2021
ANNUAL REPORT

بنك الشارقة
Bank of Sharjah

bankofsharjah.com

His Highness
Sheikh Khalifa bin Zayed Al Nahyan
President of the United Arab Emirates

His Highness
Sheikh Mohammed bin Rashid Al Maktoum
Vice President and Prime Minister of the United Arab Emirates and Ruler of Dubai

His Highness
Dr. Sheikh Sultan bin Muhammad Al Qasimi
Member of the Supreme Council, Ruler of Sharjah and its Depedencies Honorary Chairman

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BOARD OF DIRECTORS

BOARD OF DIRECTORS

HONORARY CHAIRMAN
His Highness, Doctor Sheikh Sultan Bin Mohammed Al-Qasimi

CHAIRMAN
Sheikh Mohammed Bin Saud Al Qasimi

DEPUTY CHAIRMAN
Sheikh Saif Bin Mohammed Bin Butti Al Hamed

Non-Executive Director
H.E. Humaid Nasser Al Owais

Mr. Abdulaziz Hassan Al Midfa
Independent Non-Executive Director

Mr. Salem Humeid Al Ghamai
Independent Non-Executive Director

Mr. Saud Abdul Aziz Al Besharah
Non-Executive Director

Mr. Abdulla Mohamed AlFahim
Independent Non-Executive Director

Mr. Abdulaziz Mubarak Al Hasawi
Non-Executive Director

Mr. Salah Ahmed Abdalla Al Noman (Al Shamsi)
Independent Non-Executive Director

Mr. Amer Khansaheb
Independent Non-Executive Director

Mr. Waleed Al Sayegh
Independent Non-Executive Director

Group CEO
Mr. Varouj Nerguizian

CHAIRMAN'S SPEECH

DEAR VALUED SHAREHOLDERS,

On behalf of the Board of Directors of Bank of Sharjah, I would like to welcome you all to the 49th General Assembly which is being held this year within difficult regional and international circumstances on multiple political, economic and security fronts.

In spite of the exceptional circumstances we are going through, allow me to convey to you on behalf of the Board our profound appreciation for your continued support and confidence, which as always remains the key inspiration to overcome all challenges.

I take this opportunity to extend on your behalf and on behalf of the Board, our sincere appreciation and respect to H.H. Sheikh Mohammed bin Zayed Al Nahyan, UAE President and Ruler of Abu Dhabi, H.H. Sheikh Mohammed bin Rashid Al Maktoum, Vice President Prime Minister & Ruler of Dubai and H.H. Dr. Sheikh Sultan bin Mohammed Al Qasimi, Ruler of Sharjah, & Their Highnesses the Rulers and Members of the Supreme Council, for their wisdom in leading our country to safety in light of these exceptional circumstances.

In 2021, events of 2020, particularly the COVID-19 pandemic and the 2020 US presidential election continued to prevail. The year also saw a number of important transfers of power around the globe and various impacting events such as the Al Ula Agreement, the continuous deterioration in Lebanon, Syria and Iraq, the Taliban return to power in Afghanistan, the continuous turmoil's in Iran, rising tensions in Ukraine and the worsening US-Russia relations.

Locally, marking 50 years of the nation, and armed with stellar achievements, 2021 was truly a golden year for the UAE. Even as the world grappled with the COVID crisis, in a world-first achievement, the UAE administered at least one dose of a COVID-19 vaccine to 100 per cent of all its eligible residents. Also, the Expo 2020 Dubai- the world's biggest event since the pandemic became a beacon of unity and hope, one that reminded us of the importance of human solidarity and international cooperation in navigating common challenges.

DEAR VALUED SHAREHOLDERS,

It gives me great pleasure to inform you that our beloved Emirate of Sharjah has honoured us by including Bank of Sharjah to its Governmental institution at the eve of our celebration of the Bank's 50th anniversary, and its journey crowned by numerous successes and contributions.

During the year 2021, the Bank was able to overcome major obstacles and challenges, and achieved very good results despite the events that impacted heavily the markets in which the Group operates.

As a consequence of the application of IAS 29 and 21, the Net Profit of the Group's UAE operations amounted to AED 239 million, while the Consolidated Net Profit reached AED 42 million after considering the provisions needed for its Lebanese Subsidiary.

DEAR VALUED SHAREHOLDERS,

New standards have been applied to Bank's balance sheet, which has resulted in an unprecedented delay in the publication of the Bank's annual financial statements. We are pleased to inform you that the approach of the Board of Directors and the Bank's Management regarding the application of these standards was accurate. In Lebanon, the exchange rate of the Lebanese Pound against the US $ was modified in September from 1507.50 to 15000. The adoption of this rate on the balance sheet figures as at 31 December 2021 would have adjusted the Equity from AED Billion 1.4 to 2.7.

An in-depth detailed report on this matter is provided in the Board of Directors report to the shareholders.

On behalf of the Board of Directors and in your name, I would like to extend to His Highness Sheikh Dr. Sultan Bin Mohammed Al Qasimi, Member of the Supreme Council and Ruler of Sharjah, our Honorary Chairman, our sincere gratitude and thanks for his continuous guidance and support.

I would also like to thank all our clients and correspondents around the world, the monetary authorities and in particular, the UAE Central Bank, the Securities and Commodities Authority (SCA) and the Abu Dhabi Stock Exchange Market (ADX).

A very special word of appreciation and assurance of the Board's support to the Bank's management and staff for their tireless efforts and dedication, despite the prevailing working environment.

Finally, I have the honour to present to you the Board of Directors report for 2021.

Mohammed bin Saud Al Qasimi

Chairman

BOARD OF DIRECTORS' REPORT TO THE GENERAL ASSEMBLY

BOARD OF DIRECTORS' REPORT TO THE ASSEMBLY GENERAL MEETING NO 48 YEAR 2020

If in 2020 COVID-19 brought the world to its knees, 2021 was the year the world fought back, bolstered by effective vaccines and vaccine drives and unprecedented fiscal stimulus packages. The world persevered through a persistent pandemic and burgeoning inflation, worrying climate disasters such as floods, wildfires and cold waves that raised the lack of adequate actions to fight global warming. Despite all these challenges, the world reopened as people learned to live with the "new normal".

One of the global high points of 2021 was the opening of the Expo 2020 Dubai – the world's biggest event since the pandemic. In a world still reeling from the effects of the COVID-19 pandemic, Expo 2020 Dubai became a beacon of unity and hope, one that reminded us of the importance of human solidarity and international cooperation in navigating common challenges. The US$7 billion site welcomed 24.1 million visitors over the course of its duration. Nearly one million children visited Expo as part of its Schools Programme while its University Programme hosted students from 56 domestic and 22 international universities. With 192 participating countries and 3,000 world leaders visiting the Expo, this was truly an event of epic global proportions.

From pandemic to endemic

In 2021, the world saw the execution of the biggest vaccination campaign in history with more than 12.1 billion doses being administered across 184 countries. Although the emergence of the Omicron strain threatened recovery, it wasn't as debilitating as the Delta variant. COVID-19 continues to pose risks and is now being managed as an endemic. People are coming to terms with the idea that this is not a temporary phenomenon, and we must all make permanent lifestyle changes to manage the associated risks. Amidst the race to vaccinate the world against COVID, another bright spot was WHO's approval of the first ever malaria vaccine for children. Hailed as a 'breakthrough for science, child health and malaria control', the approval paves the way for a massive rollout of the vaccine saving tens of thousands of young lives each year.

Embracing digital technologies

It is estimated that eighty-five per cent of businesses accelerated the execution of digital technologies that allowed employee collaboration and interaction. The pandemic quickened the development of digital tools by as much as seven years. Companies moved forty times faster than they thought it would take to move to remote working technologies - it took just eleven days to implement a workable solution.

Climate change

The effects of climate change became increasingly visible in 2021 with four key climate change measures - greenhouse gas concentrations, sea level rise, ocean temperatures and ocean acidification - hitting record highs. This made 2021's COP26 international climate conference more pivotal than ever before. After 13 days of negotiations between nearly 200 countries, the Glasgow Climate Pact was signed. This global agreement will accelerate action on climate protection this decade and also completed the Paris Agreement's Rulebook, a landmark accord designed to limit global temperature increase to 1.5 degrees Celsius, with the USA rejoining the Paris Agreement last year.

The UAE has always been a champion of environmental conservation, spearheading the change. It was the first country in the region to sign and ratify the Paris Agreement and the first to commit to an economy-wide reduction in emissions. The UAE Net Zero by 2050 Strategic Initiative (wherein Dhs600 billion will be invested in clean and renewable energy sources over the next three decades), is also the first of its kind for the MENA. The choice of the UAE to host COP28 next year, the world's most important climate change event, reflects the UAE's ambitions to become a world leader in the fields of sustainability, renewable energy and climate action.

Bank of Sharjah (BoS) is also committed to reducing its environmental footprint and has implemented a number of initiatives to ensure sustainable operations. For instance, in 2021, BoS went paperless when it conducted its annual assembly general meeting virtually; the Annual report was shared on the Bank's website instead of being printed for shareholders.

All BoS ATMs feature a "No Receipt" option allowing customers to opt out of paper receipts, thereby reducing paper usage. The Bank also continued its agreement with Bee'ah by recycling and shredding 14,450 kgs of used paper.

World Economy

The economic response to COVID-19's lasting damage defined 2021. The election of President Joe Biden, coupled with multi-trillion dollar initiatives to invest in infrastructure, gave the economy and financial markets a big boost in the year. American stock markets had one of their best years with the S&P 500, the most reliable index of American equity health, nearly 30 percent up on the year. China's GDP beat expectations, growing by 8.1 per cent. After the pandemic severely disrupted global trade, the sector witnessed a robust rebound in 2021. All major trading economies saw imports and exports rise above pre-pandemic levels in the fourth quarter of 2021. The value of global trade reached a record level of $28.5 trillion in 2021 marking an increase of 25 per cent on 2020 and 13 per cent higher compared to 2019, before the COVID-19 pandemic struck.

Geopolitical context and significant events

As the pandemic persisted, global politics remained volatile. The world continued to confront the consequences of the momentous events of 2020, particularly the COVID-19 pandemic and the 2020 US presidential election. The year also saw a number of important transfers of power around the globe, beginning when Israel's longest-serving leader, Benjamin Netanyahu, was ousted from office by a coalition of rivals, ending his 12-year run in power. In Germany, Angela Merkel left office after 16 years at the helm, becoming the first chancellor in the nation's history to leave power on her own terms.

The USA Rebounds

Although the year started with outgoing president, Donald Trump, becoming the first in US history to be impeached twice, 2021 emerged as an exceptional year of economic growth and recovery for the country.

The USA saw record job gains and unprecedented drop in unemployment. The economy grew faster than in any year since 1984, as measured by the GDP. The economy regained all pandemic-related GDP losses and surpassed the pre-pandemic levels too.

The Taliban Return to Power

The US war in Afghanistan ended just as it begun twenty years earlier - with the Taliban in power. As the US troops withdrew from the war-torn country, Afghanistan plunged into further chaos as its national army collapsed and the Taliban overran the country.

2021

Iran in Turmoil

Punctuated with the election of a new president, continuing inflation, rising tensions with the West, two deadly waves of COVID-19 infections and protests over water shortages, 2021 was a tumultuous year for Iran.

The year began with the USA expanding sanctions on Iran's defence and shipping industries. At the same time, Iran deepened its economic and security ties with China by signing a 25-year "strategic partnership". At the Vienna talks, Iran and the world's major powers began dialogue on Iran's return to full compliance with the 2015 Joint Comprehensive Plan of Action (JCPOA) nuclear deal. This was followed by direct talks between Iran and Saudi Arabia – the first in five years. Within Iran, the most significant milestone was the election of Ebrahim Raisi as the President of Iran, who won an absolute victory in the elections that had a significantly low turnout rate.

Rising Tensions in Ukraine

The Ukraine crisis came to a head in 2021, with reports of Russian troops gathering close to Ukraine's borders. Fears of an invasion receded after most of the troops withdrew, but later in the year, they returned in even greater numbers. Against the backdrop of these threatening manoeuvres, in December 2021 Russia presented a set of demands for security guarantees from NATO, together with warnings of unspecified 'military-technical measures' if those demands were not met.

Worsening US-Russia relations

US-Russian relations dipped to their lowest point in more than three decades. Openly antagonistic and fuelled by deep suspicion, bilateral cooperation was virtually non-existent. The arrest of Russian opposition leader, Alexei Navalny, and the release of information about the 2020 SolarWinds hack that affected private companies and US federal agencies, led the Biden administration to impose new sanctions on Russia. These included limits on purchasing Russian government bonds, and the expulsion of ten diplomats. The Kremlin retaliated by expelling ten US diplomats and banning Russian citizens from working in US diplomatic facilities, crippling consular operations. Although the American and Russian Presidents met at the Geneva Summit, there was no improvement in relations. The situation was further aggravated by Russia's stance on Ukraine.

Commercialization of Space Travel

Space Tourism took a giant leap in 2021. Virgin Galactic, Blue Origin and SpaceX each flew their first tourist-focused missions this year, jetting several people into space. With minimal training in professional spaceflight, a record 19 people – eight of whom were private citizens - faced the final frontier.

Tokyo Olympics

Symbolising a "light at the end of the tunnel" in the context of COVID-19, the Tokyo Olympics were held in the summer of 2021, after a one-year delay. These were the first Olympics to be held without an audience. Although athletes competed in empty stadiums, more than three billion people watched the games thanks to the efforts of the Olympic Broadcasting Services.

Global Shipping Shuts Down

Global shipping faced its worst nightmare when Ever Given, one of the largest container ships ever built, got stuck in the Suez Canal in March. Grinding worldwide shipping to a halt, it froze up nearly US$10 billion in trade a day. The 400-metre-long (1,300 ft) vessel was buffeted by strong winds and ended up wedged across the waterway with its bow and stern stuck in the canal banks. The container ship was refloated following a six-day salvage operation.

2021

Regionally

AlUla Agreement

In January, at 41st GCC Summit held at Saudi Arabia's ancient city of AlUla, the Kingdom – along with the UAE, Bahrain and Egypt – signed an agreement to restore ties with Qatar, ending the dispute within the region.

The Lebanon Crisis

The financial crisis in Lebanon continued in the absence of a will to reach a consensual solution by the various political parties. Most of the conditions of IMF were met and most subsidies removed triggering a rise in the cost of the basic necessity products. While Banks and BDL are accused, the issue is the unwillingness of the government and the state to settle their debts towards BDL, de facto creating a chain liquidity of shortages.

United Arab Emirates

Marking 50 years of the nation, and armed with stellar achievements, 2021 was truly a golden year for the UAE. Even as the world grappled with the COVID crisis, in a world-first achievement, the UAE administered at least one dose of a COVID-19 vaccine to 100 per cent of all its eligible residents. The country kept in top form as it continued to reign in more world firsts: In competitiveness reports, the UAE was first globally in 152 indicators; among the top 5 in 274; and among the top 10 in 425. The Global Passport Index released by Arton Capital ranked it first globally for achieving the highest mobility score, with the UAE passport allowing visa-free or visa-on-arrival entry to as many as 152 countries. Multiple global indexes have rated the UAE as the safest place in the world while Bloomberg's COVID Resilience Ranking put the UAE at number one in ensuring the safety of residents, even amid the Omicron threat. According to the 2021 Edelman Trust Barometer, the UAE Government is among the most trusted in the world.

2021 also saw the biggest legislative reforms being rolled out across the UAE in various sectors, including investment, trade and industry, as well as commercial company, regulation and protection of industrial property, copyright, trademarks, commercial register, electronic transactions, trust services, factoring, and residency, in addition to laws related to society and personal security. Earlier in the year, the country announced landmark reforms allowing investors and entrepreneurs full ownership of companies. This was followed by a string of visa reforms introducing green visas, a federal freelance permit, and giving people more time to exit the country after they lose their jobs. Multiple-entry tourist visas for all nationalities were announced as well as the introduction of a new remote work visa that enables employees from all over the world to live and work remotely from the UAE even if their companies are based in another country.

The country's industrial strategy "Operation 300bn" was launched in the first quarter of the year. The 10-year comprehensive strategy aims to empower and expand the industrial sector to become a propeller of a sustainable national economy, increasing its GDP contribution from the current AED133 billion to AED300 billion by 2031.

In November 2021, Etihad Rail completed the excavation works for all rail tunnels on the route from Sharjah to the east coast. The work was completed two months ahead of schedule and in compliance with the highest safety and sustainability standards. This was achieved using the latest tunnelling equipment and the best modern technology.

The UAE Environmental Policy, comprising of eight main pillars, namely, climate change; environmental protection; air quality; food safety and security; sustainable agriculture; waste management; animal production and circular economy, will steer the country's policies as it aims to enhance the quality of life, promote economic diversity and preserve ecosystems.

Abu Dhabi

The UAE's capital was able to make rapid economic recovery from the pandemic thanks to the effective economic and investment policies of the leadership, key legislations and initiatives. The emirate's GDP at constant prices grew 1.9 per cent in 2021 while non-oil GDP at constant prices grew by 4.1 per cent. Abu Dhabi saw an issuance of 25,427 new economic licenses marking an increase of 21.5 per cent from 2020. The capital city recorded real estate transactions worth AED71.5 billion according to a report by the Department of Municipalities and Transport (DMT), Abu Dhabi. Yas Island topped the list of best performing areas with AED4.1 billion in real estate deals followed by Reem Islands with real estate deals worth AED3.2 billion. Marking a historic moment for the UAE, the Abu Dhabi National Oil Company (ADNOC) and Intercontinental Exchange (ICE) started the trading of the country's flagship crude oil, Murban, as a Futures contract on the new ICE Futures Abu Dhabi (IFAD) commodities exchange.

Expo 2020 Dubai

Over 24 million people visited Expo 2020 Dubai, the first World Expo to be held in the Middle East, Africa and South Asia (MEASA) region and the first to be hosted by an Arab nation. Bringing together 192 nations for the first time in the 170-year history of World Expos, each country had its own pavilion, under the Emirati hosts' stated policy of "one nation, one pavilion". Coinciding with the UAE's 50th anniversary, Expo 2020 was the realisation of a dream 50 years in the making — to bring the world together.

The UAE's economic activity during Expo 2020 was forecasted to equal 1.5 per cent of the UAE's GDP. Additionally, the event would have an impact of AED33.378 billion on the country's economic activity between the years of 2013 to 2031. UAE's non-oil foreign trade jumped 27 per cent over 2020. The event also provided a much-needed boost to the country's SME sector as it grappled through the effects of the pandemic. Contracts worth AED6.8 billion were awarded to SMEs through Expo 2020. In Dubai, 76.5 per cent companies registered business growth, while 73.5 per cent managed to build new business relations during the event.

Arrivals at Dubai International Airport recorded a 12.7 per cent growth in 2021 compared to 2020. Over 3.4 million international visitors landed in the Dubai during the fourth quarter of the year. Hotel occupancy levels were more than 81.4 per cent.

Sharjah

Sharjah's economy recovered strongly in 2021 aided by government measures to counter the effects of the pandemic, including an expansive vaccination programme.

The emirate's gross domestic product (GDP) grew by an annual 4.8 per cent in 2021. With nearly AED130.5 billion in GDP earnings last year compared to AED124.6bn in 2020, the emirate's economy, particularly the non-oil sectors, showed good growth. Sharjah's trading sector was the most significant contributor to GDP at 23.8 per cent. Transformative industries stood at 17 per cent, construction at 9.3 per cent and real estate at 9.0 per cent, while the government sector contributed to 7.3 per cent in 2021.

Sharjah's real estate market also showed strong recovery. The value of property transactions in the emirate in 2021 rose to a four-year high of AED26.2 billion, up 64.9 per cent compared to the previous year, according to the Sharjah Real Estate Registration Department. S&P reaffirmed the BBB-/A-3 rating for the Government of Sharjah maintaining a stable outlook.

Crypto

2021 was another strong year for cryptocurrencies, as assets like Bitcoin and Ethereum hit new all-time highs building on the positive momentum they gained at the end of 2020. Spurred by the pandemic, crypto market valuation crossed US$3 trillion with total institutional money flow in the sector recorded at US$8.7 billion. Showing a 1,500 per cent rise in crypto activity, the Middle East was one of the fastest-growing markets in the world. With transaction volumes of US$25.5 billion in on-chain value during the same period, the UAE came in at third position regionally for total cryptocurrency value received.

Market Review 2021

International equity, currency, commodity and interest rate markets during 2021 were largely dominated by three particular factors:

1. The effects of the extraordinary liquidity provision by global central banks in response to the continuing COVID-19 pandemic; After the unprecedented disruption to economic activity and social interaction endured during 2020, the successful rollout of multiple effective vaccines in the largest peacetime logistics exercise in history, and the ensuing optimism in markets in relation to economic recovery;

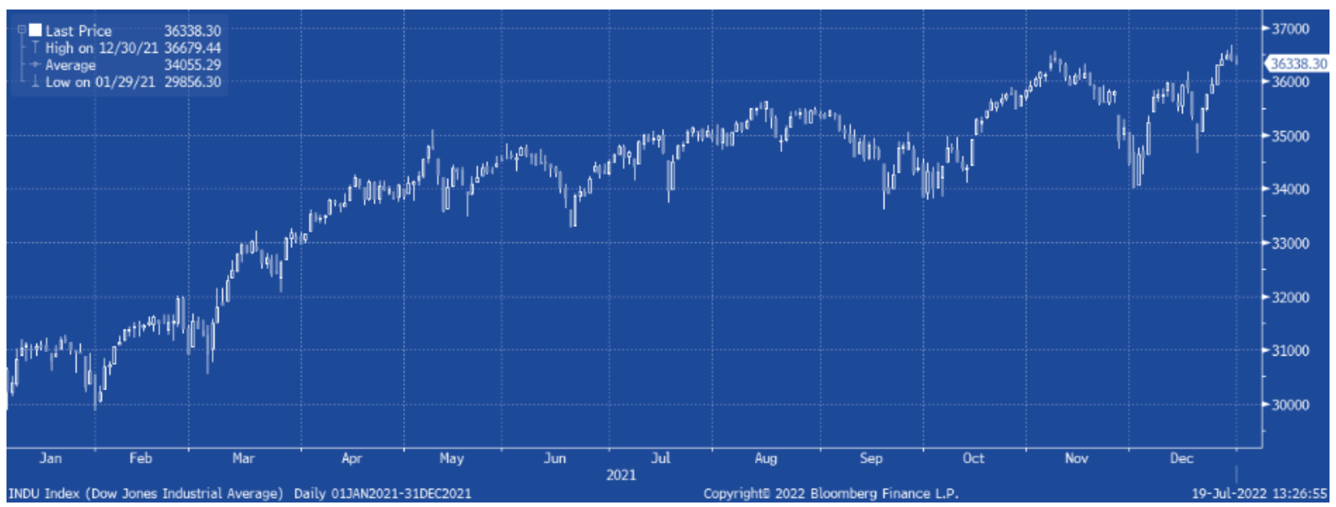
2. The boost to household savings globally resulting from direct Government benefits to citizens, coupled with the inability of many of those citizens to spend that largesse due either to supply side constraints or lock-down restrictions.

The extent to which these two factors outweighed all other concerns is demonstrated by the posture of investors, and market valuations, as the year drew to a close.

Equities

International equity markets closed the year at, or close to, all-time highs, fuelled by the easy-money policies of central banks in the USA, UK, EU, Australia, Canada, Japan and elsewhere. Leverage in investor positioning is high, and record-low interest rates have reduced the discount factors applied to equity valuations, increasing the "present values" represented by share prices. Negative interest rates in many countries have given rise to the "TINA" phenomenon in equity investment– "There Is No Alternative".

Dow Jones Industrial Average

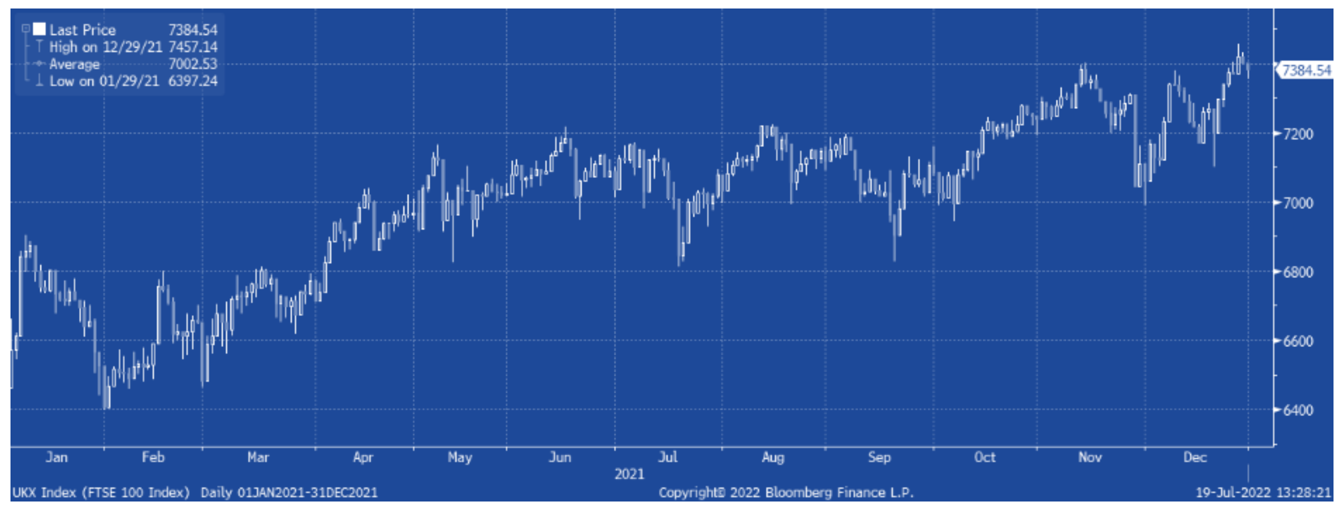


As the year rolls into 2022, while a new wave of the COVID-19 pandemic rages, with far more infections globally than previously experienced, fuelled by the massively more-transmissible Omicron variant, markets appear to be taking the view that the so-far apparently reduced virulence, hospitalisation and fatality experience related to Omicron, as a direct result of the widely successful vaccination programme, will allow economies to avoid the severe disruption experienced in 2020.

However, while Central Banks continue to supply ample liquidity to the global economy, expectations and evidence of a planned "tapering" of the emergency assistance provided to economies during the pandemic is building, as a surge in international inflation has lasted longer than previously anticipated. Continuing supply chain disruptions, and sharp increases in energy costs and commodities prices have pushed inflation figures to multi-year highs, and while there is as yet little evidence of any generalised increase in wage costs in response, the fact that the supply chain disruption is now expected to last well into 2022 is causing the authorities to reassess the risks of an inflationary spiral developing.

S&P 500 Index

FTSE 100 Index



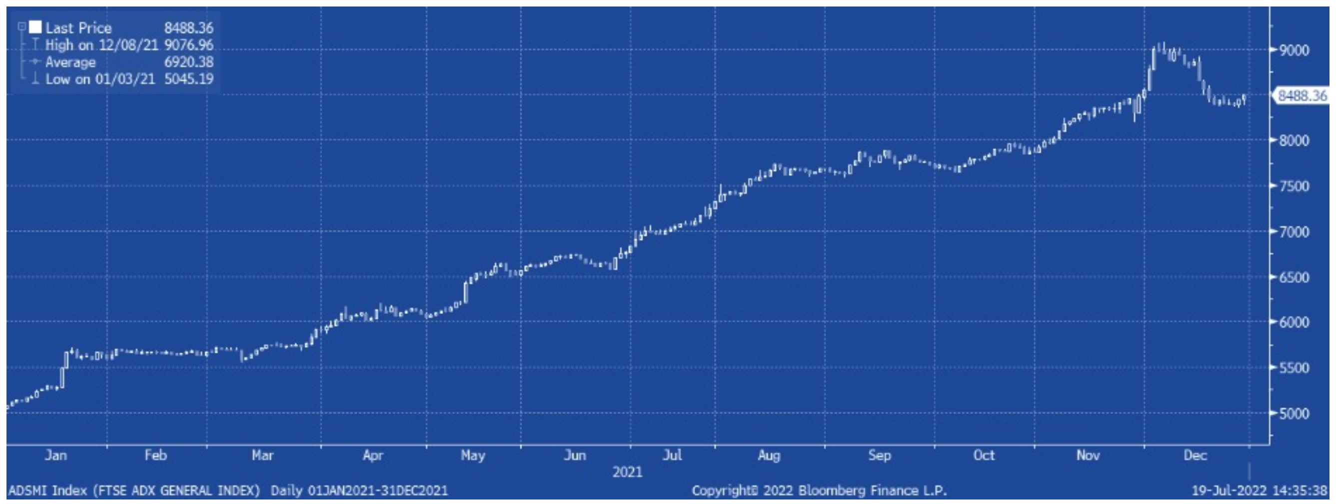
Other issues, such as a significant escalation in military tensions between NATO, Ukraine and Russia; a widespread power generation crisis in Europe; a sharp downturn in China's construction sector; and the afore-mentioned sharp rise in inflation internationally (resulting in Central Bank decisions to remove support for bond markets, withdraw liquidity, and announce planned interest rate increases), are also apparently either being ignored or are being treated as "transitory".

Euro Stoxx 50 Equity Index

GCC Regional Equity Markets

UAE equity markets have performed largely in line with the international backdrop, additionally boosted by the favourable oil price, the Government's exceptional management of the pandemic, and the resultant positive differentiation in economic performance of the UAE economy relative to others.

