GULF INTERNATIONAL BANK B.S.C. – ABU DHABI BRANCH

FINANCIAL STATEMENTS

For the year ended 31st December 2021

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C.

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Gulf International Bank B.S.C. – Abu Dhabi Branch ("the Branch"), which comprise the statement of financial position as at 31 December 2021, and the statements of comprehensive income, changes in equity and cash flows for the year then ended 31 December 2021, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Branch in accordance with the *International Codes of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the 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.

Responsibilities of management and the Board of Directors for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

The management and the Board of Directors are responsible for overseeing the Branch's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C. continued

Report on the Audit of the Financial Statements continued

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

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

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

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch'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 Branch's' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

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

We communicate with the Board of Directors 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.

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS OF GULF INTERNATIONAL BANK B.S.C. 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:

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

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

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

(iv) based on the information that has been made available to us, the Branch has not purchased or invested in any shares or stocks during the year ended 31 December 2021;

(v) note 19 reflects the material related party transactions and the terms under which they were conducted; and

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

(vii) the Branch has not made any social contributions during the year.

For Ernst & Young

TS Hari Gopal

Signed by
Thodla Hari Gopal
Partner
Registration No: 689

31 May 2022
Abu Dhabi, United Arab Emirates

Statement of Financial Position

	Note	**31.12.21** **AED 000s**	31.12.20 AED 000s
ASSETS			
Cash and other liquid assets	4	**197,292**	42,090
Placements	5	**388,000**	533,450
Loans and advances	6	**1,455,909**	1,000,225
Equipment	7	**1,087**	471
Due from Head Office and branches	8	**2,448**	153,818
Other assets	9	**18,302**	7,741
Total assets		**2,063,038**	1,737,795
LIABILITIES			
Deposits from customers	10	**1,336,632**	1,034,176
Due to Head Office and branches	11	**70,723**	105,430
Other liabilities	12	**23,977**	11,944
Senior term financing	13	**81,226**	29,994
Total liabilities		**1,512,558**	1,181,544
HEAD OFFICE ACCOUNT			
Capital funds		**550,000**	550,000
Other reserve		**480**	6,251
Retained earnings		-	-
Total Head Office account		**550,480**	556,251
Total liabilities and Head Office account		**2,063,038**	1,737,795

The financial statements along with the related notes from 1 to 26 have been approved by:-

Waleed Hassan
Branch Manager
31st May 2022

Statement of Comprehensive Income

	Note	Year ended 31.12.21 AED 000s	Year ended 31.12.20 AED 000s
Net interest income	14	**31,015**	16,461
Fee and commission income	15	**3,411**	1,895
Foreign exchange income	16	**732**	311
Other income		**-**	139
Trading income		**1,193**	62
Total income		**36,351**	18,868
Staff expenses		**(13,027)**	(8,378)
Premises expenses		**(1,634)**	(1,545)
Other operating expenses		**(2,130)**	(2,642)
Total operating expenses		**(16,791)**	(12,565)
Net income before provisions and tax		**19,560**	6,303
Provision charge for loans and advances		**(32,815)**	(112,925)
Provision release / (charge) for credit related contingents		**404**	(1,378)
Net loss before tax		**(12,851)**	(108,000)
Taxation charge	17	**-**	-
Net loss		**(12,851)**	(108,000)
Other comprehensive income		**-**	-
Total comprehensive loss		**(12,851)**	(108,000)

Statement of Changes in Head Office Account

	Capital funds AED 000s	Retained earnings AED 000s	Other reserve AED 000s	Total AED 000s
At 1st January 2021	**550,000**	**-**	**6,251**	**556,251**
Total comprehensive income:-				
Net loss for the year	-	(12,851)	-	(12,851)
Total comprehensive loss	-	(12,851)	-	(12,851)
Transfer to other reserve (note 24)	-	5,771	(5,771)	-
Transfer of accumulated losses to Head Office	-	7,080	-	7,080
Total transactions with head office	-	7,080	-	7,080
At 31st December 2021	**550,000**	**-**	**480**	**550,480**
At 1st January 2020	550,000	14,347	16,357	580,704
Total comprehensive income:-				
Net loss for the year	-	(108,000)	-	(108,000)
Total comprehensive loss	-	(108,000)	-	(108,000)
Transfer to other reserve (note 24)	-	10,106	(10,106)	-
Transfer of accumulated losses to Head Office	-	83,547	-	83,547
Total transactions with head office	-	83,547	-	83,547
At 31st December 2020	550,000	-	6,251	556,251

The attached notes 1 to 26 form part of these financial statements

Statement of Cash Flows

	Note	**Year ended 31.12.21 AED 000s**	Year ended 31.12.20 AED 000s
OPERATING ACTIVITIES			
Net loss before tax		**(12,851)**	(108,000)
Adjustments to reconcile net income to net cash inflow / (outflow) from operating activities:-			
Provision charge for loans and advances		**32,815**	112,925
Provision (release) / charge for credit related contingents		**(404)**	1,378
Depreciation		**517**	647
Net (increase) / decrease in statutory deposit with the central bank		**(7,469)**	4,735
Net decrease / (increase) in placements		**145,450**	(533,450)
Net (increase) / decrease in loans and advances		**(320,728)**	22,308
Increase in amounts due from Head Office and branches		**(16,401)**	(362,737)
(Decrease) / increase in amounts due to Head Office and branches		**(34,707)**	66,012
Net increase in other assets / liabilities		**1,876**	4,755
Net increase in deposits from customers		**302,456**	533,322
Net cash inflow / (outflow) from operating activities		**90,554**	(258,105)
INVESTING ACTIVITY			
(Purchases) / Disposals of property and equipment		**(1,133)**	65
Cash (used in) / from investing activity		**(1,133)**	65
FINANCING ACTIVITIES			
Senior term financing		**51,232**	-
Transfer of accumulated losses to Head Office		**7,080**	83,547
Net inflow from financing activities		**58,312**	83,547
Increase / (Decrease) in cash and cash equivalents		**147,733**	(174,493)
Cash and cash equivalents at 1st January		**18,777**	193,270
Cash and cash equivalents at 31st December	*4*	**166,510**	18,777
Significant non-cash transactions:			
Transfer of loans from Head Office		**167,771**	338,539

The attached notes 1 to 26 form part of these financial statements

1 Incorporation and registration

Gulf International Bank B.S.C. – Abu Dhabi Branch (the “Branch”) is a branch of a Bahraini Shareholding Company, Gulf International Bank B.S.C. (the “Head Office”). The Abu Dhabi branch is registered as a wholesale bank branch with the Central Bank of the United Arab Emirates (CBUAE) under license number 13/420/2017 and commenced its operations on 9th December 2014. The registered office of the Branch is Nation Towers, Corniche Road, Abu Dhabi, United Arab Emirates.

The Branch is principally engaged in the provision of wholesale commercial banking services and carries out its operations in the UAE.

2 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below:-

2.1 Novel Coronavirus ("COVID-19")

The outbreak of novel coronavirus (“COVID-19”) since early 2020, its spread across mainland China and then globally caused disruptions to businesses and economic activities globally. This has impacted the global economic to slow down with uncertainties in the economic environment. As a result, governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

The Branch’s management revisited its significant judgments in applying the Branch's accounting policies and the methods of computation and the key sources of estimation applied to the annual financial statements for the year ended 31st December 2021.

Whilst it is challenging now, to predict the full extent and duration of its business and economic impact, the Branch’s management carried out an impact assessment on the Branch’s operations and business aspects including factors like supply chain, travel restrictions, oil prices, product demand, etc. and concluded that, as of the issuance date of these financial statements, in view of the current uncertainty, any future change in the assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future periods.

