of the Bank. The legal reserve is not available for distribution to the shareholders.

As per Article 203 of UAE Federal Commercial Companies Law No. 8 of 1984 (as amended), the Bank has transferred the share premium amounting to AED 1,529,412 thousand to the legal reserve. As the balance of the reserve exceeds 50% of the total paid up share capital, no transfer to the legal reserve has been made from the profit during the year for the Bank.

During 2018, the Bank has transferred the share premium amounting to AED 538,240 thousand pertaining to the right share issue of 464,000 to the legal reserve after the shareholders' approval in the General Assembly meeting held on 19 August 2018.

During 2015, the Bank has transferred the share premium amounting to AED 336,000 thousand pertaining to the right share issue of 168,000 to the legal reserve after the shareholders' approval in the Extra Ordinary General meeting held on 28 June 2015.

31.2 General reserve

Under Article 57(2) of the Bank's Articles of Association, the Annual General Assembly of the Bank, upon recommendation of the Board of Directors, have resolved to transfer 10% of the profit for the year to the general reserve. This reserve shall be used in the future for purposes determined by the shareholders' General Assembly upon the recommendation of the Board of Directors.

31.3 Credit risk reserve

Upon the recommendation of the Board of Directors, the Bank has established a special reserve for credit risk which is subject to the approval by the shareholders in the Annual General Assembly. Contributions to the reserve are voluntary.

32 DIVIDEND

During 2021, cash dividend of 20.58% of the paid up capital relating to year ended 31 December 2020 amounting to AED 747,343 thousand, was paid after the approval by the shareholders at the Annual General Assembly held on 4th April 2021.

Cash dividend of 31.12% of the paid up capital relating to year ended 31 December 2021 amounting to AED 1,130,115 thousand was proposed by the Board of Directors for the approval by the shareholders at the forthcoming Annual General Assembly.

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33 OTHER RESERVES

	<i>Cumulative changes in fair values AED '000</i>	<i>Land revaluation reserve AED '000</i>	<i>Foreign currency translation reserve AED '000</i>	<i>Hedging reserve AED '000</i>	<i>Impairment reserve - Specific AED '000</i>	<i>Impairment reserve - General AED '000</i>	<i>Total AED '000</i>
At 1 January 2020	(169,102)	192,700	(791,145)	2,336	-	403,436	(361,775)
Net movement in valuation of equity investment carried at FVTOCI	(12,148)	-	-	-	-	-	(12,148)
Net movement in valuation of investment in sukuk carried at FVTOCI	69,596	-	-	-	-	-	69,596
Net fair value changes for investment in sukuk carried at FVTOCI released to income statement (note 6)	(32,092)	-	-	-	-	-	(32,092)
Exchange differences arising on translation of foreign operations	-	-	(53,232)	-	-	-	(53,232)
Loss on hedge of foreign operations	-	-	(16,990)	-	-	-	(16,990)
Fair value loss on cash flow hedges	-	-	-	(2,336)	-	-	(2,336)
Net movement in impairment reserve – Specific	-	-	-	-	61,662	-	61,662
Net movement in impairment reserve – General	-	-	-	-	-	(7,451)	(7,451)
At 1 January 2021	(143,746)	192,700	(861,367)	-	61,662	395,985	(354,766)
Net movement in valuation of equity investment carried at FVTOCI	(153)	-	-	-	-	-	(153)
Net movement in valuation of investment in sukuk carried at FVTOCI	(13,012)	-	-	-	-	-	(13,012)
Net fair value changes for investment in sukuk carried at FVTOCI released to income statement (note 6)	(28,114)	-	-	-	-	-	(28,114)
Revaluation during the year	-	(55,300)	-	-	-	-	(55,300)
Exchange differences arising on translation of foreign operations	-	-	(4,857)	-	-	-	(4,857)
Gain on hedge of foreign operations	-	-	5,825	-	-	-	5,825
Fair value loss on cash flow hedges	-	-	-	(846)	-	-	(846)
Net movement in impairment reserve – Specific	-	-	-	-	194,177	-	194,177
Net movement in impairment reserve – General	-	-	-	-	-	2,420	2,420
At 31 December 2021	(185,025)	137,400	(860,399)	(846)	255,839	398,405	(254,626)

34 TIER 1 SUKUK

	<i>2021 AED '000</i>	<i>2020 AED '000</i>
Tier 1 sukuk – Listed (second issue)	2,754,375	2,754,375
Tier 1 sukuk – Government of Abu Dhabi	2,000,000	2,000,000
	<u>4,754,375</u>	<u>4,754,375</u>

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34 TIER 1 SUKUK continued

Tier 1 sukuk – Listed (second issue)

On 20 September 2018, the Bank through a Shari'a compliant sukuk arrangement has issued Tier 1 sukuk – Listed (second issue) (the "Sukuk") amounting to AED 2,754,375 thousand (USD 750 million). This Sukuk was issued under the authorities approved by the shareholders of the Bank in the Extraordinary General Meeting held on 19 August 2018. Issuance costs amounting to AED 19,373 thousand were incurred at the time of issuance.

This Sukuk is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank upon its conclusion subject to the terms and conditions of the mudaraba. The sukuk is listed on the Irish stock exchange and is callable by the Bank after period ending on 20 September 2023 (the "First Call Date") or any achieved profit payment date thereafter subject to certain conditions. The Sukuk bear an expected mudaraba profit rate of 7.125%, such achieved profit is payable during the initial period of five years semi-annually in arrears. After the initial period, and for every 5th year thereafter, resets to a new expected mudaraba profit rate based on the then 5 year US treasury rate plus an expected margin of 4.270%. Profit distributions will be reported in the consolidated statement of changes in equity.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of the next following payment of expected mudaraba profit distribution.

Tier 1 sukuk – Government of Abu Dhabi

On 16 April 2009, under the Government of Abu Dhabi Bank capitalisation programme, the Bank has issued Tier 1 sukuk (the "Sukuk-Gov") to the Department of Finance of the Government of Abu Dhabi, with a principal amount of AED 2,000,000 thousand. Issuance of this Sukuk-Gov was approved by the shareholders of the Bank in the Extraordinary General Meeting held on 22 March 2009.

On 15 December 2021, amended and restated Mudaraba Agreement was signed to make the Sukuk-Gov complaint with Basel 3.

This Sukuk-Gov is a perpetual security in respect of which there is no fixed redemption date and constitute direct, unsecured, subordinated obligations of the Bank subject to the terms and conditions of the Mudaraba. Based on the amended and restated Mudaraba Agreement dated 15 December 2021, the Sukuk-Gov is callable by the Bank after period ending on 16 April 2027 (the "Call Date") or any achieved profit payment date thereafter subject to certain conditions.

The Sukuk-Gov had an expected mudaraba profit rate of 6% payable during the initial period of five years semi-annually in arrears. The initial period of five years ended on 16 April 2014. After the initial period, Sukuk-Gov bear an expected variable mudaraba profit rate payable of 6 months EIBOR plus an expected margin of 2.3%. Profit distributions will be reported in the consolidated statement of changes in equity. No changes were made to expected mudaraba profit rates under the amended and restated Mudaraba Agreement dated 15 December 2021.

The Bank may, at its sole discretion, elect not to make any Mudaraba profit distributions as expected and the event is not considered an event of default. If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari passu with or junior to the Sukuk except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until the occurrence of two consecutive expected mudaraba profit distribution.

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35 NON-CONTROLLING INTEREST

Non-controlling interest represents the minority shareholder's proportionate share in the aggregate value of the net assets of subsidiaries.

36 CONTINGENT LIABILITIES AND COMMITMENTS

Credit related commitments include commitments to extend Islamic credit facilities, standby letters of credit, guarantees, which are designed to meet the requirements of the Bank's customers.

Commitments to extend Islamic credit facilities represent contractual commitments under Islamic financing contracts. Commitments generally have fixed expiration dates, or other termination clauses and normally require the payment of a fee. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Standby letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of contracts.

The Bank has the following credit related contingencies, commitments and other capital commitments:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
<i>Contingent liabilities</i>		
Letters of credit	5,250,958	6,898,871
Letters of guarantee	<u>5,647,695</u>	<u>6,254,485</u>
	<u>10,898,653</u>	<u>13,153,356</u>
<i>Commitments</i>		
Undrawn facilities commitments	555,498	582,694
Future capital expenditure	236,543	172,206
Investment and development properties	<u>-</u>	<u>4,986</u>
	<u>792,041</u>	<u>759,886</u>
	<u>11,690,694</u>	<u>13,913,242</u>

37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS

Shari'a compliant alternatives of swaps are based on a unilateral Wa'ad (promise) structure between two parties to buy a specific Shari'a compliant commodity at an agreed price on an agreed date in future. It is a conditional promise to purchase a commodity through a unilateral purchase undertaking. For Shari'a compliant alternatives of swap, counter parties enter into two separate and independent Murabaha transactions, the results of which are exchanged between them in a manner that enables one of them to receive the equivalent of the fixed reference rate and the other counterparty to receive the equivalent of the reference floating rate, where the profit payments are based on a notional value in a single currency.

The table below shows the fair values of Shari'a compliant alternatives of derivative financial instruments, together with the notional amounts analysed by term of maturity. The notional amount is based on the amount of the underlying transaction, reference rate or index and is the basis upon which changes in the value of transactions are measured. The notional amounts indicate the volume of transactions outstanding at the reporting date and are neither indicative of the market risk nor credit risk.

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37 SHARI'A COMPLIANT ALTERNATIVES OF DERIVATIVE FINANCIAL INSTRUMENTS
continued

	<i>Positive fair value AED '000</i>	<i>Negative fair value AED '000</i>	<i>Notional amount AED '000</i>	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>
<i>31 December 2021: Notional amount by term to maturity</i>							
Shari'a compliant alternatives of swap (note 24, 29)	=====-	<u>846</u>	<u>8,095,062</u>	<u>4,904,300</u>	<u>404,980</u>	<u>2,323,695</u>	<u>462,087</u>
<i>31 December 2020: Notional amount by term to maturity</i>							
Shari'a compliant alternatives of swap (note 24, 29)	<u>2,796</u>	=====-	<u>8,548,616</u>	<u>5,423,646</u>	<u>307,090</u>	<u>2,164,853</u>	<u>653,027</u>

38 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the total Zakat amount, for Zakat purposes based on Gregorian year, was estimated at AED 294,022 thousand (2020: AED 259,128 thousand) and accordingly, Zakat amount is estimated at AED 0.0809532 (2020: AED 0.07135) per outstanding share.

However, in few jurisdictions, Zakat of the Bank's branches and subsidiaries is mandatory by laws to be paid to a governmental entity responsible for Zakat, therefore, the Bank acts accordingly to these laws and pays the Zakat to these entities on behalf of the Shareholders and deducts the amount paid as Zakat from the total Zakat amount above and accordingly adjusted the Zakat amount per each outstanding share.

Tier 1 Sukuk Zakat amount, based on Gregorian year, was estimated at AED 90,780 thousand (2020: AED 85,571 thousand) and accordingly, Zakat amount is estimated at AED 0.019094 (2020: AED 0.01800) per each AED dirham invested in Tier 1 Sukuk.

To assist the investors in ADIB Tier 1 Sukuk, the Bank has calculated their above Zakat amount. The payment of such Zakat amount is solely the responsibility of the investors in these Tier 1 Sukuk.

39 CASH AND CASH EQUIVALENTS

	<i>2021 AED '000</i>	<i>2020 AED '000</i>
Cash and balances with central banks, short term	15,775,808	8,565,502
Balances and wakala deposits with Islamic banks and other financial institutions, short term	2,579,580	1,452,398
Murabaha and mudaraba with financial institutions, short term	-	-
Due to financial institutions, short term	<u>(3,321,441)</u>	<u>(3,088,244)</u>
	<u>15,033,947</u>	<u>6,929,656</u>

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40 RELATED PARTY TRANSACTIONS

In the ordinary course of its activities, the Bank enters into transactions with related parties, comprising major shareholders, directors, associates and joint ventures, key management and their related concerns. The Bank obtains collateral, including charges over real estate properties and securities, the extent of which is dependent on the Bank's assessment of the credit risk of the related party. During 2021, related party financing were renegotiated based on the terms approved by the Board of Directors and are free of any specific provision for impairment. Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Profit rates earned on balances and wakala deposits with banks and financial institutions and customer financing extended to related parties during the year has ranged from 0% to 9.9% (2020: 0% to 9.9% per annum).

Profit rates paid on due to financial institution and customers' deposits placed by related parties during the year have ranged from 0% to 2.0% per annum (2020: 0% to 2.0% per annum).