Abu Dhabi ADX General Index



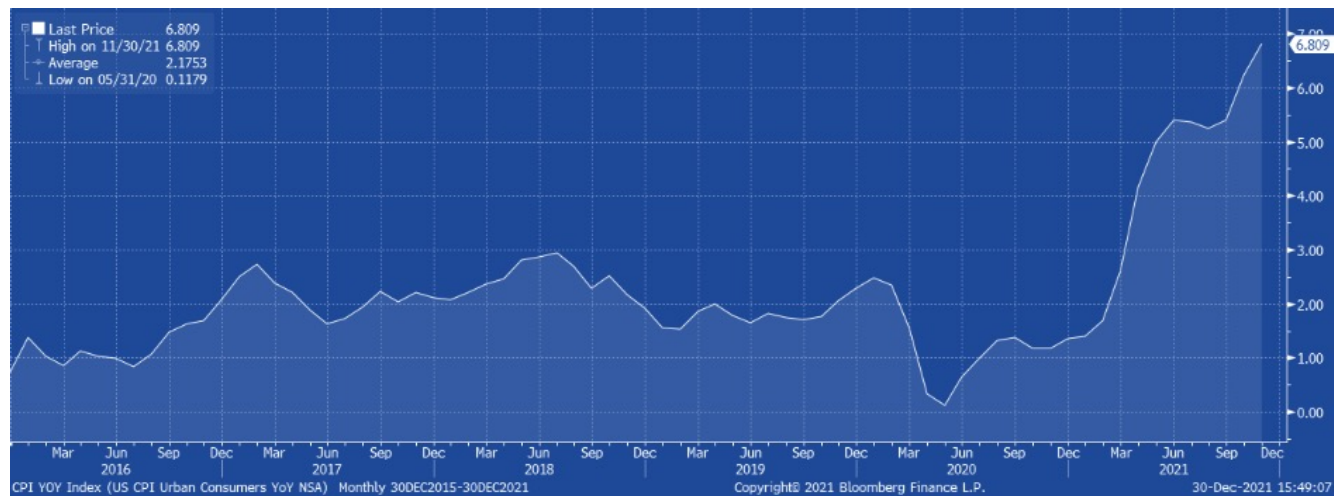
Dubai Financial Market General Index

Saudi Arabia Tadawul All Share Index

Inflation

Inflation has increased primarily, it seems at this point, due to supply chain disruption associated with the pandemic, and to increases in the energy complex price as the international economy reopens. Basic construction-related commodity prices have also soared as demand for housing at historically low mortgage rates is exacerbated by the desire for more spacious living accommodation following the pandemic lock-down experience. Oddities in the inflation space have also arisen, as in the price of used-cars, as supply shortages of new models, coupled with a dearth of computer chips, has reversed the depreciation price model for older cars. Airline fares have also "taken off" in response to the return of travel demand in the face of a shortage in capacity as carriers rebuild operations.

US Consumer Price Inflation

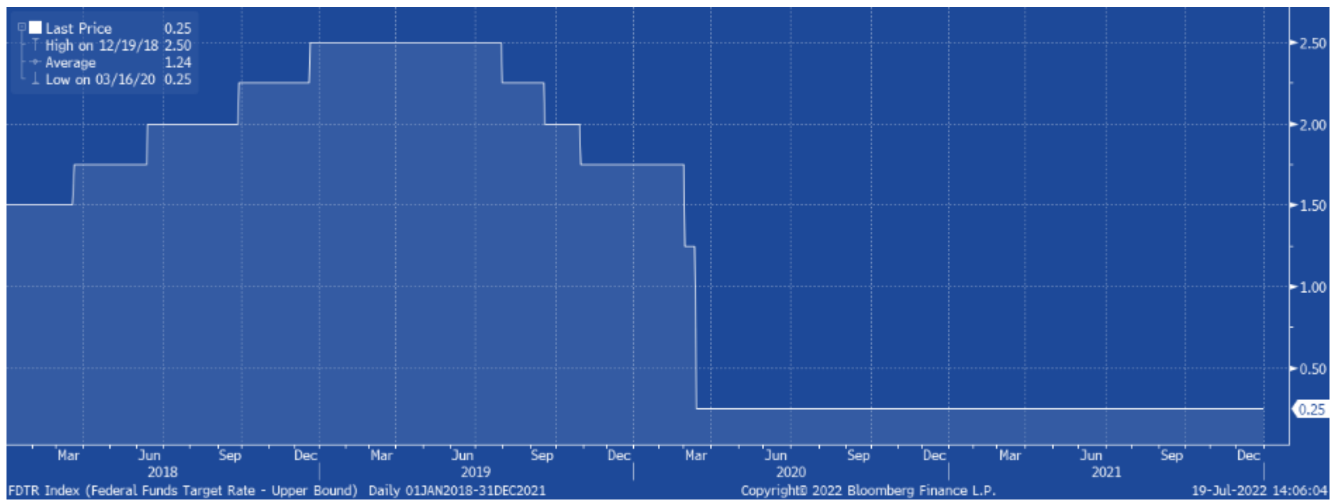


UK Retail Price Inflation

Interest Rates

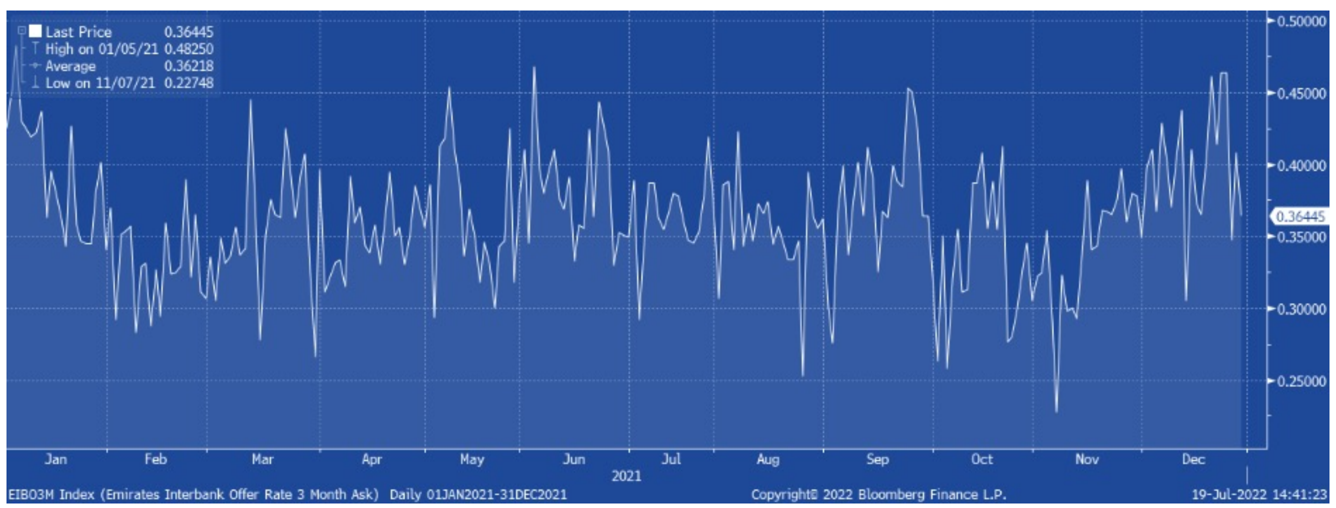
Having cut rates sharply at the beginning of the pandemic, The US Federal Reserve, along with other central banks, maintained its “zero rate” policy during 2021.

US Fed Funds Rate



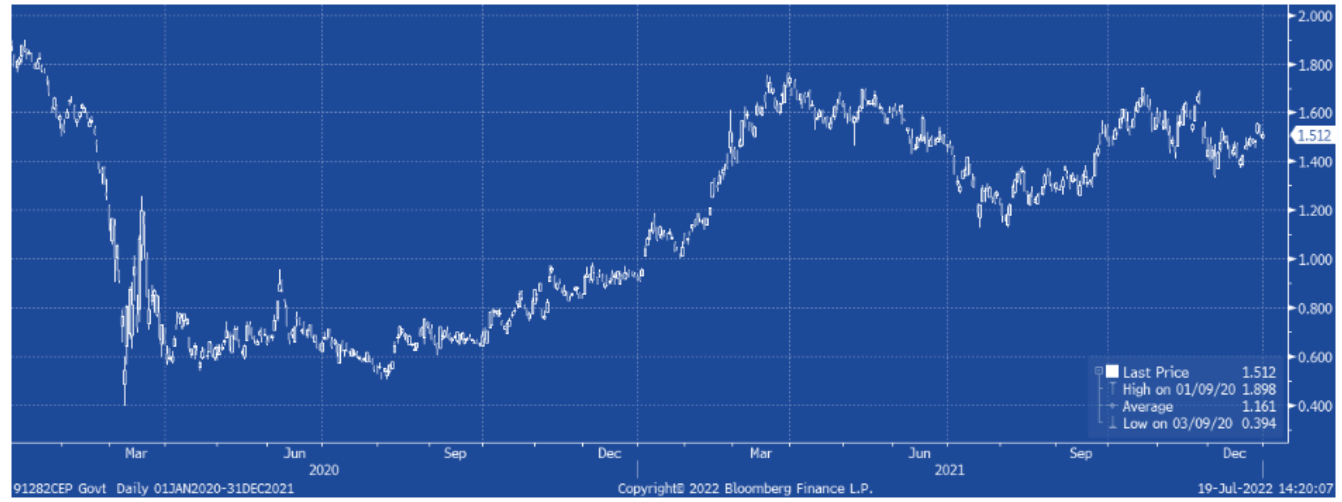
The Central Bank of the UAE, bound to US interest rate policy due to the Dollar/Dirham currency peg, has mirrored the Fed policy, as did the European Central Bank.

3-Month UAE EIBOR



Ten-year US Treasury Bond yields, having moved up from pandemic lows at the beginning of the year, have since fluctuated in a narrow band throughout the year roughly between 1.20% and 1.70%.

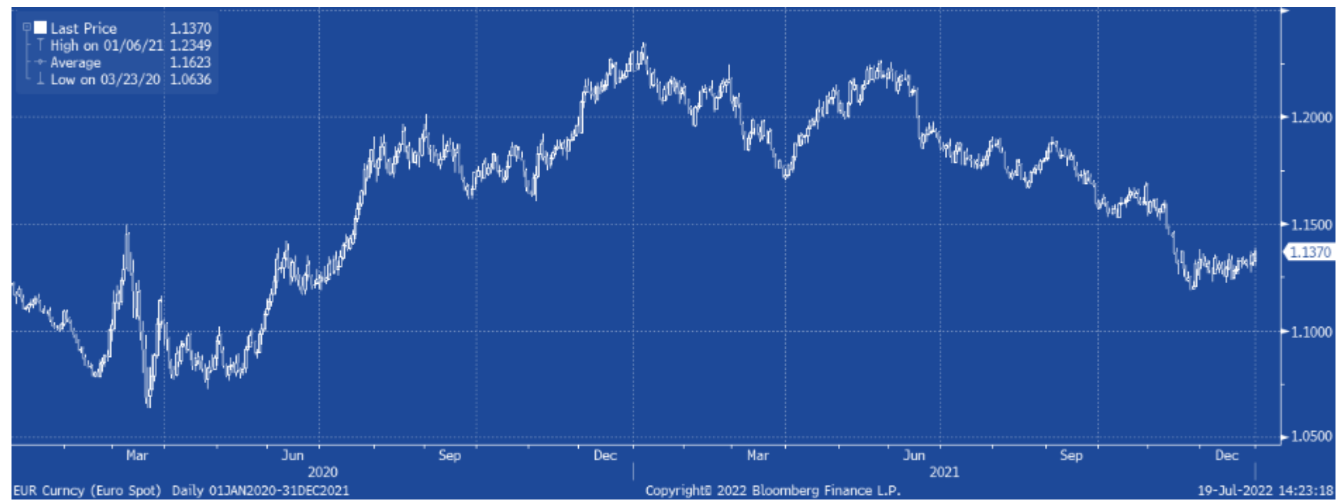
10 Year US Treasury Bond Yield



Currencies

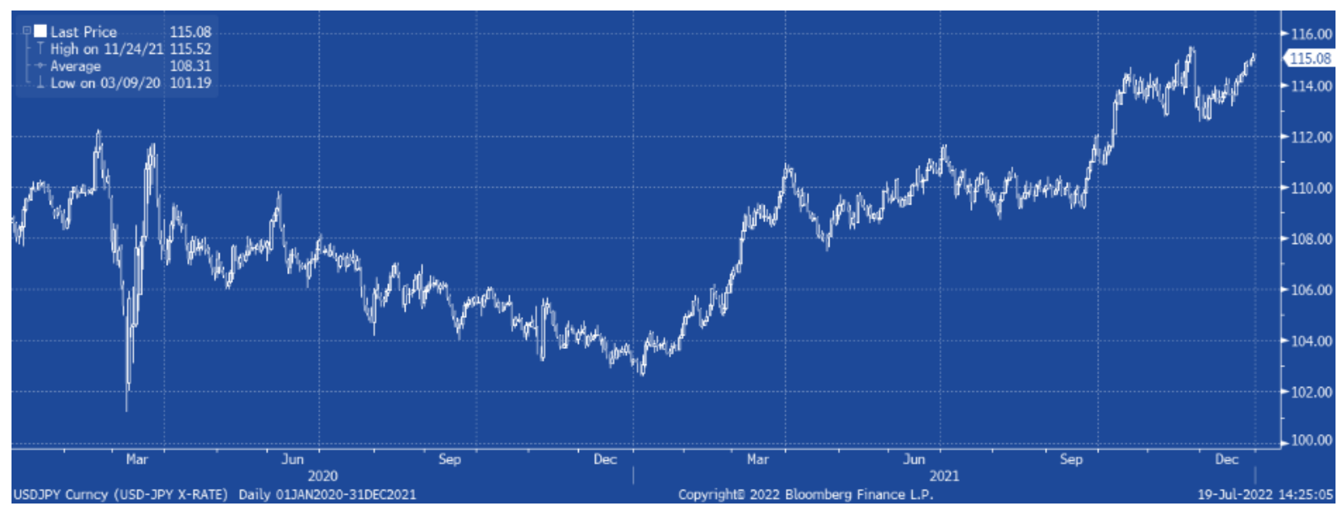
The US Dollar weakened somewhat in late 2020, and maintained that value against the Euro through the first half of 2021, before strengthening again from July 2021 onwards.

Euro/US Dollar Exchange Rate



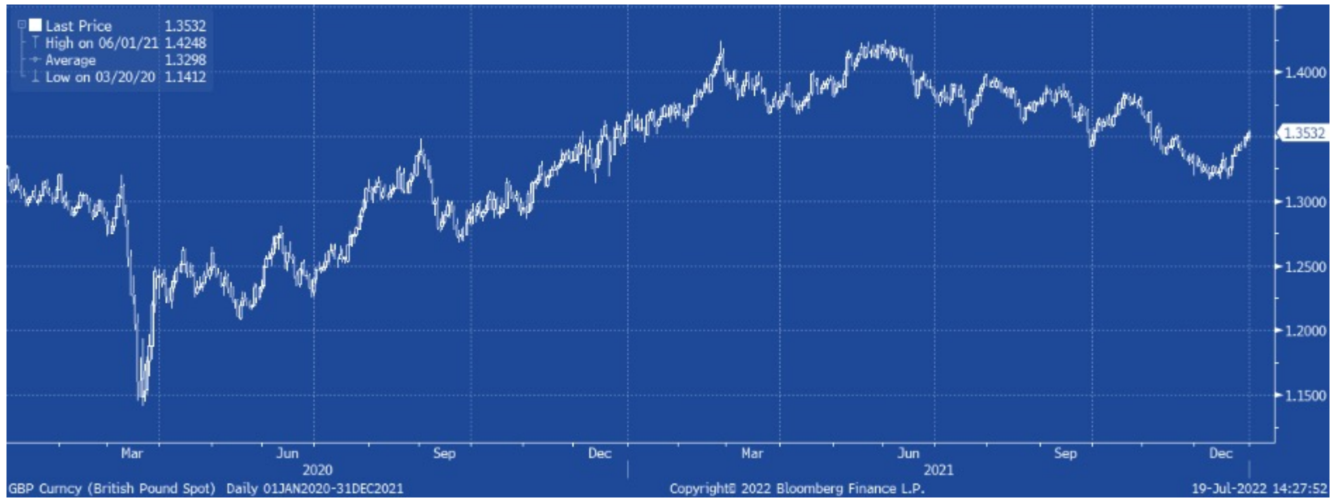
The Yen, however, has weakened consistently against the Dollar throughout 2021.

US Dollar/ Japanese Yen Exchange Rate



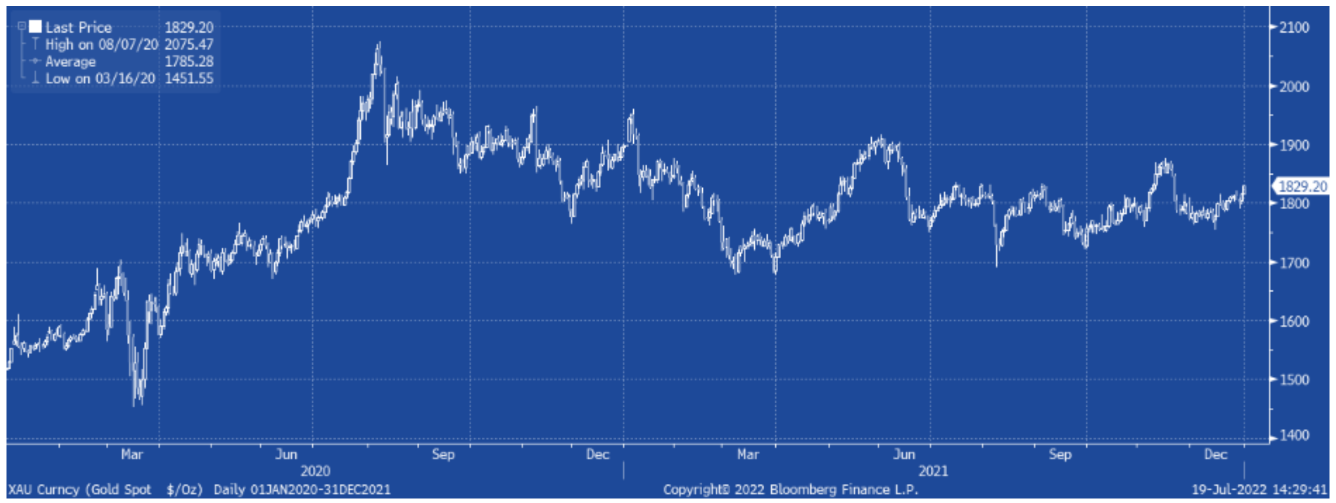
Sterling has performed similarly to the Euro against the Dollar over the course of the year, with the UK currency recently buoyed somewhat by the BOE rate increase.

Sterling/US Dollar Exchange Rate



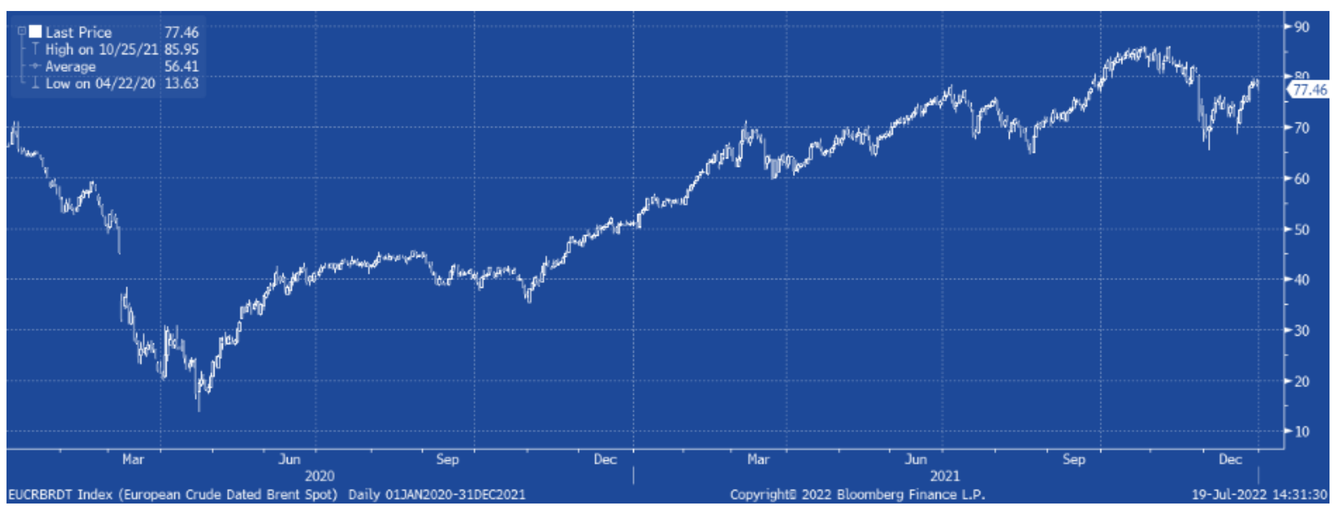
Gold has essentially traded sideways over the year, having lost its pandemic-related 2020 premium, and noticeably failing to gain any momentum from the inflation increase.

US/Dollar Gold



Oil continues to benefit from an expected resurgence in post-pandemic international economic demand, supported by the tight supply management policies of the OPEC+ group.

Brent Crude Oil



2021

BANK'S ACTIVITIES, SUBSIDIARIES & EMIRATES LEBANON BANK

Total Assets before application of IAS 29 & 21 increased by 7% from AED 35,866 million to AED 38,270 million as at 31 December 2021; the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 12% from AED 38,270 million to AED 33,562 million, while 2020 totals (subject to IAS29 only) increased from AED 35,865 million to AED 36,143 million up by 1%.

Total Loans and Advances before application of IAS 29 & 21 increased by 9% from AED 20,519 million to AED 22,398 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 5% from AED 22,398 million to AED 21,314 million, 2020 totals (subject to IAS29 only) remained at AED 20,519 million.

Total Liabilities before application of IAS 29 & 21 increased by 6% from AED 32,936 million to AED 35,068 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 8% from AED 35,068 million to AED 32,151 million, 2020 totals (subject to IAS29 only) remained stable from AED 32,936 million to AED 32,978 million

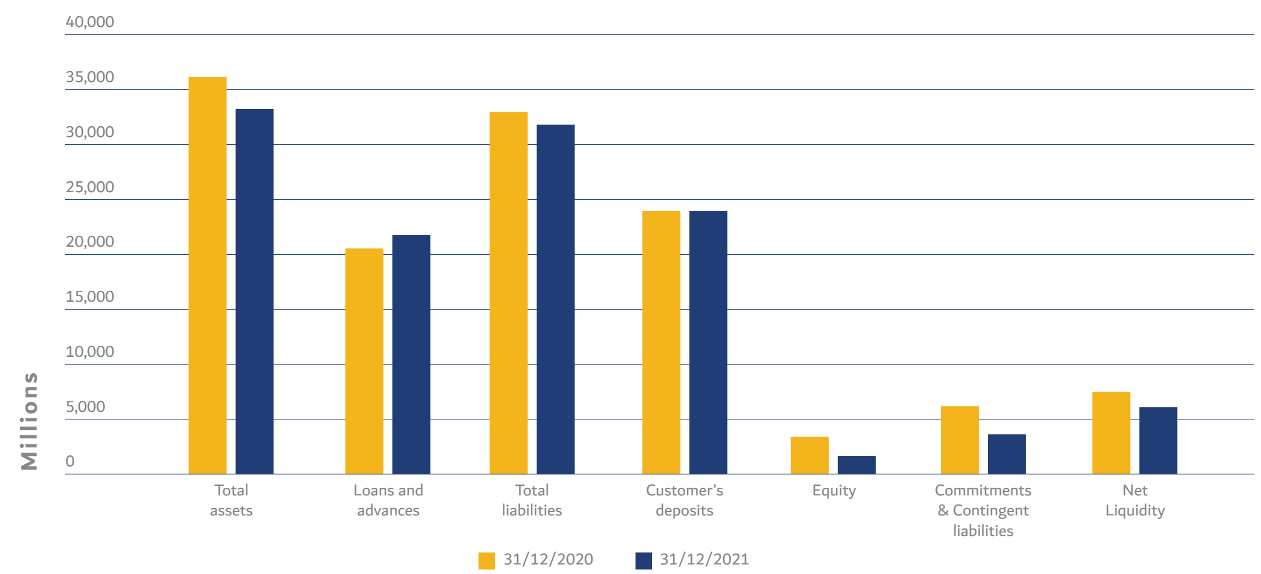
Total Customer Deposits before application of IAS 29 & 21 increased by 12% from AED 23,673 million to AED 26,492 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 10% from AED 26,492 million to AED 23,757 million, 2020 totals (subject to IAS 29 only) remained stable at AED 23,672 million.

Total Equity before application of IAS29 & 21 increased by 9% from AED 2,929 million to AED 3,202 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 56% from AED 3,202 million to AED 1,411 million, 2020 total (subject to IAS29 only) increased from AED 2,929 million to AED 3,165 million up by 8%.

Total Off-Balance Sheet before application of IAS 29 & 21 decreased by 29% from AED 5,404 million to AED 3,849 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 8% from AED 3,849 million to AED 3,555 million, 2020 total (subject to IAS 29 only) remained stable at AED 5,404 million.

Net Liquidity before application of IAS29 & 21 increased by 33% from AED 7,810 million to AED 10,378 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 38% from AED 10,378 million to AED 6,472 million, 2020 total (subject to IAS 29 only) remained stable at AED 7,810 million.

BOS Consolidated Balance Sheet (After applying IAS 21 & IAS 29)



2021

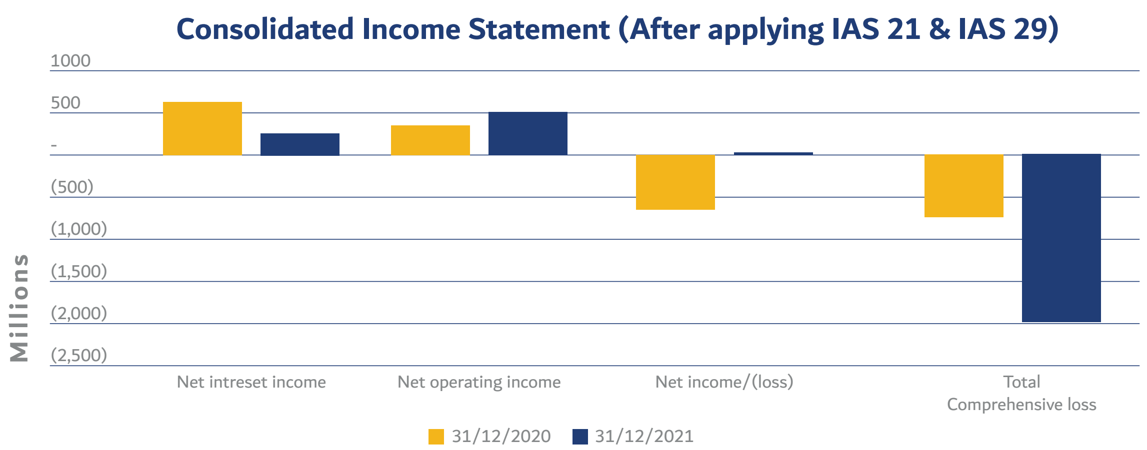
INCOME STATEMENT:

Net Interest Income before application of IAS 29 & 21 decreased by 8% from AED 473 million to AED 435 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 31% from AED 435 to AED 301 million, 2020 totals (subject to IAS 29 only) increased from AED 473 million to AED 569 million up by 20%.

Net Operating Profit before application of IAS 29 & 21 increased by 544% from a loss of AED 131 million to a profit of AED 582 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 by 11% from AED 582 million to AED 516 million, 2020 totals (subject to IAS29 only) improved from a loss of AED 131 million to AED 81 million up by 38%.

Net Profit before application of IAS 29 & 21 improved from a loss of AED 24 million to a profit of AED 225 million as at 31 December 2021; while the application of the above two standards as at 31 December 2021 reduced the total of 2021 from AED 225 million to AED 42 million, 2020 totals (subject to IAS 29 only) deteriorated from a loss of AED 24 million to a loss AED 666 million.

Total Comprehensive Income before application of IAS 29 & 21 improved from a loss of AED 82 to a profit of AED 285 million as at 31 December 2021, while the application of the above two standards as at 31 December 2021 converted the total of 2021 from a profit of AED 285 million to a loss of AED 1,982 million, 2020 totals (subject to IAS 29 only) deteriorated from a loss of AED 82 million to a loss AED 724 million.