The Branch has evaluated the current situation through conducting stress testing scenarios on expected movements of oil prices and their impact on key credit, liquidity, operational, solvency and performance indicators, in addition to other risk management practices to manage the potential business disruption that the COVID-19 outbreak may have on its operations and financial performance.

a) Expected credit losses

- The Branch uses various inputs and assumptions for the determination of expected credit losses (“ECLs”) taking into consideration the uncertainties caused by COVID 19 and oil price volatility. The ECL forecast economic conditions have been consistently applied by the Branch and are consistent with those of the previous year, although economic forecasts have improved during the year, however, the Branch is being prudent considering that the situation is evolving. The Branch has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination.

2 Accounting policies (continued)

2.1 Novel Coronavirus ("COVID-19") (continued)

a) Expected credit losses (continued)

- This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The forward-looking factors used to derive the point-in-time (PIT) probability of default (PD) incorporate the following assumptions for the key markets of the Kingdom of Saudi Arabia and United Arab Emirates: real GDP growth between -1.2% to 0.9% ; and fiscal deficit as a percentage of GDP between -8.1% and -11.8% over the next 12 months for the years ended 31st December 2021 and 31st December 2020. The Branch has assigned probabilities for the aforementioned macro-economic factors for the base case, negative case and positive case scenarios in the ratio of 50:25:25, respectively (31st December 2020: 50:25:25).

  The Branch also updated the relevant forward-looking information with respect to the weightings of the relevant macroeconomic scenarios relative to the economic climate of the respective market in which it operates.

  In addition to the assumptions outlined above, the Branch continues to closely monitor the potential repayment risk impact of COVID-19 on affected industry sectors.

2.2 Basis of preparation

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

The financial statements have been prepared under the historical cost convention except for derivative financial instruments which are recorded at fair value. The accounting policies have been consistently applied by the Branch and are consistent with those of the previous year, except for the adoption of the following:

- **Interest Rate Benchmark Reform: Amendments to IFRS 7, IFRS 9 and IAS 39:**

  The Branch has adopted amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform – Phase 2 (IBOR reform phase 2) on its effective date of 1 January 2021. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships and financial instruments. Comparative amounts have not been restated, and there was no impact on the current period opening reserves amounts on adoption.

2 Accounting policies (continued)

2.2 Basis of preparation (continued)

- **Amendments to IFRS 16 Covid-19 Related Rent concessions beyond 30 June 2020**

  On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases (IFRS 16). The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. Earlier application is permitted. This amendment had no material impact on the financial statements of the Branch.

2.3 Foreign currencies

Items included in the financial statements of the Branch are measured based on the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in UAE Dirhams (AED), representing the Branch’s functional and presentation currency. Amounts have been rounded to the nearest thousand except where otherwise indicated.

Foreign currency transactions are translated into AED using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to AED at the foreign exchange rate ruling at the dates. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.

2.4 Financial assets and liabilities

Financial assets and liabilities comprise all assets and liabilities reflected in the statement of financial position, excluding equipment, prepayments and accrued expenses. All financial assets and liabilities are classified at amortised cost except for derivative financial instruments which are measured at Fair value

a) Initial recognition and measurement

The Branch recognises financial assets and liabilities in the statement of financial position when, and only when, the Branch becomes party to the contractual provisions of the instrument.

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

2 Accounting policies (continued)

2.4 Financial assets and liabilities (continued)

a) Initial recognition and measurement (continued)

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

Financial assets are initially recognised at fair value including transaction costs attributable to the financial asset, with the exception of trade receivables which are recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and liabilities classified as FVTPL are recognised on the trade date, i.e. the date on which the Branch commits to purchase or sell the financial asset or liability. All regular way purchases and sales of other financial assets and liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the timeframe generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and liabilities are measured at either amortised cost or fair value. The classification and the basis for measurement are subject to the Branch’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Financial assets at amortised cost
Financial assets are measured at amortised cost using the effective interest rate method if:-

- the assets are 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 assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If the first criteria is not met, the financial assets are classified and measured at fair value through other comprehensive income (FVTOCI). If both criteria are not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

Additionally, even if a financial asset meets the amortised cost criteria, the Branch may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)
At initial recognition, the Branch can make an irrevocable election to classify an equity investment that is not held for trading as FVTOCI.

2 Accounting policies (continued)

2.4 Financial assets and liabilities (continued)

a) Initial recognition and measurement (continued)

Financial assets at fair value through other comprehensive income (FVTOCI) (continued)
For this purpose, a financial asset is deemed to be held for trading if the equity investment meets any of the following conditions:-

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profitability; or
- it is a derivative and not designated and effective as a hedging instrument or a financial guarantee.

The irrevocable election is on an instrument-by-instrument basis. If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are classified as financial liabilities at amortised cost and are measured at amortised cost using the effective interest rate method as described in note 2.6(a).

Financial liabilities at fair value through the profit or loss
Financial liabilities not otherwise classified above are classified as financial liabilities at FVTPL. This classification includes derivatives that are liabilities measured at fair value.

b) Modification of Financial assets and liabilities

Financial assets
If the terms of a financial asset are modified, the Branch evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value. If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Branch recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the statement of comprehensive income.

Financial liabilities
The Branch derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at either amortised cost or fair value. The difference between the carrying amount of the financial liability derecognised and the new financial liability with modified terms is recognised in the statement of comprehensive income.

2 Acounting policies (continued)

2.5 Impairment of financial assets

Impairment allowances for expected credit losses (ECL) are recognised for financial instruments that are not measured at FVTPL. No impairment loss is recognised on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:-

- debt investment securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments for which the credit risk has not increased significantly since their initial recognition.

The Branch classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:-

- Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the Branch recognises an allowance based on the 12-month ECL.
- Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but that are not credit-impaired, the Branch recognises an allowance for the lifetime ECL.
- Stage 3: for credit-impaired financial instruments, the Branch recognises the lifetime ECL.

12-month ECL (stage 1) is the portion of ECL that results from probable default events on a financial instrument within 12 months after the reporting date.

Lifetime ECL (stage 2) is a probability-weighted estimate of credit losses and is determined based on the difference between the present value of all cash shortfalls. The cash shortfall is the difference between all contractual cash flows that are due to the Branch and the present value of the recoverable amount, for financial assets that are not credit-impaired at the reporting date.

For stage 3 financial instruments, the provisions for credit-impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate at the inception of the credit facility or, for debt instruments, at the current market rate of interest for a similar financial asset.

Provisions for credit-impairment are recognised in the statement of comprehensive income and are reflected in an allowance account against loans and advances, investment securities, and placements.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortised cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties, would not otherwise be considered, indications that it is probable that the borrower will enter bankruptcy or other financial reorganisation, the disappearance of an active market, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers, or economic conditions that correlate with defaults.

2 Accounting policies (continued)

2.5 Impairment of financial assets (continued)

Financial assets which have been renegotiated or modified are no longer considered to be past due and are replaced on performing status when all principal and interest payments are up to date and future payments are reasonably assured. Financial assets subject to individual impairment assessment and whose terms have been renegotiated, are subject to on-going review to determine whether they remain impaired or should be considered past due. All renegotiated or modified facilities are classified as stage 2 or stage 3 for a minimum period of 12 months from the date of renegotiation. The ECL on renegotiated financial instruments is measured based on whether the terms of renegotiation resulted in the derecognition of an existing asset.

2.6 Offsetting financial assets and liabilities

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

2.7 Revenue recognition

a) Interest income and interest expense

Interest income and interest expense for all interest-bearing financial assets and liabilities except those classified as FVTPL are recognised using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or liability. The application of the effective interest rate method has the effect of recognising interest income and interest expense evenly in proportion to the amount outstanding over the period to maturity or repayment.

In calculating the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial asset or liability but excluding future credit losses. Fees, including loan origination fees and early redemption fees, are included in the calculation of the effective interest rate to the extent that they are considered to be an integral part of the effective interest rate.

Interest income is suspended when either interest or principal on a credit facility is overdue by more than 90 days whereupon all unpaid and accrued interest is reversed from income. Interest on non-accrual facilities is included in income only when received. Credit facilities are restored to accrual status only after all delinquent interest and principal payments have been brought current and future payments are reasonably assured.

b) Fees and commissions

Fees and commissions that are integral to the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate.