During the year, significant transactions with related parties included in the consolidated income statement were as follows:

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates and joint ventures AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2021					
Income from murabaha, mudaraba and wakala with financial institutions	<u>—</u>	<u>—</u>	<u>17,211</u>	<u>—</u>	<u>17,211</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>40,258</u>	<u>36</u>	<u>2,414</u>	<u>83,857</u>	<u>126,565</u>
Fees and commission income, net	<u>—</u>	<u>9</u>	<u>178</u>	<u>1,143</u>	<u>1,330</u>
Operating expenses	<u>—</u>	<u>468</u>	<u>—</u>	<u>—</u>	<u>468</u>
Distribution to depositors and sukuk holders	<u>33</u>	<u>6</u>	<u>1,002</u>	<u>5</u>	<u>1,046</u>
31 December 2020					
Income from murabaha, mudaraba and wakala with financial institutions	<u>—</u>	<u>—</u>	<u>19,877</u>	<u>—</u>	<u>19,877</u>
Income from murabaha, mudaraba, ijara and other Islamic financing from customers	<u>52,213</u>	<u>2,495</u>	<u>—</u>	<u>68,846</u>	<u>123,554</u>
Fees and commission income, net	<u>1</u>	<u>—</u>	<u>1,245</u>	<u>2,629</u>	<u>3,875</u>
Operating expenses	<u>—</u>	<u>660</u>	<u>—</u>	<u>—</u>	<u>660</u>
Distribution to depositors and sukuk holders	<u>493</u>	<u>7</u>	<u>930</u>	<u>14</u>	<u>1,444</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

40 RELATED PARTY TRANSACTIONS continued

The related party balances included in the consolidated statement of financial position were as follows:

	<i>Major shareholder AED '000</i>	<i>Directors AED '000</i>	<i>Associates and joint ventures AED '000</i>	<i>Others AED '000</i>	<i>Total AED '000</i>
31 December 2021					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	319,585	-	319,585
Murabaha and mudaraba with financial institutions	-	-	83,417	-	83,417
Murabaha, mudaraba, ijara and other Islamic financing	2,019,643	1,589	4,905	4,049,767	6,075,904
Other assets	-	-	551,593	97	551,690
	<u>2,019,643</u>	<u>1,589</u>	<u>959,500</u>	<u>4,049,864</u>	<u>7,030,596</u>
Due to financial institutions	-	-	14,206	-	14,206
Depositors' accounts	37,633	7,353	286,779	41,423	373,188
Other liabilities	-	57	22	101	180
	<u>37,633</u>	<u>7,410</u>	<u>301,007</u>	<u>41,524</u>	<u>387,574</u>
Contingencies	<u>-</u>	<u>-</u>	<u>11,264</u>	<u>103,673</u>	<u>114,937</u>
31 December 2020					
Balances and wakala deposits with Islamic banks and other financial institutions	-	-	319,585	-	319,585
Murabaha and mudaraba with financial institutions	-	-	88,105	-	88,105
Murabaha, mudaraba, ijara and other Islamic financing	2,651,377	56,147	-	3,189,047	5,896,571
Other assets	183,625	-	517,890	8,271	709,786
	<u>2,835,002</u>	<u>56,147</u>	<u>925,580</u>	<u>3,197,318</u>	<u>7,014,047</u>
Due to financial institutions	-	-	5,128	-	5,128
Depositors' accounts	129,170	7,987	253,856	34,790	425,803
Other liabilities	1	-	23	8,272	8,296
	<u>129,171</u>	<u>7,987</u>	<u>259,007</u>	<u>43,062</u>	<u>439,227</u>
Contingencies	<u>-</u>	<u>-</u>	<u>19,601</u>	<u>91,510</u>	<u>111,111</u>

The Bank and its major shareholder jointly own a controlling stake in Abu Dhabi Islamic Bank – Egypt (S.A.E.) ("ADIB-Egypt") and have a formal joint control arrangement for their investment in ADIB-Egypt (note 21).

Compensation of key management personnel

The compensation of key management personnel during the year was as follows:

	2021 AED '000	2020 AED '000
Salaries and other benefits	23,459	25,765
Employees' end of service benefits	1,586	2,007
	<u>25,045</u>	<u>27,772</u>

During 2021, AED 7,350 thousand was paid to Board of Directors pertaining to the year ended 31 December 2020 after the approval by the shareholders in the Annual General Assembly held on 04 April 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

41 SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision makers of the Bank in order to allocate resources to the segment and to assess its performance. Information reported to the chief operating decision makers for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to the different markets.

Global Retail banking - Principally handling small and medium businesses and individual customers' deposits, providing consumer and commercial murabahat, Ijara, Islamic covered card and funds transfer facilities and trade finance facilities.

Global Wholesale banking – Principally handling financing and other credit facilities and deposits and current accounts for corporate and institutional customers.

Private banking - Principally handling financing and other credit facilities, deposits and current accounts for high net worth individual customers.

Treasury – Principally handling money market, trading and treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

Real estate – Subsidiaries of the Bank handling the acquisition, selling, development and leasing including both land and buildings, management and resale of properties and all associated activities.

Other operations - Other operations comprises mainly of Head Office, subsidiaries, associates and joint ventures other than above categories including unallocated costs.

Management monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

41 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2021 were as follows:

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Treasury AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
Revenue and results							
Segment revenues, net	3,056,192	875,145	133,792	778,501	63,237	652,684	5,559,551
Operating expenses excluding provision for impairment, net	(1,804,811)	(279,317)	(62,377)	(41,178)	(59,809)	(12,543)	(2,260,035)
Operating profit (margin)	1,251,381	595,828	71,415	737,323	3,428	640,141	3,299,516
Provision for impairment, net	(45,795)	(578,426)	9,752	3,012	-	(342,942)	(954,399)
Profit (loss) for the year before zakat and tax	1,205,586	17,402	81,167	740,335	3,428	297,199	2,345,117
Zakat and tax	-	(9,611)	(5,417)	-	-	-	(15,028)
Profit (loss) for the year after zakat and tax	1,205,586	7,791	75,750	740,335	3,428	297,199	2,330,089
Non-controlling interest	-	-	-	-	-	(1,358)	(1,358)
Profit (loss) for the period attributable to equity holders of the Bank	1,205,586	7,791	75,750	740,335	3,428	295,841	2,328,731
Assets							
Segmental assets	55,760,847	40,324,755	4,773,111	27,231,109	2,069,309	6,709,218	136,868,349
Liabilities							
Segmental liabilities	76,548,716	25,707,149	5,645,725	4,600,325	247,621	3,559,753	116,309,289

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

41 SEGMENT INFORMATION continued

Business segments information for the year ended 31 December 2020 were as follows:

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Treasury AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
Revenue and results							
Segment revenues, net	3,238,515	938,270	134,925	599,405	71,507	375,543	5,358,165
Operating expenses excluding provision for impairment, net	<u>(1,848,296)</u>	<u>(321,873)</u>	<u>(58,469)</u>	<u>(42,612)</u>	<u>(66,411)</u>	<u>(112,339)</u>	<u>(2,450,000)</u>
Operating profit (margin)	1,390,219	616,397	76,456	556,793	5,096	263,204	2,908,165
Provision for impairment, net	<u>(117,247)</u>	<u>(981,974)</u>	<u>(15,381)</u>	<u>(9,748)</u>	<u>(31,773)</u>	<u>(157,989)</u>	<u>(1,314,112)</u>
Profit (loss) for the year before zakat and tax	1,272,972	(365,577)	61,075	547,045	(26,677)	105,215	1,594,053
Zakat and tax	<u>18,477</u>	<u>(8,569)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,908</u>
Profit (loss) for the year after zakat and tax	<u>1,291,449</u>	<u>(374,146)</u>	<u>61,075</u>	<u>547,045</u>	<u>(26,677)</u>	<u>105,215</u>	<u>1,603,961</u>
Non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,133)</u>	<u>(1,133)</u>
Profit (loss) for the period attributable to equity holders of the Bank	<u>1,291,449</u>	<u>(374,146)</u>	<u>61,075</u>	<u>547,045</u>	<u>(26,677)</u>	<u>104,082</u>	<u>1,602,828</u>
Assets							
Segmental assets	<u>53,559,868</u>	<u>36,017,012</u>	<u>4,376,098</u>	<u>24,884,974</u>	<u>2,135,387</u>	<u>6,842,799</u>	<u>127,816,138</u>
Liabilities							
Segmental liabilities	<u>71,403,278</u>	<u>22,787,507</u>	<u>5,405,937</u>	<u>4,700,564</u>	<u>249,473</u>	<u>4,107,495</u>	<u>108,654,254</u>

The following is the analysis of the total segment revenues of each segment between revenues from external parties and inter-segment:

	<i>Global Retail banking AED '000</i>	<i>Global Wholesale banking AED '000</i>	<i>Private banking AED '000</i>	<i>Treasury AED '000</i>	<i>Real estate AED '000</i>	<i>Other operations AED '000</i>	<i>Total AED '000</i>
31 December 2021							
Segment revenues, net	2,963,726	900,972	128,807	904,758	63,237	598,051	5,559,551
Inter-segment revenues, net	<u>92,466</u>	<u>(25,827)</u>	<u>4,985</u>	<u>(126,257)</u>	<u>-</u>	<u>54,633</u>	<u>-</u>
Total Segment revenues, net	<u>3,056,192</u>	<u>875,145</u>	<u>133,792</u>	<u>778,501</u>	<u>63,237</u>	<u>652,684</u>	<u>5,559,551</u>
31 December 2020							
Segment revenues, net	3,070,894	1,014,926	110,374	971,453	71,507	119,011	5,358,165
Inter-segment revenues, net	<u>167,621</u>	<u>(76,656)</u>	<u>24,551</u>	<u>(372,048)</u>	<u>-</u>	<u>256,532</u>	<u>-</u>
Total Segment revenues, net	<u>3,238,515</u>	<u>938,270</u>	<u>134,925</u>	<u>599,405</u>	<u>71,507</u>	<u>375,543</u>	<u>5,358,165</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

41 SEGMENT INFORMATION continued

Geographical information

The Group operates in two principal geographic areas that are domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the U.A.E. branches, associates and subsidiaries; and international area represents the operations of the Bank that originates from its branches in Iraq, Qatar and Sudan and through its subsidiaries and associates outside U.A.E. Given that, UAE contributes the majority of the revenues and the Group's total assets in UAE represent a significant portion of its total assets and liabilities, hence no further geographical analysis of segment revenues, expenses, operating profit (margin), assets and liabilities is presented.

42 RISK MANAGEMENT

42.1 Introduction

The core business of a bank is to manage risk and provide returns to the shareholders in line with the accepted risk profile. Risk is inherent in all of the Group's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls in accordance with regulatory and Board requirements. The Group is exposed principally to credit risk, liquidity risk, market risk and operational risk but other risks such as reputational risk, legal risk and the various risks defined by the Basel accord are also monitored and managed.

42.1.1 Risk management governance structure

The Board of Directors ("Board") continues to have overall responsibility for the establishment and oversight of the Bank's risk management framework, as well as for approving the Bank's overall risk appetite, and ensuring that business is conducted within this framework. The Board is the ultimate sanctioning authority. During 2015, the Board approved a corporate governance framework and refreshed the charters of the various Board committees.

Strategy Committee

The Strategy Committee is appointed by the Board and is responsible to guide the Group's Executive Management to develop the Group's strategic objectives and business strategy, conduct periodic review of the achievement of strategic objectives and business plans and direct corrective actions wherever required. In addition, this committee also acts as a conduit between the Board and senior management on business issues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.1 Risk management governance structure continued

Risk and Investment Approval Committee

The Risk and Investment Approval Committee is appointed by the Board and is responsible for the approvals of the Group's risk exposures, high value transactions and major items of capital expenditure. In addition, the Committee is also responsible for monitoring credit portfolio quality and provisions.

Governance and Risk Policy Committee

The Governance and Risk Policy Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all of its subsidiaries and material affiliates:

- Review the risk profile of the Group keeping in view the requirement pertaining to enterprise risk management and to make recommendations to calibrate the risk profile of the Group in line with the applicable regulatory requirements, rating considerations and business strategy.
- Assist the Board in overseeing the Group's response to the risks it faces through the approval of the Group's risk policies and standards; and
- Review and recommend the corporate governance and risk management frameworks and risk strategy to the Board in alignment with the business growth requirements of the Group.