HYPERINFLATION AND CURRENCY TRANSLATION

31 December 2021	Before IAS 29 @1,507.5 LBP/USD AED'000	IAS 29 & currency translation impac AED'000	After IAS 29 @22,700 LBP/USD AED'000
Net profit	224,864	(182,455)	42,409
Total comprehensive income	284,672	(183,460)	101,212
Currency translation effect on other comprehensive loss	-	(2,083,048)	-
Accumulated IAS 29 effect on equity - 31.12.2020		**236,269**	
IAS 29 effect on equity - 12 months 2021		**239,854**	
Equity	3,201,757	(1,790,385)	1,411,372

31 December 2021	Before IAS 29 @1,507.5 LBP/USD AED'000	IAS 29 impact AED'000	After IAS 29 @1,507.5 LBP/USD AED'000
Net loss	(23,891)	(642,505)	(666,396)
Total comprehensive loss	(81,737)	(642,505)	(724,242)
IAS 29 effect on equity - 12 months 2020		**878,774**	
Equity	2,929,148	236,269	3,165,417

EMIRATES LEBANON BANK S.A.L. (EL BANK) ACTIVITIES

The International Monetary Fund (IMF) publishes inflation forecasts. Applying the October 2020 IMF information and the indicators laid out in IAS 29, the Lebanese economy continued to be considered a hyperinflationary economy for the purposes of applying the above standard. Accordingly, the Group continued end 2021 the adoption of IAS 29 on its consolidated financial statements and as a result of the effect of changes in Foreign Exchange Rates, and for the first time, end 2021 to adopt IAS 21 as well for its subsidiary, Emirates Lebanon Bank SAL on the consolidated financial statements.

In line with IAS 29, the financial statements of Emirates Lebanon Bank SAL have been restated by applying the general price index of the reporting date to the comparative amounts, in order to reflect the changes in the purchasing power of the LBP, on the closing date of the financial statements. The non-monetary items of the statement of financial position as well as the income statement, statement of other comprehensive income and statement of cash flows for the current year of Emirates Lebanon Bank SAL, have been adjusted for inflation and re-expressed in accordance with the variation of the consumer price index ('CPI'), at the presentation date of its financial statements. The consumer price index at the beginning of the reporting year was 284.04 and closed at 921.40.

Under IAS 29, the negative effect on the net monetary position which has been derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income is recognized in the consolidated statement of profit or loss. During 2021, the resulting negative effect on the net monetary position for Emirates Lebanon Bank SAL was AED 191 million (2020: AED 577 million).

The application of IAS 21 on the USD denominated Assets and Liabilities of our Lebanese subsidiary, by multiplying One US Dollar with the peg rate of 1507.50 and dividing the result by the Sayrafa rate of 22,700, has rendered the USD equal to 6.6 cents. This result will be immediately corrected once the peg is removed. The removal of the peg is a requirement from IMF within their proposed financial support. It is understood, this would have a positive effect on the Equity level of the subsidiary as around 80% of the subsidiary's assets and liabilities are denominated in USD.

AS A RESULT OF THE APPLICATION OF IAS 21 & 29:

Total Assets reached AED 452 million as at 31/12/2021, against AED 5,733 million as at 31/12/2020, down by 92%.

Total Loans and advances reached AED 77 million as at 31/12/2021, against AED 1,492 million as at 31/12/2020, down by 95%.

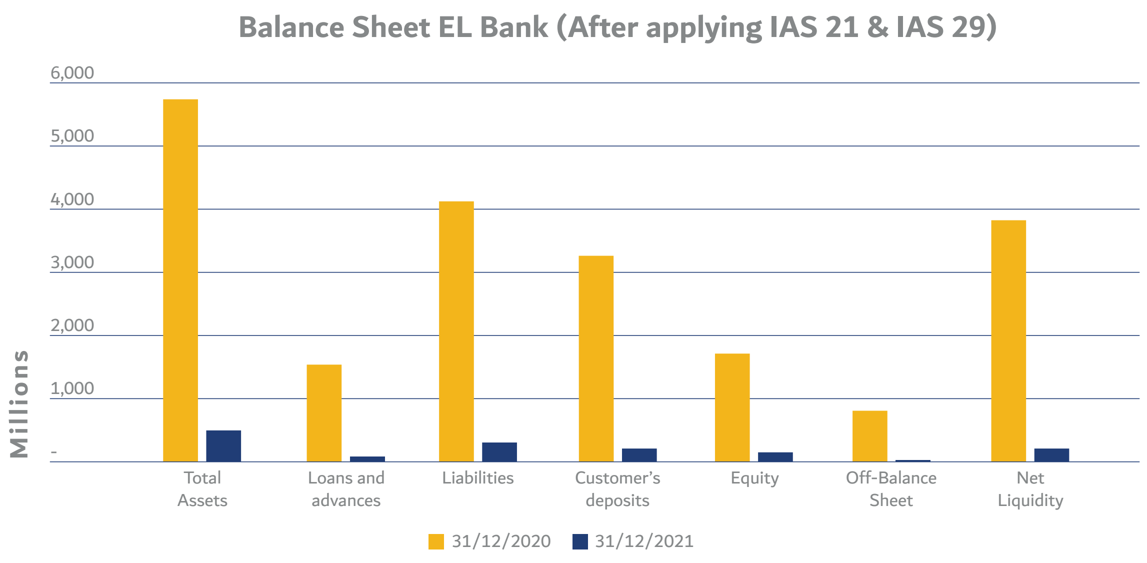
Total Liabilities reached AED 320 million as at 31/12/2021, against AED 4,125 million as at 31/12/2020, down by 92%.

Total Customers' deposits reached AED 255 million as at 31/12/2021, against AED 3,364 million as at 31/12/2020, down by 92%.

Total Equity reached AED 131 million as at 31/12/2021, against AED 1,607 million as at 31/12/2020, down by 92%.

Total Off-Balance Sheet reached AED 21 million as at 31/12/2021, against AED 814 million as at 31/12/2020, down by 97%.

Net Liquidity reached AED 278 million as at 31/12/2021, against AED 3,816 million as at 31/12/2020, down by 93%.



INCOME STATEMENT:

Net interest income of AED 21 million for the year ended 31/12/2021 compared to AED 262 million for the year ended 31/12/2020, down by 92%.

Net operating profit of AED 21 million for the year ended 31/12/2021 compared to AED 7 million for the year ended 31/12/2020, up by 191%.

Net loss of AED 191 million for the year ended 31/12/2021 compared to a loss of AED 775 million for the year ended 31/12/2020, down by 75%.

Total comprehensive loss of AED 193 million for the year ended 31/12/2021 compared to a loss of AED 750 million for the year ended 31/12/2020, down by 74%.

IMPORTANT NOTE

In line with our statements above, during the month of September 2022 the Government of Lebanon changed the official peg value of the US Dollar from 1,507.50 to 15,000. This figure came very close to the figure of 14,700 calculated by the Management of ELBank as a weighted average value, rejected by the Auditors. Had the value of 15,000 been retained the Consolidated Balance sheet of the Group would have reflected the following salient figures;

Total Assets:	AED 36,326 million versus AED 33,562 million
Total Liabilities:	AED 33,668 million versus AED 32,151 million
Total Equity:	AED 2,659 million versus AED 1,411 million
Cash and Central banks:	AED 4,966 million versus AED 3,223 million
Loans and Advances:	AED 21,962 million versus AED 21,314 million
Customers' deposits:	AED 25,169 million versus AED 23,757 million

Resolutions of the Annual General Assembly No. 49 dated 20 October, 2022.

1. The General Assembly approved by majority the Board of Directors' Report on the Company's activity and its financial position for the fiscal year ended on 31/12/2021.
2. The General Assembly approved by majority the Auditor's Report for the fiscal year ended on 31/12/2021.
3. The General Assembly approved by majority the Company's balance sheet and profit and loss account for the fiscal year ended on 31/12/2021.
4. The General Assembly approved by majority to discharge the members of the Board of Directors for the fiscal year ended on 31/12/2021.
5. The General Assembly approved by majority to discharge the auditors for the fiscal year ended on 31/12/2021.
6. The General Assembly approved to appoint Grant Thornton as Bank of Sharjah's auditors for the financial year ending 31 December 2022 and to fix their fees at (AED 1.708 Million).
7. The General Assembly approved the appointment of Mr. Waleed Al Sayegh as Board Member.

Special Resolutions

8. The General Assembly by majority approved the special resolution proposed by the Board of Directors of the Bank for the renewal of the Bank's USD 2.5 Billion Euro Medium Term Note Programme (Non-convertible to shares) and the issuance of any bonds under the Programme, which should be completed within one year from the date of the Annual General Assembly Meeting, with delegation to the Board of Directors to decide on the modalities of such issuance and the amendment of any document related to the Programme (subject to obtaining the necessary approvals from the relevant regulatory Authorities).
9. The General Assembly by majority approved the special resolution proposed by the Board of Directors of the Bank to issue Tier 1 Capital Perpetual Securities (Non-convertible to shares) for an aggregate amount not exceeding US$ 1,000,000,000 (or the equivalent thereof in other currencies}, and delegating to the Board of Directors the authority to decide on the date of issuance, which should be completed within one year from the date of the approval of the Annual General Assembly Meeting, and delegation to the Board of Directors to decide on the modalities and conditions of such issuance and signing of all documents and agreements related to the issuance (subject to obtaining approvals from the relevant regulatory Authorities). The securities are intended to qualify as Additional Tier 1 Capital of the Bank in accordance with UAE Central Bank guidance on Basel Ill Capital Instruments.
10. The General Assembly by majority approved the amendments of the Bank's Articles of Association in compliance with the applicable laws and regulations notably the Company Law number 32/2021 as approved by the approval of the UAE Central Bank and Securities and Commodities Authority (SCA).

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

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BOARD OF DIRECTORS' REPORT

The Board has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2021.

INCORPORATION AND REGISTERED OFFICE

Bank of Sharjah P.J.S.C. (the "Bank") is a Public Joint Stock Company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness the Ruler of Sharjah and was registered in February 1993 under Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced operations under a banking license issued from United Arab Emirates Central Bank dated 26 January 1974.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates.

PRINCIPAL ACTIVITIES

The Bank's principal activities are commercial and investment banking.

RESULTS

The reported Net Profit for the year ended 31 December 2021 amounted to AED 42 million (2020: Loss of AED 666 million). This is after the impact of applying IAS 29 and Sayrafa exchange rate in the consolidated financial statements, which resulted in a decrease in the net income for the year by AED 183 million (2020: AED 642 million). Had IAS 29 not been applied and had the Group used the pegged exchange rate of 1,507.5 LBP/USD instead of Sayrafa rate of 22,700 LBP/USD as of 31 December 2021, the net profit for the year ended 31 December 2021 would have been equal to AED 225 million (2020: Had IAS 29 not been applied, the net loss for the year ended 31 December 2020 would have been equal to AED 24 million).

The reported total comprehensive loss for the year ended 31 December 2021 amounted to AED 1,982 million (2020: Loss of AED 724 million). This is after the impact of applying IAS 29 and Sayrafa exchange rate in the consolidated financial statements, which resulted in a decrease in the total comprehensive loss for the year by AED 2,267 million (2020: AED 642 million). Had IAS 29 not been applied and had the Group used the pegged exchange rate of 1,507.5 LBP/USD instead of Sayrafa rate of 22,700 LBP/USD as of 31 December 2021, the total comprehensive income for the year ended 31 December 2021 would have been equal to AED 285 million (2020: Had IAS 29 not been applied, the total comprehensive loss for the year ended 31 December 2020 would have been equal to AED 82 million).

The reported total equity as at 31 December 2021 amounted to AED 1,411 million (2020: AED 3,165 million). This is after the impact of applying IAS 29 and Sayrafa exchange rate in the consolidated financial statements which resulted in a decrease in total equity of AED 1,791 million (2020: Positive AED 236 million). Had IAS 29 not been applied and had the Group used the pegged exchange rate of 1,507.5 LBP/USD instead of Sayrafa rate of 22,700 LBP/USD as of 31 December 2021, total equity as at 31 December 2021 would have been equal to AED 3,202 million (2020: Had IAS 29 not been applied, the total equity as at 31 December 2020 would have been equal to AED 2,929 million).

The application of IAS 21 on the USD denominated Assets and Liabilities of our Lebanese subsidiary, by multiplying One US Dollar with the peg rate of 1507.50 and dividing the result by the Sayrafa rate of 22,700, has rendered the USD equal to 6.6 cents. This result will be immediately corrected once the peg is removed. The removal of the peg is a requirement from IMF within their proposed financial support. It is understood, this would have a positive effect on the Equity level of the subsidiary as around 80% of the subsidiary's assets and liabilities are denominated in USD.

The Bank's consolidated financial statements are impacted by the application of the International Financial Reporting Standards on hyperinflation and foreign exchange on the consolidation of the Bank's subsidiary in Lebanon. This impacts every single line item on the Bank's consolidated statement of financial position and the consolidated statement of profit or loss. As a result, it may be difficult for the users of the financial statements (which include the Board, Management, Regulators, Investors, Rating Agencies, etc) to understand the performance of the Group apart from the effect of its Subsidiary in Lebanon.

The detailed results are set out in the attached consolidated financial statements.

GOING CONCERN BASIS

Based on the above assessment the Board of Directors is comfortable that the Group has adequate resources and support to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the consolidated financial statements for the year ended 31 December 2021.

TRANSACTIONS WITH RELATED PARTIES

The consolidated financial statements disclose related party transactions and balances in note 37. All transactions are carried out as part of our normal course of business and in compliance with applicable laws and regulations.

AUDITORS

Deloitte & Touche (M.E.) were appointed as external auditors for the Group for the year ended 31 December 2021. A shareholder's resolution is proposed to absolve them of their responsibility for the year ended 31 December 2021.

DIRECTORS

The Directors during the year were:

1. Sheikh Mohammed Bin Saud Al Qasimi (Chairman)
2. Sh. Saif Bin Mohammed Bin Butti Al Hamed (Vice Chairman)
3. HE. Humaid Nasir Al Owais
4. Mr. Abdul Aziz Al Midfa
5. Mr. Abdul Aziz Al Hasawi
6. Mr. Saud Al Besharah
7. Mr. Salem Al Ghammai
8. Mr. Salah Ahmed Abdalla Al Noman
9. Mr. Abdulla Sherif Al Fahim
10. Mr. François Dauge
11. Mr. Amer Abdulaziz Khansaheb

On behalf of the Board
Mohammed Bin Saud Al Qasimi
Chairman

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Bank of Sharjah PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

KEY AUDIT MATTER - ACCURACY OF THE HYPERINFLATION ACCOUNTING FOR THE RESULTS OF EMIRATES LEBANON BANK

As disclosed in note 2 to the consolidated financial statements, the economy of the Republic of Lebanon was deemed a hyperinflationary economy in accordance with the requirements of IAS 29 Financial Reporting in Hyperinflationary Economies ("IAS 29").

The Group performed the hyperinflation calculations which included utilizing the consumer price indices used as a basis for hyperinflation. The financial results of the Group's Lebanese operations are translated to the Group's reporting currency, AED, using the Sayrafa rate published by the Central Bank of Lebanon as at 31 December 2021.

The loss on the monetary position is calculated as the difference resulting from the restatement of non-monetary assets, equity and items in the statement of profit or loss and other comprehensive income, and adjustment of index linked assets and liabilities. The application of IAS 21 The Effects of Changes in Foreign Exchange Rates in conjunction with the application of IAS 29 resulted in a net monetary loss of AED 191 million being recognized in profit or loss for the year, positive effect of AED 240 million being recognised in equity as a result of restatement of the Group's interest in the equity of the Lebanese subsidiary and a loss of AED 2 billion in other comprehensive income representing the currency translation differences.

The application of the requirements of IFRSs relative to hyperinflation and the assessment of the applicable exchange rate were areas that required significant auditor attention. Given the significance of the quantitative impact, the complexities associated with hyperinflationary accounting and the extent of audit effort required, the application of hyperinflation accounting for the Group's operations located in the Republic of Lebanon and the related disclosures were deemed to be a Key Audit Matter..

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

Our audit procedures included, but were not limited to, the following:

- We utilized our internal IFRS accounting specialists to conclude on the appropriate application of IAS 21 and IAS 29;
- We assessed the inputs into the hyperinflation calculations with specific emphasis on the consumer price indices used;
- We reperformed the mathematical accuracy of the hyperinflation adjustments;
- We reperformed the mathematical accuracy of the calculations to determine the disclosure of sensitivities;
- We determined if the exchange rates used to translate the hyper inflated statements of financial position, profit or loss and other comprehensive income and cash flows were determined in accordance with the requirements of IFRSs; and
- We assessed the disclosure in the consolidated financial statements relating to this area against the requirements of IFRSs.

KEY AUDIT MATTER - LOAN LOSS IMPAIRMENTS – ESTIMATION UNCERTAINTY WITH RESPECT TO EXPECTED CREDIT LOSSES FOR LOANS AND ADVANCES TO CUSTOMERS

The assessment of the Bank's determination of impairment allowances for loans and advances to customers require management to make judgements over the staging of financial assets and measurement of the Expected Credit Loss (ECL). The audit was focused on this matter due to the materiality of the loans and advances to customers (representing 63.0% of total assets) and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 4 to the consolidated financial statements for the accounting policy and Note 40 for the risk management disclosure.

The material portion of the non-retail portfolio of loans and advances is assessed individually for the significant increase in credit risk (SICR) and measurement of ECL. This requires management to capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management judgement may also be involved in manual staging movements as per the Bank's policies.

The measurement of ECL amounts for retail and non-retail exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation process by an independent reviewer.

The impact of the COVID-19 pandemic and the resulting economic support and relief measurement programmes of governments and central banks have been incorporated in the Bank's measurement of ECL. The Bank has updated its macro-economic forecasts and has applied portfolio-level ECL adjustments to wholesale and retail portfolios based upon affected portfolios and sectors.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We have gained an understanding of the loan origination process, credit risk management process and the estimation process of determining impairment allowances for loans and advances to customers and tested the operating effectiveness of relevant controls within these processes.

We understood and evaluated the theoretical soundness of the ECL model by involving our subject matter experts to determine its compliance with the requirements of IFRS 9 Financial Instruments. We tested the mathematical integrity of the ECL model by performing recalculations. We assessed the consistency of various inputs and assumptions used by the Group's management to determine impairment.

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

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

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

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

We evaluated the approach employed by the Bank to measure the impact of COVID-19 on ECL – we evaluated controls over the IFRS 9 governance process that reviews and approves all stage migrations, management overlays to ECL estimates, and macro-economic scenarios and weightings. We have tested the impact on individual loans through our detailed credit reviews referenced above.

We evaluated other post model adjustments and management overlays in order to assess these adjustments. We further assessed the reasonableness of forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses.

The Bank appointed an external expert to perform the validation of the PD and LGD models including macro-economic model during the reporting period. We involved our subject matter expert to review the process of this external validation of the models and its impact on the results of the impairment estimate.

Finally, we have updated our assessment of the methodology and framework designed and implemented by the Bank as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the forecasts used by the Bank to determine future economic conditions at the reporting date.

We have assessed the adequacy of the Group's disclosure in relation to the requirements of the relevant accounting standards.

KEY AUDIT MATTER - EXPOSURE TO LEBANESE GOVERNMENT BONDS AND BANQUE DU LIBAN ("BDL")

As a result of the significant levels of uncertainty and volatility that has been, and continues to be, experienced in the Lebanese Republic, the carrying values of the Group's exposures to Lebanese government bonds and BDL was identified as a key audit matter. Political unrest and breakdown in the Lebanese government, among other factors, resulted in the prices of these government bonds experiencing a sharp decline starting in the last quarter of 2019. Furthermore, the sovereign credit risk rating started to witness consecutive downgrading by all major rating agencies to reach the level of default on 7 March 2020.

The Group's exposure to BDL is carried in the statement of financial position at amortized cost , net of an allowance for Expected Credit Losses ("ECL") which is determined in accordance with the requirements of IFRS 9 Financial Instruments. The Group's exposure to Lebanese Government bonds are carried either at amortized cost, net of ECL or at FVTOCI.

Due to the fact that the fair values of Lebanese government bonds were significantly below par as at 31 December 2021, and due to the difficulty in accessing foreign currencies among other factors and their effect on the impairment of the foreign currency with BDL exposures, judgement was required in respect of whether an additional adjustment was required to the standard ECL methodology.

Whilst the fair values of bonds can be driven by a number of factors, management concluded that in this scenario, the fair values provided an indication of probability of default and loss given default expectations. As a result the carrying values were written down to their fair values as at 31 December 2021.

Refer to note 40 to the consolidated financial statements for more details relating to this matter.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We performed the following procedures, amongst others, in relation to the Lebanese government bond and BDL carrying amounts:

We obtained an understanding of the relevant controls over management's treasury and operations business cycles.

We assessed the design and implementation of controls over the determination of the carrying amount of the Lebanese government bond and Bank Du Liban carrying amounts.

We obtained an understanding of the ECL raised, including the determination of a post model adjustment applied by management.

We reperfomed the mathematical accuracy of management's determination of fair value of the Lebanese government bonds.

We assessed the forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied to capture non-linear losses.

We agreed the results of management's determination of the fair valuation of Lebanese government bonds presented in the financial statements.

We performed an independent valuation of the Group's exposures to Lebanese government bonds using observable market prices, to challenge the ECL calculation computed by management.

We assessed the disclosure in the consolidated financial statements, relating to this matter, against the requirements of IFRSs.

KEY AUDIT MATTER - VALUATION OF THE INVESTMENT PROPERTIES AND REAL ESTATE ASSETS ACQUIRED IN SATISFACTION OF LOANS

The valuation of the investment properties and real estate assets acquired in settlement of debt is a significant judgement area and is underpinned by a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value, whether deliberate or not, could lead to a misstatement of consolidated profit or loss for the year.

Valuations of investment properties and real estate assets acquired in settlement of debt are carried out by a third party valuer in accordance with IFRSs and take into account, where available, discounted cash flows and evidence of market transactions for properties and locations comparable to those of the Group's properties.

The economic slowdown due to COVID-19 has created significant uncertainty for the future real estate properties market and for the economy as a whole. Given the market conditions that existed at 31 December 2021, the external valuer has included a "material valuation uncertainty" paragraph in the valuation report and noted that, as a result, less certainty and a higher degree of caution should be attached to the valuation.

Refer to notes 11 and 13 for more details relating to investment properties and real estate assets acquired in settlement of debt, respectively.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We obtained an understanding of the process of determining the fair value of the investment properties and real estate assets acquired in settlement of debt.

We assessed the controls over the determination of the fair values to determine if they had been appropriately designed and implemented.

We assessed the competence, independence and integrity of the external valuer and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work.

We obtained the external valuation reports for all properties and confirmed, on a sample basis, that the valuation approach used is d in accordance with the requirements of IFRS 13 Fair Value Measurement.

We involved our valuation specialists to carry out procedures on selected samples, to assess key valuation assumptions, such as market rent, sales prices, discount rates and capitalisation rates and to test the accuracy of these assumptions adopted by the valuer. These assumptions were considered on the basis of a COVID-19 economic environment. We also discussed the "material valuation uncertainty" paragraph included in the valuation report with our specialist to determine the impact on the valuation

We met with the external valuer to understand the valuation process adopted and identified and challenged the methodology and critical judgment areas in the valuation model.

We re-performed the mathematical accuracy of the valuations.

We agreed the results of the valuations to the amounts recorded in the financial statements.

We assessed the adequacy of the Group's disclosure in the consolidated financial statements, including specific uncertainties that arise as a result of COVID-19, against the requirements of IFRSs.

KEY AUDIT MATTER - IT SYSTEMS AND CONTROLS OVER FINANCIAL REPORTING

We identified IT systems and controls over financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Group and rely on the effective operation of automated and IT dependent manual controls.

There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications.

We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data center and network operations.

We examined computer generated information used in financial reports from relevant applications and key controls over their report logics.

We performed testing on the key automated controls on significant IT systems relevant to business processes.

OTHER INFORMATION

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- The Bank has maintained proper books of account;
- The financial information included in the Directors' report is consistent with the books of account and records of the Bank;
- The Bank didn't purchase or invest in shares during the year ended 31 December 2021;
- Note 37 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021; and
- Note 35 to the consolidated financial statements of the Group discloses social contributions made during the year ended 31 December 2021.

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

Deloitte & Touche (M.E.)

Akbar Ahmad

Registration No. 1141

24 August 2022

Dubai

United Arab Emirates

CONSOLIDATED STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December

	Notes	2021 AED'000	2020 AED'000 Restated
ASSETS			
Cash and balances with central banks	7	**3,223,357**	5,534,099
Deposits and balances due from banks	8	**64,354**	129,046
Reverse-repo placements	9	**-**	114,234
Loans and advances, net	10	**21,314,047**	20,519,282
Investments measured at fair value	11	**486,755**	420,978
Investments measured at amortised cost	11	**4,351,247**	4,240,833
Investment properties	12	**1,091,543**	767,594
Other intangibles	13	**22,075**	40,370
Assets acquired in settlement of debt	14	**1,448,800**	2,956,490
Other assets	14	**1,270,627**	868,248
Derivative assets held for risk management	15	**9,083**	49,730
Property and equipment	16	**280,170**	502,586
Total assets		**33,562,058**	36,143,490
LIABILITIES AND EQUITY			
Liabilities			
Customers' deposits	18	**23,757,419**	23,672,584
Deposits and balances due to banks	19	**237,995**	240,915
Repo borrowings	20	**750,000**	2,438,842
Other liabilities	21	**2,043,171**	1,655,840
Derivative liabilities held for risk management	15	**8,922**	15,941
Issued bonds	22	**5,353,179**	4,953,951
Total liabilities		**32,150,686**	32,978,073
Equity			
Capital and reserves			
Share capital	23 (a)	**2,200,000**	2,100,000
Statutory reserve	23 (b)	**1,050,000**	1,050,000
Contingency reserve	23 (c)	**640,000**	640,000
General and impairment reserve	10 (c) & 23 (d,e)	**220,972**	288,962
Investment fair value reserve		**(681,292)**	(740,095)
Currency translation reserve	2	**(2,083,048)**	-
Retained earnings/ (accumulated losses)		**57,404**	(182,157)
Equity attributable to equity holders of the Bank		**1,404,036**	3,156,710
Non-controlling interests		**7,336**	8,707
Total equity		**1,411,372**	3,165,417
Total liabilities and equity		**33,562,058**	36,143,490

To the best of our knowledge, the consolidated financial statements fairly presents, in all material respects, the consolidated financial position, financial performance and consolidated cash flows of the Group as of, and for the year ended 31 December 2021.