Other fees and commissions are recognised as the related services are performed or received, and are included in fee and commission income.

2 Accounting policies (continued)

c) Foreign exchange income

Foreign exchange income arise from earnings generated from customer business and market making, and from changes in fair value resulting from movements in interest and exchange rates, equity prices and other market variables. Changes in fair value and gains and losses arising on the purchase and sale of trading instruments are included in trading income, together with the related interest income, interest expense and dividend income.

2.8 Equipment

Equipment includes technology and IT-related costs, office furniture and fittings, and vehicles.

Equipment is stated at cost less accumulated depreciation. The residual values and useful lives of equipment are reviewed at each Statement of Financial Position date, and adjusted where appropriate. Depreciation is calculated using the straight-line method over four to five years. Where the carrying amount of equipment is greater than the estimated recoverable amount, the carrying amount is reduced to the recoverable amount.

Generally, costs associated with the maintenance of equipment are recognised as an expense when incurred. However, expenditure that enhances and extends the benefits of equipment beyond their original specifications and lives is recognised as a capital improvement and capitalised as part of the original cost of the equipment.

2.9 Statutory reserve

As per Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking, branches of foreign banks shall allocate at least 10 per cent of their annual net profits for the establishment of a special reserve until the reserve equals fifty per cent of the amount allocated as capital. No transfer has been made to the statutory reserve as the Branch reported losses.

2.10 Cash and cash equivalents

Cash and cash equivalents comprise cash and other liquid assets and have insignificant risk of changes in value with original maturities of less than three months.

2.11 Due from and due to Head Office and Branches

Amounts due from and due to Head Office and Branches are stated at amortised cost.

2.12 Employees end of service

The Branch's employees are eligible for post-retirement benefits. The Branch also pays contributions to Government defined contribution pension plans in accordance with the legal requirements. The Branch's contributions to defined contribution pension plans are expensed in the period to which they relate. The Branch also provides end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

2.13 Taxation

Taxation is provided for in accordance with local regulations for assessment of tax on the branches of foreign banks operating in the Emirate of Abu Dhabi.

2 Accounting policies (continued)

2.14 Fair value of financial instruments

The Branch's financial instruments are accounted for under the historical cost method with the exception of trading securities, equity investment securities and derivative financial instruments, which are accounted for at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates. Underlying the definition of fair value is the presumption that the Branch is a going concern without any intention or requirement to curtail materially the scale of its operation or to undertake a transaction on adverse terms. Generally accepted methods of determining fair value include reference to quoted prices (level 1 measurement) or to the pricing prevailing for similar financial instruments (level 2 measurement) and the use of unobservable inputs in estimation techniques such as discounted cash flow analysis (level 3 measurement).

The valuation methodologies applied are outlined below.

a) Loans and advances

The fair values (level 2) of loans on a floating interest rate basis are principally estimated at book value. The fair values (level 3) of impaired loans are estimated at the recoverable amount, measured as the present value of expected future cash flows discounted based on the Branch's weighted average discount rate. The fair values of fixed rate loans are estimated on a discounted cash flow basis utilising discount rates equal to prevailing market rates of interest in the respective currencies for loans of similar residual maturity and credit quality. The fair values (level 2) approximate the carrying values.

b) Term financing

The fair value of term financing is based on observable market data, including quoted market prices for debt instruments issued by similarly rated financial institutions and with similar maturities, or estimated on a discounted cash flow basis utilising currently prevailing spreads for borrowings with similar maturities. The fair values (level 2) of senior term financing at 31st December 2021 approximate the carrying values.

c) Other on-balance sheet items

The fair values of foreign exchange and derivative financial instruments are based on market prices, discounted cash flow techniques or option pricing models as appropriate. The fair values of all other on-balance sheet assets and liabilities approximate their respective book values due to their short-term nature.

d) Credit-related contingent items

There was no material fair value excess or shortfall in respect of credit-related off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and guarantees, as the related future income streams reflected contractual fees and commissions actually charged at the Statement of Financial Position date for agreements of similar credit standing and maturity. Impairment provisions made in respect of individual transactions where a potential for loss has been identified are included in other assets.

Other provisions are recognised when the Branch has a present legal or constructive obligation as a result of a past event, 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.

2 Accounting policies (continued)

2.15 Financial guarantees

Financial guarantees are contracts that require the Branch to make specified payments to reimburse the holder for a loss it incurs because a specific debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are issued to financial institutions and other counterparties on behalf of customers to secure loans, overdrafts and other banking facilities, and to other parties in relation to the performance of customers under obligations related to contracts, advance payments made by other parties, tenders and retentions.

Financial guarantees are initially recognised at fair value on the date the guarantee is issued. The guarantee liability is subsequently measured at the higher of the initial measurement, less amortisation to recognise the fee income earned over the period, or the present value of any expected payments to settle the liability when a payment under the contract has become probable. The expected loss on financial guarantees is measured at the expected payment to reimburse the holder less any amounts that the Branch expects to recover. Any increase in a liability relating to guarantees is recognised in the statement of comprehensive income.

2.16 Derivative financial instruments and hedge accounting

The recognition of changes in the fair values of derivative financial instruments entered into for hedging purposes is determined by the nature of the hedging relationship. For the purposes of hedge accounting, derivative financial instruments are designated as a hedge of either: (i) the fair value of a recognised asset or liability (fair value hedge), or (ii) the future cash flows attributable to a recognised asset or liability or a firm commitment (cash flow hedge).

The Branch's criteria for a derivative financial instrument to be accounted for as a hedge include:-

- the hedging instrument, the related hedged item, the nature of the risk being hedged, and the risk management objective and strategy must be formally documented at the inception of the hedge,
- it must be clearly demonstrated that the hedge is expected to be highly effective in offsetting the changes in fair values or cash flows attributable to the hedged risk in the hedged item, including how the Branch will address the hedge ratio,
- the effectiveness of the hedge must be capable of being reliably measured, and
- there is an economic relationship between the hedging instrument and the hedged item and the effect of credit risk does not dominate the fair value changes of that relationship.

Changes in the fair values of derivative financial instruments that are designated, and qualify, as fair value hedges and that prove to be highly effective in relation to the hedged risk, are included in trading income together with the corresponding change in the fair value of the hedged asset or liability that is attributable to the risk that is being hedged. Unrealised gains and losses arising on hedged assets or liabilities which are attributable to the hedged risk are adjusted against the carrying amounts of the hedged assets or liabilities in the statement of financial position. If the hedge no longer meets the criteria for hedge accounting, any adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortised to income over the remaining period to maturity.

2 Accounting policies (continued)

2.16 Derivative financial instruments and hedge accounting (continued)

Changes in the fair values of derivative financial instruments that are designated, and qualify, as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Unrealised gains or losses recognised in other comprehensive income are transferred to the statement of income at the same time that the income or expense of the corresponding hedged item is recognised in the statement of comprehensive income and are included in the same income or expense category as the hedged item. Unrealised gains or losses on any ineffective portion of cash flow hedging transactions are included in trading income.

The interest component of derivatives that are designated, and qualify, as fair value or cash flow hedges is included in interest income or interest expense relating to the hedged item over the life of the derivative instrument.

Hedge accounting is discontinued when the derivative hedging instrument either expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Gains and losses arising on the termination of derivatives designated as cash flow hedges are recognised in interest income or interest expense over the original tenor of the terminated hedge transaction.

Some hybrid instruments contain both a derivative and non-derivative component. In such cases, the derivative is categorised as an embedded derivative. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met. Where it is not practically possible to separate the embedded derivative, the entire hybrid instrument is categorised as a financial asset at FVTPL and measured at fair value. Changes in fair value are included in trading income.

Hedges directly affected by interest rate benchmark reform (IBOR reform)
For the purpose of evaluating whether there is an economic relationship between the hedged items and the hedging instruments, the Branch assumes that the benchmark interest rate is not altered as a result of IBOR reform.