Audit Committee

The Audit Committee is appointed by the Board to assist the Board in fulfilling its oversight responsibilities in respect of the following for the Bank and all its subsidiaries and material affiliates:

- Ensuring the integrity of the Group's consolidated financial statements and financial reporting process;
- To review the financial and internal control systems, quality assurance and risk management framework;
- To review the performance of the internal audit function;
- To review the internal controls over financial reporting and annual independent audit of the Group's consolidated financial statements;
- To recommend to the Board the engagement of the external auditors and evaluation of their qualifications, independence and performance; and
- To ensure compliance by the Group with legal and regulatory requirements as pertaining to its business activities.

The duties and responsibilities of the committees are governed by formally approved charters.

42.1.2 The Group Risk Management ("GRM")

The Group Risk Management Group (GRM) is an independent risk organization that works in close partnership with the business units to support their activities, whilst safeguarding the risk profile of the Group as the second line of defense. The GRM is led by the Group Chief Risk Officer (GCRO) and has following main responsibilities:

- Ensure maintenance of an appropriate risk management framework and adherence to risk policies and procedures across the Group
- Ensure compliance with risk-related legal and regulatory guidelines in the UAE and in our overseas markets
- Maintain the primary relationship with local regulators with respect to risk-related issues
- Approve commercial and consumer financing transactions within its delegated authorities
- Maintain prudent risk control systems, models and processes, and
- Ensure a robust credit process is maintained in support of all business lines.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.2 The Group Risk Management (“GRM”) continued

Reporting to the GCRO are senior, experienced risk specialists who manage specific areas of risk, including Wholesale Banking, Private Banking, Retail Banking, Operational Risk, Credit Control, Remedial Management, Enterprise Risk Management and Market Risk. GRM responsibilities extend across all the business units of the Bank in all of the geographies in which the Bank operates.

Credit Committee

All customer related business proposals are reviewed and approved by a credit committee with delegated authority approved by the Board. The credit committee consists of designated credit officers and senior credit officers appointed following a rigorous and extended process of qualification. These appointments are made by the Chief Executive Officer upon the recommendation of the GCCO and GCRO. The credit approval process and the authorities vested with the committee members are laid out in the Bank’s Credit Policy & Procedures Manual. The manual is revised periodically.

42.1.3 Risk measurement and reporting systems

In order to effectively monitor and control risks, the GRM maintains a capability that allows it to:

- Prepare portfolio reports across a range of indicators such as portfolio concentrations by geography, industry type, product and risk rating, which are used to analyse and monitor overall portfolio quality;
- Monitor the integrity and consistency of data, including risk ratings, risk migrations, exposures and losses, including the maintenance of a central loss database for the monitoring and analysis of losses;
- Set parameters to be used for the calculation of expected loss and risk capital requirements;
- Consolidate portfolio management data and reports for use by Executive Management and the Board; and
- Establish and maintain a set of early warning indicators to identify emerging risks.

Detailed reporting of industry, customer and geographic risks acquired takes place frequently. These reports are examined and discussed closely in a series of quarterly portfolio reviews held with senior business and risk managers. Decisions on risk appetite, adjustments to financing criteria and other initiatives are taken as a result of these meetings. Risk reports are presented to the Chief Executive Officer, the Governance & Risk Policy Committee and the Board regularly. Senior management assesses the adequacy of the provision for credit losses on a monthly basis.

The Group actively uses collateral to reduce its credit risks.

42.1.4 Risk concentration

The Bank seeks to manage its credit risk exposure through diversification of financing activities to avoid undue concentrations of risks with individuals or groups of customers or in specific locations or businesses. It also obtains security when appropriate.

Details of the composition of the financing portfolio are provided in notes 17 and 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.1 Introduction continued

42.1.5 Group Internal Audit

Risk management processes throughout the Bank are reviewed periodically by the internal audit function that reviews both the adequacy of the procedures and the Bank's compliance with the procedures. Group Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee. The Head of Group Internal Audit has a direct reporting line to the Audit Committee thus demonstrating his independence and objectivity in all audit engagements undertaken within the Bank.

42.1.6 Basel II / Internal Capital Adequacy Assessment Process ("ICAAP")

Since 2009, the UAE Central Bank, as part of the international Basel II regulatory regime, has required each UAE bank to submit a report on its internal capital adequacy assessment process – this is known as the "ICAAP". The Bank has prepared and submitted its ICAAP report in each of the past eleven years. The process aligns the Bank's risk appetite with its risk capacity which, in turn, produces an enterprise-wide set of risk limits within and relevant to the Bank's overall strategy.

42.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group controls credit risk by the use of a focused target market discipline which defines who the Bank is prepared to deal with from a risk profile perspective and the use of risk acceptance criteria, which define what type and volume of risk the Bank is prepared to undertake with each counterparty. These critical tools are used in conjunction with close monitoring of credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of all counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

The Bank has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. The credit quality review process allows the Bank to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

All commercial credit risk exposures are risk rated using Moody's Risk Analyst system, recognized as an industry wide standard. This platform supports a number of different rating models for various businesses which are now well embedded. Facility Risk Ratings are also applied. Consumer exposures are rated using application and behavioral scorecards.

Model risk management

For effective risk measurement, Group uses a range of risk quantification models such as customer risk rating/scoring, loss given default, market risk and stress testing models. These risk models are subject to the Group's model governance policy, which prescribes guidelines across the model life cycle and establishes principles and instructions to enable an effective decision process across stakeholders in order to develop and maintain high quality risk models at Group. The governance policy covers the following:

- The roles and responsibilities of stakeholders (Model Developer, Independent Validator, Approval Authority etc.);
- The minimum requirement for each of the model life cycle steps;
- The approval process; and
- The minimum documentation requirement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Credit risk measurement

Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default EAD), and discounting at the initial effective profit rate.

The Bank has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group has developed a statistical model and for other portfolios judgmental models were developed.

Credit risk grading

The Group has designed a master rating scale, which has 22 risk grades reflecting assessment of default probability of the customer. The master rating scale comprises 19 performing grades and 3 non-performing grades.

For the Retail portfolios, the Group uses behavior scorecards, which includes recent payment behavior and other relevant relationship information available with the bank, to calculate credit score which is calibrated to PiT (Point-in-Time) PD.

Non Retail customers are rated using segment specific customer risk rating models, which uses financial and non-financial information related to the customer to arrive at a risk rating. The risk ratings are calibrated to PiT (Point-in-Time) PD for IFRS 9 based calculations.

ECL measurement

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As per the IFRS 9 requirements, Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:

Expected Credit Loss (ECL) = PD*EAD*LGD

For each facility the Group calculates ECL over two forecast periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed, 12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision; and
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Significant increase in credit risk (“SICR”)

The stage allocation is determined by identifying a significant increase in credit risk since initial origination. The Group assesses when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. The facilities are classified as stage 2 when they meet following criteria:

Quantitative criteria: Thresholds based on absolute PD or relative PD increase compared to origination have been defined for various portfolios, in order to determine the significant increase in credit risk. In addition to this the bank also uses rating migration since origination for non-retail customers.

Qualitative criteria: Independent of PD, the Group also uses qualitative information to assess the significant increase in credit risk. This includes information such as watch list classification and indicators of historic delinquency.

Backstop criteria: For all customer accounts, a backstop is applied and the facility is considered to have experienced a significant increase in credit risk if the finance customer is more than 30 days past due on its contractual payments.

For the cases where Group has experienced limitation on the information available at origination, certain proxy assumptions were made to estimate the rating at origination.

Definition of default and credit-impaired assets

The Group defines a financial instrument as in default, when it meets one or more of the following criteria:

Retail: A customer who is delinquent over 90 days past due will be classified as default or credit impaired.

Corporate: All customers currently classified/rated as below will be considered under default:

- Where classification is Substandard, Doubtful or Loss; or
- Risk Rating is D/8, D/9, and D/10; or
- Where a deal is delinquent over 90 days past due unless an exception is approved.

The customers are classified or downgraded in the above categories, based on a comprehensive assessment of the customer’s credit quality. This assessment includes review of payment history, capacity to repay and financial health

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. Similarly, for the movement from Stage 3 to Stage 2, for certain portfolios, the Group’s policy include probation periods whereby assets remain in Stage 3 for periods of between three to twelve months. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

Measuring ECL- Explanations of input, assumptions and estimation techniques

As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 months and over the remaining life of the facility.

The Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as a simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date using the effective profit rate and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Measuring ECL- Explanations of input, assumptions and estimation techniques continued

The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):

Retail: The 12 month PD for each facility is based on behaviour scores which are calibrated to recent portfolio performance in order to reflect the Point in Time PDs. In cases where sufficient performance history is not available to calculate the behaviour score, the Bank has used pool level PDs.

Based on historical data, the Group has developed lifetime default rate evolution curves for various portfolios and segments. To get the macro-economic adjusted lifetime PD term structure, the lifetime curves are multiplied by the macro-economic scalars, derived using the macro-economic overlay models developed by the Group.

Non-Retail: PDs for corporate customers are driven by the risk rating generated from respective rating models. Historical default rates of different segments have been used to develop PD macroeconomic overlay models. The PDs forecasted from the models are then converted to cumulative PD using survival analysis concept and a marginal PD is derived.

Loss Given Default (LGD):

Retail: The LGD models are based on the cash recovery estimates. For secured products recoveries from collateral are also considered.

For unsecured products and segments within, the Group has developed recovery curves over the workout period based on the historical recovery experience. For each facility the LGD is calculated using those recovery curves with an adjustment for macro-economic outlook.

For secured products, the LGD is based on the current/future collateral value adjusted for depreciation or House Price Index (HPI).

Non-Retail: ADIB uses an off-the-shelf model, calibrated on the Group's portfolio, to calculate unsecured LGD. Secured LGD is then calculated after taking the benefit of the assigned collaterals. The LGDs are adjusted for macroeconomic outlook.

Exposure at Default (EAD):

The EAD is the amount which the Bank expects a customer to owe in the event of default. The EAD depends on the product type:

- For amortizing products, this is based on the contractual payments over the forecast period; and
- For revolving/off-balance products, this is estimated as a combination of current exposure and credit conversion factor applied on the undrawn portion of the limit.

The Group applies a management overlay for cases where models are unable to capture customer's idiosyncrasies. These overlays are discussed and approved by GCRO or appropriate management committee of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Forward-looking information incorporated in the ECL model

As per IFRS 9 requirements, forward looking economic outlook has also been incorporated in the loss calculations. The Group has developed a macro-economic overlay models by performing statistical analysis to establish a historical relationship of macro-economic variables with PD and components of LGD. These models depend on various variables such as Oil Price, GDP and Real Estate price etc. The macro-economic models are used to adjust the PD and LGD calculated from the base models. In addition to ECL calculations, the forward looking lifetime PD is used to determine the significant increase in credit risk.

The Group sources the macro-economic scenarios data from an external vendor, which uses scenarios built based on the current market conditions and outlook of their economic team. The Group uses three macro-economic scenarios and a weightage has been assigned to each scenario.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at December 31, 2021 for the years 2022 to 2026, for UAE which is the country where the Group operates and therefore is the country that has a material impact on ECLs.

Macro variables used	Definition	Range
Oil Price, Brent USD	Price per barrel	Between USD 34 and USD 76
Domestic Real GDP Growth	% change	Between -11% and 9%
House Price Index	% change	Between -12% and 10%
Private Consumption	% change	Between -10% and 9%
Domestic Demand	% change	Between -10% and 9%

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.

Group credit risk mitigation strategy

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

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

Credit-related commitments risks

The Bank makes available to its customers guarantees which may require that the Bank makes payments on their behalf. Such payments are collected from customers based on the terms of the letters of guarantee. They expose the Bank to similar risks as financing and these are mitigated by the same control processes and policies.

42.2.1 Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

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

	<i>Notes</i>	<i>Gross maximum exposure 2021 AED '000</i>	<i>Gross maximum exposure 2020 AED '000</i>
Balances and wakala deposits with Islamic banks and other financial institutions	15	3,753,804	2,301,711
Murabaha and mudaraba with financial institutions	16	790,670	132,912
Murabaha and other Islamic financing	17	45,483,761	37,952,224
Ijara financing	18	47,645,386	49,454,557
Investment in sukuk measured at amortised cost	19	9,744,063	10,440,082
Investments measured at fair value	20	3,928,537	3,357,501
Other assets		<u>1,753,659</u>	<u>1,953,911</u>
		<u>113,099,880</u>	<u>105,592,898</u>
Contingent liabilities	36	10,898,653	13,153,356
Commitments	36	<u>555,498</u>	<u>582,694</u>
Total		<u>11,454,151</u>	<u>13,736,050</u>
Total credit risk exposure		<u>124,554,031</u>	<u>119,328,948</u>

42.2.2 Credit risk concentration

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The credit exposure to the top 5 customers as of 31 December 2021 was AED 8,955,216 thousand (2020: AED 8,819,327 thousand) before taking account of collateral or other credit enhancements.