Mohammed Bin Saud Al Qasimi
Chairman

Varouj Nerguizian
General Manager

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December

	Notes	2021 AED'000	2020 AED'000
Interest income	29	**1,007,929**	1,430,779
Interest expense	30	**(706,831)**	(861,283)
Net interest income		**301,098**	569,496
Net fee and commission income	31	**174,017**	106,438
Exchange profit		**20,989**	155,999
Income/(loss) on investments	32	**71,829**	(20,415)
Net loss on properties		**(14,571)**	(191,187)
Other income	33	**90,071**	42,639
Operating income		**643,433**	662,970
Net impairment loss on financial assets	34	**(127,582)**	(744,459)
Net operating income/(loss)		**515,851**	(81,489)
Other non-operating income	33	**-**	449,338
Personnel expenses	35	**(152,900)**	(217,742)
Depreciation	35	**(29,620)**	(65,219)
Other expenses	35	**(94,084)**	(118,101)
Amortisation of intangible assets	13	**(927)**	(4,401)
Loss on monetary position	2	**(191,206)**	(577,037)
Profit/(loss) before taxes		**47,114**	(614,651)
Income tax expense – overseas	36	**(4,705)**	(51,745)
Net profit/(loss) for the year		**42,409**	(666,396)
Attributable to:			
Equity holders of the Bank		**43,780**	(654,883)
Non-controlling interests		**(1,371)**	(11,513)
Net profit/(loss) for the year		**42,409**	(666,396)
Basic and diluted profit/ (loss) per share (AED)	24	**0.02**	(0.30)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December

	2021 AED'000	2020 AED'000
Net profit/(loss) for the year	**42,409**	(666,396)
Other comprehensive income items		
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	**43,871**	(58,546)
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	**14,932**	700
Items that may be reclassified subsequently to consolidated statement of profit or loss:		
Translation differences from a subsidiary	**(2,083,048)**	-
Other comprehensive loss for the year	**(2,024,245)**	(57,846)
Total comprehensive loss for the year	**(1,981,836)**	(724,242)
Attributable to:		
Equity holders of the Bank	**(1,980,465)**	(712,729)
Non-controlling interests	**(1,371)**	(11,513)
Total comprehensive loss for the year	**(1,981,836)**	(724,242)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Contingency reserve AED'000	General and impairment reserve AED'000	Investment fair value reserve AED'000	Currency translation reserve AED'000	Retained earnings/ (accumulated losses) AED'000	Equity attributable to equity holders of the bank AED'000	Non-controlling interests AED'000	Total equity AED'000
Balance at 1 January 2020	**2,100,000**	**1,050,000**	**640,000**	**293,109**	**(682,249)**	**-**	**(402,710)**	**2,998,150**	**20,220**	**3,018,370**
Net loss for the year	-	-	-	-	-	-	(654,883)	(654,883)	(11,513)	(666,396)
Other comprehensive loss	-	-	-	-	(57,846)	-	-	(57,846)	-	(57,846)
Total comprehensive loss for the year	-	-	-	-	(57,846)	-	(654,883)	(712,729)	(11,513)	(724,242)
Hyperinflation impact (Note 2)	-	-	-	-	-	-	878,774	878,774	-	878,774
Transactions with owners of the Group										
Disposal of FVOCI investment	-	-	-	-	-	-	15	15	-	15
Transfer from impairment reserve [Note 10(c)]	-	-	-	(4,147)	-	-	4,147	-	-	-
Charity donations (Note 25)	-	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance at 31 December 2020	**2,100,000**	**1,050,000**	**640,000**	**288,962**	**(740,095)**	**-**	**(182,157)**	**3,156,710**	**8,707**	**3,165,417**
Net profit for the year	-	-	-	-	-	-	43,780	43,780	(1,371)	42,409
Other comprehensive loss	-	-	-	-	58,803	(2,083,048)	-	(2,024,245)	-	(2,024,245)
Total comprehensive loss for the year	-	-	-	-	**58,803**	**(2,083,048)**	**43,780**	**(1,980,465)**	**(1,371)**	**(1,981,836)**
Hyperinflation impact (Note 2)	-	-	-	-	-	-	239,854	239,854	-	239,854
Transactions with owners of the Group										
Disposal of FVOCI investment	-	-	-	-	-	-	(82)	(82)	-	(82)
Transfer to share capital	100,000	-	-	(100,000)	-	-	-	-	-	-
Transfer to impairment reserve [Note 10(c)]	-	-	-	32,010	-	-	(32,010)	-	-	-
Directors fees (Note 25)	-	-	-	-	-	-	(4,481)	(4,481)	-	(4,481)
Charity donations (Note 25)	-	-	-	-	-	-	(7,500)	(7,500)	-	(7,500)
Balance as at 31 December 2021	**2,200,000**	**1,050,000**	**640,000**	**220,972**	**(681,292)**	**(2,083,048)**	**57,404**	**1,404,036**	**7,336**	**1,411,372**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December	2021 AED'000	2020 AED'000 Restated
Cash flows from operating activities		
Net loss before tax for the year	**47,114**	(614,651)
Adjustments for:		
Depreciation of property and equipment	**29,620**	65,219
Amortisation of intangible assets	**927**	4,401
Amortisation of premium on debt instruments	**(526)**	627
Gain on sale on assets acquired in settlement of debts	**(156,391)**	-
Discount charge on recognition of receivables related to disposals of assets acquired in settlement of debts	**157,250**	-
Gain on sale on fixed assets	**(579)**	(1,073)
Net fair value loss on issued debt securities	**6,090**	23,837
Net fair value gain on interest rate swaps	**(6,090)**	(23,837)
Net fair value (gain)/ loss on other financial assets	**(21,686)**	37,952
Fair value (gain)/ loss on revaluation of investment properties	**(5,151)**	107,524
Unrealized loss on assets acquired in settlement of debts	**277,341**	83,663
Net impairment loss on financial assets	**127,581**	744,459
Dividend income	**(15,925)**	(16,187)
Loss on monetary position	**191,206**	577,037
Operating profit before changes in operating assets and liabilities	**630,781**	988,971
Changes in		
Deposits and balances due from banks maturing after three months	**(351,879)**	-
Statutory deposits with central banks	**1,021,611**	(43,415)
Loans and advances	**(2,221,209)**	(2,060,256)
Other assets	**2,894,044**	86,258
Customers' deposits	**84,835**	2,346,350
Other liabilities	**391,417**	125,560
Cash generated from operations	**2,449,600**	1,443,468
Payment of directors' remuneration and charity donations	**(11,981)**	(7,500)
Net cash generated from operating activities	**2,437,619**	1,435,968
Cash flows from investing activities		
Purchase of property and equipment	**(13,306)**	(9,882)
Proceeds from sale of property and equipment	**8,127**	10,210
Purchase of other financial assets	**(196,859)**	(3,868,406)
Additions to investment properties	**(318,798)**	(119,082)
Proceeds from sale of other financial assets	**6,028**	243,672
Proceeds from sale of assets acquired in settlement of debts	**371,814**	-
Dividends received	**15,925**	16,187
Net cash used in investing activities	**(127,069)**	(3,727,301)
Cash flows from financing activities		
Proceeds from issued bonds	**459,124**	-
Partial settlement of bonds	**-**	(721,539)
Payment of lease liabilities	**(15,889)**	(15,220)
Net cash generated from/(used) in financing activities	**443,235**	(736,759)
Net increase/(decrease) in cash and cash equivalents	**2,753,785**	(3,028,092)
Cash and cash equivalents at the beginning of the year	**1,358,191**	4,386,283
Effect of movements in exchange rates on cash held	**(3,422,458)**	-
Cash and cash equivalents at the end of the year (Note 27)	**689,518**	1,358,191

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2021

1. GENERAL INFORMATION

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness The Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through eight branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Group").

2. HYPERINFLATION AND BASIS OF PREPARATION

Hyperinflation and currency translation

The International Monetary Fund (IMF) publishes inflation forecasts. Applying the October 2020 IMF information and the indicators laid out in IAS 29, the Lebanese economy was considered a hyperinflationary economy for the purposes of applying IAS 29 and for retranslation of foreign operations in accordance with IAS 21 The Effect of Changes in Foreign Exchange Rates in the consolidated financial statements, consequently, the Group has first time adopted IAS 29 Financial reporting in Hyperinflationary Economies to its subsidiary, Emirates Lebanon Bank SAL in the consolidated financial statements of the Group for the year ended 31 December 2020. The Lebanese economy is still considered as hyperinflationary as at 31 December 2021 and accordingly IAS29 is still applicable to the Group for the year ended 31 December 2021.

		31/12/2021	
	Before IAS 29 @1,507.5 LBP/USD	**IAS 29 & currency translation impact**	**After IAS 29 @22,700 LBP/USD**
	AED 000	**AED 000**	**AED 000**
Net profit	**224,864**	**(182,455)**	**42,409**
Total comprehensive income	284,672	(183,460)	**101,212**
Currency translation effect on other comprehensive loss	-	(2,083,048)	-
Accumulated IAS 29 effect on equity - 31.12.2020		**236,269**	
IAS 29 effect on equity - 12 months 2021		239,854	
Equity	**3,201,757**	**(1,790,385)**	**1,411,372**

		31/12/2020	
	Before IAS 29 @1,507.5 LBP/USD	**IAS 29 impact**	**After IAS 29 @1,507.5 LBP/USD**
	AED 000	**AED 000**	**AED 000**
Net loss	**(23,891)**	**(642,505)**	**(666,396)**
Total comprehensive loss	(81,737)	(642,505)	**(724,242)**
IAS 29 effect on equity - 12 months 2020		**878 774**	
Equity	**2,929,148**	**236,269**	**3,165,417**

In line with IAS 29, the financial statements of Emirates Lebanon Bank SAL have been restated by applying the general price index of the reporting date to the comparative amounts, in order to reflect the changes in the purchasing power of the LBP, on the closing date of the financial statements. The non-monetary items of the statement of financial position as well as the income statement, statement of other comprehensive income and statement of cash flows for the current year of Emirates Lebanon Bank SAL, have been adjusted for inflation and re-expressed in accordance with the variation of the consumer price index ('CPI'), at the presentation date of its financial statements. The consumer price index at the beginning of the reporting year was 284.04 and closed at 921.40.

The loss on the net monetary position which has been derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income is recognised in the consolidated statement of profit or loss. During 2021, the resulting loss on the net monetary position for Emirates Lebanon Bank SAL was AED 191 million (2020: AED 577 million).

The application of IAS 21 on the USD denominated Assets and Liabilities of our Lebanese subsidiary, by multiplying One US Dollar with the peg rate of 1507.50 and dividing the result by the Sayrafa rate of 22,700, has rendered the USD equal to 6.6 cents. This result will be immediately corrected once the peg is removed. The removal of the peg is a requirement from IMF within their proposed financial support. It is understood, this would have a positive effect on the Equity level of the subsidiary as around 80% of the subsidiary's assets and liabilities are denominated in USD.

The Bank's consolidated financial statements are impacted by the application of the International Financial Reporting Standards on hyperinflation and foreign exchange on the consolidation of the Bank's subsidiary in Lebanon. This impacts every single line item on the Bank's consolidated statement of financial position and the consolidated statement of profit or loss. As a result, it may be difficult for the users of the financial statements (which include the Board, Management, Regulators, Investors, Rating Agencies, etc) to understand the performance of the Group apart from the effect of its Subsidiary in Lebanon.

The reported Net Profit for the year ended 31 December 2021 amounted to AED 42 million (2020: Loss of AED 666 million). This is after the impact of applying IAS 29 and Sayrafa exchange rate in the consolidated financial statements, which resulted in a decrease in the net income for the year by AED 183 million (2020: AED 642 million). Had IAS 29 not been applied and had the Group used the pegged exchange rate of 1,507.5 LBP/USD instead of Sayrafa rate of 22,700 LBP/USD as of 31 December 2021, the net profit for the year ended 31 December 2021 would have been equal to AED 225 million (2020: Had IAS 29 not been applied, the net loss for the year ended 31 December 2020 would have been equal to AED 24 million).

The reported total comprehensive loss for the year ended 31 December 2021 amounted to AED 1,982 million (2020: Loss of AED 724 million). This is after the impact of applying IAS 29 and Sayrafa exchange rate in the consolidated financial statements, which resulted in a decrease in the total comprehensive loss for the year by AED 2,267 million (2020: AED 642 million). Had IAS 29 not been applied and had the Group used the pegged exchange rate of 1,507.5 LBP/USD instead of Sayrafa rate of 22,700 LBP/USD as of 31 December 2021, the total comprehensive income for the year ended 31 December 2021 would have been equal to AED 285 million (2020: Had IAS 29 not been applied, the total comprehensive loss for the year ended 31 December 2020 would have been equal to AED 82 million).

The reported total equity as at 31 December 2021 amounted to AED 1,411 million (2020: AED 3,165 million). This is after the impact of applying IAS 29 and Sayrafa exchange rate in the consolidated financial statements which resulted in a decrease in total equity of AED 1,791 million (2020: Positive AED 236 million). Had IAS 29 not been applied and had the Group used the pegged exchange rate of 1,507.5 LBP/USD instead of Sayrafa rate of 22,700 LBP/USD as of 31 December 2021, total equity as at 31 December 2021 would have been equal to AED 3,202 million (2020: Had IAS 29 not been applied, the total equity as at 31 December 2020 would have been equal to AED 2,929 million).

	31 December 2021 Before applying IAS 29 @1,507.5 LBP/USD AED'000	31 December 2020 Before applying IAS 29 @1,507.5 LBP/USD AED'000 Restated
ASSETS		
Cash and balances with central banks	**6,565,551**	5,534,099
Deposits and balances due from banks	**96,241**	129,046
Reverse-repo placements	**-**	114,234
Loans and advances, net	**22,397,830**	20,519,282
Investments measured at fair value	**515,800**	420,978
Investments measured at amortised cost	**4,417,179**	4,240,833
Investment properties	**1,091,543**	767,594
Other intangibles	**23,362**	24,609
Assets acquired in settlement of debt	**1,492,699**	2,867,827
Other assets	**1,360,200**	868,264
Derivative assets held for risk management	**9,083**	49,730
Property and equipment	**300,700**	329,028
Total assets	**38,270,188**	35,865,524
LIABILITIES AND EQUITY		
Liabilities		
Customers' deposits	**26,491,847**	23,672,584
Deposits and balances due to banks	**238,405**	240,915
Repo borrowings	**750,000**	2,438,842
Other liabilities	**2,226,078**	1,614,143
Derivative liabilities held for risk management	**8,922**	15,941
Issued bonds	**5,353,179**	4,953,951
Total liabilities	**35,068,431**	32,936,376
LIABILITIES AND EQUITY		
Liabilities		
Share capital	**2,200,000**	2,100,000
Statutory reserve	**1,050,000**	1,050,000
Contingency reserve	**640,000**	640,000
General and impairment reserve	**220,972**	288,962
Investment fair value reserve	**(680,288)**	(740,095)
Accumulated losses	**(236,263)**	(418,426)
Equity attributable to equity holders of the bank	**3,194,421**	2,920,441
Non-controlling interests	**7,336**	8,707
Total equity	**3,201,757**	2,929,148
Total liabilities and equity	**38,270,188**	35,865,524

	2021 Before applying IAS 29 @1,507.5 LBP/USD AED'000	2020 Before applying IAS 29 @1,507.5 LBP/USD AED'000 Restated
Interest income	**1,148,289**	1,282,247
Interest expense	**(713,707)**	(808,843)
Net interest income	**434,582**	473,404
Net fee and commission income	**192,977**	95,599
Exchange profit	**23,926**	153,510
Income/(loss) on investments	**71,854**	(20,423)
Net loss on properties	**(14,571)**	(191,186)
Other income	**90,055**	42,490
Operating income	**798,823**	553,394
Net impairment loss on financial assets	**(216,360)**	(684,116)
Net operating income/(loss)	**582,463**	(130,722)
Other non-operating income	**-**	449,338
Personnel expenses	**(186,203)**	(187,676)
Depreciation	**(32,993)**	(38,707)
Other expenses	**(116,627)**	(106,096)
Amortisation of intangible assets	**(1,247)**	(1,252)
Profit/(loss) before taxes	**245,393**	(15,115)
Income tax expense - overseas	**(20,529)**	(8,776)
Net profit/(loss) for the year	**224,864**	**(23,891)**
Other comprehensive income items		
Items that will not be reclassified subsequently to consolidated statement of profit or loss:		
Net changes in fair value of financial assets measured at fair value through other comprehensive income	**44,876**	**(58,546)**
Net changes in fair value of own credit risk on financial liabilities designated at fair value through profit or loss	**14,932**	**700**
Other comprehensive income/(loss) for the year	**59,808**	**(57,846)**
Total comprehensive income/(loss) for the year	**284,672**	**(81,737)**

3. APPLICATION OF NEW AND REVISED STANDARDS

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after

1 January 2021, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Revised 'Conceptual Framework for Financial Reporting.
- Amendments to IFRS 3 Business Combinations to clarify the definition of a business.
- Amendments to IFRS 7 Financial Instruments: Disclosures and IFRS 9 Financial Instruments regarding pre-replacement issues in the context of the IBOR reform.
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors regarding the definition of material.

Interest Rate Benchmark Reform

A fundamental reform of major profit rate benchmarks is being undertaken globally, replacing some interbank offered rates (IBORs) with alternative nearly risk-free rates (referred to as 'IBOR reform').

The amendments in Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) introduce a practical expedient for modifications required by the reform, clarify that hedge accounting is not discontinued solely because of the IBOR reform, and introduce disclosures that allow users to understand the nature and extent of risks arising from the IBOR reform to which the entity is exposed to and how the entity manages those risks as well as the entity's progress in transitioning from IBORs to alternative benchmark rates, and how the entity is managing this transition.

In the current year, the Group adopted the Phase 2 amendments Interest Rate Benchmark Reform—Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates (IBOR) to alternative benchmark interest rates (also referred to as 'risk free rates' or RFRs) without giving rise to accounting impacts that would not provide useful information to users of financial statements.

The main risks to which the Group has been exposed as a result of IBOR reform are operational. For example, the renegotiation of financing contracts through bilateral negotiation with customers, updating of contractual terms, updating of systems that use IBOR curves and revision of operational controls related to the reform and regulatory risks. Financial risk is predominantly limited to profit rate risk.

3.2 New and revised IFRSs in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

New and revised IFRS	Effective for annual periods beginning on or after
Amendments to IAS 16 Property, plant and equipment relating to proceeds before intended use.	1 January 2022
Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to onerous contracts.	1 January 2022
Amendments to IFRS 3 Business Combinations relating to reference to conceptual framework	1 January 2022
Annual improvements to IFRS standards 2018 - 2020	1 January 2022
Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
Amendments to IAS 1 Presentation of Financial Statements relating to classification of Liabilities as Current or Non-Current	1 January 2023
Amendment to IFRS 17 Insurance contracts	1 January 2023
Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures relating to treatment of sale or contribution of assets from investors	Effective date deferred indefinitely.

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

4. BASIS OF PREPARATION

4.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standard Board (IASB) and applicable requirements of the laws of the U.A.E., including the UAE Federal Law No 2 of 2015 ("UAE Companies Law of 2015") as amended by the Federal Decretal Law No. 26 of 2020 issued on 27 September 2020, for certain provisions which will take effect on 02 January 2021, and the Decretal Federal Law No. (14) of 2018.

4.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values as explained in the accounting policies below.

The Lebanese economy is considered to be hyperinflationary. Accordingly, the results, cash flows and the financial position of the Emirates Lebanon Bank SAL have been expressed in terms of the measuring unit current at the reporting date.

4.3 Functional and presentation currency

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands' dirham, except when otherwise indicated.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved when the Bank has:

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

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. This includes circumstances in which protective rights (e.g. more from a lending relationship) becomes substantive and lead to the Bank having power over as investee.

When the Bank has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributable to the owners of the Bank and to the non-controlling interests.

Total comprehensive income of the subsidiaries is attributable to the owners of the Group and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid/payable or received/receivable is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to statement of profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 (IFRS 9 Financial instruments) issued in 2010, when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

5.2 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

5.3 Reverse-repo placements

Assets purchased with a simultaneous commitment to resell at a fixed price on a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method and recognized initially at amortised cost.

5.4 Financial instruments

5.4.1 Recognition and Initial Measurement

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

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

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in consolidated statement of profit or loss.

5.4.2 Classification of financial assets

Balances with central banks, due from banks and financial institutions, financial assets and certain items in receivables and other assets that meet the following conditions are subsequently measured at amortised cost less impairment loss and deferred income, if any (except for those assets that are designated as at fair value through profit or loss on initial recognition).

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL).

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

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

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

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

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

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

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

FINANCIAL ASSETS MEASURED AT AMORTISED COST

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the consolidated statement of profit or loss on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

FINANCIAL ASSETS MEASURED AT FVTPL

Investments in equity instruments are classified as financial assets measured at FVTPL, unless the Group designates fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets that do not meet the amortised cost criteria described above, or that meet the criteria but the Group has chosen to designate it as at FVTPL at initial recognition, are measured at FVTPL.

Financial assets (other than equity instruments) may be designated at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

Financial assets are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met.

Reclassification of financial assets (other than equity instruments) designated as at FVTPL at initial recognition is not permitted.

Financial assets measured at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognised in the consolidated statement of profit or loss at the end of each reporting period. The net gain or loss recognised in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 40.

FINANCIAL ASSETS MEASURED AT FVTOCI

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments fair value reserve is not transferred to consolidated statement of profit or loss.

BUSINESS MODEL ASSESSMENT

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

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

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

ASSESSMENTS WHETHER CONTRACTUAL CASH FLOWS ARE SOLELY PAYMENTS OF PRINCIPAL AND INTEREST

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

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

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

NON-RECOURSE LOANS

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan; and
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and whether the Group will benefit from any upside from the underlying assets.

5.4.3 Measurement of ECL

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate (EIR);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

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

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

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

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

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

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

Details of these statistical parameters/inputs are as follows:

- PD – PD estimates are estimates at a certain date, which are calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories and sizes of counterparties.

- EAD – EAD represents the expected exposure upon default of an obligor. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

EAD is calculated as below:

- For Direct Facilities: Limit or Exposure whichever is higher
- For Letters of Credit & Acceptances: Limit or Exposure whichever is higher
- For all types of Guarantees: Exposure

- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, considering cash flows from the proceeds from liquidation of any collateral. The LGD models for secured assets consider forecasts of future collateral valuation considering sale discounts, time to realisation of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims.

LGD is derived as below:

- Senior Unsecured: 45%
- Subordinated Unsecured: 75%
- Eligible Securities as per Basel lower LGD, taking into consideration applicable Basel haircuts on collateral as well as LGD floors to certain collateral

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

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term of maturity;
- industry;
- geography location of the borrower;
- size of counterparty; and
- segment of counterparty.

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

FORWARD-LOOKING INFORMATION

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information requires significant judgement. The group formulates three economic scenarios: a base case with a 40% weight, upside scenario with a 30% weight and a downside scenario with 30% weight.

MACROECONOMIC FACTORS

In its models, the Group relies on a broad range of forward-looking information as economic inputs, such as: GDP (Gross Domestic Product) growth and oil prices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

	Macro Variable	Scenario	2022	2023	2024	2025	2026
UAE	Oil Price	Base	0.50%	-10.39%	0.91%	3.19%	3.91%
		Upside	3.06%	-5.69%	2.19%	2.39%	4.00%
		Downside	-37.67%	4.66%	13.58%	7.47%	6.80%
	GDP	Base	3.42%	2.52%	2.59%	2.70%	2.63%
		Upside	7.98%	5.13%	2.34%	2.23%	2.34%
		Downside	-6.48%	-2.03%	4.15%	5.32%	4.90%
Lebanon	GDP	Baseline	5%	5%	6%	6%	7%
		Upside	5%	6%	6%	6%	8%
		Downside	4%	7%	7%	6%	9%
	Equity Index	Baseline	35%	14%	9%	2%	3%
		Upside	37%	12%	8%	0%	2%
		Downside	30%	19%	13%	4%	6%

Assessment of significant increase in credit risk

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

This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1, if certain criteria are met, if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

The group assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower, and the geographical region. What is considered significant differs for different types of lending, in particular between wholesale and retail.

The credit risk may be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management process that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as placement on a watch list. Such qualitative factors are based on its expert judgement and relevant historical experiences.

As a backstop, the group considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to the initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

The group monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;
- the average time between the identification of a significant increase in credit risk and default appears reasonable;
- exposures are not generally transferred directly from 12-month ECL measurement to credit impaired; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD [stage 1] and lifetime PD [stage 2].

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- The remaining lifetime probability of default (PD) as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations)

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

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

Improvement in credit risk profile

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

The Group has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 instalments (for quarterly instalments) have been made or 12 months (for instalments longer than quarterly) curing period is met.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: (as a deduction from the gross carrying amount of the assets);
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL

on the loan commitment component separately from those on the drawn component: The Group presents a combined loss allowance for both components. The combined amount is presented as deduction from the gross carrying amount of the drawn component.

- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the statement of profit or loss.

5.5 Definition Of Fair Value

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would consider in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments; and
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

5.6 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment properties include cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties are reported at valuation based on fair value at the end of the reporting period. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated statement of profit or loss in the period in which these gains or losses arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the consolidated statement of profit or loss in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

5.7 Property and equipment

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

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

	Years
Buildings	20 - 40
Furniture and office equipment	2 - 6
Installation, partitions and decorations	3 - 4
Leasehold improvements	5 - 10
Motor vehicles	3

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of profit or loss statement when incurred.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

5.8 Intangible assets acquired separately

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Amortisation is charged so as to write off the cost of intangible assets, over their estimated useful lives using the straight-line method as follows:

Years

Banking license	Indefinite
Legal corporate setup in Lebanon	10
Customer base	10
Branch network	10

5.9 Impairment of tangible and intangibles

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangibles to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

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

5.10 Derecognition of financial assets

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

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

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in OCI is recognised in consolidated statement of profit or loss.

Any cumulative gain / loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in the consolidated statement of profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

5.11 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

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

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

5.12 Assets acquired in settlement of debt

The Group often acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Subsequently, the real estate are measured at acquisition value, less impairment losses, if any. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated statement of profit or loss.

5.13 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Group enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward foreign exchange contracts, interest rate swaps and currency swaps.

All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Hedge Accounting

The Bank may designate a recognised asset or liability, a firm commitment, highly probable forecast transaction or net investment of a foreign operation into a formal hedge accounting relationship with a derivative that has been entered to manage interest rate and/or foreign exchange risks present in the hedged item. The Bank continues to apply the hedge accounting requirements of IAS 39 Financial Instruments: Recognition and Measurement.

For the purpose of hedge accounting, the Group classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

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

FAIR VALUE HEDGES

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated statement of profit or loss. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated statement of profit or loss category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated statement of profit or loss category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point to a hedged item for which the effective interest method is used, is amortised in the consolidated statement of profit or loss as part of the recalculated effective interest rate over the period to maturity.

CASH FLOW HEDGES

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated statement of profit or loss in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in other comprehensive income remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated statement of profit or loss. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in other comprehensive income are immediately transferred to the consolidated statement of profit or loss and classified as trading revenue/loss.

DERIVATIVES THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated statement of profit or loss as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated statement of profit or loss.

5.14 Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘amortised cost’. The Group initially recognises financial liabilities such as deposits and debt securities issued on the date at which they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

FINANCIAL LIABILITIES AT FVTPL

Financial liabilities are classified at FVTPL where the financial liability is either held for trading or it is designated at FVTPL and measured at fair value. Determination is made at initial recognition and is not reassessed.

Financial liabilities at FVTPL are stated at fair value, with any gains / losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/ loss recognised in consolidated statement of profit or loss incorporates any interest paid on the financial liability.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability’s credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability’s credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability’s credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability’s credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 40.

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

- the liabilities are managed, evaluated and reported internally on a fair value basis; or
- the designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.

FINANCIAL LIABILITIES AT AMORTIZED COST

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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

DE-RECOGNITION OF FINANCIAL LIABILITIES

Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

5.15 Customers’ deposits

Customers’ deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

5.16 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date; except for non-current assets (or disposal banks) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholder's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

5.17 Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

5.18 Employees' end-of-service benefits

The Group provides end of service benefits for its expatriate employees in accordance with U.A.E. Labour Law. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Group in accordance with Federal Law No. 2 of 2000.

5.19 Provisions and contingent liabilities

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements.

5.20 Acceptances

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

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and continued to be recognized as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

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

5.21 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable).

5.22 Leasing

The Group has applied IFRS 16 using the modified retrospective approach.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into (or changed) on or after 1 January 2019.

i. Group acting as a lessee

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

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the statement of financial position is 4.23% (2020: 4.23%)

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

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

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

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

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

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

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

ii. Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

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

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

5.23 Revenue and expense recognition

5.23.1 Interest income and expense

Interest income and interest expense are recognised in consolidated statement of profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

EFFECTIVE INTEREST RATE

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

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

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

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

CALCULATION OF INTEREST INCOME AND EXPENSE

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

5.23.2 Fees and commission

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

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

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- other fees and commission income and expense are recognised as the related services are performed or received.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

5.23.3 Dividend income

Dividend income is recognized in the consolidated statement of profit or loss when the Group's right to receive such income is established. Usually this is the ex-dividend date for equity securities.

PRESENTATION

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- Interest on financial assets measured at amortised cost;
- Interest on debt instruments measured at FVOCI;
- The effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- The effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes:

- Financial liabilities measured at amortised cost; and
- The effective portion of fair value changes in qualifying hedging derivatives designated as cash flows hedges of variability in interest cash flows; in the same period as the hedged cash flows affect interest income/ expense

Interest income and expenses on all trading assets and liabilities were considered to be incidental to the Groups trading operations and were presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense on other financial assets and financial liabilities carried at FVTPL were presented in net income from other financial instruments at FVTPL.

5.24 Foreign currency transactions

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the consolidated statement of financial position date. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Foreign currency differences are generally recognised in the statement of profit or loss.

For financial assets measured at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss. For financial assets measured at FVTOCI any foreign exchange component is recognised in other comprehensive income.

For foreign currency denominated debt instruments measured at amortised cost, the foreign exchange gains and losses are determined based on the amortised cost of the asset and are recognised in the consolidated statement of profit or loss.

5.25 Foreign operations

GROUP COMPANIES

The results and financial position of foreign operations that have a functional currency that is different from the group's presentation currency are translated into the group's presentation currency as follows:

- assets and liabilities (including goodwill, intangible assets and fair value adjustments arising on acquisition) are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates for each month; and
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the group's FCTR.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the respective group entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transactions is utilised, for example an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign exchange gains and losses on equities (debt) classified as fair value through OCI are recognised in the fair value through OCI reserve in OCI (trading revenue) whereas the exchange differences on equities (debt) that are classified as held at fair value through profit or loss are reported as part of the other revenue (trading revenue) in profit or loss.

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases, the foreign currency gains and losses are recognised in the group's FCTR.

The results, cash flows and financial position of group entities which are accounted for as entities operating in hyperinflationary economies and that have functional currencies different from the presentation currency of the group are translated into the presentation currency of its parent at the exchange rate at the reporting date. These foreign exchange gains and losses on a hyperinflationary foreign operation are presented in OCI.

SUBSIDIARIES IN HYPERINFLATIONARY ECONOMIES

The results and financial position of the group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit at the end of the reporting year following the historic cost approach.

However, as the presentation currency of the group is that of a non-hyperinflationary economy, comparative amounts are not adjusted for changes in the index in the current year. Differences between these comparative amounts and current year hyperinflation adjustment are recognised directly in equity and the currency translation differences on translation of foreign operations to the presentation currency of the Group are recognised in the consolidated statement of comprehensive income.

The carrying amounts of non-monetary assets and liabilities are adjusted to reflect the change in the general price index from the date of acquisition to the end of the reporting year. On initial application of hyperinflation, prior year gains and losses are recognised directly in equity. Gains or losses on the net monetary position are recognised in profit or loss. All items recognised in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

At the beginning of the first year of application, the components of equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. These restatements are recognised directly in equity as an adjustment to opening retained earnings. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first year and in subsequent years, all components of equity are restated by applying a general price index from the beginning of the year or the date of contribution, if later. All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting year.

Results, cash flows and the financial position of the group's subsidiaries which have been classified as hyperinflationary have been expressed in terms of the measuring unit current at the reporting date. For further details, refer to note 2.

The International Practices Task Force (IPTF) of the Center of Audit Quality (CAQ) in its discussion document for the 10 November 2020 meeting stated Lebanon as one of the countries with three-year cumulative inflation rates exceeding 100%. In addition, applying the October 2020 International Monetary Fund (IMF) information and the indicators laid out in IAS29, the Lebanese economy was considered as hyperinflationary during 2020. Accordingly, the results and financial position of the Group's subsidiary – Emirates Lebanon Bank SAL expressed in terms of the measuring unit current at the reporting date. For further details, refer to note 2.