2.17 Future accounting developments

The International Accounting Standards Board (IASB) have issued a number of new standards, amendments to standards, and interpretations that are not yet effective and have not been applied in the preparation of the financial statements for the year ended 31st December 2021. The relevant new standards, amendments to standards, and interpretations, are as follows:-

- IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Branch expects that the new standard will has no impact on the Branch's consolidated financial statements.

2 Accounting policies (continued)

2.17 Future accounting developments (continued)

- Definition of Accounting Estimates – Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Branch.

- **Classification of Liabilities as Current or Non-current - Amendments to IAS 1**

In January 2020, the Board issued amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement.
- That a right to defer must exist at the end of the reporting period.
- That classification is unaffected by the likelihood that an entity will exercise its deferral right.
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

These amendments are effective for reporting periods beginning on or after 1 January 2023, with early application permitted. The Branch is not expected to be affected by these amendments on the date of transition.

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

In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Branch will not be affected by these amendments on the date of transition.

2 Accounting policies (continued)

2.17 Future accounting developments (continued)

- **Amendments to IAS 16 – Property, Plant and Equipment: Proceeds before Intended Use**

  In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. These amendments are effective for reporting periods beginning on or after 1 January 2022, with early application permitted. The Branch is not expected to be affected by these amendments on the date of transition.

- **Amendments to IFRS 3 – Reference to the Conceptual Framework**

  In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to a previous version of the IASB's Conceptual Framework (the 1989 Framework) with a reference to the current version issued in March 2018 (the Conceptual Framework) without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37) or IFRIC 21 Levies (IFRIC 21), if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. Since the amendments apply prospectively to transactions or other events that occur on or after 1 January 2022, the Branch will not be affected by these amendments on the date of transition.

- **Annual improvements 2018-2020 cycle**
  These improvements include:

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a First-time Adopter.
- IFRS 9 Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Financial Liabilities.
- IAS 41 Agriculture – Taxation in Fair Value Measurements.
- Illustrative Examples accompanying IFRS 16 Leases – Lease Incentives.

3 Accounting estimates and assumptions

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses at the reporting date.

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

3 Accounting estimates and assumptions (continued)

Financial instruments

Judgements made in applying accounting policies in accordance with IFRS 9: Financial instruments which impact:

- 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 interest of the principal amount outstanding.
- Calculation of expected credit loss (ECL): In determining impairment of financial assets, judgement is required in the estimation of the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL. The information about the judgements made are set out in note 20.

Fair value of financial assets and liabilities

Where the fair value of financial assets and liabilities cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is derived from observable markets where available, but where this is not feasible, a degree of judgement is required in determining assumptions used in the models. Changes in assumptions used in the models could affect the reported fair value of financial assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2021

4 Cash and other liquid assets

	31.12.21 AED 000's	31.12.20 AED 000's
Cash and balances with banks	**166,510**	18,777
Cash and cash equivalents	**166,510**	18,777
Statutory deposit with the CBUAE	**30,782**	23,313
Cash and other liquid assets	**197,292**	42,090

The statutory deposit with the CBUAE is subject to local regulations which provide for restrictions on the deployment of these funds.

5 Placements

Placements at 31st December 2021 entirely comprised inter-bank placements of which the entire AED 388,000 is denominated in AED with an original maturity of 1 to 19 days (2020: AED 460,000 thousand was denominated in AED and the remaining AED 73,450 is in US Dollars with an original maturity of one month)

6 Loans and advances

6.1 Composition

	31.12.21 AED 000s	31.12.20 AED 000s
Gross loans and advances	**1,575,889**	1,087,384
Stage 3 provision for expected credit losses	**(93,748)**	(72,075)
Carrying amount of loans and advances	**1,482,141**	1,015,309
Stage 1 and 2 provision for expected credit losses	**(26,232)**	(15,084)
Net loans and advances	**1,455,909**	1,000,225

6.2 Industrial classification

	31.12.21 AED 000s	31.12.20 AED 000s
Trading and services	**374,117**	341,946
Transportation	**278,364**	125,427
Financial	**249,721**	91,812
Manufacturing	**239,786**	262,614
Real estate	**183,618**	159,137
Energy, oil and petrochemical	**104,303**	4,903
Construction and engineering	**91,794**	101,545
Agriculture and Mining	**54,186**	-
Gross loans and advances	**1,575,889**	1,087,384
Provision for expected credit losses	**(119,980)**	(87,159)
Net loans and advances	**1,455,909**	1,000,225

6 Loans and advances (continued)

6.3 Provision for expected losses

The movements in provisions for expected credit losses of loans and advances were as follows:-

	2021				2020			
	Stage 1 AED 000s	**Stage 2 AED 000s**	**Stage 3 AED 000s**	**Total AED 000s**	Stage 1 AED 000s	Stage 2 AED 000s	Stage 3 AED 000s	Total AED 000s
At 1st January	**9,933**	**5,151**	**72,075**	**87,159**	2,545	1,461	-	4,006
Transfer to stage 2	**(489)**	**489**	**-**	**-**	(795)	795	-	-
Transfer to stage 3	**-**	**-**	**-**	**-**	(661)	(153)	814	-
Exchange rate movements	**-**	**-**	**6**	**6**	-	-	(5)	(5)
Net remeasurement of loss allowance	**3,675**	**7,473**	**21,667**	**32,815**	8,844	3,048	101,033	112,925
Amounts utilised	**-**	**-**	**-**	**-**	-	-	(29,767)	(29,767)
At 31st December	**13,119**	**13,113**	**93,748**	**119,980**	9,933	5,151	72,075	87,159

6 Loans and advances (continued)

6.4 Past due loans

The gross and carrying amounts of loans for which either principal or interest was over 90 days past due were as follows:-

	31.12.21 Gross AED 000s	**31.12.21 Carrying Amount AED 000s**	31.12.20 Gross AED 000s	31.12.20 Carrying Amount AED 000s
Corporates	**111,579**	**17,831**	111,579	39,504

6.5 Restructured loans

During the years ended 31st December 2021 and 31st December 2020, the Branch did not restructure any loan or make any concessions that would not ordinarily have been accepted due to a deterioration in the customer's financial position.

6.6 Collateral

The Branch did not take possession of any collateral during the years ended 31st December 2021 and 31st December 2020.

7 Equipment

	2021 AED 000s	2020 AED 000s
Cost		
Opening balance	**3,006**	3,071
Additions / (disposals) during the year	**1,133**	(65)
Balance at 31st December	**4,139**	3,006
Accumulated depreciation		
Opening balance	**2,535**	1,888
Charge for the year	**517**	647
Balance at 31st December	**3,052**	2,535
Net book value at 31st December	**1,087**	471

Furniture, equipment and vehicles mainly include infrastructure, technology and IT-related costs transferred from Head Office at net book value.

8 Due from Head Office and branches

Amount due from Head Office and branches are predominantly interest free and are receivable on demand.

9 Other assets

	31.12.21	31.12.20
	AED 000s	AED 000s
Derivative financial instruments	**7,843**	194
Accrued interest, fees and commission	**5,843**	5,132
Right-of-use assets	**2,710**	-
Prepayments	**1,287**	1,966
Other, including accounts receivable	**619**	449
	18,302	7,741

10 Deposits from customers

Deposits at 31st December 2021 and 31st December 2020 were entirely from entities in the Gulf Cooperation Council (GCC) states.

11 Due to Head Office and Branches

At 31st December 2021, the balance due to Head Office and branches are predominantly interest free and repayable on demand.