The concentration of the Group's assets and liabilities by geographical segment is based primarily upon the location of the counter party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.2 Credit risk concentration continued

The distribution of the Group's financial assets which are subject to credit risk by geographic region is as follows:

	<i>Balances and wakala deposits with Islamic banks and other financial institutions</i> AED '000	<i>Murabaha and mudaraba with financial institutions</i> AED '000	<i>Murabaha and other Islamic financing</i> AED '000	<i>Ijara financing</i> AED '000	<i>Investment in sukuk measured at amortised cost</i> AED '000	<i>Investments measured at fair value</i> AED '000	<i>Other assets</i> AED '000	<i>Total</i> AED '000
31 December 2021								
UAE	985,230	707,138	38,410,899	45,501,845	7,034,430	1,692,908	1,676,547	96,008,997
Rest of Middle East	1,707,346	83,532	3,383,540	1,303,631	2,234,448	1,256,308	77,112	10,045,917
Europe	297,035	-	2,386,750	271,411	-	-	-	2,955,196
Others	764,193	-	1,302,572	568,499	475,185	979,321	-	4,089,770
Financial assets subject to credit risk	<u>3,753,804</u>	<u>790,670</u>	<u>45,483,761</u>	<u>47,645,386</u>	<u>9,744,063</u>	<u>3,928,537</u>	<u>1,753,659</u>	<u>113,099,880</u>
31 December 2020								
UAE	143,180	45,096	34,309,824	47,808,671	7,930,840	2,076,950	1,872,344	94,186,905
Rest of Middle East	1,250,374	87,816	1,584,497	1,017,418	2,093,403	588,776	81,567	6,703,851
Europe	142,506	-	1,512,329	381,501	-	-	-	2,036,336
Others	765,651	-	545,574	246,967	415,839	691,775	-	2,665,806
Financial assets subject to credit risk	<u>2,301,711</u>	<u>132,912</u>	<u>37,952,224</u>	<u>49,454,557</u>	<u>10,440,082</u>	<u>3,357,501</u>	<u>1,953,911</u>	<u>105,592,898</u>

The credit risk arising from off-balance sheet items mentioned in note 42.2.1 are mainly relating to the UAE.

The distribution of the Group's financial assets by industry sector is as follows:

	2021 AED '000	2020 AED '000
Government	6,671,286	5,423,432
Public sector	15,092,559	13,350,004
Financial institutions	11,380,283	8,356,652
Trading and manufacturing	5,644,820	5,249,055
Construction and real estate	7,258,529	7,373,596
Energy	1,413,217	684,750
Personal	54,541,096	52,599,676
Others	11,098,090	12,555,733
Financial assets subject to credit risk	<u>113,099,880</u>	<u>105,592,898</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.3 Impairment assessment

With the adoption of IFRS 9 the incurred loss approach for impairment has been replaced by a forward looking expected credit loss (ECL) approach. The Bank recognizes an allowance for ECL for all financial instruments other than those held at fair value through profit or loss. Financial instruments are classified into three categories as follows:

Stage 1 (performing): where no Significant Increase in Credit Risk (SICR) since origination has been observed. ECL from default events that are possible within the next 12 months is booked as impairment provision.

Stage 2 (underperforming): where a SICR since origination is observed however a default has not occurred. ECL from default events that are possible over the lifetime of the financial instrument is booked as impairment provision.

Stage 3 (non-performing): where a default has occurred, ECL based on the loss expected over the remaining life of the financial instrument is recognized as an impairment provision.

The criteria for SICR have been defined for both the wholesale and retail book. The primary driver of SICR for the wholesale book is the customer risk rating migration since origination. The customer risk rating in turn is determined by the probability of default. The primary driver of the SICR for the retail book is the past due status and the lifetime probability of default.

The ECL is calculated as a product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) which is present valued using the effective profit rate of each facility. The PDs and LGDs are adjusted based on weighted average of three macroeconomic scenarios sourced from an external industry expert. These scenarios are updated quarterly.

The ECL based provisions are reviewed and approved by the management on a monthly basis.

Write-off of financing assets

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the Bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.4 Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For repurchase and reverse repurchase transactions, cash or securities;
- For commercial financing, charges over real estate properties, inventory, trade receivables and securities; and
- For retail financing, charge over assets, mortgage of properties and vehicles and assignment of salaries in favor of the Bank.

The table below shows the lower of the collateral value or the outstanding balance of customer financing as at the reporting date:

	2021	2020
	AED '000	AED '000
<i>Against customer financing not impaired</i>		
Property	32,712,172	31,994,124
Securities	23,972	30,241
Cash margin and lien over deposits	667,900	815,095
Others	<u>9,039,219</u>	<u>9,296,090</u>
	<u>42,443,263</u>	<u>42,135,550</u>
<i>Against individually impaired</i>		
Property	4,136,848	3,405,155
Securities	54,366	118,154
Cash margin and lien over deposits	16,767	16,578
Others	<u>205,624</u>	<u>248,319</u>
	<u>4,413,605</u>	<u>3,788,206</u>
	<u>46,856,868</u>	<u>45,923,756</u>

The Bank also obtains guarantees from parent companies for financing their subsidiaries, but their benefits are not included in the above table.

Management regularly monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and assesses the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

The Bank also makes use of master netting agreements with counterparties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality for balance and wakala deposits with Islamic banks and other financial institutions, murabaha and mudaraba with financial institutions, murabaha, ijara and other Islamic financing, investments at amortised cost, investment measured at fair value (except equity instruments), certain other assets and Bank's contingent liabilities and commitments based on the Group's credit rating system.

Gross Exposure by rating is as follows:

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2021				
<u>Financial instruments carried at amortised cost</u>				
Grades 1 – 4	53,162,846	304,629	-	53,467,475
Grades 5 – 6	38,430,520	5,750,078	-	44,180,598
Grade 7	103,990	1,826,189	-	1,930,179
Grades 8 – 10	-	-	8,412,071	8,412,071
Gross financial instruments carried at amortised cost	<u>91,697,356</u>	<u>7,880,896</u>	<u>8,412,071</u>	<u>107,990,323</u>
<u>Sukuk carried at FVTOCI</u>				
Grades 1 – 4	1,309,739	-	-	1,309,739
Grades 5 – 6	506,548	-	-	506,548
Grades 8 – 10	-	-	253	253
Gross Sukuk carried at FVTOCI	<u>1,816,287</u>	<u>-</u>	<u>253</u>	<u>1,816,540</u>
<u>Contingent liabilities and commitments</u>				
Grades 1 – 4	6,929,327	243,148	-	7,172,475
Grades 5 – 6	1,903,826	1,624,572	-	3,528,398
Grade 7	474	580,097	-	580,571
Grades 8 – 10	-	-	172,707	172,707
Gross Contingent liabilities and commitments	<u>8,833,627</u>	<u>2,447,817</u>	<u>172,707</u>	<u>11,454,151</u>
	<u>102,347,270</u>	<u>10,328,713</u>	<u>8,585,031</u>	<u>121,261,014</u>
31 December 2020				
<u>Financial instruments carried at amortised cost</u>				
Grades 1 – 4	48,371,621	481,443	-	48,853,064
Grades 5 – 6	36,285,598	5,657,072	-	41,942,670
Grade 7	236,849	2,126,774	-	2,363,623
Grades 8 – 10	-	-	7,813,877	7,813,877
Gross financial instruments carried at amortised cost	<u>84,894,068</u>	<u>8,265,289</u>	<u>7,813,877</u>	<u>100,973,234</u>
<u>Sukuk carried at FVTOCI</u>				
Grades 1 – 4	1,282,824	-	-	1,282,824
Grades 5 – 6	402,917	18,045	-	420,962
Grades 8 – 10	-	-	7,287	7,287
Gross Sukuk carried at FVTOCI	<u>1,685,741</u>	<u>18,045</u>	<u>7,287</u>	<u>1,711,073</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<u>Contingent liabilities and commitments</u>				
Grades 1 – 4	10,081,869	108,934	-	10,190,803
Grades 5 – 6	2,254,012	499,236	-	2,753,248
Grade 7	1,159	621,919	-	623,078
Grades 8 – 10	-	-	<u>168,921</u>	<u>168,921</u>
<i>Gross Contingent liabilities and commitments</i>	<u>12,337,040</u>	<u>1,230,089</u>	<u>168,921</u>	<u>13,736,050</u>
	<u>98,916,849</u>	<u>9,513,423</u>	<u>7,990,085</u>	<u>116,420,357</u>

Expected credit losses (ECL) by rating is as follows:

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2021				
<u>Financial instruments carried at amortised cost - ECL</u>				
Grades 1 – 4	52,906	5,892	-	58,798
Grades 5 – 6	443,740	181,578	-	625,318
Grade 7	9,646	235,004	-	244,650
Grades 8 – 10	-	-	<u>4,074,225</u>	<u>4,074,225</u>
	<u>506,292</u>	<u>422,474</u>	<u>4,074,225</u>	<u>5,002,991</u>
<u>Sukuk carried at FVTOCI - ECL</u>				
Grades 1 – 4	1,116	-	-	1,116
Grades 5 – 6	13,776	-	-	13,776
Grades 8 – 10	-	-	<u>100</u>	<u>100</u>
	<u>14,892</u>	<u>-</u>	<u>100</u>	<u>14,992</u>
<u>Contingent liabilities and commitments - ECL</u>				
Grades 1 – 4	1,145	13	-	1,158
Grades 5 – 6	3,805	12,295	-	16,100
Grade 7	14	46,263	-	46,277
Grades 8 – 10	-	-	<u>65,168</u>	<u>65,168</u>
	<u>4,964</u>	<u>58,571</u>	<u>65,168</u>	<u>128,703</u>
	<u>526,148</u>	<u>481,045</u>	<u>4,139,493</u>	<u>5,146,686</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.5 Credit quality per class of financial assets continued

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2020				
<u>Financial instruments carried at amortised cost - ECL</u>				
Grades 1 – 4	88,698	54,665	-	143,363
Grades 5 – 6	241,940	136,801	-	378,741
Grade 7	20,603	308,341	-	328,944
Grades 8 – 10	-	-	<u>3,252,236</u>	<u>3,252,236</u>
	<u>351,241</u>	<u>499,807</u>	<u>3,252,236</u>	<u>4,103,284</u>
<u>Sukuk carried at FVTOCI - ECL</u>				
Grades 1 – 4	7,021	-	-	7,021
Grades 5 – 6	5,165	695	-	5,860
Grades 8 – 10	-	-	<u>2,893</u>	<u>2,893</u>
	<u>12,186</u>	<u>695</u>	<u>2,893</u>	<u>15,774</u>
<u>Contingent liabilities and commitments - ECL</u>				
Grades 1 – 4	1,531	-	-	1,531
Grades 5 – 6	5,534	2,094	-	7,628
Grade 7	86	47,429	-	47,515
Grades 8 – 10	-	-	<u>64,588</u>	<u>64,588</u>
	<u>7,151</u>	<u>49,523</u>	<u>64,588</u>	<u>121,262</u>
	<u>370,578</u>	<u>550,025</u>	<u>3,319,717</u>	<u>4,240,319</u>

It is the Group's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial and qualitative analysis, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The risk ratings models are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class. A number of new rating models aligned to specific business segments, were introduced during the course of the year.

Renegotiated murabaha, ijara and other Islamic financings

The total carrying amount of financing to non-related parties whose terms have been renegotiated during the year, excluding deferrals offered under the TESS programme, amounted to AED 599,651 thousand (2020: AED 1,637,060 thousand).