5.26 Fiduciary activities

The Group acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Group's consolidated financial statements as they are not assets of the Group.

5.27 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas subsidiary in accordance with the fiscal regulations of the respective country in which the subsidiary operates.

5.28 Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

5.29 Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

6. USE OF ESTIMATES AND JUDGEMENTS

6.1 Critical judgements in applying the Group's accounting policies

In particular, considerable management judgment is required in respect of the following issues:

FINANCIAL ASSET CLASSIFICATION

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

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

SIGNIFICANT INCREASE IN CREDIT RISK

As explained in note 4.4.3, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group considers qualitative and quantitative reasonable and supportable forward-looking information.

ESTABLISHING GROUPS OF ASSETS WITH SIMILAR CREDIT RISK CHARACTERISTICS

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 4.4.3 for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

MODELS AND ASSUMPTIONS USED

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 4.4.3 for more details on ECL.

IMPAIRMENT OF ASSETS

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

HYPERINFLATION

The group exercises significant judgement in determining the onset of hyperinflation in respect of its operations in Lebanon. Various characteristics of the economic environment of Lebanon are considered. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

LEBANESE POUND EXCHANGE RATE

The economic and political situation in Lebanon, and the difficulty in accessing foreign currencies led to the emergence of a parallel market to the official peg whereby the price to access foreign currencies increased, deviating significantly from the official peg of 1507.5 LBP/USD. This has resulted in an uncontrolled rise in prices driving high inflation and rise in the consumer price index.

Several exchange rates have emerged that vary significantly among each other and from the official exchange rate (refer to note 2). In the absence of any formal communication from the Central Bank of Lebanon, management has elected to use the sayrafa rate of LBP/USD 22,700 which is based on the Central Bank of Lebanon Sayrafa platform rate (31 December 2020: official rate LBP/USD 1,507.5) for the conversion of the financial statements of Emirates Lebanon Bank SAL to include them in the consolidated financial statements of the Group.

6.2 Key sources of estimation uncertainty

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

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, considering cash flows from collateral and integral credit enhancements.
- Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 43 for more details on fair value measurement.
- The determination of the Group's lease liability depends on certain assumptions, including selection of appropriate discount rate. The determination of discount rate is considered to be a key source of estimation uncertainty as relatively small changes in discount rate may have a significant effect on the carrying amounts of lease liabilities and right of use asset.
- The fair value of the Group's investment properties is estimated using sales comparison, income capitalisation, residual approach and discounted cash flow method, considering the property being valued. In estimating the fair value of the properties, the highest and best use of the properties is their current use. Refer to note 11 for more details on fair value measurement.
- The realisable values of real estate acquired in settlement of debt are determined by the management on valuations performed by qualified and independent chartered surveyors and property consultants. These valuations have been prepared in accordance with the Valuation Standards of the Royal Institution of Chartered Surveyors (RICS), and are reflective of the economic conditions prevailing as at the reporting date.

7. DEPOSITS AND BALANCES DUE FROM BANKS

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2021 AED'000	2020 AED'000
Cash on hand	**90,996**	163,768
Statutory deposits (note 7.1)	**302,431**	1,128,266
Current accounts	**2,924,101**	3,720,562
Certificates of deposits	**75,877**	1,231,611
	3,393,405	6,244,207
Expected credit loss including overlays	**(170,048)**	(710,108)
	3,223,357	5,534,099

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2021 AED'000	2020 AED'000
Banks abroad	**309,459**	4,056,630
Banks in the U.A.E.	**3,083,946**	2,187,577
	3,393,405	6,244,207
Expected credit loss including overlays	**(170,048)**	(710,108)
	3,223,357	5,534,099

7.1 The Group is required to maintain statutory deposits with Central Bank of UAE and Central Bank of Lebanon on demand, time and other deposits as per the statutory requirements. The statutory deposits with the Central Banks are not available to finance the day to day operations of the Group. However, as per notice 4310/2008, the Central Bank of the U.A.E. has allowed banks to borrow up to 100% of their AED and US$ reserve requirement limit. As at 31 December 2021, the statutory deposits with the Central Bank of the U.A.E. amounted to AED 263 million (31 December 2020: AED 434 million).

8. DEPOSITS AND BALANCES DUE FROM BANKS

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2021 AED'000	2020 AED'000
Demand	**56,723**	123,631
Time	**9,961**	7,032
	66,684	130,663
Expected credit loss	**(2,330)**	(1,617)
	64,354	129,046

(b) The geographical analysis of the deposits and balances due from banks is as follows:

	2021 AED'000	2020 AED'000
Banks abroad	**44,687**	114,563
Banks in the U.A.E.	**21,997**	16,100
	66,684	130,663
Expected credit loss	**(2,330)**	(1,617)
	64,354	129,046

9. REVERSE-REPO PLACEMENTS

The analysis of the Group's repurchase agreements is as follows:

	2021 AED'000	2020 AED'000
Banks in the U.A.E.	-	115,386
	-	115,386
Expected credit loss	-	(1,152)
		129,046

The Group entered into reverse-repo agreements under which bonds with fair value of AED 113 million were received as collateral against cash placements as at 31 December 2020. The risks and rewards relating to these bonds remain with the counter parties.

10. LOANS AND ADVANCES, NET

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2021 AED'000	2020 AED'000
Overdrafts	**4,215,039**	5,797,403
Commercial loans	**14,458,504**	12,551,541
Bills discounted	**2,368,164**	2,399,631
Other advances	**2,279,250**	1,714,660
Gross amount of loans and advances	**23,320,957**	22,463,235
Less: Allowance for impairment	**(2,006,910)**	(1,943,953)
Net loans and advances	**21,314,047**	**20,519,282**

(b) The geographic analysis of the gross loans and advances of the Group is as follows:

	2021 AED'000	2020 AED'000
Loans and advances resident in the U.A.E.	**22,000,596**	19,566,300
Loans and advances non-resident in Lebanon	**92,649**	1,666,555
Loans and advances non-resident others	**1,227,712**	1,230,380
	23,320,957	22,463,235

(c) Impairment reserve

In accordance with CBUAE circular, in case where provision under CBUAE guidance exceeds provision under IFRS 9, the excess is required to be transferred to impairment reserve. The details of the same are below:

	Bank 2021 AED'000	Bank 2020 AED'000
Impairment reserve – Specific		
Specific provisions and interest in suspense under Circular 28/2010 of CBUAE	**1,442,268**	1,459,501
Stage 3 provisions under IFRS 9*	**1,914,094**	1,756,299
Specific provision transferred to the impairment reserve	**-**	-

	Bank 2021 AED'000	Bank 2020 AED'000w
Impairment reserve – Collective		
Collective provisions under Circular 28/2010 of CBUAE	**356,061**	317,264
Stage 1 and Stage 2 provisions under IFRS 9*	**135,089**	128,302
Collective provision transferred to the impairment reserve	**220,972**	188,962

As at 31 December 2021, AED 32.01 million are transferred from retained earnings to impairment reserve (2020: AED 4.1 million were transferred from impairment reserve to retained earnings).

* Provisions in accordance with IFRS 9, are determined based on CBUAE classification of loans and advances.

(d) The composition of the loans and advances portfolio by economic sector is as follows:

	2021 AED'000	2020 AED'000
Economic sector		
Services	**7,956,984**	5,558,094
Trading	**4,056,112**	4,686,360
Personal loans	**3,319,600**	2,321,028
Manufacturing	**2,588,383**	3,100,690
Construction	**1,087,547**	1,226,250
Government related entities	**1,279,461**	2,746,418
Mining and quarrying	**1,058,804**	905,043
Financial institutions	**823,004**	867,598
Transport and communication	**229,301**	347,693
Government	**214,017**	223,560
Agriculture	**1,109**	43,581
Other	**706,635**	436,920
	23,320,957	22,463,235
Less: Allowance for impairment	**(2,006,910)**	(1,943,953)
	21,314,047	20,519,282

(e) The composition of the non-performing loans and advances portfolio by industry is as follows:

	2021 AED'000	2020 AED'000
Economic sector		
Trading	**1,115,914**	1,485,250
Manufacturing	**203,630**	983,071
Services	**117,905**	164,412
Personal loans	**41,799**	30,775
Construction	**38,231**	48,229
Transport and communication	**1,328**	1,318
Financial institutions	**7**	91
Others	**95**	102
Total non-performing loans	**1,518,909**	2,713,248

11. INVESTMENTS MEASURED AT FAIR VALUE AND AMORTISED COST

(a) The analysis of the Group's investments measured at fair value and amortised cost is as follows:

	2021 AED'000	2020 AED'000
Investments measured at fair value		
(i) Investments measured at FVTPL		
Quoted equity	**172,948**	121,760
	172,948	121,760
(ii) Investments measured at FVTOCI		
Quoted equity	**140,265**	94,818
Unquoted equity	**171,592**	175,042
Debt Securities	**6,620**	99,680
Expected credit losses	**(4,670)**	(70,322)
	313,807	299,218
Total investments measured at fair value	**486,755**	420,978
Investments measured at amortised cost		
Debt securities	**4,363,876**	4,354,187
Expected credit losses	**(12,629)**	(113,354)
Total investments measured at amortized cost	**4,351,247**	4,240,833
Total investments	**4,838,002**	4,661,811

All of the quoted investments are listed on the securities exchanges in the U.A.E. (Abu Dhabi Securities Exchange and Dubai Financial Market).

Included in the debt securities measured at amortised cost are sukuk with the fair value of AED 938 million (2020: AED 2,997 million) given as collateral against borrowings under repo agreements (Note 20).

(b) The composition of investments by geography is as follows:

	2021 AED'000	2020 AED'000
United Arab Emirates	**4,684,444**	4,402,156
Middle East (other than G.C.C. countries)	**142,685**	425,720
Europe	**28,172**	17,611
	4,855,301	4,845,487
Expected credit losses	**(17,299)**	(183,676)
	4,838,002	4,661,811

(c) Investments measured at FVTOCI are not held to benefit from changes in their fair value and are not held for trading. The management believes therefore that designating these investments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments rather than fair valuing through profit or loss.

During the year ended 31 December 2021, 1,083 equity securities were acquired at an amount of AED 837 thousand (2020: 600 thousand shares of equity securities were acquired at an amount of AED 8.1 million).

(d) During the year ended 31 December 2021, dividends received from financial assets measured at FVTOCI and FVTPL amounting to AED 16 million (2020: AED 16 million) have been recognised as investment income in the consolidated statement of profit or loss.

12. INVESTMENT PROPERTIES

Details of investment properties are as follows:

31 December 2020

	Plots of land AED'000	Commercial and residential units AED'000	Total AED'000
Fair value at 1 January 2020	**27,529**	**728,508**	**756,037**
Decrease in fair value during the year	(629)	(106,895)	(107,524)
Additions during the year	-	119,081	119,081
Fair value at 31 December 2020	**26,900**	**740,694**	**767,594**
(Decrease)/increase in fair value during the year	(4,000)	9,151	5,151
Additions during the year	-	318,798	318,798
Fair value at 31 December 2021	**22,900**	**1,068,643**	**1,091,543**

The fair value of the Group's investment properties is estimated using sales comparison, income capitalisation, residual approach and discounted cash flow method, considering the property being valued.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The valuations, where applicable were carried out by RICS certified professional valuers not related to the Group who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued.

The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards.

The valuation of investment properties performed by external valuer is based on the information available to them at the time of the valuation and relies on several inputs. Given the current situation with COVID-19 there is an increase in the estimation uncertainty in determining the fair value of investment property at 31 December 2021 and 31 December 2020 compared to previous years. External valuer has noted that it is difficult to determine the effect that COVID-19 will have on the investment properties. The valuer has reported on the basis of 'material valuation uncertainty' and therefore less certainty and a higher degree of caution is attached to the valuation than would normally be the case.

13. OTHER INTANGIBLES

The analysis of the Group's other intangibles is as follows:

	2021 AED'000	2020 AED'000
Other intangibles		
Banking license	**18,365**	18,365
Customer base	**3,710**	22,005
Total	**22,075**	40,370

The movement of other intangible assets during the year is as follows:

	Banking license AED'000	Customer base AED'000	Total AED'000
Other intangibles			
Balance as at 1 January 2020	**18,365**	**7,496**	**25,861**
Adjustment due to hyperinflation	-	18,910	18,910
Amortisation during the year	-	**(4,401)**	**(4,401)**
Balance as at 31 December 2020	**18,365**	22,005	40,370
Adjustment due to hyperinflation	-	47,821	47,821
Currency translation adjustment	-	(65,189)	(65,189)
Amortisation during the year	-	(927)	(927)
Balance as at 31 December 2021	**18,365**	**3,710**	**22,075**

14. OTHER ASSETS

	2021 AED'000	2020 AED'000
Acceptances – contra (Note 21)	**1,158,396**	674,155
Interest receivable	**16,851**	41,150
Prepayments	**7,948**	10,580
Clearing receivables	**1,881**	9,623
Others	**113,515**	132,740
	1,298,591	868,248
Expected credit loss	**(27,964)**	-
Total	**1,270,627**	868,248

Assets acquired in settlement of debt

	Real estate properties AED'000	Investment securities AED'000	Total AED'000
Balance at 31 December 2019	**4,035,387**	**9,185**	**4,044,572**
Reclassification adjustment (note 44)	**(1,063,675)**	-	(1,063,675)
Balance at 1 January 2020	**2,971,712**	**9,185**	**2,980,897**
Decrease in fair value during the year	**(300,145)**	-	(300,145)
Additions during the year	556,218	-	556,218
Sold during the year	**(280,480)**	-	(280,480)
Balance at 31 December 2020	**2,947,305**	**9,185**	**2,956,490**
Decrease in fair value during the year	**(280,440)**	(5,175)	(285,615)
Additions during the year	123,176	10,441	133,617
Sold during the year	**(1,355,692)**	-	(1,355,692)
Balance at 31 December 2021	**1,434,349**	**14,451**	**1,448,800**

Real estate properties represent properties and plots of lands acquired in settlement of debt. During the year, net unrealised losses of AED 286 million (2020: AED 300 million) are recognised in the consolidated statement of profit or loss on real estate properties. Realisable values of the properties and plots of land were carried out by RICS certified independent valuers having appropriate professional qualifications and are based on recent experience in the location and category of the properties and plots of land being valued. The fair value of these properties and plots of land as at 31 December 2021 amounted to AED 1,434 million (2020: AED 2,947 million).

Description of valuation techniques and key inputs used to determine the realisable values of real estate properties acquired in settlement of debt as at 31 December 2021:

Valuation technique	Nature of property	Significant unobservable inputs
Discounted Cash Flow Approach	Villas	Discount rate 9%
Income capitalisation	Residential building and plots of land	Capitalisation rate 8%
Direct comparison approach	Land, office units and villas	Comparable transactions

The assessment of realisable values performed by external valuer at 31 December 2021 is based on the information available to them at the time of assessment and relies on several inputs. Given the current situation with COVID-19 there is an increase in the estimation uncertainty in determining the realisable values at 31 December 2020 compared to previous years. External valuer has noted that it is difficult to determine the effect that COVID-19 will have on real estate properties. The valuer has reported on the basis of 'material valuation uncertainty' and therefore less certainty and a higher degree of caution is attached to the assessment than would normally be the case.

15. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve derivatives. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instruments, reference rate, or index. Derivative financial instruments which the Group enters into include forwards and swaps.

The Group uses the following derivative financial instruments for both hedging and non-hedging purposes.

Forward currency transactions - Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions.

Swap transactions – Interest rate (IRS) and cross currency interest rate swaps (CCIRS) are commitments to exchange one set of cash flows for another. CCIRS result in an economic exchange of currency cash flows. Exchange of principal may or may not take place. Under interest rate swaps, the Bank agrees with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation.

This risk is monitored on an ongoing basis with reference to the current fair value. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities, and applies cash margining with market counterparties to mitigate the credit risk involved.

Derivative related credit risk - Credit risk with respect to derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held or issued for hedging purposes - The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in interest rates and exchange rates. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

			Notional amounts by term to maturity			
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
2021						
Interest rate swaps	6,090	(8,134)	1,949,261	1,928,325	20,936	-
Currency swaps	2,993	(788)	3,607,248	3,584,348	22,900	-
Total	**9,083**	**(8,922)**	**5,556,509**	**5,512,673**	**43,836**	**-**
2020						
Interest rate swaps	38,723	(14,886)	1,949,261	-	-	1,949,261
Currency swaps	11,007	(1,055)	4,410,156	4,387,101	23,055	-
Total	49,730	(15,941)	6,359,417	4,387,101	23,055	1,949,261

	Land & buildings AED'000	Furniture and office equipment AED'000	Leasehold improvements installation, partitions and decoration AED'000	Motor vehicles AED'000	Total AED'000
Cost					
At 1 January 2020	411,334	139,928	115,028	5,371	671,661
Additions	-	5,589	3,946	347	9,882
Disposals	(9,888)	(1,230)	-	-	(11,118)
Adjustment due to hyperinflation	171,913	127,509	108,361	3,251	411,034
At 31 December 2020	573,359	271,796	227,335	8,969	1,081,459
Additions	2,757	3,387	6,991	170	13,305
Disposals	(8,630)	(43,176)	(40,177)	(2,107)	(94,090)
Adjustment due to hyperinflation	35,996	25,101	18,118	539	79,754
Currency translation adjustment	(229,877)	(173,775)	(144,137)	(4,236)	(552,025)
	373,605	**83,333**	**68,130**	**3,335**	**528,403**
Accumulated depreciation					
At 1 January 2020	98,987	118,307	79,162	4,285	300,741
Charge for the year	30,442	20,393	13,337	1,047	65,219
Disposals	(788)	(1,193)	-	-	(1,981)
Adjustment due to hyperinflation	53,892	89,622	68,790	2,590	214,894
At 31 December 2020	182,533	227,129	161,289	7,922	578,873
Charge for the year	17,824	7,467	3,778	551	29,620
Disposals	(1,012)	(43,251)	(40,176)	(2,107)	(86,546)
Adjustment due to hyperinflation	13,225	20,158	13,323	482	47,188
Currency translation adjustment	(83,991)	(133,421)	(99,733)	(3,757)	(320,902)
	128,579	**78,082**	**38,481**	**3,091**	**248,233**
Net book value:					
At 31 December 2021	**245,026**	**5,251**	**29,649**	**244**	**280,170**
At 31 December 2020	390,826	44,667	66,046	1,047	502,586

17. SUBSIDIARIES

a) The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Name of Subsidiary	Proportion of ownership interest		Year of incorporation	Year of acquisition	Country of incorporation	Principal activities
	2021	2020				
Emirates Lebanon Bank S.A.L.	**100%**	100%	1965	2008	Lebanon	Financial institution
El Capital FZC	**100%**	100%	2007	2017	U.A.E.	Investment in a financial institution
BOS Real Estate FZC	**100%**	100%	2007	2007	U.A.E.	Real estate development activities
BOS Capital FZC	**100%**	100%	2007	2007	U.A.E.	Investment
Polyco General Trading L.L.C.	**100%**	100%	2008	2008	U.A.E.	General trading
Borealis Gulf FZC	**100%**	100%	2010	2010	U.A.E.	Investment and real estate development activities
BOS Funding Limited	**100%**	100%	2015	2015	Cayman Islands	Financing activities
Muwaileh Capital FZC	**90%**	90%	2010	2017	U.A.E.	Developing of real estate & related activities
BOS Repos Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities
BOS Derivatives Limited	**100%**	100%	2018	2018	Cayman Islands	Financing activities

b) Emirates Lebanon Bank S.A.L (fully owned by the Group, 80% by Bank of Sharjah PJSC and 20% by EL Capital FZC) summarised statements of financial position, comprehensive income and cash flows as at and for the years ended 31 December 2021 and 2020:

	2021 AED'000	2020 AED'000
Statement of financial position		
Total assets	**451,827**	5,732,546
Total liabilities	**320,372**	4,125,186
Equity	**131,455**	1,607,360
Dividends paid to non-controlling interests	**-**	-
Statement of comprehensive income		
Interest income	**22,433**	373,302
Loss for the year	**(191,332)**	(775,393)
Total comprehensive loss	**(193,159)**	(774,670)

18. CUSTOMERS' DEPOSITS

The analysis of customers' deposits is as follows:

	2021 AED'000	2020 AED'000
Current and other accounts	**3,193,512**	4,619,779
Saving accounts	**133,376**	897,183
Time deposits	**20,430,531**	18,155,622
	23,757,419	23,672,584

19. DEPOSITS AND BALANCES DUE TO BANKS

The analysis of deposits and balances due to banks is as follows:

	2021 AED'000	2020 AED'000
Demand	**57,995**	65,915
Time	**180,000**	175,000
	237,995	240,915

Due to banks represent due to:

	2021 AED'000	2020 AED'000
Banks in the U.A.E.	**207,563**	237,614
Banks abroad	**30,432**	3,301
	237,995	240,915

20. REPO BORROWINGS

The analysis of the repo borrowing agreements is as follows:

	2021 AED'000	2020 AED'000
Banks in the U.A.E.	**750,000**	2,438,842
	750,000	2,438,842

The Group entered into repo agreements under which bonds with fair value of AED 938 million (31 December 2020: AED 2,997 million) were given as collateral against borrowings [Note 11(a)]. The risks and rewards relating to these bonds remain with the Group.

21. OTHER LIABILITIES

	2021 AED'000	2020 AED'000
Acceptances – contra (Note 14)	**1,158,396**	674,155
Interest payable	**244,647**	233,450
Lease liabilities	**79,756**	86,700
Clearing balances	**53,651**	72,623
Provision for employees' end of service benefits (Note 21.1)	**43,874**	48,056
Managers' cheques	**38,091**	19,231
Unearned income	**30,274**	54,505
ECL on unfunded exposure	**22,919**	131,529
Deferred tax liability	**10,693**	41,697
Accrued expenses	**3,252**	7,522
Others	**357,618**	286,372
	2,043,171	1,655,840

21.1 The movement in the provision for employees' end of service benefits is as follows

	2021 AED'000	2020 AED'000
At 1 January	**48,056**	45,577
Charged during the year	**6,392**	7,809
Write back to profit or loss	**(48)**	-
Payments during the year	**(1,081)**	(2,928)
Currency translation adjustment	**(9,445)**	-
At 31 December	**43,874**	48,056

22. ISSUED BONDS

	Maturity	Currency	Face value million	2021 Carrying value AED' 000	2020 Carrying value AED' 000
Issue date					
28 February 2017	Feb-22	USD	500	**1,849,117**	1,896,682
8 August 2019	Aug-22	USD	120	**439,655**	437,986
18 September 2019	Sep-24	USD	600	**2,202,752**	2,202,399
29 November 2019	Nov-23	CHF	100	**402,568**	416,884
25 February 2021	Feb-22	USD	125	**459,087**	-
				5,353,179	4,953,951

On 28 February 2017, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 500 million (equivalent to AED 1,836 million) for a five-year maturity at mid swaps plus 225 basis points, to yield 4.23%. The Notes were issued under the Bank's Euro Medium Term Note ("EMTN") Programme which is listed on the Irish Stock Exchange.

On 8 August 2019, the Bank issued Senior Unsecured Floating Rate Notes, totalling USD 120 million (equivalent to AED 440.76 million) for a three-year maturity at three-month Libor plus 190 basis points, classified at amortized cost. The Notes were issued under the EMTN Programme.

On 18 September 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling USD 600 million (equivalent to AED 2,204 million) for a five-year maturity at mid swaps plus 250 basis points, to yield 4.015%, classified at amortized cost. The Notes were issued under the Bank's EMTN Programme which is listed on the Irish Stock Exchange.

On 29 November 2019, the Bank issued Senior Unsecured Fixed Rate Notes, totalling CHF 100 million (equivalent to AED 401 million) for a four-year maturity at mid swaps plus 205 basis points, to yield 1.4575%, classified at amortized cost. The Notes are listed on the SIX Swiss Exchange and were issued under the Bank's EMTN Programme.

On 25 February 2021, the Bank issued Senior Unsecured Fixed Rate Notes 2%, totalling USD 125 million (equivalent to AED 459.125 million) for a one-year maturity, classified at amortized cost. The Notes were issued under the EMTN Programme.

The General Assembly on 5 August 2020, authorised an update of the Bank's EMTN programme and approved an increase in its global size from USD 1.5 billion to USD 2.5 billion.

The fair value and the change in that fair value that can be ascribed to changes in underlying credit risk are set out below:

	31 December 2021 AED'000	31 December 2020 AED'000
Fair value of issued bond	**5,425,231**	5,064,285
Changes in fair value of issued bond not attributable to changes in market conditions	**14,932**	700
Difference between carrying amount and amount contractually required to be paid at maturity	**11,762**	73,591

The Group estimates changes in fair value due to credit risk by estimating the amount of change in fair value that is not due to changes in market conditions that give rise to market risk.

23. CAPITAL AND RESERVES

(a) Issued and paid up capital

	2021		2020	
	Number of shares	**AED'000**	Number of shares	AED'000
Issued capital	2,200,000,000	**2,200,000**	2,100,000,000	2,100,000
	2,200,000,000	**2,200,000**	2,100,000,000	2,100,000

(b) Statutory reserve

In accordance with the Bank's Articles of Association and Article (239) of the UAE Federal Law No. (2) of 2015, the Bank transfers 10% of annual profits, if any, to the statutory reserve until it is equal to 50% of the paid-up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

(c) Contingency reserve

In accordance with the Articles of Association of the Bank a contingency reserve is calculated at 10% of the profit for the year to be transferred to a contingency reserve until this reserve becomes 50% of the issued and paid up capital.

(d) General reserve

Transfers to general reserve are made based on the discretion of the Board of Directors and is subject to the approval of the shareholders at the annual general meeting.

(e) Impairment reserve

In accordance with CBUAE circular, in case where provision under CBUAE guidance exceeds provision under IFRS 9, the excess is required to be transferred to impairment reserve.

24. PROFIT/ (LOSS) PER SHARE

Profit/(Loss) per share are computed by dividing the loss for the year by the average number of shares outstanding during the year as follows:

Basic and diluted profit/ (loss) per share	**2021**	2020
Profit/ (loss) attributable to owners of the Bank for the year (AED'000)	**43,780**	(654,883)
Weighted average number of ordinary shares: Ordinary shares at the beginning of the year	**2,200,000**	2,200,000
Weighted average number of shares outstanding during the year (in thousands shares)	**2,200,000**	2,200,000
Basic and diluted profit/ (loss) per share (AED)	**0.02**	(0.30)

The weighted average number of shares for 31 December 2020 are adjusted to be comparable with the issuance of bonus shares issued during the year (note 25).

As at the reporting date, the diluted profit/(loss) per share is equal to the basic profit/(loss) per share as the Group has not issued any financial instruments that should be taken into consideration when the diluted profit/(loss) per share is calculated.

25. TRANSACTIONS WITH OWNERS AND DIRECTORS OF THE GROUP

Bank of Sharjah

Dividends
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2020, held on 3 June 2021, the shareholders approved no cash dividends distribution (2019: no cash dividend distribution).

Directors' remuneration
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2020, held on 3 June 2021, the shareholders of the Bank approved no Directors' remuneration (2019: no Directors' remuneration).

Charity donations
At the Annual General Meeting of the shareholders to approve the consolidated financial statements of 31 December 2020, held on 3 June 2021, the shareholders approved charitable donations of AED 7.5 million (2019: AED 7.5 million).

Transfer to reserves
At the Annual General Meeting of the shareholders held on 3 June 2021, the shareholders approved a transfer of AED 100 million from the General Reserve to Paid Up Capital as Bonus issue for 2020 of 4.76% (2019: None).

Emirates Lebanon Bank

Directors' remuneration
At the Annual General Meeting of Emirates Lebanon Bank S.A.L, a subsidiary of the Bank, the shareholders approved directors' remuneration of AED 4.48 million.

26. COMMITMENTS AND CONTINGENT LIABILITIES

	2021 AED'000	2020 AED'000
Financial guarantees for loans	**179,340**	295,439
Other guarantees	**1,321,515**	2,277,640
Letters of credit	**1,015,052**	1,375,540
	2,515,907	3,948,619
Irrevocable commitments to extend credit	1,039,391	1,454,998
	3,555,298	5,403,617

These contingent liabilities have off-balance sheet credit risk as only the related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expired. Many of the contingent liabilities will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash-flows.

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The bank and its subsidiaries are party to legal proceedings, including regulatory investigations, in the ordinary course of business. While there is inherent difficulty in predicting the outcome of these proceedings, management does not expect the outcome of any of these proceedings, individually or in the aggregate, to have a material adverse effect on the consolidated financial position or the results of operations of the bank.

27. CASH AND CASH EQUIVALENTS

	2021 AED'000	2020 AED'000
Cash and balances with central banks (Note 7)	**3,393,405**	6,244,207
Deposits and balances due from banks (Note 8)	**66,684**	130,663
Reverse-repo placements (Note 9)	**-**	115,386
Deposits and balances due to banks (Note 19)	**(237,995)**	(240,915)
Repo borrowings (Note 20)	**(750,000)**	(2,438,842)
	2,472,094	3,807,730
Less: Deposits and balances with central banks - original maturity more than three months	**(1,480,145)**	(1,324,042)
Less: Statutory deposits with central banks (Note 7)	**(302,431)**	(1,128,266)
	689,518	1,358,191

28. FIDUCIARY ASSETS

The Group holds investments amounting to AED 0.1 billion (31 December 2020: AED 0.5 billion) which are held on behalf of customers and not treated as assets in the consolidated statement of financial position.