12 Other liabilities

	31.12.21	31.12.20
	AED 000s	AED 000s
Deferred income	**7,159**	2,507
Derivative financial instruments	**6,993**	139
Accrued interest	**2,778**	5,357
Lease liability	**1,903**	-
Expected credit losses on contingent liabilities	**1,183**	1,586
Other, including accounts payable and accrued expenses	**3,961**	2,355
	23,977	11,944

13 Senior term financing

	Maturity	**31.12.21**	31.12.20
		AED 000s	AED 000s
Floating rate loans	2024-2026	**81,226**	29,994

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31st December 2021

14 Net interest income

	Year ended 31.12.21 AED 000s	Year ended 31.12.20 AED 000s
Interest income		
Placements and other liquid assets	**679**	2,839
Loans and advances	**40,232**	28,267
Total interest income	**40,911**	31,106
Interest expense		
Deposits from customers	**9,125**	13,950
Senior term financing	**739**	695
Finance cost on lease liability	**32**	-
Total interest expense	**9,896**	14,645
Net interest income	**31,015**	16,461

Interest income on loans and advances includes loan origination fees that form an integral part of the effective interest rate of the loan.

Accrued interest on impaired and past due loans included in interest income for the year ended 31st December 2021 amounted to AED nil (2020: AED nil). There was no accrued but uncollected interest included in interest income on past due loans for either the year ended 31st December 2021 or year ended 31st December 2020.

15 Fee and commission income

	Year ended 31.12.21 AED 000s	Year ended 31.12.20 AED 000s
Fee and commission income		
Loan commitment fee	**2,248**	545
Commissions on letters of credit and guarantee	**946**	1,235
Loan agency fees	**110**	110
Other fee and commission income	**243**	142
Total fee and commission income	**3,547**	2,032
Fee and commission expense	**(136)**	(137)
Net fee and commission income	**3,411**	1,895

16 Foreign exchange income

Foreign exchange income principally comprises customer-initiated foreign exchange contracts which have been offset in the market with matching contracts. There is no remaining market risk associated with these offset customer-related foreign exchange contracts.

17 Income tax

	2021	2020
	AED 000s	AED 000s
Statement of comprehensive income		
Current:		
For the year	**(12,851)**	(108,000)
	(12,851)	(108,000)
The relationship between the tax expense and the accounting income		
Accounting (loss)	**(12,851)**	(108,000)
Add: provisions not deductible	**32,411**	114,303
Less: prior period losses utilised	**(19,560)**	(6,303)
Adjusted taxable income	**-**	-
Tax at the applicable rate of 20%	**-**	-

Taxation is provided at 20% (31st December 2020: 20%) on the adjusted taxable profit attributable to the operations of Abu Dhabi Branch. The Branch has not created a deferred tax asset as it is probable that taxable profits will not be available in the immediate future against which the tax losses carried forward can be utilised.

18 Credit-related financial instruments

Credit-related financial instruments include commitments to extend credit, standby letters of credit and guarantees which are designed to meet the financing requirements of customers. The notional principal amounts of outstanding credit-related contingent items were as follows:-

	31.12.21	31.12.20
	AED 000s	AED 000s
Direct credit substitutes	**48,905**	76,255
Transaction-related contingent items	**213,371**	298,030
Short-term self-liquidating trade-related contingent items	**6,266**	11,794
Undrawn loan commitments	**226,892**	202,804
	495,434	588,883

Commitments may be drawndown on demand.

Direct credit substitutes at 31st December 2021 and 31st December 2020 comprise financial guarantees which may be called on demand

19 Related party transactions

The Branch's transactions with its Head Office, subsidiaries and other branches of its Head Office are conducted in the ordinary course of the Branch's business on arm's length basis. The balances at 31st December resulting from such transactions included in the financial statements are as follows:-

	31.12.21 AED 000s	31.12.20 AED 000s
As at 31 December 2021:		
Gulf International Bank B.S.C. (Head Office)		
Due from Head Office	**2,100**	153,618
Due to Head Office	**67,896**	102,837
Interest rate swaps (notionals)	**684,379**	290,886
Foreign exchange contracts	**601,900**	-
Gulf International Bank B.S.C. - Saudi Arabia		
Due from Subsidiaries	**338**	196
Due to Subsidiaries	**2,827**	2,593
Gulf International Bank (UK) Limited		
Other assets	**72**	72
Gulf International Bank B.S.C. – Retail Branch (Meem)		
Due from Branches	**10**	4
For the year ended 31 December 2021:		
Gulf International Bank B.S.C. (Head Office)		
Net interest income	**365**	-
Trading income	**799**	-
Gulf International Bank B.S.C. - Saudi Arabia		
Fee and Commission expense	**4**	6

	31.12.21 AED 000s	31.12.20 AED 000s
Short-term employee benefits	**1,779**	2,512
Post-employment benefits	**183**	162
	1,962	2,674

The balance due from GIBUK represented a receivable in relation to support services provided to GIBUK. The Branch accumulated an amount of AED 72 thousand for identified allocated costs which mainly represented salaries, employee related expenses and travel expenses recharged to GIBUK.

During the year, the Head Office transferred loans and advances to the Branch. The following table summarises the carrying amount of the loans and advances, and related provisions transferred from Head Office:-

	31.12.21 AED 000s	31.12.20 AED 000s
Gross loans and advances	**167,771**	338,539
Specific provisions for impairment	**-**	-
Carrying amount of loans and advances	**167,771**	338,539

20 Risk management

Financial assets of the Branch comprise cash and cash equivalents, placements, loans and advances, and amounts due from Head Office and Branches and certain other assets. The Branch's financial liabilities comprise deposits from customers, senior term financing, amount due to Head Office and branches and certain other liabilities. At 31st December 2021 and 31st December 2020 all deposits are short-term, with a maximum maturity of one year.

Credit risk

Credit risk is the risk that counterparties will be unable to meet their obligations to the Branch. Credit risk arises principally from the Branch's lending and investment activities in addition to other transactions involving both on- and off-balance sheet financial instruments, including the specific risk for equity instruments. Disciplined processes are in place at both the business unit and corporate level that are intended to ensure that risks are accurately assessed and properly approved and monitored. Formal credit limits are applied at the individual transaction, counterparty, country and portfolio levels. Overall exposures are also evaluated to ensure a broad diversification of credit risk. The credit management process involves the monitoring of concentrations by product, industry, single obligor, risk grade and geography, and the regular appraisal of counterparty credit quality through the analysis of qualitative and quantitative information.

Credit risk is actively managed and rigorously monitored by the Head Office in accordance with well-defined credit policies and procedures. Prior to the approval of a credit proposal, a detailed credit risk assessment is carried out which includes an analysis of the obligor financial condition, market position, business environment and quality of management. The risk assessment generates an internal credit risk rating for each exposure, which affects the credit approval decision and the terms and conditions of the transaction. For cross border transactions an analysis of country risk is also conducted. The Head Office bases its credit decision for an individual counterparty on the aggregate Head Office exposure to that counterparty and all its related entities. Groupwide credit limit setting and approval authorisation requirements are conducted within Board approved guidelines, and the measurement, monitoring and control of credit exposures are done on a Group wide basis in a consistent manner.

The Head Office also mitigates its credit exposures on foreign exchange and derivative financial instruments through the use of master netting agreements and collateral arrangements.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Head Office considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Head Office's historical experience and taking into consideration both internal and external indicators and expert credit assessment and inclusion of forward-looking information.

The Head Office considers all counterparties internally rated 2 and above, between 2- and 3+, between 3 and 4+, and 4 and below, to be significantly deteriorated where they have been downgraded 6 notches, 5 notches, 4 notches and 3 notches respectively since initial recognition, and where the current pricing has not been adjusted to reflect the new risk profile of the existing counterparty.

Debt investment securities are considered to have low credit risk when their credit risk rating is equivalent to an investment grade rating or a debt investment security with similar credit risk characteristics.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in the probability of default (PDs) and qualitative factors, including whether the exposure has been watch-listed, whether the exposure is more than 30 days past due and as a backstop based on delinquency.

20 Risk management (continued)

Credit risk (continued)

Definitions of default and curing

The Head Office considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations in full, without recourse by the Head Office to actions such as liquidating collateral; or the borrower is past due more than 90 days on any credit obligation. In assessing whether a borrower is in default, the Head Office considers both qualitative factors such as breaches of covenants and quantitative factors such as overdue status and non-payment on another obligation of the same issuer to the Head Office.