Abu Dhabi Islamic Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financial assets

The details of gross exposure of financial assets and their expected credit losses per stages was as follows:

	Gross Exposure				Expected credit losses - (ECL)			
	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
31 December 2021								
Balances and wakala deposits with								
Islamic banks and other financial institutions	3,577,447	176,357	-	3,753,804	360	13,761	-	14,121
Murabaha and mudaraba with financial institutions	790,670	-	-	790,670	214	-	-	214
Murabaha and other Islamic financing	41,039,037	1,539,649	2,905,075	45,483,761	200,616	209,610	1,908,074	2,318,300
Ijara financing	36,100,016	6,164,890	5,380,480	47,645,386	291,711	199,103	2,067,690	2,558,504
Investment in sukuk measured at amortised cost	9,618,762	-	125,301	9,744,063	12,612	-	98,025	110,637
Investments measured at fair value	1,816,287	-	253	1,816,540	14,892	-	100	14,992
Other assets	571,424	-	1,215	572,639	779	-	436	1,215
	<u>93,513,643</u>	<u>7,880,896</u>	<u>8,412,324</u>	<u>109,806,863</u>	<u>521,184</u>	<u>422,474</u>	<u>4,074,325</u>	<u>5,017,983</u>
Contingent liabilities and commitments	<u>8,833,627</u>	<u>2,447,817</u>	<u>172,707</u>	<u>11,454,151</u>	<u>4,964</u>	<u>58,571</u>	<u>65,168</u>	<u>128,703</u>
	<u>102,347,270</u>	<u>10,328,713</u>	<u>8,585,031</u>	<u>121,261,014</u>	<u>526,148</u>	<u>481,045</u>	<u>4,139,493</u>	<u>5,146,686</u>

Abu Dhabi Islamic Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financial assets

	Gross Exposure				Expected credit losses - (ECL)			
	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
31 December 2020								
Balances and wakala deposits with								
Islamic banks and other financial institutions	1,982,126	319,585	-	2,301,711	98	14,479	-	14,577
Murabaha and mudaraba with financial institutions	54,753	78,159	-	132,912	24	24	-	48
Murabaha and other Islamic financing	33,362,644	1,596,250	2,993,330	37,952,224	192,821	225,817	1,555,495	1,974,133
Ijara financing	38,983,893	5,775,370	4,695,294	49,454,557	139,221	256,352	1,627,714	2,023,287
Investment in sukuk measured at amortised cost	10,174,709	140,120	125,253	10,440,082	18,326	2,352	69,027	89,705
Investments measured at fair value	1,685,741	18,045	7,287	1,711,073	12,186	695	2,893	15,774
Other assets	<u>335,943</u>	<u>355,805</u>	<u>-</u>	<u>691,748</u>	<u>751</u>	<u>783</u>	<u>-</u>	<u>1,534</u>
	<u>86,579,809</u>	<u>8,283,334</u>	<u>7,821,164</u>	<u>102,684,307</u>	<u>363,427</u>	<u>500,502</u>	<u>3,255,129</u>	<u>4,119,058</u>
Contingent liabilities and commitments	<u>12,337,040</u>	<u>1,230,089</u>	<u>168,921</u>	<u>13,736,050</u>	<u>7,151</u>	<u>49,523</u>	<u>64,588</u>	<u>121,262</u>
	<u>98,916,849</u>	<u>9,513,423</u>	<u>7,990,085</u>	<u>116,420,357</u>	<u>370,578</u>	<u>550,025</u>	<u>3,319,717</u>	<u>4,240,320</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financial assets

Movement in gross exposure by stage is as follows:

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<u>Financial instruments carried at amortised cost</u>				
Balance at 1 January 2021	84,893,868	8,265,289	7,813,877	100,973,034
- Transfer from stage 1 to stage 2	(3,514,772)	3,514,772	-	-
- Transfer from stage 1 to stage 3	(275,495)	-	275,495	-
- Transfer from stage 2 to stage 1	1,123,317	(1,123,317)	-	-
- Transfer from stage 2 to stage 3	-	(816,233)	816,233	-
- Transfer from stage 3 to stage 1	7	-	(7)	-
- Transfer from stage 3 to stage 2	-	137,131	(137,131)	-
Other movements within the same stage	(6,165,028)	(345,969)	(137,052)	(6,648,049)
New financial assets originated / purchased	36,740,631	633,451	87,480	37,461,562
Financial assets that have been derecognized	<u>(21,105,172)</u>	<u>(2,384,228)</u>	<u>(306,824)</u>	<u>(23,796,224)</u>
Balance at 31 December 2021	<u>91,697,356</u>	<u>7,880,896</u>	<u>8,412,071</u>	<u>107,990,323</u>
<u>Sukuk carried at FVTOCI</u>				
Balance at 1 January 2021	1,685,741	18,045	7,287	1,711,073
Other movements within the same stage	(128,284)	-	(7,034)	(135,318)
New financial assets originated / purchased	689,658	-	-	689,658
Financial assets that have been derecognized	<u>(430,828)</u>	<u>(18,045)</u>	<u>-</u>	<u>(448,873)</u>
Balance at 31 December 2021	<u>1,816,287</u>	<u>-</u>	<u>253</u>	<u>1,816,540</u>
<u>Contingent liabilities and commitments</u>				
Balance at 1 January 2021	12,337,240	1,230,089	168,921	13,736,250
- Transfer from stage 1 to stage 2	(1,044,406)	1,044,406	-	-
- Transfer from stage 1 to stage 3	(9,179)	-	9,179	-
- Transfer from stage 2 to stage 1	53,220	(53,220)	-	-
- Transfer from stage 2 to stage 3	-	(8,941)	8,941	-
- Transfer from stage 3 to stage 1	114	-	(114)	-
- Transfer from stage 3 to stage 2	-	1,856	(1,856)	-
Other movements within the same stage	(2,813,725)	(15,950)	(245)	(2,829,920)
New financial assets originated / purchased	2,957,856	388,826	227	3,346,909
Financial assets that have been derecognized	<u>(2,647,493)</u>	<u>(139,249)</u>	<u>(12,346)</u>	<u>(2,799,088)</u>
Balance at 31 December 2021	<u>8,833,627</u>	<u>2,447,817</u>	<u>172,707</u>	<u>11,454,151</u>
	<u>102,347,270</u>	<u>10,328,713</u>	<u>8,585,031</u>	<u>121,261,014</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financial assets

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<u>Financial instruments carried at amortised cost</u>				
Balance at 1 January 2020	87,280,171	6,000,390	5,452,960	98,733,521
- Transfer from stage 1 to stage 2	(3,433,717)	3,433,717	-	-
- Transfer from stage 1 to stage 3	(2,273,210)	-	2,273,210	-
- Transfer from stage 2 to stage 1	716,716	(716,716)	-	-
- Transfer from stage 2 to stage 3	-	(435,204)	435,204	-
- Transfer from stage 3 to stage 1	9,023	-	(9,023)	-
- Transfer from stage 3 to stage 2	-	393,607	(393,607)	-
Other movements within the same stage	(6,196,593)	(178,848)	(191,320)	(6,566,761)
New financial assets originated / purchased	29,581,751	1,129,006	612,263	31,323,020
Financial assets that have been derecognized	(20,790,073)	(1,360,663)	(227,413)	(22,378,149)
Net amounts written off	-	-	(138,397)	(138,397)
Balance at 31 December 2020	<u>84,894,068</u>	<u>8,265,289</u>	<u>7,813,877</u>	<u>100,973,234</u>
<u>Sukuk carried at FVTOCI</u>				
Balance at 1 January 2020	1,159,851	18,429	-	1,178,280
Other movements within the same stage	(132,034)	(384)	7,287	(125,131)
New financial assets originated / purchased	<u>657,924</u>	<u>-</u>	<u>-</u>	<u>657,924</u>
Balance at 31 December 2020	<u>1,685,741</u>	<u>18,045</u>	<u>7,287</u>	<u>1,711,073</u>
<u>Contingent liabilities and commitments</u>				
Balance at 1 January 2020	11,316,776	1,522,695	154,684	12,994,155
- Transfer from stage 1 to stage 2	(256,955)	256,955	-	-
- Transfer from stage 1 to stage 3	(36,533)	-	36,533	-
- Transfer from stage 2 to stage 1	15,520	(15,520)	-	-
- Transfer from stage 2 to stage 3	-	(1,674)	1,674	-
- Transfer from stage 3 to stage 1	10	-	(10)	-
- Transfer from stage 3 to stage 2	-	604	(604)	-
Other movements within the same stage	(622,913)	(127,864)	(4,071)	(754,848)
New financial assets originated / purchased	4,417,494	146,892	67	4,564,453
Financial assets that have been derecognized	<u>(2,496,359)</u>	<u>(551,999)</u>	<u>(19,352)</u>	<u>(3,067,710)</u>
Balance at 31 December 2020	<u>12,337,040</u>	<u>1,230,089</u>	<u>168,921</u>	<u>13,736,050</u>
	<u>98,916,849</u>	<u>9,513,423</u>	<u>7,990,085</u>	<u>116,420,357</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financial assets

Movement in Expected credit losses (ECL) by stage is as follows:

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<u>Financial instruments carried at amortised cost - ECL</u>				
Balance at 1 January 2021	351,241	499,807	3,252,236	4,103,284
- Transfer from stage 1 to stage 2	(74,226)	74,226	-	-
- Transfer from stage 1 to stage 3	(63,477)	-	63,477	-
- Transfer from stage 2 to stage 1	12,759	(12,759)	-	-
- Transfer from stage 2 to stage 3	-	(195,462)	195,462	-
- Transfer from stage 3 to stage 1	1	-	(1)	-
- Transfer from stage 3 to stage 2	-	23,920	(23,920)	-
Other movements within the same stage	(52,617)	(25,876)	674,779	596,286
New financial assets originated / purchased	413,922	77,767	69,245	560,934
Financial assets that have been derecognized	(81,311)	(19,149)	(157,053)	(257,513)
Balance at 31 December 2021	<u>506,292</u>	<u>422,474</u>	<u>4,074,225</u>	<u>5,002,991</u>
<u>Sukuk carried at FVTOCI - ECL</u>				
Balance at 1 January 2021	12,186	695	2,893	15,774
Other movements within the same stage	(831)	-	(2,793)	(3,624)
New financial assets originated / purchased	4,429	-	-	4,429
Financial assets that have been derecognized	(892)	(695)	-	(1,587)
Balance at 31 December 2021	<u>14,892</u>	<u>-</u>	<u>100</u>	<u>14,992</u>
<u>Contingent liabilities and commitments - ECL</u>				
Balance at 1 January 2021	7,151	49,523	64,588	121,262
- Transfer from stage 1 to stage 2	(7,709)	7,709	-	-
- Transfer from stage 1 to stage 3	(1,930)	-	1,930	-
- Transfer from stage 2 to stage 1	12	(12)	-	-
- Transfer from stage 2 to stage 3	-	(1,726)	1,726	-
- Transfer from stage 3 to stage 1	5	-	(5)	-
Other movements within the same stage	(910)	2,102	(2,327)	(1,135)
New financial assets originated / purchased	11,202	3,726	16	14,944
Financial assets that have been derecognized	(2,857)	(2,751)	(760)	(6,368)
Balance at 31 December 2021	<u>4,964</u>	<u>58,571</u>	<u>65,168</u>	<u>128,703</u>
	<u>526,148</u>	<u>481,045</u>	<u>4,139,493</u>	<u>5,146,686</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.6 Credit quality per stage for financial assets

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
<u>Financial instruments carried at amortised cost - ECL</u>				
Balance at 1 January 2020	404,987	446,177	2,202,720	3,053,884
- Transfer from stage 1 to stage 2	(182,881)	182,881	-	-
- Transfer from stage 1 to stage 3	(936,703)	-	936,703	-
- Transfer from stage 2 to stage 1	5,557	(5,557)	-	-
- Transfer from stage 2 to stage 3	-	(118,298)	118,298	-
- Transfer from stage 3 to stage 1	48	-	(48)	-
- Transfer from stage 3 to stage 2	-	52,035	(52,035)	-
Other movements within the same stage	(17,127)	12,175	291,517	286,565
New financial assets originated / purchased	111,599	50,606	349,208	511,413
Financial assets that have been derecognized	965,761	(120,212)	(455,730)	389,819
Net amounts written off	-	-	(138,397)	(138,397)
Balance at 31 December 2020	<u>351,241</u>	<u>499,807</u>	<u>3,252,236</u>	<u>4,103,284</u>
<u>Sukuk carried at FVTOCI - ECL</u>				
Balance at 1 January 2020	7,522	1,898	-	9,420
Other movements within the same stage	223	(1,203)	2,893	1,913
New financial assets originated / purchased	<u>4,441</u>	<u>-</u>	<u>-</u>	<u>4,441</u>
Balance at 31 December 2020	<u>12,186</u>	<u>695</u>	<u>2,893</u>	<u>15,774</u>
<u>Contingent liabilities and commitments - ECL</u>				
Balance at 1 January 2020	9,619	54,524	46,149	110,292
- Transfer from stage 1 to stage 2	(1,487)	1,487	-	-
- Transfer from stage 1 to stage 3	(7,426)	-	7,426	-
- Transfer from stage 2 to stage 1	6	(6)	-	-
- Transfer from stage 2 to stage 3	-	(54)	54	-
Other movements within the same stage	(42)	1,250	17,855	19,063
New financial assets originated / purchased	3,167	19	24	3,210
Financial assets that have been derecognized	<u>3,314</u>	<u>(7,697)</u>	<u>(6,920)</u>	<u>(11,303)</u>
Balance at 31 December 2020	<u>7,151</u>	<u>49,523</u>	<u>64,588</u>	<u>121,262</u>
	<u>370,578</u>	<u>550,025</u>	<u>3,319,717</u>	<u>4,240,320</u>

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31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

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

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BS/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE (“the guidance”).