29. INTEREST INCOME

	2021 AED'000	2020 AED'000
Loans and advances	**906,644**	1,212,341
Certificates of deposit and treasury bills with central banks and debt instruments	**10,426**	147,598
Net interest income on swaps	**89,283**	46,205
Placements with banks	**1,576**	21,790
Reverse-repo placements	**-**	2,845
	1,007,929	1,430,779

30. INTEREST EXPENSE

	2021 AED'000	2020 AED'000
Customers' deposits	**502,710**	648,185
Issued bonds	**191,037**	195,565
Banks' deposits	**13,084**	17,533
	706,831	861,283

31. NET FEE AND COMMISSION INCOME

	2021 AED'000	2020 AED'000
Management & commitment fees	**95,490**	8,928
Trade finance activities	**37,802**	32,673
Corporate banking credit related fees	**21,497**	24,308
Letters of guarantee	**17,775**	29,665
Others	**1,453**	10,864
	174,017	106,438

32. INCOME/(LOSS) ON INVESTMENTS

	2021 AED'000	2020 AED'000
Realized and unrealized gain/(loss) on investments measured at FVTPL	**50,196**	(37,952)
Dividends	**15,926**	16,210
Net trading gain	**5,707**	1,327
	71,829	(20,415)

33. OTHER INCOME

	2021 AED'000	2020 AED'000
Rental income and others	**90,071**	42,639
	90,071	42,639

Other non-operating income

Other non-operating income represents the income generated from limited number of transactions with customers of the Group through its subsidiary in Lebanon that are infrequent and non-recurring in nature.

34. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

	Opening balance AED'000	Net charge / (reversal) during the period AED'000	Recoveries net of write off during the period AED'000	Currency translation effect AED'000	Closing balance AED'000	Net charge during the year ended 31 December 2020 AED'000
Cash and balances with central banks	**710,108**	**(63,828)**	**-**	**(476,232)**	**170,048**	412,377
Deposits and balances due from banks	**1,617**	**834**	**-**	**(121)**	**2,330**	(9,053)
Reverse-repo placements	**1,152**	**(1,152)**	**-**	**-**	**-**	730
Loans and advances	**1,943,953**	**291,062**	**(34,968)**	**(193,137)**	**2,006,910**	131,396
Investments	**183,676**	**1,287**	**-**	**(167,664)**	**17,299**	149,411
Unfunded exposure	**131,529**	**(103,286)**	**-**	**(5,324)**	**22,919**	9,709
Other assets	**-**	**27,964**	**-**	**-**	**27,964**	(5,280)
Others	**-**	**-**	**-**	**-**	**-**	(5,174)
	2,972,035	**152,881**	**(34,968)**	**(842,478)**	**2,247,470**	684,116
Hyperinflation effect		**(25,299)**				**60,343**
Total after hyperinflation effect		**127,582**				**744,459**

35. GENERAL AND ADMINISTRATIVE EXPENSES

	2021 AED'000	2020 AED'000
Personnel expenses	**152,900**	217,742
Depreciation (Note 16)	**29,620**	65,219
Other expenses*	**94,084**	118,101
	276,604	401,062

*Other expenses include an amount of AED 1.7 million (2020: AED 13.9 million) representing social contributions made during the year ended 31 December 2021.

36 TAXATION

Income tax expense represents the income tax expense incurred in Lebanon by Emirates Lebanon Bank S.A.L. The enacted income tax rate in Lebanon is 17% (31 December 2020: 17%). Effective tax rate reconciliation is not material in relation to the consolidated financial statements as tax charge relates to an overseas subsidiary only.

37 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions within the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties' balances included in the consolidated statement of financial position and the significant transactions with related parties are as follows:

	2021 AED'000	2020 AED'000
Loans and advances	**727,818**	704,331
Letters of credit, guarantee and acceptances	**7,567**	4,023
	735,385	708,354
Collateral deposits	**45**	15,500
Net exposure	**735,340**	692,854
Other deposits	**2,429,958**	3,136,976

	2021 AED'000	2020 AED'000
Interest income	**51,002**	53,028
Interest expense	**40,306**	17,230

Compensation of Directors and key management personnel:

	2021 AED'000	2020 AED'000
Short term benefits	**16,560**	16,560
End of service benefits	**2,801**	1,940
Total compensation as at 31 December	**19,361**	18,500

No impairment loss has been recognised against balances outstanding with key management personnel and other related partie

38. SEGMENTAL INFORMATION

38.1 IFRS 8 Operating Segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

38.2 Products and services from which reportable segments derive their revenues

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance is specifically focused on the type of business activities undertaken as a Group. For operating purposes, the Group is organised into two major business segments:

(i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for corporate, government, institutional and individual customers; and

(ii) Investment Banking, which involves the management of the Group's investment portfolio.

The following table presents information regarding the Group's operating segments for the year ended 31 December 2021:

	Commercial banking AED'000	Investment banking AED'000	Unallocated* AED'000	Total AED'000
Operating income				
- Net interest income	**232,928**	**68,170**	**-**	**301,098**
- Net fee and commission income	**174,017**	**-**	**-**	**174,017**
- Exchange profit	**20,989**	**-**	**-**	**20,989**
- Income on investments	**-**	**71,829**	**-**	**71,829**
- Net loss on properties	**-**	**(14,571)**	**-**	**(14,571)**
- Other income	**86,971**	**3,100**	**-**	**90,071**
Total operating income	**514,905**	**128,528**	**-**	**643,433**
Other material non-cash items				
- Net impairment charge on financial assets	**(190,123)**	**62,541**	**-**	**(127,582)**
- Depreciation	**-**	**-**	**(29,620)**	**(29,620)**
- Loss on monetary position	**-**	**-**	**(191,206)**	**(191,206)**
- General and administrative expenses	**(209,936)**	**(37,048)**	**-**	**(246,984)**
- Amortization of intangible assets	**-**	**-**	**(927)**	**(927)**
- Income tax expenses – overseas	**-**	**-**	**(4,705)**	**(4,705)**
Net profit for the year	**113,846**	**155,021**	**(226,458)**	**42,409**
Segment assets	**25,876,400**	**5,835,374**	**1,850,284**	**33,562,058**
Segment liabilities	**25,903,805**	**5,353,179**	**893,702**	**32,150,686**

* Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary

The following table presents information regarding the Group's operating segments for the year ended 31 December 2020:

	Commercial banking AED'000	Investment banking AED'000	Unallocated* AED'000	Total AED'000
Operating income				
- Net interest income	534,003	35,493	-	569,496
- Net fee and commission income	106,438	-	-	106,438
- Exchange profit	155,999	-	-	155,999
- Loss on investments	-	(20,415)	-	(20,415)
- Net loss loss on properties	-	(191,187)	-	(191,187)
Other income	42,639	-	-	42,639
Total operating income	**839,079**	**(176,109)**	**-**	**662,970**
Other material non-cash items				
- Net impairment charge on financial assets	(89,335)	(655,124)	-	(744,459)
- Depreciation	-	-	(65,219)	(65,219)
- Other non-operating income	-	449,338	-	449,338
- Loss on monetary position	-	-	(577,037)	(577,037)
- General and administrative expenses	(285,939)	(49,904)		(335,843)
- Amortization of intangible assets	-	-	-	(4,401)
- Income tax expenses – overseas	-	-	(4,401)	(51,745)
Net loss for the year	**463,805**	**(431,799)**	**(51,745)**	**(666,396)**
Segment assets	**25,426,008**	**5,950,908**	**4,766,574**	**36,143,490**
Segment liabilities	**27,026,496**	**4,953,950**	**997,627**	**32,978,073**

* Unallocated items comprise mainly head office expenses and tax assets and liabilities of the overseas subsidiary

Revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the year (2020: Nil). Transactions between segments, inter-segment cost of funds and allocation of expenses are not determined by management for resource allocation purpose. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 4.

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments except for property and equipment, goodwill and other intangibles and certain amounts included in other assets; and
- All liabilities are allocated to reportable segments except for certain amounts included in other liabilities.

38.3 Geographical information

The Group operates in two principal geographical areas - United Arab Emirates (country of domicile) and Lebanon (referred to as 'Foreign Entity').

The Group's operating income and information about its non-current assets by geographical location are detailed below:

	Country of domicile AED'000	Foreign AED'000	Total AED'000
2021 Operating income	**625,090**	**18,343**	**643,433**
2020 Operating income	376,615	286,355	662,970

38.4 Information about major customers

In 2021, one customer accounted for more than 10% of the Group's operating income (2020: one customer accounted for more than 10% of the Group's operating income).

39. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2021:

	FVTPL AED'000	FVTOCI AED'000	Amortized cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	**-**	**-**	**3,223,357**	**3,223,357**
Deposits and balances due from banks	**-**	**-**	**64,354**	**64,354**
Loans and advances, net	**-**	**-**	**21,314,047**	**21,314,047**
Investments measured at fair value	**172,948**	**313,807**	**-**	**486,755**
Investments measured at amortised cost			**4,351,247**	**4,351,247**
Other assets and derivatives	**23,534**	**-**	**1,262,680**	**1,286,214**
Total	**196,482**	**313,807**	**30,215,685**	**30,725,974**
Financial liabilities:				
Customers' deposits	**-**	**-**	**23,757,419**	**23,757,419**
Deposits and balances due to banks	**-**	**-**	**237,995**	**237,995**
Repo borrowings	**-**	**-**	**750,000**	**750,000**
Other liabilities	**8,922**	**-**	**1,969,024**	**1,977,946**
Issued Bonds	**1,836,500**	**-**	**3,516,679**	**5,353,179**
Total	**1,845,422**	**-**	**30,231,117**	**32,076,539**

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020:

	FVTPL AED'000	FVTOCI AED'000	Amortized cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	5,534,099	5,534,099
Deposits and balances due from banks	-	-	129,046	129,046
Reverse-repo placements	-	-	114,234	114,234
Loans and advances, net	-	-	20,519,282	20,519,282
Investments measured at fair value	121,760	299,218	-	420,978
Investments measured at amortised cost	-	-	4,240,833	4,240,833
Other assets	58,915	-	857,667	916,582
Total	**180,675**	**299,218**	**31,395,161**	**31,875,054**
Financial liabilities:				
Customers' deposits	-	-	23,672,584	23,672,584
Deposits and balances due to banks	-	-	240,915	240,915
Repo borrowings	-	-	2,438,842	2,438,842
Other liabilities	15,941	-	1,553,279	1,569,220
Issued Bonds	1,896,682	-	3,057,269	4,953,951
Total	**1,912,623**	**-**	**30,962,889**	**32,875,512**

40. RISK MANAGEMENT

The Group has Senior Management committees to oversee the risk management. The Board Executive Committee and the Board Risk Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit risk. It also sets policies, system and limits for interest rate risk, foreign exchange risk, and liquidity risk. The Group also has a Credit Risk function which independently reviews adherence to all risk management policies and processes. The Group's internal audit function, which is part of risk review, primarily evaluates the effectiveness of the controls addressing operational risk.

The Emirates Lebanon Bank SAL operations are carried out in Lebanon which has been witnessing, since 17 October 2019, severe events that have set off an interconnected fiscal, monetary and economic crisis as well as deep recession that have reached unprecedented levels. Sovereign credit ratings have witnessed a series of downgrades by all major rating agencies and reached the level of default when, on 7 March 2020, the Lebanese Republic announced that it will withhold payment on the bonds due on 9 March 2020, which was followed by another announcement on 23 March 2020 for the discontinuation of payments on all of its US Dollars denominated Eurobonds.

Throughout this sequence of events, the ability of the Lebanese Government and the banking sector in Lebanon to borrow funds from international markets was significantly affected. Banks have imposed unofficial capital controls, restricted transfers of foreign currencies outside Lebanon, significantly reduced credit lines to companies and withdrawal of cash to private depositors, all of which added to the disruption of the Lebanon's economic activity, as the economic model of Lebanon relies mainly on imports and consumption. Businesses are downsizing, closing or going bankrupt and unemployment and poverty are rising fast and have reached unprecedented levels.

The difficulty in accessing foreign currencies led to the emergence of a parallel market to the peg whereby the price to access foreign currencies has been increasing constantly, deviating significantly from the peg of 1,507.5 LBP/USD. This has resulted in an uncontrolled rise in prices and the incessant de facto depreciation of the Lebanese pound, impacting intensely the purchasing power of the Lebanese citizens, driving a currency crisis, high inflation and rise in the consumer price index.

During 2020 in an attempt to control the high rise in prices and to compensate for the loss in the purchasing power of the Lebanese people, the Central Bank of Lebanon, through several circulars introduced the following measures:

(a) subsidized imports of essential goods (fuel oil, medicine and wheat) by providing foreign currencies for these imports at the rate of 1,507.5 LBP/USD (the official exchange rate). During 2021, the subsidy was lifted.

(b) introduced the Platform Rate, currently at 8,000 USD / LBP, to be used only in specific circumstances.

(c) subsidized imports of Tier 2 food basket products (e.g. coffee, tea, canned food, imported meat) by providing foreign currencies for these imports at the Platform Rate. During 2021, the subsidy was lifted.

(d) introduced exceptional measures for bank depositors to withdraw small amounts of cash in LBP from their "local" foreign currency bank accounts at the Platform Rate, but up to limits set by the Bank.

During May 2021, the Central Bank of Lebanon introduced the framework of exceptional measures for foreign-currency operations. Hence, banks operating in Lebanon must process customers' FX operations (buy and sell) related to their personal or commercial needs on the electronic platform "Sayrafa". Transactions with customers encompass purchase and sale of foreign currencies banknotes against LBP, as well as operations from/to foreign currencies external accounts against LBP. The Sayrafa corresponds to a floating system and the Sayrafa average rate and volume of foreign currency operations are published on the website of the Central Bank of Lebanon.

However, despite these efforts, inflation increased at an accelerating pace, eroding the real value of the local currency and "local" foreign currency bank accounts (subject to unofficial capital control) and tossing Lebanon in hyperinflation and major economic collapse. As a result of the unofficial capital controls, the multitude of exchange rates, the hyperinflation, and the potential repercussions of government reform measures on (i) the banks operating in Lebanon, and (ii) the Lebanese people's net worth, their local businesses and their local bank accounts, the Lebanese market saw the need to differentiate between onshore assets and offshore assets, foreign currency bank accounts that are subject to unofficial capital controls and those that are not subject to capital controls, onshore liabilities and offshore liabilities. The need to differentiate is mostly due to the difference in the perceived real economic value. Hence new terms in the Lebanese market arose, such as "local Dollars" to designate local US Dollars bank accounts that are subject to unofficial capital controls and "fresh funds / accounts" to designate foreign currency cash and foreign currency bank accounts which are free from capital controls (as they are sourced from foreign currency cash and/or from incoming transfers from abroad).

As a result of the above, these consolidated financial statements have reflected adjustments including an increase in expected credit losses (and respective staging).

The Group continues to monitor the situation closely and the subsidiary continues to operate and has support from the Group.

CREDIT RISK MANAGEMENT

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Group manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and by limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions.

Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

Policies relating to credit are reviewed and approved by the Group's Executive Committee. All credit lines are approved in accordance with the Group's credit policy set out in the Credit Policy Manual. Credit and marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Group further limits risk through diversification of its assets by economic and industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Risk and facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Executive Committee and are monitored by the Senior Management on a daily basis.

The Executive Committee is responsible for setting credit policy of the Group. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality.

Commercial/Institutional lending underwriting

All credit applications for Commercial and Institutional lending are subject to the Group's credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Group does not lend to companies operating in industries that are considered by the Group inherently risky and where industry knowledge specialisation is required. In addition, the Group sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Group are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Executive Committee or the Group's Executive Director and General Manager under the supervision of the Board. At least two signatures are required to approve any commercial or institutional credit application.

Credit review procedures and loan classification

The Group's Credit Risk department subjects the Group's risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the U.A.E. and the Group's internal policies in order to assist in the early identification of accrual and potential performance problems. The Credit Risk department validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and industry and monitors observance of all approved credit policies, guidelines and operating procedures across the Group.

All commercial/institutional loan facilities of the Group are assigned one of ten risk ratings (1-10) where 1 is being excellent and 10 being loss with no reimbursement capacity and total provisioning.

If a Loan is impaired, interest will be suspended and not be credited to the consolidated statement of profit or loss. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Group also measures its exposure to credit risk by reference to the gross carrying amount of financial assets less amounts offset, interest suspended and impairment losses, if any. The carrying amount of financial assets represents the maximum credit exposure.

Credit risk management at the level of Emirates Lebanon Bank SAL

Measurement uncertainty and sensitivity analysis of Sovereign and Central Bank of Lebanon ECL estimates

Due to the current and economic financial crisis prevailing in the country, the recognition and measurement of ECL involves the use of significant judgement and estimation. The subsidiary's management forms three economic scenarios, which is in line with best market practices, based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

1) Methodology

The high degree of uncertainty surrounding the Lebanese banking sector and the Lebanese economy as a whole has been triggered by the following events:

- business disruption since the last quarter of 2019;
- a series of Lebanese sovereign credit risk downgrades which started to deteriorate since the last quarter of 2019 and reached a default credit risk rating by all major rating during 2020, after years of a stable credit risk rating at "B" category
- restrictions on the movement and withdrawal of funds in foreign currencies;
- the inability to transfer foreign currency funds outside Lebanon;
- the sharp fluctuation in the foreign currency exchange rates and creation of parallel markets with a wide range of price variances;
- on March 7, 2020, the Lebanese Government announced its decision to default on the 6.375% US$1,200,000,000 bonds due on March 9, 2020;
- an announcement on March 23, 2020 by the Lebanese Government to discontinue payments on all of its U.S. Dollars denominated Eurobonds;
- further deterioration in the market value of Lebanese Government bonds to junk status, resulting in the majority of the valuation of financial assets being adversely impacted in Lebanon;
- prolonged severe inactivity in capital markets rendering markets illiquid;

The subsidiary's management assessed whether financial assets are credit impaired and considered factors mentioned above such as credit ratings and the ability of the borrower to raise funding leading to a reclassification for sovereign exposure to stage 3 as at 31 December 2021 and 2020.

The three economic scenarios as at December 31, 2021 and 2020 and their likely outcomes are referred to as the Baseline, Optimistic and Downside scenarios. The Optimistic and Downside scenarios are consistent with a probability weighting of 15% and 35%, respectively, while the Base scenario is assigned the remaining 50%. Although there is no scientific approach behind the weights of each scenario, this weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances.

The subsidiary's management notes that there is a great difficulty in the determination of expected credit losses given the absence of publicly available supporting data. With a probability of default of 100% on all instruments, the key determinant of the ECL is the Loss Given Default (LGD) per instrument type, based on assumptions. The rationale behind the LGD per instrument is correlated to with whom will suffer a greater haircut in potential Central Bank of Lebanon (BDL) recapitalization. Specifically, the moving from the Optimistic, to Base and Downside scenario, the impact from the recapitalization shifts from the Lebanese Government (and therefore requiring to haircut its bonds by a higher percentage) to the BDL's depositors in foreign currency (FCY). At the reporting date, a team of independent valuation experts have reviewed subsidiary's management above scenarios and ECL assessment.

2) Description of consensus economic scenarios

The economic assumptions presented in this section have been formed by the subsidiary with reference to available assumptions specifically for the purpose of calculating ECL. Management considered the PD parameter constant at 1 and sensitized the LGD assumption per instrument type.

The Lebanese Treasury Bills for all scenarios were kept at a constant LGD of 20% as at December 31,2021 and 2020; Subsidiary's management applied the 20% to all scenarios based on a Citigroup report for Lebanese Restructuring which suggested 20% as a potential haircut on the Lebanese Treasury Bills. The Subsidiary's total gross exposure in Lebanese Treasury bills as at December 31, 2021 stands at LBP 14 billion (LBP 17 billion as at December 31, 2020) and hence there is a minor impact that might arise in relation to this instrument.

The consensus Base scenario

The current accounts and statutory reserves in foreign currency held with the Central Bank of Lebanon are calculated on the basis of a stage three classification with LGD of 15% and 3.6% respectively (15% and 3.6% respectively as at December 31, 2020) and for both the long-term placements with the Central Bank of Lebanon and Certificates of deposit issued by the Central Bank of Lebanon LGD of 25% as at December 31, 2021(27% as at December 31, 2020).

The ECL on Lebanese government bonds in foreign currency held at fair value through other comprehensive income and at amortized cost are both calculated on the basis of a stage three classification with LGD of 70% as at December 31, 2021 and 2020.

The consensus Optimistic scenario

The current accounts and statutory reserves in foreign currency held with the Central Bank of Lebanon are calculated on the basis of a stage three classification with LGD of 7.5% and 3.6% respectively (7.5% and 3.6% respectively as at December 31, 2020) and for both the long-term placements with the Central Bank of Lebanon and Certificates of deposit issued by the Central Bank of Lebanon LGD of 20.8% (27% as at December 31, 2020).

The ECL on Lebanese government bonds in foreign currency held at fair value through other comprehensive income and at amortized cost is calculated on the basis of a stage three classification with LGD of 85% as at December 31, 2021 and 2020.

The consensus Downside scenario

The current accounts and statutory reserves in foreign currency held with the Central Bank of Lebanon are calculated on the basis of a stage three classification with LGD of 30% and 11% respectively as at December 31, 2021 (30% and 12.4% respectively as at December 31, 2020) and for both the long-term placements with the Central Bank of Lebanon and Certificates of deposit issued by the Central Bank of Lebanon LGD of 33% (30% as at December 31, 2020).

The ECL on Lebanese government bonds in foreign currency held at fair value through other comprehensive income and at amortized cost is calculated on the basis of a stage three classification with LGD of 65% as at December 31, 2021 and 2020.

3) Economic scenarios sensitivity analysis of ECL estimates on the sovereign and Central Bank of Lebanon exposure

Management considered the sensitivity of the ECL outcome by calculating the ECL under each scenario described above for the sovereign exposure, applying a 15%, 50%, and 35% weighting to the Optimistic, Base, and Downside scenarios respectively. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL. The ECL calculated for the Optimistic and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes.

For all Central Bank of Lebanon outstanding instruments in foreign currency, the assumption is that the LGD is equivalent to the Central Bank foreign currency gap in his balance sheet adjusted by the permitted GDP deficit. This adjusted gap is estimated to represent around 16.8% (27% as at December 31, 2020) of total foreign currency liabilities which was derived mainly from Central Bank of Lebanon balance sheet as at December 15, 2021 and Morgan Stanley report dated March 2020 which seems to be one of the very few and credible reports to show a split between foreign currency and Lebanese pound denominated assets and liabilities, as detailed below:

- For the current accounts in foreign currency held with the Central Bank of Lebanon, the Subsidiary's management's approach is where LGD is ultimately determined based on who will cover the Central Bank of Lebanon foreign currency gap. A scenario where banks are ultimately required to provide for potential losses instead of the Government. In this hypothetical scenario, the required ECL would be 30% on the current account balances in U.S. Dollars held with the BDL.

  Moreover, the rationale for applying a 7.5% LGD on the Optimistic and 15% on the Base scenarios is that LGD on BDL Current Accounts will be reduced through funding by the Government (or through customer deposit conversion and /or haircut) which might result in a lower than 30% haircut on the bank's deposits. Hence a maximum LGD of 30% is assumed and a lower LGD to the remaining scenarios, on the assumption that the bondholders might not recover their full balances.

- For the mandatory reserves in foreign currency held with the Central Bank of Lebanon, considering that they are still unused, and in an attempt to be prudent, the Subsidiary's management used an LGD of 3.6% for both the Optimistic and Base scenarios and 11% for the Downside scenario (LGD of 3.6% for both the Optimistic and Base scenarios and 12.4% for the Downside scenario as at December 31, 2020).

- For the long-term placements in foreign currency held with the Central Bank of Lebanon and Certificates of deposit (CDs) in foreign currency, considering the longer-term nature of these accounts the subsidiary's management has determined the haircut to be equal to the Central Bank of Lebanon deficit adjusted by the loans to commercial banks outstanding at the Central Bank of Lebanon balance sheet. A three scenarios were used for the loans outstanding to commercial banks optimistic, base and adverse with a weighing loss of 25%, 50% and 100% respectively on this account balance as at December 31, 2021. Based on the above scenarios the Bank applied a revised Central Bank foreign currency gap deficit equivalent to 20.8% for the optimistic scenario, 25% for the base line scenario and 32.9% on the downside. (27% for the base and optimistic scenario and 30% for the downside scenario as at December 31, 2020).

The regulatory governing body, namely the Central Bank of Lebanon imposed in the Intermediate circular 567 issued on 26 August 2020 a minimum regulatory ECL using present LGDs which is not constituted in the above-mentioned scenarios and is by far less than the weighted ECL calculated and booked by management.

Expected credit loss allowance

As of 31 December 2020	**Stage 1**		**Stage 2**		**Stage 3**		**Total**	
	AED'000 Exposure	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**	**AED'000 Exposure**	**AED'000 Provision**
Balances with central banks	3,160,817	-	30,734	2,053	201,854	167,995	3,393,405	170,048
Due from banks and financial institutions	66,426	2,325	258	5	-	-	66,684	2,330
Loans and advances	12,876,926	70,870	8,925,122	1,168,422	1,518,909	767,618	23,320,957	2,006,910
Investments measured at FVOCI	311,741	-	-	-	6,736	4,670	318,477	4,670
Investments measured at amortized cost	4,352,060	5,503	-	-	11,816	7,126	4,363,876	12,629
Other assets	1,298,591	27,964	-	-	-	-	1,298,591	27,964
Unfunded exposure	3,228,050	8,286	126,402	14,258	2,261	375	3,356,713	22,919
	25,294,611	**114,948**	**9,082,516**	**1,184,738**	**1,741,576**	**947,784**	**36,118,703**	**2,247,470**

As of 31 December 2020	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Balances with central banks	2,298,089	-	574,825	38,398	3,371,293	671,710	6,244,207	710,108
Due from banks and financial institutions	75,936	1,481	54,727	136	-	-	130,663	1,617
Reverse repurchase agreements	115,386	1,152	-	-	-	-	115,386	1,152
Loans and advances	13,943,236	289,678	5,806,751	760,970	2,713,248	893,305	22,463,235	1,943,953
Investments measured at FVOCI	267,133	-	-	-	102,407	70,322	369,540	70,322
Investments measured at amortized cost	4,163,225	4,086	-	-	190,962	109,268	4,354,187	113,354
Unfunded exposure	3,622,390	4,762	657,842	12,522	846,555	114,245	5,126,787	131,529
	24,485,395	**301,159**	**7,094,145**	**812,026**	**7,224,465**	**1,858,850**	**38,804,005**	**2,972,035**

Stage migration of loans and advances

	Stage 1		**Stage 2**		**Stage 3**		**Total**	
	Exposure AED'000	**Impairment allowance AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**	**Exposure AED'000**	**Impairment allowance AED'000**
Retail banking loans								
As of 1 January 2021	**286,228**	**3,816**	**10,385**	**79**	**8,890**	**3,460**	**305,503**	**7,355**
Transfers from stage 1 to stage 2	(6,773)	-	6,773	-	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	(707)	-	-	-	707	-	-	-
Transfers from stage 3	-	-	-	-	-	-	-	-
Other movements	(251,039)	(1,183)	(8,139)	(56)	2,111	(471)	(257,067)	(1,710)
Currency translation effect	(25,387)	(1,175)	-	-	(2,614)	(2,770)	(28,001)	(3,945)
As of 31 December 2021	**2,322**	**1,458**	**9,019**	**23**	**9,094**	**219**	**20,435**	**1,700**

	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Wholesale banking loans								
As of 1 January 2021	**13,657,008**	**285,862**	**5,796,366**	**760,891**	**2,704,358**	**889,845**	**22,157,732**	**1,936,598**
Transfers from stage 1 to stage 2	(1,488,756)	(3,760)	1,488,756	3,760	-	-	-	-
Transfers from stage 2 to stage 1	1,060,865	121,595	(1,060,865)	(121,595)	-	-	-	-
Transfers from 1&2 to stage 3	(23,770)	(713)	(13,035)	(1,857)	36,805	2,570	-	-
Transfers from stage 3	-	-	1,167,437	141,723	(1,167,437)	(141,723)	-	-
Other movements	250,767	(306,769)	2,161,043	420,502	269,111	144,534	2,680,921	258,267
Currency translation effect	(581,510)	(26,803)	(623,599)	(35,025)	(333,022)	(127,827)	(1,538,131)	(189,655)
As of 31 December 2021	**12,874,604**	**69,412**	**8,916,103**	**1,168,399**	**1,509,815**	**767,399**	**23,300,522**	**2,005,210**
	12,876,926	**70,870**	**8,925,122**	**1,168,422**	**1,518,909**	**767,618**	**23,320,957**	**2,006,910**

	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking loans								
As of 1 January 2020	184,222	3,291	33,569	53	8,140	2,478	225,931	5,822
Transfers from stage 1 to stage 2	-	-	-	-	-	-	-	-
Transfers from stage 2 to stage 1	1,467	-	(1,467)	-	-	-	-	-
Transfers from 1&2 to stage 3	(461)	-	(1)	-	462	-	-	-
Transfers from stage 3	5	-	5	-	(10)	-	-	-
Other movements	100,995	525	(21,721)	26	298	982	79,572	1,533
As of 31 December 2020	**286,228**	**3,816**	**10,385**	**79**	**8,890**	**3,460**	**305,503**	**7,355**