The Head Office considers a financial asset to be cured, and accordingly reclassified from stage 3 to stage 2 when

Incorporation of forward-looking information

The Head Office incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Chief Economist and consideration of a variety of external actual and forecast information, the Head Office formulates a fundamental view of the future direction of relevant economic variables as well as a reasonable range of possible scenarios.

The Head Office has identified economic factors such as the International Monetary Fund (IMF) and Central Bank forecasts for fiscal balances and GDP growth in key markets of the Kingdom of Saudi Arabia, United Arab Emirates and United States of America as well as the views of the Chief Economist. Given the nature of the Head Office's exposures and availability of historical statistically reliable information, the Head Office derives the point-in-time (PIT) probability of default (PD) using the through-the-cycle (TTC) PD data published by Standard & Poors (S&P) for each rating category. The Head Office uses the Vasicek model to link the TTC PDs with forward looking economic factors to drive PIT PD estimates for each rating category. The Vasicek model takes into consideration forward looking economic forecasts under three scenarios (base case, negative case, and positive case), historical economic data, the asset correlation of each rating category (as per the Basel IRB economic capital formula), and TTC PDs for deriving PIT PDs. The relationship between the economic factors and default and loss rates have been developed using internal historical data and relevant external market data.

Measurement of ECL

The key input parameters into the measurement of ECL are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are derived from internally developed statistical models, other historical data using both internal and external factors, and incorporates forward-looking information.

PD estimates are estimates at a certain date., For corporate exposures, corporate PD estimates are internally derived using the Head office's central default tendency for the Corporate portfolio, for financial institutions and sovereign government exposures, the PDs are based on external rating data of all global financial institutions rated by Standard & Poor's.

The PIT PD estimates are converted to PIT PDs using the Vasicek model. For exposures that have tenors in excess of one year and that are assessed on lifetime PDs, cumulative lifetime PDs are calculated by compounding the 12-month PIT PDs.

20 Risk management (continued)

Credit risk (continued)

Measurement of ECL (continued)
LGD is the magnitude of the likely loss if there is a default. The Head Office estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties, based on historical data using both internal and external factors.

EAD represents the expected exposure in the event of a default. The Head Office derives the EAD from the current exposure to the counterparty and potential changes to the current amounts allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD is converted to balance sheet equivalents.

Subject to a maximum of 12-month PD for financial assets for which credit risk has not significantly increased, the Head Office measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics including instrument type, credit risk ratings and geographic location of the borrower.

The Head Office calculates PIT PD estimates under three scenarios, a base case, negative case and positive case. A probability weighted ECL is then calculated by assigning probabilities, based on current market conditions, to each scenario. At 31st December 2021, the probabilities assigned to the base case, negative case and positive case scenarios were in the ratio of 50:25:25 respectively (2020: 50:25:25).

Modified financial assets
The contractual terms of a loan may be modified for a number of reasons including changing market conditions, and other factors not related to the current or potential credit deterioration of a customer. When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects a comparison of its remaining lifetime PD at the reporting date based on modified terms, with the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Head Office renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. The Head Office grants forbearance on a selective basis if there is evidence that the customer has made all reasonable efforts to honour the original contractual terms and the customer is expected to be able to meet the revised terms. Forbearance is a qualitative indicator of a significant increase in credit risk, and a customer would need to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired, or in default, or the PD has decreased such that the provision for credit-impairment reverts to being measured at an amount equal to the 12-month ECL.

Cash and cash equivalents are placed with the central bank which is subject to minimum risk or with banks with external ratings of BBB+/Baa1 or higher. Placements are placed with multiple banks with external ratings of BBB+/Baa1 or higher. Loans and advances are actively managed and rigorously monitored in accordance with well-defined credit policies and procedures. A detailed credit risk assessment is carried out which includes an analysis of obligor's financial condition among other factors.

20 Risk management (continued)

Credit risk (continued)

Modified financial assets (continued)
Disciplined processes are in place that are intended to ensure that risks are accurately assessed and properly approved and monitored. The gross maximum exposure to credit risk is the carrying value of financial assets and credit-related financial instruments as disclosed in the notes 4, 6, 8 and 18 of the financial statements.

The Branch measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset and impairment losses, if any.

The internal ratings map directly to the external rating grades used by the international credit rating agencies as follows:-

Internal rating grade	Internal classification	Fitch and Standard & Poor's	Moody's
Investment grade			
Rating grade 1	Standard	AAA	Aaa
Rating grade 2	Standard	AA	Aa
Rating grade 3	Standard	A	A
Rating grade 4	Standard	BBB	Baa
Sub-investment grade			
Rating grade 5	Standard	BB	Ba
Rating grade 6	Standard	B	B
Rating grade 7	Standard	CCC	Caa
Classified			
Rating grade 8	Substandard	CC	Ca
Rating grade 9	Doubtful	C	C
Rating grade 10	Loss	D	-

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For the year ended 31st December 2021

20 Risk management (continued)

Credit risk profile

			31.12.21
	Placements & other assets	Loans and advances	Credit-related contingent items
	AED 000s	AED 000s	AED 000s
Stage 1 (12-month ECL)			
Rating grades 1 to 4-	585,292	448,376	395,751
Rating grades 5+ to 5-	-	544,581	65,027
Rating grades 6+ to 6-	-	88,736	-
Carrying amount (net)	585,292	1,081,693	460,778
Stage 2 (Lifetime ECL but not credit-impaired)			
Rating grades 5+ to 5-	-	245,880	-
Rating grades 6+ to 6-	-	105,905	4,641
Rating grades 7+ to 7-	-	4,600	-
Carrying amount (net)	-	356,385	4,641
Stage 3 (Lifetime ECL and credit-impaired)			
Rating grade 8	-	10,770	1,667
Rating grade 9	-	7,061	-
Carrying amount (net)	-	17,831	1,667
Other credit risk exposures			
Performance bonds	-	-	28,348
Carrying amount	-	-	28,348
	585,292	1,455,909	495,434

20 Risk management (continued)

			31.12.20
	Placements & other liquid assets AED 000s	Loans and advances AED 000s	Credit-related contingent items AED 000s
Stage 1 (12-month ECL)			
Rating grades 1 to 4-	575,540	385,588	448,714
Rating grades 5+ to 5-	-	299,609	118,714
Rating grades 6+ to 6-	-	118,320	-
Carrying amount (net)	575,540	803,517	567,428
Stage 2 (Lifetime ECL but not credit-impaired)			
Rating grades 5+ to 5-	-	84,856	-
Rating grades 6+ to 6-	-	72,348	600
Carrying amount (net)	-	157,204	600
Stage 3 (Lifetime ECL and credit-impaired)			
Rating grade 8	-	22,157	1,667
Rating grade 9	-	17,347	-
Carrying amount (net)	-	39,504	1,667
Other credit risk exposures			
Performance bonds	-	-	19,188
Carrying amount	-	-	19,188
	575,540	1,000,225	588,883

The following table contains an analysis of the credit risk exposure of loans and advances for which an ECL allowance is recognized:

	Stage 1 AED 000s	**Stage 2 AED 000s**	**Stage 3 AED 000s**	**Total AED 000s**
Loans and advances	**1,094,812**	**369,498**	**111,579**	**1,575,889**
Expected credit losses and credit impairment	**(13,119)**	**(13,113)**	**(93,748)**	**(119,980)**
At 31st December 2021	**1,081,693**	**356,385**	**17,831**	**1,455,909**

	Stage 1 AED 000s	Stage 2 AED 000s	Stage 3 AED 000s	Total AED 000s
Loans and advances	813,450	162,355	111,579	1,087,384
Expected credit losses and credit impairment	(9,933)	(5,151)	(72,075)	(87,159)
At 31st December 2020	803,517	157,204	39,504	1,000,225

20 Risk management (continued)

Market Risk
Market risk is the risk of loss due to adverse changes in interest rates, foreign exchange rates and market conditions, such as liquidity. The principal market risks to which the Branch is exposed are interest rate risk and foreign exchange risk associated with its asset and liability management activities.