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

	<i>2021</i>	<i>2020</i>
	<i>AED ‘000</i>	<i>AED ‘000</i>
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	1,365,541	1,296,387
Less: Stage 1 and Stage 2 provisions under IFRS 9	<u>(1,008,039)</u>	<u>(921,554)</u>
General provision transferred to the impairment reserve	<u>357,502</u>	<u>374,833</u>
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	3,225,397	2,701,136
Less: Stage 3 provisions under IFRS 9	<u>(4,139,493)</u>	<u>(3,319,717)</u>
Specific provision transferred to the impairment reserve	<u>-</u>	<u>-</u>
Total provision transferred to the impairment reserve	<u>357,502</u>	<u>374,833</u>

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount is required to be transferred to the impairment reserve.

42.2.8 Covid-19 and Expected Credit Loss (ECL)

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread globally, causing disruptions to businesses and economic activity. In response, governments and central banks have launched economic support and relief measures (including payment reliefs) to minimize the impact on individuals and corporates.

On 27 March 2020, IASB issued a guidance note, advising that both the assessment Significant Increase in Credit Risk (“SICR”) and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, considerations should be given both to the effects of COVID-19 and significant government support measures being undertaken.

In line with other global regulators, the Central Bank of the UAE (“CB UAE”), under the Targeted Economic Support Scheme (“TESS”), has facilitated the provisions of temporary relief from the payments of installments (principal and/or profit) on customer financing for all the affected private sector corporates, SMEs and individuals with specific conditions. Additionally, the program seeks to facilitate additional financing and liquidity capacity of banks, through the relief of existing capital and liquidity buffers.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.8 Covid-19 and Expected Credit Loss (ECL) continued

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

42.2.8.1 Identifying whether a significant increase in credit risk (SICR) has occurred for IFRS 9

Under IFRS 9, financial instruments are required to be moved from Stage 1 to Stage 2 if and only if they have been the subject of a SICR since origination. A SICR occurs when there has been a significant increase in the risk of a default occurring over the expected life of a financial instrument.

The Group continues to assess financing customers for other indicators of unlikelihood 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 longer term.

In the absence of sufficient and timely data to update the credit ratings, which are a core element of assessing SICR, for the purpose of year 2021 reporting, the Group has applied variety of factors to quantify the potential impact.

As required by the TESS, the Group has also initiated a programme of payment relief for its impacted customers by deferring installment due for a period of one month to six months. These payment reliefs are considered as short-term liquidity to address financing customers cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs do not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, where the impact on customer's business is expected to be short term, as these are being made available to assist financing customers affected by the Covid-19 outbreak to resume regular payments. For all other customers, the Group continues to consider severity and extent of potential Covid-19 impact on economic sector and future outlook, cash flow and financial strength, agility and change in risk profile along with the past track record in determining SICR. This approach is consistent with the expectations of the Central Bank of UAE as referred to in the TESS notice.

As per the disclosure requirements of the Central Bank of UAE in the context of Covid-19, for the UAE operations, the Group has divided its customers benefitting from payment deferrals into two groups (Group 1 and Group 2). Customers not expected to face substantial changes in their creditworthiness, beyond liquidity issues caused by the Covid-19 crisis, have been retained in the same Stage as before entry into TESS scheme and categorized in Group 1.

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

The Group will continue to work with CB UAE and other regulatory authorities to refine and operationalize relief schemes being deployed to assist clients impacted by COVID-19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.8 Covid-19 and Expected Credit Loss (ECL) continued

42.2.8.2 Reasonableness of Forward Looking Information and probability weights

In view of wide spread impact of COVID 19 on customer's change in credit profile and overall impact on forward looking macroeconomic indicators, any changes in ECL models and estimate will be subject to high degree of uncertainty.

The Group has previously performed historical analysis and identified key economic variables impacting credit risk and ECL for each portfolio and expert judgement has also been applied in this process. These economic variables and their associated impact on PD, EAD and LGD vary by financial instrument. Forecast of these economic variables (the "base, upside and downside economic scenario") are obtained externally on a monthly basis.

As per the CBUAE guidelines on the IFRS 9 under COVID 19, the Group has used the latest macroeconomic data and scenarios for year 2021 ECL estimates. The Group estimated year 2021 ECL using baseline, upside and downside scenarios with 40%, 30% and 30% weightings respectively.

The Bank has reviewed the potential impact of COVID-19 on inputs and assumptions for IFRS 9 ECL measurement on the basis of available information. In view of very fluid and developing considerations, ascertaining reliability and reasonableness of any forward looking information is challenging. Notwithstanding this, recognizing the likely impacts of the crises on market-credit environment, the Group has assessed the impact of an increased probability for the pessimistic scenario in ECL management.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.8 Covid-19 and Expected Credit Loss (ECL) continued

42.2.8.3 Analysis of customers benefiting from payment deferrals

Deferral amount, Exposure at Default (EAD) and related Expected Credit Losses (ECL) for customers benefitting from payment deferrals

The table below contains analysis of the deferral amount, Exposure at Default (EAD) and Expected Credit Losses (ECL) benefitting from deferrals under CBUAE TESS program as of 31 December 2021:

	<i>Number of customers</i>	<i>Deferral amount AED '000</i>	<i>Exposure at default (EAD) AED '000</i>	<i>Expected credit losses (ECL) AED '000</i>
Retail banking:				
<i>Stage 1</i>				
- Group 1	159,695	1,166,275	5,795,557	20,859
- Group 2	<u>38</u>	<u>501</u>	<u>-</u>	<u>-</u>
	<u>159,733</u>	<u>1,166,776</u>	<u>5,795,557</u>	<u>20,859</u>
<i>Stage 2</i>				
- Group 1	2,817	45,635	404,260	37,134
- Group 2	<u>226</u>	<u>5,325</u>	<u>59,030</u>	<u>2,908</u>
	<u>3,043</u>	<u>50,960</u>	<u>463,290</u>	<u>40,042</u>
<i>Stage 3</i>				
- Group 1	2,021	22,845	160,031	49,579
- Group 2	<u>119</u>	<u>3,681</u>	<u>12,763</u>	<u>6,162</u>
	<u>2,140</u>	<u>26,526</u>	<u>172,794</u>	<u>55,741</u>
Total Retail banking	<u>164,916</u>	<u>1,244,262</u>	<u>6,431,641</u>	<u>116,642</u>
Wholesale banking:				
<i>Stage 1</i>				
- Group 1	139	268,634	102,582	1,340
- Group 2	<u>42</u>	<u>117,675</u>	<u>210,886</u>	<u>-</u>
	<u>181</u>	<u>386,309</u>	<u>313,468</u>	<u>1,340</u>
<i>Stage 2</i>				
- Group 1	25	70,173	649,082	7,798
- Group 2	<u>7</u>	<u>57,808</u>	<u>350,424</u>	<u>2,229</u>
	<u>32</u>	<u>127,981</u>	<u>999,506</u>	<u>10,027</u>
<i>Stage 3</i>				
- Group 1	31	4,635	16,487	4,625
- Group 2	<u>17</u>	<u>807</u>	<u>4,129</u>	<u>1,267</u>
	<u>48</u>	<u>5,442</u>	<u>20,616</u>	<u>5,892</u>
Total Wholesale banking	<u>261</u>	<u>519,732</u>	<u>1,333,590</u>	<u>17,259</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.8 Covid-19 and Expected Credit Loss (ECL) continued

42.2.8.3 Analysis of customers benefiting from payment deferrals continued

As per the requirements of the Central Bank of UAE, the Group has divided its customers benefitting from payment deferrals into two groups as follows:

Group 1: includes those customers that are not expected to face substantial changes in their creditworthiness, beyond liquidity issues and are temporarily and mildly impacted by the Covid-19 crisis.

For these clients, the payment deferrals are believed to be effective and thus the economic value of the facilities is not expected to be materially affected. These customers will remain in their current IFRS 9 stage, at least for the duration of the crisis, or their distress, whichever is shorter.

Group 2: includes those customers that are expected to face substantial changes in their creditworthiness, in addition to liquidity issues that will be addressed by payment deferrals.

For these customers, there is sufficient deterioration in credit risk to trigger IFRS 9 stage migration. The Group continues to monitor the creditworthiness of these customers, particularly indications of potential inability to pay any of their obligations as and when they become due.

The impact of Covid-19 crisis continues to filter through into the real economy. In view of this, the Group has taken a proactive approach and on an ongoing basis for all customers, the Group continues to consider the severity and extent of potential Covid-19 impact on economic sectors and outlook, cash flow, financial strength, agility and change in risk profile along with the past track record and ongoing adaptation. Accordingly, all staging and grouping decisions are subject to regular review to ensure these reflect an accurate view of the Group's assessment of the customers' creditworthiness, staging and grouping as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.8 Covid-19 and Expected Credit Loss (ECL) continued

42.2.8.3 Analysis of customers benefiting from payment deferrals continued

Stage migrations of EAD and ECL since 31 December 2020 for customers benefiting from payment deferrals

31 December 2021 - IFRS 9 (EAD)

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
Retail banking:				
At 1 January 2021	13,279,561	574,226	42,503	13,896,290
Transferred from Stage 1	(321,834)	228,646	93,188	-
Transferred from Stage 2	65,726	(117,319)	51,593	-
Transferred from Stage 3	-	6,432	(6,432)	-
Other movements	<u>(7,227,896)</u>	<u>(228,695)</u>	<u>(8,058)</u>	<u>(7,464,649)</u>
At 31 December 2021	<u>5,795,557</u>	<u>463,290</u>	<u>172,794</u>	<u>6,431,641</u>
Wholesale banking:				
At 1 January 2021	1,613,031	245,888	1,080	1,859,999
Transferred from Stage 1	(852,869)	852,869	-	-
Transferred from Stage 2	210,886	(210,886)	-	-
Other movements	<u>(657,580)</u>	<u>111,635</u>	<u>19,536</u>	<u>(526,409)</u>
At 31 December 2021	<u>313,468</u>	<u>999,506</u>	<u>20,616</u>	<u>1,333,590</u>

31 December 2021 - IFRS 9 (ECL)

	<i>Stage 1</i> <i>AED '000</i>	<i>Stage 2</i> <i>AED '000</i>	<i>Stage 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
Retail banking:				
At 1 January 2021	63,573	69,562	44,863	177,998
Transferred from Stage 1	(44,741)	14,309	30,432	-
Transferred from Stage 2	569	(19,093)	18,524	-
Transferred from Stage 3	-	1,045	(1,045)	-
Other movements	<u>1,458</u>	<u>(25,781)</u>	<u>(37,033)</u>	<u>(61,356)</u>
At 31 December 2021	<u>20,859</u>	<u>40,042</u>	<u>55,741</u>	<u>116,642</u>
Wholesale banking:				
At 1 January 2021	5,044	3,541	4,904	13,489
Transferred from Stage 1	(8,565)	8,565	-	-
Other movements	<u>4,861</u>	<u>(2,079)</u>	<u>988</u>	<u>3,770</u>
At 31 December 2021	<u>1,340</u>	<u>10,027</u>	<u>5,892</u>	<u>17,259</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.2 Credit risk continued

42.2.8 Covid-19 and Expected Credit Loss (ECL) continued

42.2.8.3 Analysis of customers benefiting from payment deferrals continued

Change in ECL charge by products for Retail banking and wholesale banking customers benefiting from payment deferrals:

	31 December 2021 - IFRS 9 (ECL)			
	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Total AED '000
Retail banking:				
At 1 January 2021	60,449	49,301	60,142	169,892
Vehicle murabaha	(1,559)	(521)	2,297	217
Islamic covered cards (murabaha)	1	8	-	9
Other murabaha	(33,883)	(14,439)	(23,391)	(71,713)
Ijara	<u>(4,148)</u>	<u>5,692</u>	<u>16,693</u>	<u>18,237</u>
At 31 December 2021	<u>20,860</u>	<u>40,041</u>	<u>55,741</u>	<u>116,642</u>
Wholesale banking:				
At 1 January 2021	4,410	4,176	4,904	13,490
Corporates	<u>(3,071)</u>	<u>5,851</u>	<u>989</u>	<u>3,769</u>
At 31 December 2021	<u>1,339</u>	<u>10,027</u>	<u>5,893</u>	<u>17,259</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows, the maintenance and monitoring of the inventory of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly quality and diverse securities that can be easily liquidated and/or used as collateral in the event of an unforeseen stress on of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the Central Bank. The liquidity position is assessed and managed under a variety of stress scenarios, given due consideration to severe yet plausible stress conditions relating to both the market in general and specifically to the Group.