	Stage 1		Stage 2		Stage 3		Total	
	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000	Exposure AED'000	Impairment allowance AED'000
Wholesale banking loans								
As of 1 January 2020	12,585,380	405,998	4,109,876	607,145	2,659,191	825,657	19,354,447	1,838,800
Transfers from stage 1 to stage 2	(1,194,825)	(72,320)	1,194,825	72,320	-	-	-	-
Transfers from stage 2 to stage 1	866,290	15,542	(718,480)	(15,542)	-	-	147,810	-
Transfers from 1&2 to stage 3	(20,228)	(233)	(16,380)	(1,016)	36,608	1,249	-	-
Transfers from stage 3	-	-	30,643	4,055	(30,643)	(4,055)	-	-
Other movements	1,420,391	(63,125)	1,195,882	93,929	39,202	66,994	2,655,475	97,798
As of 31 December 2020	**13,657,008**	**285,862**	**5,796,366**	**760,891**	**2,704,358**	**889,845**	**22,157,732**	**1,936,598**
	13,943,236	**289,678**	**5,806,751**	**760,970**	**2,713,248**	**893,305**	**22,463,235**	**1,943,953**

ECL change/(flow) of loans and advances

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking loans:				
ECL allowance as of 1 January 2021	3,816	79	3,460	7,355
Others	(1,183)	(56)	(934)	(2,173)
Currency translation effect	(1,175)	-	(2,307)	(3,482)
ECL allowance as of 31 December 2021	**1,458**	**23**	**219**	**1,700**
Wholesale banking loans:				
ECL allowance as of 1 January 2021	285,862	760,891	889,845	1,936,598
Emirates governments	1,071	-	-	1,071
GREs (Gov ownership >50%)	(2,844)	-	-	(2,844)
Other corporates	(171,125)	288,130	30,607	147,612
High net worth individuals	1,961	89,790	(82,761)	8,990
SMEs	(16,885)	93,249	6,667	83,031
Others	(1,825)	(1,405)	1,943	(1,287)
Currency translation effect	(26,803)	(62,256)	(78,902)	(167,961)
ECL allowance as of 31 December 2020	**69,412**	**1,168,399**	**767,399**	**2,005,210**
Total	**70,870**	**1,168,422**	**767,618**	**2,006,910**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking loans:				
ECL allowance as of 1 January 2020	3,291	53	2,478	5,822
Others	525	26	982	1,533
ECL allowance as of 31 December 2020	**3,816**	**79**	**3,460**	**7,355**
Wholesale banking loans:				
ECL allowance as of 1 January 2020	405,998	607,145	825,657	1,838,800
Emirates governments	1,155	-	-	1,155
GREs (Gov ownership >50%)	4,936	-	-	4,936
Other corporates	(79,447)	(52)	101,373	21,874
High net worth individuals	(15,783)	109,770	(22,246)	71,741
SMEs	(29,681)	36,009	(21,389)	(15,061)
Others	(1,316)	8,019	6,450	13,153
ECL allowance as of 31 December 2021	**285,862**	**760,891**	**889,845**	**1,936,598**
Total	**289,678**	**760,970**	**893,305**	**1,943,953**

Maximum exposure to credit risk

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Loans and advances				
Grade 1	-	-	-	-
Grade 2	150	-	-	150
Grade 3	4,457,814	580	-	4,458,394
Grade 4	3,806,918	831,151	-	4,638,069
Grade 5	1,460,797	201,291	-	1,662,088
Grade 6	1,925,331	4,695,569	-	6,620,900
Grade 7	1,025,916	2,548,614	-	3,574,530
Default grades 8-10	200,000	647,917	1,518,909	2,366,826
Total gross carrying amount	**12,876,926**	**8,925,122**	**1,518,909**	**23,320,957**
Allowance for impairment losses	(70,870)	(1,168,422)	(767,618)	(2,006,910)
Net carrying amount	**12,806,056**	**7,756,700**	**751,291**	**21,314,047**

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Loans and advances				
Grade 1	32,737	-	-	32,737
Grade 2	251,050	-	-	251,050
Grade 3	1,681,727	985	-	1,682,712
Grade 4	6,094,500	300,679	-	6,395,179
Grade 5	3,328,329	771,098	-	4,099,427
Grade 6	1,414,708	1,749,264	-	3,163,972
Grade 7	76,510	4,048,400	-	4,124,910
Default grades 8-10	-	-	2,713,248	2,713,248
Total gross carrying amount	12,879,561	6,870,426	2,713,248	22,463,235
Allowance for impairment losses	(289,678)	(760,970)	(893,305)	(1,943,953)
Net carrying amount	12,589,883	6,109,456	1,819,943	20,519,282

The Central Bank of the UAE classification of loans and advances

2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Loans and advances				
Normal	10,990,980	755,050	29,605	11,775,635
Other loans exceptionally monitored	4,433	93,324	-	97,757
Substandard	1,641,279	5,983,224	206	7,624,709
Doubtful	200,000	1,896,315	1,242,979	3,339,294
Loss	-	159,185	230,917	390,102
Total gross carrying amount	**12,836,692**	**8,887,098**	**1,503,707**	**23,227,497**
Allowance for impairment losses	(70,739)	(1,163,781)	(756,021)	(1,990,541)
Net carrying amount	**12,765,953**	**7,723,317**	**747,686**	**21,236,956**

2020	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Loans and advances				
Normal	8,943,920	324,784	72,147	9,340,851
Other loans exceptionally monitored	1,288,304	292,195	43,559	1,624,058
Substandard	1,997,271	4,821,192	136	6,818,599
Doubtful	-	389,138	2,197,956	2,587,094
Loss	-	149,842	265,260	415,102
Total gross carrying amount	**12,229,495**	**5,977,151**	**2,579,058**	**20,785,704**
Allowance for impairment losses	(259,711)	(696,223)	(802,841)	(1,758,775)
Net carrying amount	**11,969,784**	**5,280,928**	**1,776,217**	**19,026,929**

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

		2021 AED'000	2020 AED'000
Balances with Central Banks	7	3,223,357	5,534,099
Deposits and balances due from banks	8	64,354	129,046
Reverse-repo placements	9	-	114,234
Loans and advances, net	10	21,314,047	20,519,282
Investments measured at amortised cost	11	4,351,247	4,240,833
Other assets *(excluding prepayments & assets acquired in settlement of debts)*	39	1,286,214	916,582
Total		**30,239,219**	31,454,076
Letters of credit	26	1,015,052	1,375,540
Guarantees	26	1,500,855	2,573,079
Undrawn loan commitments	26	1,039,391	1,454,998
Total		**3,555,298**	5,403,617
Total credit risk exposure		**33,794,517**	36,857,693

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

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	Less than 30 days 2021 AED'000	31 to 89 days 2021 AED'000	More than 90 days 2021 AED'000	Total 2021 AED'000
Loans and advances	**5,300**	**61,395**	**178,120**	**244,815**

	Less than 30 days 2020 AED'000	31 to 89 days 2020 AED'000	More than 90 days 2020 AED'000	Total 2020 AED'000
Loans and advances	147,763	118	509	148,390

Collaterals held against loans and advances

The fair value of the collateral that the Group held as at 31 December 2021 for past due but not impaired loans and advances to customers covers 164% (2020: 123%) of the outstanding balance. For each loan, the value of the disclosed collateral is capped to the nominal amount of the loan that is held against.

Carrying amount per class of on-balance sheet financial assets whose terms have been renegotiated

	2021 AED'000	2020 AED'000
Loans and advances	**4,664,060**	3,120,905

Impaired loans

Impaired loans are loans for which the Group determines that it is likely the collectability of all principal and interest due according to the contractual terms of the loan/securities agreement(s) would be doubtful. These loans are graded 8 to 10 in the Group's internal credit risk grading system.

Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when the Group determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Group holds collateral against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Group accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. Management has estimated the fair value of collateral to be AED 14.3 billion (2020: AED 13 billion) out of which AED 172 million is collateral held against stage 3 loans and advances (2020: AED 1.3 billion). The fair value of the collateral includes cash deposits which are not under lien and the Group has right to set-off against the outstanding facilities.

Concentration risk arises when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Group measure its exposure to credit risk by reference to gross carrying amount of financial assets less amounts offset, profit suspended and impairment losses, if any.

Concentration of credit risk by industrial sector for loans and advances are presented in notes 10d and 10e. Concentration of credit risk by geographical distribution of loans and advances and financial investments is set out in note 10b and 11b.

Liquidity risk management

Executive Committee (EC) & Board Risk Committee (BRC)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The EC members comprise of the Chairman, four Board Members, in addition to the General Manager. The EC meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio reserve requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. In addition, the U.A.E. Central Bank requires that banks regulated under the Eligible Liquid Asset Ratio (ELAR) regime maintain a stock of High-Quality Liquid Assets (HQLA), as a buffer against unexpected deposit outflows, of a minimum of 10% (reduced during the COVID-19 pandemic to 7%) of all deposits. The Group complies with this regulation at all times, and applies a higher standard in its internal guidelines. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the General Manager (operations) and senior executives from treasury, finance, risk, corporate credit, operations, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 84.48% as at 31 December 2021 (2020: is 91.31%). In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Basel III ratios (including ASRR, ELAR, etc.) are also monitored internally and shared with the Board on quarterly basis.

The maturity profile of the assets and liabilities at 31 December 2021 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	2,979,325	23,508	56,756	163,768	**3,223,357**
Deposits and balances due from banks	58,772	5,582	-	-	**64,354**
Loans and advances, net	5,140,205	1,718,362	14,455,480	-	**21,314,047**
Investments measured at fair value	172,947	-	-	313,808	**486,755**
Investments measured at amortised cost	4,346,907	487	3,133	720	**4,351,247**
Investment properties	-	-	-	1,091,543	**1,091,543**
Other intangibles	-	-	-	22,075	**22,075**
Assets acquired in settlement of debt	-	-	-	1,448,800	**1,448,800**
Other assets	957,706	168,098	144,823	-	**1,270,627**
Derivative assets held for risk management	9,083	-	-	-	**9,083**
Property and equipment	-	-	-	280,170	**280,170**
Total assets	**13,664,945**	**1,916,037**	**14,660,192**	**3,320,884**	**33,562,058**
Liabilities					
Customers' deposits	11,956,660	11,453,798	345,627	1,334	**23,757,419**
Deposits and balances due to banks	237,995	-	-	-	**237,995**
Repo-borrowing	750,000	-	-	-	**750,000**
Other liabilities	2,028,885	4,773	18,435	-	**2,052,093**
Issued Bonds	2,308,204	439,655	2,605,320	-	**5,353,179**
Total liabilities	**17,281,744**	**11,898,226**	**2,969,382**	**1,334**	**32,150,686**
Net liquidity gap	**(3,616,799)**	**(9,982,189)**	**11,690,810**	**3,319,550**	**1,411,372**

The maturity profile of the assets and liabilities at 31 December 2020 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Undated AED'000	Total AED'000
Assets					
Cash and balances with central banks	4,293,810	-	1,076,491	163,798	5,534,099
Deposits and balances due from banks	127,421	94	-	1,531	129,046
Reverse-repo placements	114,234	-	-	-	114,234
Loans and advances, net	6,676,760	3,936,372	9,906,150	-	20,519,282
Investments measured at fair value	121,760	-	-	299,218	420,978
Investments measured at amortised cost	18,632	-	4,219,065	3,136	4,240,833
Investment properties	-	-	-	767,594	767,594
Other intangibles	-	-	-	40,370	40,370
Assets acquired in settlement of debt	-		-	2,956,490	2,956,490
Other assets	738,846	11,857	117,545	-	868,248
Derivative assets held for risk management	49,730	-	-	-	49,730
Property and equipment	-	-	-	502,586	502,586
Total assets	12,141,193	3,948,323	15,319,251	4,734,723	36,143,490
Liabilities					
Customers' deposits	14,161,232	9,198,139	294,166	19,047	23,672,584
Deposits and balances due to banks	-	240,915	-	-	240,915
Repo-borrowing	2,345,757	93,085	-	-	2,438,842
Other liabilities	1,440,810	91,283	139,688	-	1,671,781
Issued Bonds	-	-	4,953,951	-	4,953,951
Total liabilities	**17,947,799**	**9,623,422**	**5,387,805**	**19,047**	**32,978,073**
Net liquidity gap	**(5,806,606)**	**(5,675,099)**	**9,931,446**	**4,715,676**	**3,165,417**

Market risk management

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

a) Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

Market indices	31 December 2021 Change in equity price %	Effect on income AED'000	31 December 2020 Change in equity price %	Effect on income AED'000
Global Stock markets	**+1%**	**1,729**	+1%	1,218
Global Stock markets	**-1%**	**(1,729)**	-1%	(1,218)

b) Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Group uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are monitored and analysed by the Senior Management. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2021 was as follows:

	Weighted average effective rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	0.00%	-	6,098	68,293	3,148,966	**3,223,357**
Deposits and balances due from banks	0.00%	52,792	5,582	-	5,980	**64,354**
Loans and advances, net	4.94%	13,078,432	6,964,625	1,211,313	59,677	**21,314,047**
Investments measured at fair value		-	-	-	486,755	**486,755**
Investments measured at amortised cost	1.99%	345	4,347,164	1,216	2,522	**4,351,247**
Investment properties		-	-	-	1,091,543	**1,091,543**
Other intangibles		-	-	-	22,075	**22,075**
Assets acquired in settlement of debt		-	-	-	1,448,800	**1,448,800**
Other assets		-	-	-	1,270,627	**1,270,627**
Derivative assets held for risk management		-	-	-	9,083	**9,083**
Property and equipment, net		-	-	-	280,170	**280,170**
Total assets		**13,131,569**	**11,323,469**	**1,280,822**	**7,826,198**	**33,562,058**
Liabilities and equity						
Customers' deposits	2.11%	11,354,963	11,827,736	345,627	229,093	**23,757,419**
Deposits and balances due to banks	0.41%	236,344	-	-	1,651	**237,995**
Repo-borrowing	0.65%	750,000	-	-	-	**750,000**
Other liabilities		-	-	-	2,052,093	**2,052,093**
Issued Bonds	3.56%	-	5,353,179	-	-	**5,353,179**
Equity		-	-	-	1,411,372	**1,411,372**
Total liabilities and equity		**12,341,307**	**17,180,915**	**345,627**	**3,694,209**	**33,562,058**
On statement of financial position gap		**790,262**	**(5,857,446)**	**935,195**	**4,131,989**	**-**
Cumulative interest rate sensitivity gap		**790,262**	**(5,067,184)**	**(4,131,989)**	**-**	**-**

The Group's interest sensitivity position, based on the contractual re-pricing or maturity dates, whichever dates are earlier as at 31 December 2020 was as follows:

	Weighted average effective rate	Within 3 months AED'000	Over 3 months to 1 year AED'000	Over 1 year AED'000	Non-interest sensitive AED'000	Total AED'000
Assets						
Cash and balances with central banks	0.12%	275,322	-	936,541	4,322,236	5,534,099
Deposits and balances due from banks	0.00%	76,681	-	-	52,365	129,046
Reverse-repo placements	1.10%	114,234	-	-	-	114,234
Loans and advances, net	5.43%	17,870,392	79,665	109,278	2,459,947	20,519,282
Investments measured at fair value		-	-	36,140	384,838	420,978
Investments measured at amortised cost	2.35%	-	4,161,853	78,980	-	4,240,833
Investment properties		-	-	-	767,594	767,594
Other intangibles		-	-	-	40,370	40,370
Assets acquired in settlement of debt					2,956,490	2,956,490
Other assets		-	-	-	868,248	868,248
Derivative assets held for risk management					49,730	49,730
Property and equipment, net		-	-	-	502,586	502,586
Total assets		18,336,629	4,241,518	1,160,939	12,404,404	36,143,490
Liabilities and equity						
Customers' deposits	2.53%	9,926,135	8,944,084	94,165	4,508,200	23,672,584
Deposits and balances due to banks	0.25%	239,988	-	-	927	240,915
Repo-borrowing	0.90%	2,104,842	334,000	-	-	2,438,842
Other liabilities		-	-	-	1,671,781	1,671,781
Issued Bonds	3.70%	-	-	4,953,951	-	4,953,951
Equity		-	-	-	3,165,417	3,165,417
Total liabilities and equity		12,270,965	9,278,084	5,248,116	9,346,325	36,143,490
On statement of financial position gap		6,065,664	(5,036,566)	(4,087,177)	3,058,079	-
Cumulative interest rate sensitivity gap		6,065,664	1,029,098	(3,058,079)	-	-

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest-bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated statement of profit or loss or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2021, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate, including the effect of any associated hedges as at 31 December 2021 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2021 Currency	**Increase in basis**	**Sensitivity of interest income**	**Sensitivity of equity**
AED	**+200**	**(56,710)**	**(56,710)**
USD	**+200**	**(7,757)**	**(7,757)**
Others	**+200**	**(213)**	**(213)**
AED	**-200**	**56,710**	**56,710**
USD	**-200**	**7,757**	**7,757**
Others	**-200**	**213**	**213**

2020 Currency	Increase in basis	Sensitivity of interest income	Sensitivity of equity
AED	+200	(25,586)	(25,586)
USD	+200	(3,044)	(3,044)
Others	+200	(256)	(256)
AED	-200	25,586	25,586
USD	-200	3,044	3,044
Others	-200	256	256

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group provides foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2021, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee.

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

The table below shows the foreign currencies to which the Group has a significant exposure to:

	2021 AED'000 equivalent long (short)	2020 AED'000 equivalent long (short)
EURO	**-**	(22,570)
GBP	**(460)**	-
AUD	**(6)**	-

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of profit or loss or equity; whereas a negative effect shows a potential net reduction in consolidated statement of profit or loss or equity.

(AED'000)

Currency exposure as at 31 December 2021	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
GBP	**+5%**	**(23)**	**(23)**
GBP	**-5%**	**23**	**23**

(AED'000)

Currency exposure as at 31 December 2020	Change in currency rate in %	Change on net profit	Change on Equity
EUR	+5%	(1,129)	(1,129)
EUR	-5%	1,129	1,129

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 December 2021		31 December 2020	
Market indices	**Change in equity price %**	**Effect on income AED'000**	Change in equity price %	Effect on income AED'000
Global stock markets	**+1%**	**1,403**	+1%	948
Global stock markets	**-1%**	**(1,403)**	-1%	(948)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, and may have legal or regulatory implications, or lead to financial losses. The Group would not be able to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group could minimise the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

41. CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

41. Capital adequacy and capital management (continued)

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

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

- Common equity tier 1 (CET 1) capital, which includes ordinary share capital, legal reserve, general reserve and retained earnings; fair value reserves, after deductions for intangibles, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under "CBUAE" guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The minimum capital adequacy requirements as set out by the Central Bank are as follows:

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

In addition to CET 1 ratio of 7% of RWAs, a capital conservation buffer (CCB) of 2.5% of RWAs shall be maintained in the form of CET 1.

Further, counter cyclical buffer (CCyB) requirement shall be met by using CET 1. The level of CCyB to be notified by 'the Central Bank'. There is no CCyB requirement during the current year.

The Group has complied with all the externally imposed capital requirements and has prepared the capital adequacy ratios excluding the hyperinflation impact and currency translation resulting from the Lebanese operations.

Basel III

The capital adequacy ratios are computed based on circulars issued by the Central Bank of UAE and based on a specific exception received from the Central Bank of the UAE considering high level of uncertainty facing the Lebanese financial situation as discussed in note 40. Following this specific exception, the computation of capital adequacy ratios of the Group excludes the hyperinflation impact on Lebanese operations and currency translation resulting from the Lebanese operations whereby the financial information of Lebanese operations are translated at the official exchange rate for the purpose of computing capital adequacy ratios.

	31 December 2021 AED'000 (audited)	31 December 2020 AED'000 (audited)
Capital base		
Common Equity Tier 1	**2,920,471**	2,723,616
Additional Tier 1 capital	**-**	-
Tier 1 capital	**2,920,471**	2,723,616
Tier 2 capital	**356,602**	339,773
Total capital base	**3,277,073**	3,063,389
Risk-weighted assets:		
Credit risk	**28,528,198**	27,181,855
Market risk	**633,757**	266,517
Operational risk	**1,197,702**	1,149,361
Total risk-weighted assets	**30,359,657**	28,597,733
Capital ratios		
Common equity Tier 1 capital ratio	**9.62%**	9.52%
Tier 1 capital ratio	**9.62%**	9.52%
Total capital ratio	**10.79%**	10.71%

Had the Group included the hyperinflation impact and the currency translation resulting from the Lebanese operations after translating the financial information of Lebanese operations at sayrafa rate for the purpose of computing capital adequacy ratios, the common equity Tier 1, Tier 1 capital and total capital ratios would have dropped to 4.41%, 4.41% and 5.58% respectively.

42. IMPACT OF COVID-19

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

In the determination of ECL, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the COVID-19 pandemic and considered the economic support and relief measures of governments and central banks. The Group has also considered the notices issued by the Central Bank of UAE with regards to the Targeted Economic Support Scheme (TESS) and guidance issued by the International Accounting Standards Board (IASB) on 27 March 2020.

Significant Increase in Credit Risk (SICR)

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

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

During 2020, the Group has initiated a programme of payment relief for its impacted customers by deferring interest/ principal due for a period of one month to nine months. These payment reliefs are considered as short-term liquidity to address borrower cash flow issues. The relief offered to customers may indicate a SICR. However, the Group believes that the extension of these payment reliefs does not automatically trigger a SICR and a stage migration for the purposes of calculating ECL, as these are being made available to assist borrowers affected by the COVID-19 outbreak to resume regular payments. At this stage sufficient information is not available to enable the Group to individually differentiate between a borrowers' short-term liquidity constraints and a change in its lifetime credit risk. This approach is consistent with the expectations of the Central Bank of UAE as referred to in the TESS notice.

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

Forward-Looking Information

In light of the current uncertain economic environment, the Group has assessed a range of possible macro-economic scenarios and associated weightings, and analysed their impact on ECL estimates accordingly.

The Group has incorporated COVID-19 impacted variables into its IFRS 9 calculations, including updated macro – economic forecasts, to reflect the impact of COVID-19. This has resulted in an estimated impact on ECL and net of other overlays of AED Nil (2020: AED 155 million) and is reflected in the statement of profit and loss during the year.

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

Analysis of clients benefitting from payment deferrals

Zero Cost Funding under the CBUAE TESS program availed by the Group amounts to AED nil (31 December 2020: AED 334 million) to provide payment relief to the impacted customers.

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

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

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

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

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

Deferrals information at beginning of the year

Clients benefiting from deferrals in 2021 (TESS clients and non-TESS clients)

Portfolio date: 1 January 2021

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	36	4,031	32,422	330
Total retail banking			**36**	**4,031**	**32,422**	**330**
Wholesale banking	Stage 1	Group 1	18	532,359	3,748,916	35,761
		Group 2	8	12,056	36,955	116
			26	**544,415**	**3,785,871**	**35,877**
	Stage 2	Group 1	8	100,035	605,492	114,871
		Group 2	10	213,963	1,331,944	196,305
			18	**313,998**	**1,937,436**	**311,176**
Total wholesale banking			**44**	**858,413**	**5,723,307**	**347,053**

Deferrals information during the year

Clients benefiting from deferrals in 2021 (TESS clients and non-TESS clients)

Portfolio date: 31 December 2021

Segment	Stage	Group	Number of clients deferred	Payment deferrals AED'000	Exposure AED'000	Impairment allowance AED'000
Retail banking	Stage 1	Group 1	26	3,589	20,558	144
Total retail banking			**26**	**3,589**	**20,558**	**144**
Wholesale banking	Stage 1	Group 1	19	385,046	2,643,365	30,899
		Group 2	8	58,728	222,081	3,517
			27	**443,774**	**2,865,446**	**34,416**
	Stage 2	Group 1	4	80,763	511,951	29,146
		Group 2	8	278,940	1,089,814	136,135
			12	359,703	**1,601,765**	**165,281**
	Stage 3	Group 1	-	-	-	-
		Group 2	2	68	312	197
			2	68	**312**	**197**
Total wholesale banking			**41**	**803,545**	**4,467,523**	**199,894**

43. FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments held at fair value through profit and loss

Investments held for trading or designated at fair value through profit and loss represent investment securities that present the Group with opportunity for returns through dividend income, trading gains and capital appreciation. Including in these investments listed equity securities for which the fair values are based on quoted prices at close of business as of 31 December 2021, and unlisted bonds for which the fair values are derived from internal valuation performed based on generally accepted pricing models, all inputs used for the valuation are supposed by observable market prices or rates.

Unquoted investments held at fair value through other comprehensive income

The consolidated financial statements include holdings in unquoted securities amounting to AED 172 million (2020: AED 175 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on comparable ratios backed by discounted cash flow analysis depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

For investments valued using comparable ratios, share prices of comparable companies represent significant inputs to the valuation model. If the share prices of the comparable companies were 5% higher/lower while all other variables were held constant, then the fair value of the securities would increase/decrease by AED 9 million (2020: AED 9 million).

The impact of the change in fair valuation from previously existing carrying amounts have been recognised as a part of cumulative changes in fair value in equity.

Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values.

		2021		2020	
	Level	Carrying amount AED'000	Fair value AED'000	Carrying amount AED'000	Fair value AED'000
Financial assets					
- Investments measured at amortized cost	3	4,351,247	4,358,362	4,240,833	4,242,127
- Loans and advances	3	21,314,047	21,314,047	20,519,282	20,519,282
Financial liabilities					
- Customers' deposits	2	23,757,419	23,757,419	23,672,584	23,672,584
- Issued Bonds	2	3,516,679	3,576,114	3,057,269	3,167,603

The fair value for other financial assets measured at amortised cost is based on market prices.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured at fair value. They are banked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and Level 2 during the current year.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2021				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	172,948	-	-	172,948
Investments measured at FVTOCI				
Quoted equity	140,265	-	-	140,265
Unquoted equity	-	-	171,592	171,592
Unquoted debt securities	-	1,950	-	1,950
Total	313,213	1,950	171,592	486,755
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	1,836,500	-	-	1,836,500
Other assets /liabilities				
Positive fair value of derivatives	-	9,083	-	9,083
Negative fair value of derivatives	-	(8,922)	-	(8,922)
At 31 December 2020				
Other financial assets measured at fair value				
Investment measured at FVTPL				
Quoted equity	121,760	-	-	121,760
Investments measured at FVTOCI				
Quoted equity	94,818	-	-	94,818
Unquoted equity	-	-	175,042	175,042
Unquoted debt securities	-	29,358	-	29,358
Total	216,578	29,358	175,042	420,978
Other financial liabilities measured at fair value				
Issued bonds measured at FVTPL				
Quoted debt securities	1,896,682	-	-	1,896,682
Other assets /liabilities				
Positive fair value of derivatives	-	49,730	-	49,730
Negative fair value of derivatives	-	(15,941)	-	(15,941)

Reconciliation of Level 3 fair value measurements of other financial assets measured at FVTOCI:

	2021 AED'000	2020 AED'000
Opening balance	**175,042**	209,252
Additions during the year	**614**	-
Reclassified during the year	**(1,837)**	-
Loss recognised in other comprehensive income	**(2,227)**	(34,210)
Closing balance	**171,592**	175,042

Unobservable inputs used in measuring fair value

The effect of unobservable input on fair value measurement

Although the Group believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, 10% change in the underlying value of these investments would have the following effects.

	Effect on OCI	
	Favourable	**Unfavourable**
31 December 2021	**+17,159**	**-17,159**

	Effect on OCI	
	Favourable	Unfavourable
31 December 2020	+17,504	-17,504

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument is negligible.

Financial Instruments not recorded at fair value

The fair values of financial instruments not recorded at fair value includes cash and balances with Central Banks, due from banks and financial institutions, loans and advances, net, other assets (excluding prepayments), due to banks, customers' deposits and other liabilities that are categorised as level two based on market observable inputs. The fair values of financial instruments not recorded at fair value are not materially different to their carrying values.

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

Asset for which fair value approximates carrying value

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

Fixed rate financial instruments

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

44. PRIOR YEAR RESTATEMENT

In 2019, the Bank acquired a plot of land from a borrower in partial settlement of debt and derecognized partially the loan exposure of the borrower based on the fair value of the land as at the date of acquisition. The transaction had no impact on the statement of profit or loss at the time of acquisition.

During the year, considering the fact that the land is registered with Dubai Real Estate Regulatory Agency (RERA) in the name of the developer under an ongoing development project, the Group assessed that it does not have all the rights and obligations associated with the land due to the fact that a project was under development at the time of acquisition of the land. The borrower who is the project developer has the development rights on the land. The project is already marketed for sale and as a result the land will be sold and handed over to buyers upon completion of the project. Therefore, the Group concluded that criteria for derecognition of the loan exposure and recognition of land in satisfaction of debt as not met at acquisition date.

Therefore, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, the Group has rectified the error by retrospective adjustment to the comparative numbers in the consolidated financial statements to reflect appropriate presentation.

As a result, the Group reclassified AED 1,063 million from assets acquired in settlement of debt to loans and advances to reinstate the loan exposure of the borrower. The reclassification adjustment does not impact the consolidated statement of profit or loss, consolidated statement of cash flows and consolidated statement of changes in equity.