The Branch's exposure to market risk is minimal as the placements and amounts due from and due to Head Office are designated in AED or USD and are short-term.

Managing interest rate benchmark reform and associated risks Overview
A fundamental reform of major interest rate benchmarks is being undertaken globally subsequent to the decision taken by global regulators, including the replacement of some interbank offered rates (IBORs) with alternative nearly risk-free rates (RFR) (referred to as 'IBOR reform'). The Branch has exposures to IBORs on its financial instruments that will be replaced or reformed as part of these market-wide initiatives.

The Branch anticipates that IBOR reform will impact its risk management and hedge accounting. The Branch has established a project to manage the transition for any of its contracts that could be affected. The Branch's (risk management committee) monitors and manages this project for the Branch's transition to alternative rates. The (committee) evaluates the extent to which contracts reference IBOR cash flows, whether such contracts will need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The committee reports to the Head Office board of directors quarterly and collaborates with other business functions as needed. It provides periodic reports to management of interest rate risk and risks arising from IBOR reform.

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

- Conduct risk assessment 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 Branch's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available
- Accounting risk if the Branch's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs

Derivatives
International Swaps and Derivatives Association (ISDA) is currently reviewing its standardised contracts in the light of IBOR reform and plans to amend certain floating-rate options in the 2006 ISDA definitions to include fall-back clauses that would apply on the permanent discontinuation of certain key IBORs. ISDA is expected to publish an IBOR fall-back supplement to amend the 2006 ISDA definitions and an IBOR fall-back protocol to facilitate multilateral amendments to include the amended floating-rate options in derivative transactions that were entered into before the date of the supplement. The Branch currently plans to adhere to the protocol if and when it is finalised and to monitor whether its counterparties will also adhere. If this plan changes or there are counterparties who will not adhere to the protocol, the Branch will negotiate with them bilaterally about including new fall-back clauses.

20 Risk management (continued)

Derivatives (continued)

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

	Non-derivative financial assets - carrying value	Non-derivative financial liabilities - carrying value	Derivatives - nominal amount
31st December 2021	**AED 000s**	**AED 000s**	**AED 000s**
LIBOR	**744,204**	**81,226**	**897,191**

Hedge accounting

The specific impact on the Branch's hedging activities is being carefully managed as part of the overall project to achieve IBOR reform. The Branch has evaluated the extent to which its hedging relationships are subject to uncertainty driven by IBOR reform as at 31st December 2021. The Branch's hedged items and hedging instruments continue to be indexed to USD LIBOR. These benchmark rates are quoted each day and the IBOR cash flows are exchanged with counterparties as usual.

The calculation methodology of Euribor changed during 2019. In July 2019, the Belgian Financial Services and Markets Authority granted authorisation with respect to Euribor under the European Union Benchmarks Regulation. This allows market participants to continue to use Euribor for both existing and new contracts and the Branch expects that Euribor will continue to exist as a benchmark rate for the foreseeable future.

If a hedging relationship is directly affected by uncertainty arising from IBOR reform, then the Branch assumes for this purpose that the benchmark interest rate is not altered as a result of IBOR reform in accordance with the reliefs provided under IBOR reform phase 1 as explained in note 2.17

The below table provides the nominal amounts of interest rate swaps in a hedging relationships that will be affected by IBOR reform as financial instruments transition to RFRs by average maturity. The derivative hedging instruments provide a close approximation to the extent of the risk exposure the Branch manages through hedging relationships.

	Derivatives - nominal amount	Average maturity (in years)
	AED 000s	
31st December 2021		
LIBOR	**897,191**	**3.96**

Liquidity risk

Liquidity risk is the risk that sufficient funds are not available to meet the Branch's financial obligations on a punctual basis as they fall due.

The Branch's exposure to liquidity risk relates to the Branch's customer deposits, senior term financing and the amount due to Head Office and Branches.

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For the year ended 31st December 2021

20 Risk management (continued)

Liquidity risk (continued)

In accordance with CBUAE regulations, the Branch is required to maintain a minimum balance with the Central Bank of UAE equal to 7 per cent of current, bank savings, call and similar accounts and one per cent of fixed deposits (time deposits).

The maturity profile of the carrying amount of assets, liabilities and equity, based on the contractual maturity dates, was as follows:

	Within 3 months AED 000s	4 months to 1 year AED 000s	Years 2 and 3 AED 000s	Over 3 years and other AED 000s	Total AED 000s
At 31st December 2021					
Cash and other liquid assets	**197,292**	**-**	**-**	**-**	**197,292**
Placements	**388,000**	**-**	**-**	**-**	**388,000**
Loans and advances	**257,998**	**211,941**	**235,231**	**750,739**	**1,455,909**
Equipment	**-**	**-**	**-**	**1,087**	**1,087**
Due from Head Office and branches	**2,448**	**-**	**-**	**-**	**2,448**
Other assets	**1,287**	**13,686**	**2,710**	**619**	**18,302**
Total assets	**847,025**	**225,627**	**237,941**	**752,445**	**2,063,038**
Deposits from customers	**909,040**	**427,592**	**-**	**-**	**1,336,632**
Due to Head Office and branches	**70,723**	**-**	**-**	**-**	**70,723**
Other liabilities	**-**	**-**	**1,903**	**22,074**	**23,977**
Senior term financing	**-**	**-**	**50,193**	**31,033**	**81,226**
Equity	**-**	**-**	**-**	**550,480**	**550,480**
Total liabilities & equity	**979,763**	**427,592**	**52,096**	**603,587**	**2,063,038**
At 31st December 2020					
Total assets	1,043,317	185,055	174,013	335,410	1,737,795
Total liabilities & equity	1,023,714	127,836	-	586,245	1,737,795

20 Risk management (continued)

The table below summarises the maturity profile of the Branch's financial liabilities based on contractual undiscounted repayment obligations:

	Within 3 months AED 000s	4 months to 1 year AED 000s	Years 2 and 3 AED 000s	Over 3 years and other AED 000s	Total AED 000s
At 31st December 2021					
Deposits from customers	**916,219**	**437,930**	**-**	**-**	**1,354,149**
Senior term financing	**230**	**-**	**50,193**	**31,033**	**81,456**
Derivative financial instruments					
- contractual amounts payable	**306**	**942**	**2,391**	**3,840**	**7,479**
- contractual amounts receivable	**(1,450)**	**(4,452)**	**(11,710)**	**(22,356)**	**(39,968)**
Total undiscounted financial liabilities	**915,305**	**434,420**	**40,874**	**12,517**	**1,403,116**
At 31st December 2020					
Deposits from customers	925,946	134,556	-	-	1,060,502
Senior term financing	140	-	-	29,994	30,134
Derivative financial instruments					
- contractual amounts payable	48	65	171	96	380
- contractual amounts receivable	(50)	(149)	(397)	(201)	(797)
Total undiscounted financial liabilities	926,084	134,472	(226)	29,889	1,090,219

20 Risk management (continued)

Interest rate risk

Interest rate risk results from exposure to changes in the level and volatility of interest rates and credit spreads.