The high quality of the investment portfolio ensures its liquidity and/or eligibility as acceptable collateral and coupled with the Bank's own funds and "evergreen" customer deposits help these forms a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands. In addition, the Bank monitors various liquidity risk ratios and maintains an up-to-date contingency funding plan.

42.3.1 Treasury

Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also primarily responsible for managing the funding and liquidity risks of the Bank.

42.3.2 Asset & Liability Committee ("ALCO")

The Asset & Liability Management ("ALM") process focusses on planning, acquiring, and directing the flow of funds through the organization. The ultimate objective of this process is to generate adequate stable earnings and to steadily build equity over time, while taking measured business risk aligned to the overall risk appetite of the Bank. The Bank has a defined ALM policy which describes the objective, role and function of the ALCO. This process revolves around ALCO, the body within the Bank that holds the responsibility to make strategic decisions relating to the management of financial position related risks. The ALCO consists of the Bank's senior management including the CEO and normally meets once a month.

42.3.3 Liquidity risk management process

The Group's liquidity risk management process, as carried out within the Group and monitored by a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes reenlistment of funds as they mature or when financing are provided to customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of financing maturities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial assets and liabilities at reporting date based on contractual maturities.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2021					
ASSETS					
Cash and balances with central banks	18,497,982	3,201,267	-	-	21,699,249
Balances and wakala deposits with Islamic banks and other financial institutions	3,563,317	-	176,366	-	3,739,683
Murabaha and mudaraba with financial institutions	263,481	526,975	-	-	790,456
Murabaha and other Islamic financing	4,186,292	6,717,095	28,858,669	3,403,405	43,165,461
Ijara financing	1,411,926	3,447,242	18,072,478	22,155,236	45,086,882
Investments in Islamic sukuk measured at amortised cost	426,391	1,345,880	3,188,127	4,673,028	9,633,426
Investments measured at fair value	53,841	2,246,251	728,561	1,028,835	4,057,488
Investment in associates and joint ventures	-	-	-	1,604,378	1,604,378
Other assets	1,699,581	-	-	16,006	1,715,587
Financial assets	<u>30,102,811</u>	<u>17,484,710</u>	<u>51,024,201</u>	<u>32,880,888</u>	131,492,610
Non-financial assets					<u>5,375,739</u>
Total assets					<u>136,868,349</u>
LIABILITIES					
Due to financial institutions	3,535,952	-	-	-	3,535,952
Depositors' accounts	107,396,917	2,209,351	4,835	-	109,611,103
Other liabilities	2,544,373	61,996	533,715	22,150	3,162,234
Total liabilities	<u>113,477,242</u>	<u>2,271,347</u>	<u>538,550</u>	<u>22,150</u>	<u>116,309,289</u>
31 December 2020					
ASSETS					
Cash and balances with central banks	18,879,485	700,039	-	-	19,579,524
Balances and wakala deposits with Islamic banks and other financial institutions	2,110,767	-	66,105	110,262	2,287,134
Murabaha and mudaraba with financial institutions	123,068	9,796	-	-	132,864
Murabaha and other Islamic financing	3,455,027	6,826,626	21,497,724	4,198,714	35,978,091
Ijara financing	2,165,058	4,433,923	17,137,682	23,694,607	47,431,270
Investments in Islamic sukuk measured at amortised cost	260,780	874,103	5,764,769	3,450,725	10,350,377
Investments measured at fair value	-	1,791,881	778,083	888,230	3,458,194
Investment in associates and joint ventures	-	-	-	1,301,662	1,301,662
Other assets	1,769,213	129,751	203,062	16,557	2,118,583
Financial assets	<u>28,763,398</u>	<u>14,766,119</u>	<u>45,447,425</u>	<u>33,660,757</u>	122,637,699
Non-financial assets					<u>5,178,439</u>
Total assets					<u>127,816,138</u>
LIABILITIES					
Due to financial institutions	3,108,245	665,000	-	-	3,773,245
Depositors' accounts	96,361,752	4,836,300	78,076	-	101,276,128
Other liabilities	2,809,800	189,875	559,175	46,031	3,604,881
Total liabilities	<u>102,279,797</u>	<u>5,691,175</u>	<u>637,251</u>	<u>46,031</u>	<u>108,654,254</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.3 Liquidity risk and funding management continued

42.3.4 Analysis of financial assets and financial liabilities by remaining contractual maturities continued

The table below summarises the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted repayment obligations, including cash flows pertaining to principal repayment and profit payable to maturity.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2021					
LIABILITIES					
Due to financial institutions	3,536,076	-	-	-	3,536,076
Depositors' accounts	107,400,106	2,215,957	4,866	-	109,620,929
Other liabilities	<u>2,544,373</u>	<u>61,996</u>	<u>533,715</u>	<u>22,150</u>	<u>3,162,234</u>
Total liabilities	<u>113,480,555</u>	<u>2,277,953</u>	<u>538,581</u>	<u>22,150</u>	<u>116,319,239</u>
31 December 2020					
LIABILITIES					
Due to financial institutions	3,108,264	665,000	-	-	3,773,264
Depositors' accounts	96,367,328	4,854,458	79,899	-	101,301,685
Other liabilities	<u>2,809,800</u>	<u>189,875</u>	<u>559,175</u>	<u>46,031</u>	<u>3,604,881</u>
Total liabilities	<u>102,285,392</u>	<u>5,709,333</u>	<u>639,074</u>	<u>46,031</u>	<u>108,679,830</u>

The disclosed financial instruments in the above table are the gross undiscounted cash flows.

The table below shows the contractual expiry of the Bank's contingent liabilities and commitments. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

	<i>Less than 3 months AED '000</i>	<i>3 months to 1 year AED '000</i>	<i>1 year to 5 years AED '000</i>	<i>Over 5 years AED '000</i>	<i>Total AED '000</i>
31 December 2021					
Contingent liabilities	5,440,058	3,378,590	2,077,322	2,683	10,898,653
Commitments	<u>-</u>	<u>236,543</u>	<u>-</u>	<u>-</u>	<u>236,543</u>
Total	<u>5,440,058</u>	<u>3,615,133</u>	<u>2,077,322</u>	<u>2,683</u>	<u>11,135,196</u>
31 December 2020					
Contingent liabilities	6,725,835	1,426,851	5,000,198	472	13,153,356
Commitments	<u>4,986</u>	<u>172,206</u>	<u>-</u>	<u>-</u>	<u>177,192</u>
Total	<u>6,730,821</u>	<u>1,599,057</u>	<u>5,000,198</u>	<u>472</u>	<u>13,330,548</u>

The Bank does not expect that all of the contingent liabilities or commitments will be drawn before expiry.

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42 RISK MANAGEMENT continued

42.4 Market risk

Market risk arises from changes in market rates such as profit rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, foreign exchange rates or equity prices. The Group is exposed to diverse the financial instruments including securities, foreign currencies, equities, structured products and commodities.

The Group pays considerable attention to market risk. The Group uses appropriate models, as per standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises of the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by the senior management; and
- Independent mark-to-market valuation, reconciliation of positions and tracking of stop-losses for trading positions on timely basis.

The policies and procedures and the trading limits are set to ensure the implementation of the Group's market risk policy in day-to-day operations. These are viewed periodically to ensure they remain in line with the Group's general market risk policy. The ALCO and ERC ensure that the market risk management process is always adequately and appropriately staffed. In addition to its internal procedures and systems, the Group is required to comply with the guidelines and regulations of the Central Bank.

42.4.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Group is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Group manages this risk through appropriate limits in place and frequent review of the bank's structural position with regard to profit rate risk and its impact on earnings as well as the economic value of its shareholders' equity.

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Group's consolidated income statement. The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December.

<i>Currency</i>	<i>Increase in basis points 2021</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>	<i>Increase in basis points 2020</i>	<i>Sensitivity of profit on financial assets and liabilities AED '000</i>
AED	25	46,141	25	21,068
USD	25	69,139	25	46,362
Euro	25	1,548	25	(378)
Other currencies	25	1,951	25	4,914

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42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below indicates the extent to which the Group was exposed to currency risk at 31 December on its non-trading monetary assets and liabilities and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against AED with all other variable held constant on the consolidated income statement (due to the changes in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated in consolidated income statement on investments carried at fair value through other comprehensive income - equity instruments and investment in associates and joint ventures).

	<i>% Increase currency rates</i>	<i>Effect on net profit AED '000</i>	<i>Effect on equity AED '000</i>
31 December 2021			
<i>Currency</i>			
USD	5	1,197,904	1,608
Euro	5	(3,828)	4,844
GBP	5	(7,825)	-
Other currencies	5	24,902	53,970
31 December 2020			
<i>Currency</i>			
USD	5	938,514	2,419
Euro	5	(4,994)	4,806
GBP	5	(16,975)	-
Other currencies	5	33,940	38,724

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31 December 2021

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.2 Currency risk continued

The table below shows the Group's exposure to foreign currencies.

	<i>AED</i> <i>AED '000</i>	<i>USD</i> <i>AED '000</i>	<i>Euro</i> <i>AED '000</i>	<i>GBP</i> <i>AED '000</i>	<i>Others</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2021						
Financial assets						
Cash and balances with central banks	19,976,643	711,779	1,141	7	1,009,679	21,699,249
Balances and wakala deposits with Islamic banks and other financial institutions	1,136,333	2,192,412	50,903	(124,623)	484,658	3,739,683
Murabaha and mudaraba with financial institutions	-	-	706,924	-	83,532	790,456
Murabaha and other Islamic financing	28,579,355	12,237,261	21,670	2,130,363	196,812	43,165,461
Ijara financing	37,634,131	7,370,943	1,019	42,115	38,674	45,086,882
Investments in Islamic sukuk measured at amortised cost	-	9,633,426	-	-	-	9,633,426
Investments measured at fair value	87,925	3,830,565	138,607	-	391	4,057,488
Investment in associates and joint ventures	429,141	-	96,096	-	1,079,141	1,604,378
Other assets	1,328,794	350,611	108,152	(139,327)	67,357	1,715,587
	<u>89,172,322</u>	<u>36,326,997</u>	<u>1,124,512</u>	<u>1,908,535</u>	<u>2,960,244</u>	<u>131,492,610</u>
Financial liabilities						
Due to financial institutions	1,756,451	137,946	106,908	1,043,815	490,832	3,535,952
Depositors' accounts	95,372,621	11,620,920	953,836	916,017	747,709	109,611,103
Other liabilities	2,291,423	577,879	43,462	105,207	144,263	3,162,234
	<u>99,420,495</u>	<u>12,336,745</u>	<u>1,104,206</u>	<u>2,065,039</u>	<u>1,382,804</u>	<u>116,309,289</u>
31 December 2020						
Financial assets						
Cash and balances with central banks	18,249,198	600,248	1,102	-	728,976	19,579,524
Balances and wakala deposits with Islamic banks and other financial institutions	13,358	1,908,192	6,634	35,046	323,904	2,287,134
Murabaha and mudaraba with financial institutions	-	-	44,951	-	87,913	132,864
Murabaha and other Islamic financing	27,326,905	7,083,764	96,943	1,310,463	160,016	35,978,091
Ijara financing	39,696,922	7,196,021	1,291	385,187	151,849	47,431,270
Investments in Islamic sukuk measured at amortised cost	-	10,350,377	-	-	-	10,350,377
Investments measured at fair value	60,437	3,255,821	135,761	-	6,175	3,458,194
Investment in associates and joint ventures	433,690	-	95,816	-	772,156	1,301,662
Other assets	1,434,002	1,858,778	313,940	(1,541,983)	34,408	2,099,145
	<u>87,214,512</u>	<u>32,253,201</u>	<u>696,438</u>	<u>188,713</u>	<u>2,265,397</u>	<u>122,618,261</u>
Financial liabilities						
Due to financial institutions	2,899,742	576,775	24,447	134,107	138,174	3,773,245
Depositors' accounts	87,279,150	12,469,964	666,191	315,916	544,907	101,276,128
Other liabilities	3,000,295	387,803	9,554	78,191	129,038	3,604,881
	<u>93,179,187</u>	<u>13,434,542</u>	<u>700,192</u>	<u>528,214</u>	<u>812,119</u>	<u>108,654,254</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.4 Market risk continued

42.4.3 Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The equity price risk exposure arises from the Group's quoted investments in the investment portfolio.