The repricing profile of assets and liabilities categories and equity were as follows:-

	Within 3 months AED 000s	Months 4 to 6 AED 000s	Months 7 to 12 AED 000s	Over 1 year AED 000s	Non-interest bearing items AED 000s	Total AED 000s
At 31st December 2021						
Cash and other liquid assets	**166,510**	**-**	**-**	**-**	**30,782**	**197,292**
Placements	**388,000**	**-**	**-**	**-**	**-**	**388,000**
Loans and advances	**257,998**	**185,732**	**26,209**	**985,970**	**-**	**1,455,909**
Equipment	**-**	**-**	**-**	**-**	**1,087**	**1,087**
Due from Head Office and branches	**2,448**	**-**	**-**	**-**	**-**	**2,448**
Other assets	**-**	**-**	**7,843**	**-**	**10,459**	**18,302**
Total assets	**814,956**	**185,732**	**34,052**	**985,970**	**42,328**	**2,063,038**
Deposits from customers	**909,040**	**427,592**	**-**	**-**	**-**	**1,336,632**
Due to Head Office and branches	**70,723**	**-**	**-**	**-**	**-**	**70,723**
Other liabilities	**6,993**	**-**	**-**	**-**	**16,984**	**23,977**
Senior term financing	**81,226**	**-**	**-**	**-**	**-**	**81,226**
Equity	**-**	**-**	**-**	**-**	**550,480**	**550,480**
Total liabilities & equity	**1,067,982**	**427,592**	**-**	**-**	**567,464**	**2,063,038**
Interest rate sensitivity gap	**(253,026)**	**(241,860)**	**34,052**	**985,970**	**(525,136)**	**-**
Cumulative interest rate sensitivity gap	**(253,026)**	**(494,886)**	**(460,834)**	**525,136**	**-**	**-**
At 31 December 2020						
Cumulative interest rate sensitivity gap	19,603	50,295	76,822	555,780	-	-

20 Risk management (continued)

Interest rate risk (continued)

Based on the repricing profile at 31st December 2021, and assuming that the financial assets and liabilities were to remain until maturity or settlement with no action taken by the Branch to alter the interest rate risk exposure, an immediate and sustained one per cent increase in interest rates across all maturities would result in an increase in net income before tax for the following year by approximately AED 6,231 thousand and an increase in the Branch's equity by AED 360 thousand. The impact on the Branch's equity represents the cumulative effect of the increase in interest rates over the entire duration of the mismatches in the repricing profile of the interest rate sensitive financial assets and liabilities.

Operational Risk

Operational risk is the risk of unexpected losses resulting from inadequate or failed internal controls or procedures, system failures, fraud, business interruption, compliance breaches, human error, management failure or inadequate staffing. A framework and methodology has been developed to identify and control the various operational risks. Whilst operational risk cannot be entirely eliminated, it is managed and mitigated by ensuring that the appropriate infrastructure, controls, systems, procedures and trained and competent people are in place throughout the Branch.

21 Fair value of financials assets and liabilities

The Branch's financial assets and liabilities are accounted for under the historical cost method except of derivative assets and liabilities which are recorded at fair value. The fair value represents 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. Differences therefore can arise between book values under the historical cost method and fair value estimates.

The derivative financial assets and liabilities are considered to be level 2 inputs (valuation based on market observable data). During the year there were no transfers between level 1,2 and 3.

22 Derivatives and foreign exchange instruments

The Branch utilises derivative and foreign exchange instruments to meet the needs of its customers, to generate trading revenues and as part of its asset and liability management (ALM) activity to hedge its own exposure to market risk. Derivative instruments are contracts whose value is derived from one or more financial instruments or indices. They include futures, forwards and swaps in the interest rate, foreign exchange, equity, credit and commodity markets. Derivatives and foreign exchange are subject to the same types of credit and market risk as other financial instruments. The Branch has appropriate and comprehensive Board-approved policies and procedures for the control of exposure to both market and credit risk from its derivative and foreign exchange activities.

In the case of derivative transactions, the notional principal typically does not change hands. It is simply a quantity which is used to calculate payments. While notional principal is a volume measure used in the derivative and foreign exchange markets, it is neither a measure of market nor credit risk. The Branch measure of credit exposure is the cost of replacing contracts at current market rates should the counterparty default prior to the settlement date. Credit risk amounts represent the gross unrealised gains on non-margined transactions before taking account of any collateral held or any master netting agreements in place.

22 Derivatives and foreign exchange instruments (continued)

	Notional amounts		
	Trading	Hedging	Total
	AED 000s	AED 000s	AED 000s
At 31st December 2021			
Foreign exchange contracts:-			
Unmatured spot, forward and futures contracts	**50,193**	**1,926,828**	**1,977,021**
Interest rate contracts:-			
Interest rate swaps	**897,191**	**235,784**	**1,132,975**
	947,384	**2,162,612**	**3,109,996**
At 31st December 2020	81,529	1,102,820	1,184,349

23 Capital funds

As per Union Law No. (10) of 1980 concerning the Central Bank, the Monetary System and Organisation of Banking, and Regulations of Wholesale Commercial Banking, branches of foreign banks must ensure that no less than AED 40,000 thousand has been allocated as capital funds for their operation in UAE.

The Branch's capital funds at 31st December 2021 were AED 550,000 thousand (2020: AED 550,000 thousand).

24 Other reserve

Other reserve represents a reserve for impairment ("impairment reserve") calculated under the CBUAE guidance note dated 30th April 2018 to banks and finance companies on the implementation of IFRS 9 through notice CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE. As per the guidance note, where provisions under circular 28/10 of the CBUAE exceed provisions under IFRS 9, the difference is transferred to a reserve within equity as an appropriation from retained earnings. This reserve is not available for dividend distribution.

	31.12.21	31.12.20
	AED 000s	AED 000s
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**26,667**	20,137
Less: Stage 1 and Stage 2 provisions under IFRS 9	**27,413**	16,671
General provision transferred to the impairment reserve	**(746)**	3,466
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**94,974**	74,860
Less: Stage 3 provisions under IFRS 9	**93,748**	72,075
General provision transferred to the impairment reserve	**1,226**	2,785
Total impairment reserve	**480**	6,251

25 Capital management

The Branch's lead regulator, the Central Bank of the UAE, sets and monitors capital requirements for the Branch. The Branch is required to comply with the provisions of the Central Bank of the UAE in respect of regulatory capital.

The Branch's capital adequacy ratio as per effective regulatory framework, Basel II, at the minimum level is analysed into two tiers as follows:-

	2021	2020
	AED 000s	AED 000s
Tier 1 capital:		
Capital funds	**550,000**	550,000
IFRS transitional arrangement: Partial addback of ECL	**10,742**	12,256
	560,742	562,256
Deductions from Tier 1 capital	**-**	-
Total Tier 1 capital	**560,742**	562,256
Tier 2 capital:		
Collective impairment provision for financing assets	**22,222**	16,781
	22,222	16,781
Deductions from Tier 2 capital	**-**	-
Total Tier 2 capital	**22,222**	16,781
Total capital base	**582,964**	579,037
Risk weighted assets		
Credit risk	**1,777,791**	1,342,481
Market risk	**275**	26
Operational risk	**55,111**	39,603
Total risk weighted assets	**1,833,177**	1,382,110
Tier 1 risk asset ratio	**30.6%**	40.7%
Total risk asset ratio	**31.8%**	41.9%

25.1 Basel III capital ratio

CBUAE has put in regulatory thresholds for Common Equity Tier 1, Tier 1 and overall regulatory Capital. 1. CET1 must be at least 7.0% of risk weighted assets (RWA); 2. Tier 1 Capital must be at least 8.5% of RWA; 3. Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA. On top of this minimum capital requirement CBUAE has also mandated the Banks to keep an additional buffer, in addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital.

25 Capital management (continued)

25.1 Basel III capital ratio (continued)

The table below summarises the Branch's capital ratios along with the minimum capital requirements:-

	2021	**Minimum capital requirement 2021**	2020	Minimum capital requirement 2020
	%	**%**	%	%
CET1 (including buffer)	**30.6**	**9.50**	40.7	9.50
Tier 1 ratio	**30.6**	**11.00**	40.7	11.00
Total capital ratio	**31.8**	**13.00**	41.9	13.00

26 Comparatives

The below comparatives have been reclassified in order to conform with the presentation for the current year. Such reclassifications do not affect previously reported profit for the year and total equity of the Group.

	Previously reported 31.12.20 US$ millions	**Reclassified 31.12.20 US$ millions**	**Reclassified 1.1.20 US$ millions**
Statement of Financial Position			
Other assets	6,155	7,741	7,074
Total assets	1,736,209	1,737,795	1,156,114
Other liabilities	10,358	11,944	5,144
Total liabilities	1,179,958	1,181,544	575,410
Statement of Comprehensive Income			
Foreign exchange income	373	311	627
Trading income	-	62	750