The following table estimates the sensitivity to a possible change in equity markets on the Bank's consolidated other comprehensive income statement. The effect on equity (as a result of a change in the fair value of equity instruments held as investments carried at fair value through other comprehensive income at 31 December) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	<i>% Increase in market indices 2021</i>	<i>Effect on profit or loss 2021 AED '000</i>	<i>%Increase in market indices 2020</i>	<i>Effect on profit or loss 2020 AED '000</i>
<i>Investments carried at fair value through profit or loss</i>				
Other Markets	10	1,100	10	598
	<i>% Increase in market indices 2021</i>	<i>Effect on equity 2021 AED '000</i>	<i>%Increase in market indices 2020</i>	<i>Effect on equity 2020 AED '000</i>
<i>Investments carried at fair value through other comprehensive income</i>				
Abu Dhabi Stock Market	10	4,015	10	2,554
Dubai Financial Market	10	43	10	15

42.4.4 Operational risk

Operational risk is the potential exposure to financial, reputational or other damage arising from inadequate or failed internal processes, people, systems or external events.

The Bank has implemented a detailed operational risk framework in accordance with Basel III guidelines. The framework articulates clearly defined roles and responsibilities of individuals / units and committees across the Group involved in the management of various operational risk elements. The Operational Risk Management Framework ensures that operational risks within the Group are properly identified, monitored, reported and actively managed. Key elements of the framework include Risk Reviews, "Risk & Control self-Assessment", Loss Data Management, key risk indicators, controls testing, Issues & Actions Management and Reporting. The Framework also fully encompasses and integrates elements of Fraud Risk Prevention and Quality Assurance.

Business and support units are responsible for managing operational risks within their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being pro-actively identified, monitored, reported and managed within their scope of work. The day-to-day operational risks are also managed through the adoption of a comprehensive system of internal control with multi-layers of defense and dedicated systems and procedures to monitor transactions, positions and documentation, as well as maintenance of key backup procedures and business contingency plan which are regularly assessed and tested.

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31 December 2021

42 RISK MANAGEMENT continued

42.4.5 Compliance risk review

In 2014 ADIB became aware of certain financial transactions relating to U.S. dollar payments that potentially breached U.S. sanctions laws in effect at that time. After learning of these potential breaches, ADIB appointed external legal advisers to assist it in reviewing these transactions and reviewing its compliance with U.S. sanctions laws and its compliance processes generally. Following this review, ADIB submitted its findings to relevant regulators in the UAE and the USA in early 2017. This review also assisted ADIB in identifying additional steps to ensure compliance with applicable sanctions laws, and ADIB enhanced its processes accordingly. As at 31 December 2021, the relevant regulators have not responded following receipt of ADIB's findings and, as such, the likely outcome of their review remains unknown.

42.5 Capital management

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ("CET1"), Additional Tier 1 ("AT1") and Total Capital.

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

For 2021 and onwards, CCB will be required to be maintained at 2.5% (2020: 2.5%) of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2021 (2020: Nil).

As per the Central Bank regulation for Basel III, the minimum capital requirement as at 31 December 2021 is 13.0% inclusive of capital conservation buffer of 2.5%. However, effective from 15 March 2020 until 30 June 2022, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, as part of the measures adopted by the CBUAE to help banks deal with the COVID-19 crisis. Further, CBUAE has issued guidance on Accounting Provisions and Capital Requirements - Transitional Arrangement dated 22 April 2020. The Prudential Filter allows banks to add back increases in IFRS9 ECL provision, stage 1 and 2, from 31 December 2019 to the regulatory capital and transition over 5 years.

The minimum capital adequacy ratio as per Basel III capital regulation is given below:

	<i>Minimum capital requirement 2021</i>	<i>Minimum capital requirement 2020</i>
Capital Ratio:		
a. Total for consolidated Group	11.50%	11.50%
b. Tier 1 ratio for consolidated Group	9.50%	9.50%
c. CET1 ratio for consolidated Group	8.00%	8.00%

The Group's regulatory capital is analysed into three tiers:

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

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines;
- AT 1 capital comprises an eligible non-common equity capital instrument; and
- T2 capital comprises qualifying subordinated instrument and undisclosed reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

42 RISK MANAGEMENT continued

42.5 Capital management continued

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or to adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

For credit and market risks, the Central Bank of the U.A.E. has issued guidelines for implementation of Standardised approach. For operational risk, the Central Bank of the U.A.E. has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Basic Indicators approach.

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Group for the years ended 31 December 2020 and 2021. During those two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject:

	<i>Basel III</i>	
	<i>31 December 2021 AED '000</i>	<i>31 December 2020 AED '000</i>
<i>Capital base</i>		
Common Equity Tier 1	13,500,957	12,884,982
Additional Tier 1 capital	<u>4,754,375</u>	<u>4,754,375</u>
Tier 1 capital	18,255,332	17,639,357
Tier 2 capital	<u>1,137,950</u>	<u>1,079,597</u>
Total capital base	<u>19,393,282</u>	<u>18,718,954</u>
<i>Risk weighted assets</i>		
Credit risk	91,036,016	86,367,747
Market risk	2,893,484	2,546,050
Operational risk	<u>10,513,631</u>	<u>10,659,881</u>
Total risk weighted assets	<u>104,443,131</u>	<u>99,573,678</u>
<i>Capital ratios</i>		
Common Equity Tier 1 ratio	<u>12.93%</u>	<u>12.94%</u>
Total Tier 1 capital ratio	<u>17.48%</u>	<u>17.71%</u>
Total capital ratio	<u>18.57%</u>	<u>18.80%</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

Quoted investments – at fair value

Quoted investments represent marketable equities and sukuk that are measured at fair value. The fair values of these investments are based on quoted prices as of the reporting date. For investments carried at fair value through other comprehensive income, the impact of change in fair valuation from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

Unquoted investments – at fair value

The consolidated financial statements include investments in unquoted funds and private equities which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalization of sustainable earnings basis. The valuation models include some assumptions that are not supported by observable market prices or rates. The impact of change in fair value from previous carrying amount has been recognized as a part of cumulative changes in fair values in consolidated statement of changes in equity through consolidated statement of comprehensive income.

In the opinion of management, the estimated carrying values and fair values of those financial assets and liabilities that are not carried at fair value in the consolidated financial statements are not materially different (except investment carried at amortised cost and investment in associates and joint ventures (note 21), since those financial assets and liabilities are either short term in nature or in the case of deposits and financing asset, are frequently repriced. The fair value of investments carried at amortised cost is disclosed below.

	<i>Carrying value 2021 AED '000</i>	<i>Fair value 2021 AED '000</i>	<i>Carrying value 2020 AED '000</i>	<i>Fair value 2020 AED '000</i>
<i>Fair value of investments - at amortised cost</i>				
Investments carried at amortised cost - sukuk (note 19)	<u>9,633,426</u>	<u>9,749,116</u>	<u>10,350,377</u>	<u>10,679,678</u>

Fair value measurement recognized in the consolidated statement of financial position

The Group uses the following hierarchy for determining and disclosing the fair value of financial instrument by valuation technique:

Level 1: quoted (unadjusted prices in active markets for identical assets or liabilities).

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Abu Dhabi Islamic Bank PJSC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2021

43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

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

	<i>Level 1</i> <i>AED '000</i>	<i>Level 2</i> <i>AED '000</i>	<i>Level 3</i> <i>AED '000</i>	<i>Total</i> <i>AED '000</i>
31 December 2021				
Assets and liabilities measured at fair value:				
Financial assets				
<i>Investments carried at fair value through profit or loss</i>				
Quoted investments	21,482	-	-	21,482
Sukuk	<u>2,111,997</u>	<u>-</u>	<u>-</u>	<u>2,111,997</u>
	<u>2,133,479</u>	<u>-</u>	<u>-</u>	<u>2,133,479</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	40,579	-	-	40,579
Sukuk	<u>1,744,142</u>	<u>-</u>	<u>-</u>	<u>1,744,142</u>
	<u>1,784,721</u>	<u>-</u>	<u>-</u>	<u>1,784,721</u>
<i>Unquoted investments</i>				
Sukuk	-	-	72,398	72,398
Funds	-	-	23,351	23,351
Private equities	<u>-</u>	<u>-</u>	<u>58,531</u>	<u>58,531</u>
	<u>-</u>	<u>-</u>	<u>154,280</u>	<u>154,280</u>
	<u>1,784,721</u>	<u>-</u>	<u>154,280</u>	<u>1,939,001</u>
	<u>3,918,200</u>	<u>-</u>	<u>154,280</u>	<u>4,072,480</u>
Financial liabilities				
Shari'a compliant alternatives of swap (note 37)	<u>-</u>	<u>846</u>	<u>-</u>	<u>846</u>
Assets for which fair values are disclosed:				
Investment properties (note 22)	<u>-</u>	<u>-</u>	<u>1,608,517</u>	<u>1,608,517</u>
Investment carried at amortised cost - Sukuk	<u>9,749,116</u>	<u>-</u>	<u>-</u>	<u>9,749,116</u>
Assets acquired in satisfaction of claims	<u>-</u>	<u>125,340</u>	<u>-</u>	<u>125,340</u>
31 December 2020				
Assets and liabilities measured at fair value:				
Financial assets				
<i>Investments carried at fair value through profit or loss</i>				
Quoted investments	5,983	-	-	5,983
Sukuk	<u>1,646,428</u>	<u>-</u>	<u>-</u>	<u>1,646,428</u>
	<u>1,652,411</u>	<u>-</u>	<u>-</u>	<u>1,652,411</u>
<i>Investments carried at fair value through other comprehensive income</i>				
<i>Quoted investments</i>				
Equities	25,693	-	-	25,693
Sukuk	<u>1,638,636</u>	<u>-</u>	<u>-</u>	<u>1,638,636</u>
	<u>1,664,329</u>	<u>-</u>	<u>-</u>	<u>1,664,329</u>
<i>Unquoted investments</i>				
Sukuk	-	-	72,437	72,437
Funds	-	-	34,365	34,365
Private equities	<u>-</u>	<u>-</u>	<u>50,426</u>	<u>50,426</u>
	<u>-</u>	<u>-</u>	<u>157,228</u>	<u>157,228</u>
	<u>1,664,329</u>	<u>-</u>	<u>157,228</u>	<u>1,821,557</u>
	<u>3,316,740</u>	<u>-</u>	<u>157,228</u>	<u>3,473,968</u>
Shari'a compliant alternatives of swap (note 37)	<u>-</u>	<u>2,796</u>	<u>-</u>	<u>2,796</u>
Assets for which fair values are disclosed:				
Investment properties (note 22)	<u>-</u>	<u>-</u>	<u>1,517,814</u>	<u>1,517,814</u>
Investment carried at amortised cost - Sukuk	<u>10,679,678</u>	<u>-</u>	<u>-</u>	<u>10,679,678</u>
Assets acquired in satisfaction of claims	<u>-</u>	<u>134,080</u>	<u>-</u>	<u>134,080</u>

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43 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

There were no transfers between level 1, 2 and 3 during the year.

A significant part of the investments classified under Level 3 are valued using inputs from investment managers and in the opinion of the management it is not practical to disclose the sensitivity of inputs to the valuation techniques used.

The following table shows a reconciliation of the opening and closing amount of level 3 of financial assets which are recorded at fair value:

	<i>2021</i> <i>AED '000</i>	<i>2020</i> <i>AED '000</i>
At 1 January	157,228	171,717
Net purchases (settlement)	13,279	(2,990)
Loss recorded in equity	<u>(16,227)</u>	<u>(11,499)</u>
At 31 December	<u>154,280</u>	<u>157,228</u>

44 SOCIAL CONTRIBUTIONS

The social contributions (including donations and charity) made during the year amount to AED 20,000 thousand which were approved by the shareholders at the Annual General Assembly held on 04 April 2021.

During 2020, the social contributions (including donations and charity) were made amounting to AED 20,000 thousand after the approval by the shareholders at the Annual General Assembly held on 29 March 2020.

Dividend to charity relating to year ended 31 December 2021 amounting to AED 20,000 thousand is proposed by the Board of Directors for the approval by the shareholders at the forthcoming Annual General Assembly.