Consolidated statement of financial position as of 31 December 2020

	As previously reported AED'000	**Effect of reclassification AED'000**	**As restated**
Loans and advances, net	19,455,607	1,063,675	20,519,282
Assets acquired in settlement of debt	4,020,165	(1,063,675)	2,956,490

45. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 24th August 2022.

Basel III - Pillar III Disclosures for the year ended 31 December 2021

1. INTRODUCTION

Bank of Sharjah P.J.S.C. (the "Bank"), is a public joint stock company incorporated by an Amiri Decree issued on 22 December 1973 by His Highness the Ruler of Sharjah and was registered in February 1993 under the Commercial Companies Law Number 8 of 1984 (as amended). The Bank commenced its operations under a banking license issued by the United Arab Emirates Central Bank dated 26 January 1974. The Bank is engaged in commercial and investment banking activities.

The Bank's registered office is located at Al Khan Road, P.O. Box 1394, Sharjah, United Arab Emirates. The Bank operates through eight branches in the United Arab Emirates located in the Emirates of Sharjah, Dubai, Abu Dhabi, and City of Al Ain.

2. PURPOSE AND BASIS OF PREPARATION

The CBUAE supervises Bank of Sharjah ("BOS" or the "bank") and its subsidiaries (together referred to as the "Group") on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. The capital requirements are computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ("Basel Committee"), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework is structured around three 'pillars': minimum capital requirements (Pillar I); supervisory review process (Pillar II); and market discipline (Pillar III).

The disclosures have been prepared in line with the disclosures template introduced by the CBUAE guidelines on disclosure requirements published in November 2020 and November 2021 respectively.

The annual Pillar III report of the Group for the year ended 31 December 2021 comprises detailed information on the underlying drivers of risk-weighted assets (RWA), capital of the Bank, its wholly owned subsidiaries (together referred to as "The Group"). The report should be read in conjunction with the Group's Audited Financial Statements as at 31 December 2021.

The complete listing of all direct subsidiaries of Bank of Sharjah PJSC as at 31 December 2021 is as follows:

Name of Subsidiary	Group percentage shareholding	Country of incorporation	Principal activities
Emirates Lebanon Bank S.A.L.	100%	Lebanon	Financial institution
El Capital FZC	100%	U.A.E.	Investment in a financial institution
BOS Real Estate FZC	100%	U.A.E.	Real estate development activities
BOS Capital FZC	100%	U.A.E.	Investment
Polyco General Trading L.L.C.	100%	U.A.E.	General trading
Borealis Gulf FZC	100%	U.A.E.	Investment and real estate development activities
BOS Funding Limited	100%	Cayman Islands	Financing activities
Muwaileh Capital FZC	90%	U.A.E.	Real estate development and related activities
BOS Repos Limited	100%	Cayman Islands	Financing activities
BOS Derivatives Limited	100%	Cayman Islands	Financing activities

3. Overview of Pillar III

Pillar III complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing disclosure requirements which allow market participants to assess certain specified information on the scope of application of Basel III, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level.

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

The minimum capital adequacy requirements as set out by the Central Bank of UAE are as follows:

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

In addition to CET 1 ratio of 7% of RWAs, a capital conservation buffer (CCB) of 2.5% of RWAs shall be maintained in the form of CET 1. The Group has complied with all the externally imposed capital requirements.

Following are the changes in the revised standards which have been adopted either prior to or during 2021:

- The Tier Capital Supply Standard
- Tier Capital Instruments Standard
- Pillar 2 Standard: Internal Capital Adequacy Assessment Process (ICAAP)
- Credit Risk, Market Risk and Operational Risk
- Equity Investment in Funds, Securitisation, Counterparty Credit Risk, Leverage Ratio

In addition, Credit Value Adjustment (CVA) for Pillar 1 and 3 will be effective from 30 June 2022.

CBUAE requires the Pillar 2 - Supervisory Review Process to focus on each bank's Internal Capital Adequacy Assessment Process (ICAAP) in addition to Pillar 1 Capital calculations. The ICAAP should include a risk based forward looking view of, but not limited to, Credit, Market and Operational Risk Capital.

3.1 Verification

The Pillar 3 Disclosures for the year 2021 have been reviewed by the Group's internal and statutory auditors.

3.2 Implementation of Basel III standards and guidelines

The Group is compliant with Standardised Approach for Credit, Market and the Basic Indicator Approach for Operational Risk (Pillar 1) as applicable in 2021.

4. Key Metrics for the group (KM1)

Key prudential regulatory metrics have been included in the following table:

		2021 AED'000
	Available capital (amounts)	
1	Common Equity Tier 1 (CET1)	2,920,471
1a	Fully loaded ECL accounting model	2,886,001
2	Tier 1	2,920,471
2a	Fully loaded ECL accounting model Tier 1	2,886,001
3	Total capital	3,277,073
3a	Fully loaded ECL accounting model total capital	3,242,604
	Risk-weighted assets (amounts)	
4	Total risk-weighted assets (RWA)	30,359,658
Risk-based capital ratios as a percentage of RWA		
5	Common Equity Tier 1 ratio (%)	**9.62%**
5a	Fully loaded ECL accounting model CET1 (%)	**9.51%**
6	Tier 1 ratio (%)	**9.62%**
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	**9.51%**
7	Total capital ratio (%)	**10.79%**
7a	Fully loaded ECL accounting model total capital ratio (%)	**10.68%**
	Additional CET1 buffer requirements as a percentage of RWA	
8	Capital conservation buffer requirement (2.5% from 2019) (%)	-
9	Countercyclical buffer requirement (%)	-
10	Bank D-SIB additional requirements (%)	-
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	-
12	CET1 available after meeting the bank's minimum capital requirements (%)	**0.29%**
	Leverage Ratio	
13	Total leverage ratio measure	39,659,855
14	Leverage ratio (%) (row 2/row 13)	**7.36%**
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	**7.28%**
14b	"Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)"	**7.36%**
	Liquidity Coverage Ratio	
15	Total HQLA	-
16	Total net cash outflow	-
17	LCR ratio (%)	-
	Net Stable Funding Ratio	
18	-	-
19	Total required stable funding	-
20	NSFR ratio (%)	-
	ELAR	
21	Total HQLA	3,998,238
22	Total liabilities	32,471,965
23	Eligible Liquid Assets Ratio (ELAR) (%)	**12.31%**
	ASRR	
24	Total available stable funding	28,316,938
25	Total Advances	24,990,604
26	Advances to Stable Resources Ratio (%)	**88.25%**

5. Overview of Risk Management and Risk Weighted Assets (RWA)

Please refer Note 40 of the Group's annual financial statements for the risk management framework including: risk governance structure, risk profile and risk measurement systems of the bank, risk reporting to the board and senior management and risk mitigation.

The Group operates a wide-ranging stress testing program that support risk management and capital planning. It includes execution of stress tests mandated by regulators. The group's stress testing is supported by dedicated teams and infrastructure. The testing program assesses capital strength and enhances resilience to external shocks, thereby helping to understand and mitigate risks and informed decision making on capital levels.

5.1 Overview of Risk Weighted Assets (RWAs) (OV1)

The following table provides an overview of total RWAs forming the denominator of the risk-based capital requirements. Further breakdown of RWAs are presented in subsequent parts.

		RWA 2021 AED 000	Minimum capital requirements 2021 AED 000
1	Credit risk (excluding counterparty credit risk)	28,528,198	2,995,461
2	Of which: standardised approach (SA)	28,528,198	2,995,461
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-
4	Of which: supervisory slotting approach	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-
6	Counterparty credit risk (CCR)	-	-
7	Of which: standardised approach for counterparty credit risk	-	-
8	Of which: Internal Model Method (IMM)	-	-
9	Of which: other CCR	-	-
10	Credit valuation adjustment (CVA)	-	-
11	Equity positions under the simple risk weight approach	-	-
12	Equity investments in funds - look-through approach	-	-
13	Equity investments in funds - mandate-based approach	-	-
14	Equity investments in funds - fall-back approach	-	-
15	Settlement risk	-	-
16	Securitisation exposures in the banking book	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-
20	Market risk	633,757	66,545
21	Of which: standardised approach (SA)	633,757	66,545
22	Of which: internal models' approach (IMA)	-	-
23	Operational risk	1,197,703	125,758
24	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-
25	Floor adjustment	-	-
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**30,359,658**	**3,187,764**

Pursuant to the above regulation, CBUAE issued a regulation for a 'Prudential Filter' that permits Banks to add back increase in IFRS 9 provisions (stage 1 and stage 2) to the regulatory capital over a transition period of 5 years, on a proportionate basis. The increase in IFRS 9 provision requirements is determined by calculating the difference between the IFRS 9 provision as of 31 December 2019 and the IFRS 9 provision as at the respective reporting date. The proportion of the increase in IFRS 9 provisions that is permitted to be added-back to regulatory capital from 1 January 2020 onwards will be phased out over a 5-year transition period as follows:

Years	2020	2021	2022	2023	2024
Proportion of provision	100%	100%	75%	50%	25%

5.2 Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (LI1)

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E. Differences are arising for the reason that the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and the application of IAS 29 Financial reporting in Hyperinflationary Economies in accordance with IAS 21 The Effect of Changes in Foreign Exchange Rates. However, the capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank, and thus the computation of the capital adequacy ratio does not include the effect of IAS 29 and IAS 21, currency translation resulting from the Lebanese operations.

31 December 2021	Carrying values as reported in published financial statements AED 000	Carrying values under scope of regulatory consolidation AED 000	Subject to credit risk framework AED 000	Subject to counterparty credit risk framework AED 000	Subject to the securitisation framework AED 000	Subject to market risk framework AED 000	Not subject to capital requirements or subject to deduction from capitalw AED 000
Assets							
Cash and balances with central banks	3,223,357	6,565,551	6,565,551	-	-	-	-
Deposits and balances due from banks	64,354	96,241	96,241	-	-	-	-
Loans and advances, net	21,314,047	22,397,830	22,397,830	-	-	-	-
Investments measured at fair value	486,755	515,800	515,800	-	-	172,948	-
Investments measured at amortised cost	4,351,247	4,417,179	4,417,179	-	-	-	-
Investment properties	1,091,543	1,091,543	1,091,543	-	-	-	-
Other intangibles	22,075	23,362	-	-	-	-	23,362
Assets acquired in settlement of debt	1,448,800	1,492,699	1,492,699	-	-	-	-
Other assets	1,270,627	1,360,200	1,360,200	-	-	-	-
Derivative assets held for risk management	9,083	9,083	9,083	-	-	-	-
Property and equipment	280,170	300,700	300,700	-	-	-	-
Total Assets	**33,562,058**	**38,270,188**	**38,246,826**	**-**	**-**	**172,948**	**23,362**
Liabilities							
Customers' deposits	23,757,419	26,491,847	-	-	-	-	26,491,847
Deposits and balances due to banks	237,995	238,405	-	-	-	-	238,405
Repo borrowings	750,000	750,000	-	-	-	-	750,000
Other liabilities	2,043,171	2,226,078	-	-	-	-	2,226,078
Derivative liabilities held for risk management	8,922	8,922	-	-	-	-	8,922
Issued bonds	5,353,179	5,353,179	-	-	-	-	5,353,179
Total Liabilities	**32,150,686**	**35,068,431**	**-**	**-**	**-**	**-**	**35,068,431**

5.3 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

31 December 2021			Items subject to:		
		Total AED 000	Credit risk framework AED 000	Counterparty credit risk framework AED 000	Market risk framework AED 000
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	38,419,774	38,246,826	-	172,948
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	**38,419,774**	**38,246,826**	**-**	**172,948**
4	Off-balance sheet amounts Excluding Derivatives	5,007,364	5,007,364	-	-
5	Differences due to different netting rules	(971,720)	(971,720)	-	-
6	Differences due to consideration of provisions and interest in suspense	3,176,338	3,176,338	-	-
7	**Exposure amounts considered for regulatory purposes**	**45,631,756**	**45,458,808**	**-**	**172,948**

6. Composition of Capital

6.1 Capital Management

The Group's objectives when managing capital, which is a broader concept than the 'equity' in the consolidated statement of financial positions, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The Group assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

6.2 Regulatory Capital

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

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under CBUAE guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- Tier 2 capital comprises qualifying subordinated debt, and undisclosed reserve.

6.3 Composition of Regulatory Capital (CC1)

This provides a breakup of the elements constituting the Group's capital:

		2021 AED'000
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2,200,000
2	Retained earnings	(278,936)
3	Accumulated other comprehensive income (and other reserves)	1,016,240
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**2,937,304**
	Common Equity Tier 1 capital regulatory adjustments	**-**
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	23,362
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	-
12	Securitisation gain on sale	-
13	Gains and losses due to changes in own credit risk on fair valued liabilities	**(6,528)**
14	Defined benefit pension fund net assets	-
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-
17	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
18	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
19	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
20	Amount exceeding 15% threshold	-
21	Of which: significant investments in the common stock of financials	-
22	Of which: deferred tax assets arising from temporary differences	-
23	CBUAE specific regulatory adjustments	-
24	Total regulatory adjustments to Common Equity Tier 1	16,834
25	Common Equity Tier 1 capital (CET1)	**2,920,471**
	Additional Tier 1 capital: instruments	**-**
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-
27	OF which: classified as equity under applicable accounting standards	-
28	Of which: classified as liabilities under applicable accounting standards	-
29	Directly issued capital instruments subject to phase-out from additional Tier 1	-
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
31	Of which: instruments issued by subsidiaries subject to phase-out	-
32	**Additional Tier 1 capital before regulatory adjustments**	-
	Additional Tier 1 capital: regulatory adjustments	-
33	Investments in own additional Tier 1 instruments	-
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
36	CBUAE specific regulatory adjustments	-
37	Total regulatory adjustments to additional Tier 1 capital	-
38	**Additional Tier 1 capital (AT1)**	-
39	**Tier 1 capital (T1= CET1 + AT1)**	**2,920,471**
	Tier 2 capital: instruments and provisions	-

40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41	Directly issued capital instruments subject to phase-out from Tier 2	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
43	Of which: instruments issued by subsidiaries subject to phase-out	-
44	Provisions	356,602
45	**Tier 2 capital before regulatory adjustments**	**356,602**
	Tier 2 capital: regulatory adjustments	-
46	Investments in own Tier 2 instruments	-
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
49	CBUAE specific regulatory adjustments	-
50	Total regulatory adjustments to Tier 2 capital	-
51	**Tier 2 capital (T2)**	-
52	**Total regulatory capital (TC = T1 + T2)**	**3,277,073**
53	**Total risk-weighted assets**	**30,359,658**
	Capital ratios and buffers	
54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	**9.62%**
55	Tier 1 (as a percentage of risk-weighted assets)	**9.62%**
56	Total capital (as a percentage of risk-weighted assets)	**10.79%**
57	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	**0.29%**
58	Of which: capital conservation buffer requirement	**0.29%**
59	Of which: bank-specific countercyclical buffer requirement	-
60	Of which: higher loss absorbency requirement (e.g. DSIB)	-
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	**2.62%**
		-
	The CBUAE Minimum Capital Requirement	-
62	Common Equity Tier 1 minimum ratio	**7.00%**
63	Tier 1 minimum ratio	**8.50%**
64	Total capital minimum ratio	**10.50%**
	Amounts below the thresholds for deduction (before risk weighting	-
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-
66	Significant investments in common stock of financial entities	-
67	Mortgage servicing rights (net of related tax liability)	-
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	-
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-
70	Cap on inclusion of provisions in Tier 2 under standardised approach	-
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	-
73	Current cap on CET1 instruments subject to phase-out arrangements	-
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-
75	Current cap on AT1 instruments subject to phase-out arrangements	-
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-
77	Current cap on T2 instruments subject to phase-out arrangements	-
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	-

6.4 Reconciliation of regulatory capital to balance sheet (CC2)

The following table enable users to identify the differences between the scope of accounting consolidation and the scope of regulatory consolidation, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1. Variances between the financial and regulatory consolidated balance sheets are consistent with LI1 disclosure.

31 December 2021	Balance sheet as published in the financial statements AED 000	Under regulatory scope of consolidation AED 000
Assets		
Cash and balances with central banks	3,223,357	6,565,551
Deposits and balances due from banks	64,354	96,241
Loans and advances, net	21,314,047	22,397,830
Investments measured at fair value	486,755	515,800
Investments measured at amortised cost	4,351,247	4,417,179
Investment properties	1,091,543	1,091,543
Other intangibles	22,075	23,362
Assets acquired in settlement of debt	1,448,800	1,492,699
Other assets	1,270,627	1,360,200
Derivative assets held for risk management	9,083	9,083
Property and equipment	280,170	300,700
Total assets	**33,562,058**	**38,270,188**
Equity investments in funds - fall-back approach	-	-
Liabilities		
Customers' deposits	23,757,419	26,491,847
Deposits and balances due to banks	237,995	238,405
Repo borrowings	750,000	750,000
Other liabilities	2,043,171	2,226,078
Derivative liabilities held for risk management	8,922	8,922
Issued bonds	5,353,179	5,353,179
Total liabilities	**32,150,686**	**35,068,431**
Share capital	2,200,000	2,200,000
Statutory reserve	1,050,000	1,050,000
Contingency reserve	640,000	640,000
General and impairment reserve	220,972	220,972
Investment fair value reserve	(681,292)	(680,288)
Currency translation reserve	(2,083,048)	-
Retained earnings/ (Accumulated losses)	57,404	(236,263)
Non-controlling interest	7,336	7,336
Total equity	**1,411,372**	**3,201,757**

7. Leverage Ratio

7.1 Summary comparison of accounting assets versus leverage ratio exposure (LR1)

The following table reconciles the total assets in the published financial statements to the leverage ratio exposure measure.

		2021 AED'000
1	Total consolidated assets as per published financial statements	42,095,366
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	37,158
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	(2,454,454)
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(18,214)
13	**Leverage ratio exposure measure**	**39,659,856**

7.2 Leverage ratio common disclosure template (LR2)

The table below provides a breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements, and buffers as of period end.

		2021 AED'000
	On-balance sheet exposures	
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	37,069,787
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-
6	(Asset amounts deducted in determining Tier 1 capital)	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**37,069,787**
	Derivative exposures	
8	Replacement cost associated with all derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-
9	Add-on amounts for PFE associated with all derivatives transactions	-
10	(Exempted CCP leg of client-cleared trade exposures)	-
11	Adjusted effective notional amount of written credit derivatives	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
13	**Total derivative exposures (sum of rows 8 to 12)**	-
	Securities financing transactions	-
14	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(18,214)
16	CCR exposure for SFT assets	55,372
17	Agent transaction exposures	
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**37,158**
	Other off-balance sheet exposures	
19	Off-balance sheet exposure at gross notional amount	5,007,364
20	(Adjustments for conversion to credit equivalent amounts)	(2,454,454)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-
22	**Off-balance sheet items (sum of rows 19 to 21)**	**2,552,910**
	Capital and total exposures	
23	**Tier 1 capital**	**2,920,471**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**39,659,855**
	Leverage ratio	
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**7.36%**
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	7.36%
26	CBUAE minimum leverage ratio requirement	4.00%
27	**Applicable leverage buffers**	**3.36%**

8. Credit Risk

8.1 General qualitative information about credit risk (CRA)

✓ **How the business model translates into the components of the bank's credit risk profile**

Credit risk is the most significant risk facing the Bank in the normal course of business. It is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms causing a financial loss to the bank. Obligors may be borrowers, issuers, counterparties or guarantors.

To identify, monitor and manage credit risk, BOS developed a key set of credit principles representing the pillar of its credit policy. Credit risk is managed through a framework that sets out policies and procedures and delegations covering the measurement and management of credit risk with a clear segregation of duties and accountabilities.

The Bank controls credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continually assessing the creditworthiness of counterparties. The Bank further limits risk through diversification of its assets by economic and industry sectors. The Bank has also put in place three lines of defence to ensure that the oversight of credit risk has appropriate independence.

Policies relating to credit are reviewed and approved by the Bank's Board periodically. The Board is responsible for setting the credit policy of the Bank. It also establishes industry caps, approves policy exceptions, and conducts periodic portfolio reviews to ascertain portfolio quality. The Banks Risk Appetite also sets out the acceptable parameters relating to Credit Risk and credit concentrations.

✓ **Criteria and approach used for defining credit risk management policy and for setting credit risk**

All credit applications are subject to the Banks Credit policies, underwriting standards which are established within the boundaries of the Risk Appetite statement. The Credit Risk policy was developed by the Risk department in the second line of defence and approved by the Board. These policies and processes define the standards and criteria for the approval, monitoring and remedial action of the Banks credit risk. The bank is selective and cautious when onboarding new customers to the Bank or are in industries that require specialisation. In addition, the Bank sets credit limits for all customers based on their creditworthiness.

All credit facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Board Credit Committee or respective Management Credit Committee under the supervision of the Board.

✓ **Structure and organisation of the credit risk management and control function**

The Credit Risk Unit is a unit within the Risk Department and is separate from the Business Unit. The Unit is responsible to ensure that the process of assessing credit risk is appropriate and reflective of bank's objectives and the circumstances applicable at the time of analysis. Its main duties include:

validating credit proposals and risk ratings against the policy and risk appetite of the bank. It also monitors the ongoing credit risk exposures and identifies early warning signs of deterioration.

All credit facilities post approval are administered and monitored by the Credit Administration Department. The department is a support function, its main responsibilities is managing the disbursement and monitoring process to ensure compliance with credit approvals and obtaining all relevant documents and securities.

Both the Credit Risk Review Unit and Credit Administration Department are independent from the business underwriting teams and have a reporting line into the Chief Risk Officer (CRO). The CRO reports independently to the Board Risk Committee (BRC).

8.2 Relationships between the credit risk management, risk control, compliance and internal audit functions

All credit proposals submitted by the credit teams are independently reviewed by the Credit Risk department and must be respectively approved by the required level of delegation which will include either the Head of Credit Risk, the Management Credit Committee or the Board Credit Committee. The Management Credit Committee includes the CEO, CRO and the Head of Credit Risk. All proposals requiring approval by the Board Credit Committee will first be presented to the Management Credit Committee for their recommendation.

Credit Administration ensures that all credit risk data is reported into the independent credit risk systems and that it is timely accurate and completed.

Compliance teams ensures that guidelines are complied with, in the due diligence process for anti-money laundering laws and regulations, among other, such as confidentiality and conflicts of interests, as well as related parties, PEPs and insider trading.

Internal Audit as the third line of defence reviews the end-to end credit approval and management process from the origination to approval, loan booking and monitoring and reports its findings to the Board Audit Committee for review.

8.3 Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

It is the responsibility of the Credit Risk Management to define, construct and maintain an independent credit risk reporting framework for the bank that effectively, consistently and meaningfully communicates portfolio exposures. The reports that are provided to the Board and the Credit Committee, include but not limited to overall portfolio trends, risk ratings, IFRS 9 staging and provisions, portfolio deterioration and migration, large customer exposures, industry and other concentration limits, stress test and scenario planning, Central Bank classifications and compliance with relevant regulations relating to credit risk.

These reports are presented to the BRC who will escalate key issues to the Board of Directors.

8.4 Credit quality of assets (CR1)

The table provides a comprehensive picture of the credit quality of the Group's (on- and off-balance sheet) assets.

31 December 2021		Gross carrying values of			Of which ECL provisions		
		Defaulted exposures	Non-defaulted exposures	Allowances/ Impairments	Allocated in regulatory category of Specific	Allocated in regulatory category of General	Net values
		AED 000	AED 000	AED 000	AED 000	AED 000	AED 000
1	Loans	1,518,909	21,802,048	2,006,910	767,618	1,239,292	21,314,047
2	Debt securities	18,552	4,663,801	17,299	11,796	5,503	4,665,054
3	Off-balance sheet exposure	2,261	3,354,452	22,919	375	22,544	3,333,794
	Total	**1,539,723**	**29,820,302**	**2,047,129**	**779,790**	**1,267,339**	**29,312,896**

8.5 Changes in Stock of Defaulted Loans (CR2)

The following table identifies the changes in the bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

		2021 AED'000
1	Defaulted loans at the end of the previous reporting period	2,713,248
2	Impact of IAS 21 on the opening balance	(335,636)
3	Loans that have defaulted since the last year	37,512
4	Returned to non-default status	(1,167,437)
5	Change in exposures, net of repayments, write-off and others	271,222
6	**Defaulted loans at the end of the reporting period**	**1,518,909**

8.6 Credit Risk Mitigation Techniques (CR3)

		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees
		AED 000	AED 000	AED 000	AED 000
1	Loans	5,427,338	17,893,619	14,330,462	2,608
2	Debt securities	270,656	4,099,840	4,099,840	-
3	**Total**	**5,697,994**	**21,993,459**	**18,430,302**	**2,608**
4	Of which defaulted	1,140,983	389,742	171,638	-

8.7 Additional Disclosure related to the Credit Quality of Assets (CRB)

Definition of Default

Please refer Note 5 in the annual financial statements for scope and definitions of 'past due' exposures.

8.8 Past due exposures but not impaired

Aging analysis of past due but not impaired loans per class of on-balance sheet financial assets

	Less than 30 days 2021 AED 000	31 to 89 days 2021 AED 000	More than 90 days 2021 AED 000	Total 2021 AED 000
Loans and advances	**5,300**	**61,395**	**178,120**	**244,815**

	Less than 30 days 2020 AED 000	31 to 89 days 2020 AED 000	More than 90 days 2020 AED 000	Total 2020 AED 000
Loans and advances	147,763	118	509	148,390

	2021 AED 000	2020 AED 000
Loans and advances	**4,664,060**	3,120,905

8.10 Gross Credit Exposure - Currency Classification

The Group's gross credit exposure by foreign and local currency, both funded and non-funded is detailed below:

31 December 2021

	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
Foreign Currency	1,193,841	1,591,271	58,166	370,496	880,073	4,093,847	163,293	2,144,111	2,307,404	6,401,251
AED	22,127,116	1,802,134	8,518	4,000,000	3,754,994	31,692,762	16,047	1,231,847	1,247,894	32,940,656
Total	**23,320,957**	**3,393,405**	**66,684**	**4,370,496**	**4,635,067**	**35,786,609**	**179,340**	**3,375,958**	**3,555,298**	**39,341,907**

8.11 Gross Credit Exposure by Maturity

The following table lists the Group's gross exposures by Residual Maturity:

31 December 2021	Within 3 months AED 000	Over 3 months to 1 year AED 000	Over 1 year AED 000	Undated AED 000	Total AED 000
Assets					
Cash and balances with central banks	2,979,325	23,508	56,756	163,768	**3,223,357**
Deposits and balances due from banks	58,772	5,582	-	-	**64,354**
Loans and advances, net	5,140,205	1,718,362	14,455,480	-	**21,314,047**
Investments measured at fair value	172,947	-	-	313,808	**486,755**
Investments measured at amortised cost	4,346,907	487	3,133	720	**4,351,247**
Investment properties	-	-	-	1,091,543	**1,091,543**
Other intangibles	-	-	-	22,075	**22,075**
Assets acquired in settlement of debt	-	-	-	1,448,800	**1,448,800**
Other assets	957,706	168,098	144,823	-	**1,270,627**
Derivative assets held for risk management	9,083	-	-	-	**9,083**
Property and equipment	-	-	-	280,170	**280,170**
Total assets	**13,664,945**	**1,916,037**	**14,660,192**	**3,320,884**	**33,562,058**
Liabilities					
Customers' deposits	11,956,660	11,453,798	345,627	1,334	**23,757,419**
Deposits and balances due to banks	237,995	-	-	-	**237,995**
Repo-borrowing	750,000	-	-	-	**750,000**
Other liabilities	2,028,885	4,773	18,435	-	**2,052,093**
Issued Bonds	2,308,204	439,655	2,605,320	-	5,353,179
Total liabilities	**17,281,744**	**11,898,226**	**2,969,382**	**1,334**	**32,150,686**
Net liquidity gap	**(3,616,799)**	**(9,982,189)**	**11,690,810**	**3,319,550**	**1,411,372**

8.12 Gross Credit Exposure by Geography

The Group's gross credit exposure by Geography both funded and non-funded is detailed below:

31 December 2021

	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
United Arab Emirates	21,514,791	3,083,946	21,998	4,133,700	4,238,840	32,993,275	174,805	3,236,608	3,411,413	36,404,688
GCC excluding UAE	63,793	-	7,279	183,650	-	254,722	160	78,454	78,614	333,336
Middle East	608,913	309,459	2,277	18,436	392,569	1,331,654	2,764	51,735	54,499	1,386,153
Asia	44,849	-	4,706	-	-	49,555	-	-	-	49,555
Africa	14,270	-	-	-	-	14,270	-	-	-	14,270
USA	36,738	-	6,550	-	-	43,288	-	46	46	43,334
Europe	5,402	-	23,334	34,710	3,658	67,104	1,611	9,109	10,720	77,824
Others	1,032,201	-	540	-	-	1,032,741	-	6	6	1,032,747
Total	**23,320,957**	**3,393,405**	**66,684**	**4,370,496**	**4,634,067**	**35,786,609**	**179,340**	**3,375,958**	**3,555,298**	**39,341,907**

8.13 Gross Credit Exposure by Economic Activity

The group's gross credit exposure by Economic activity both funded and non-funded is detailed below:

31 December 2021

	Loans and receivables AED 000	Cash & deposits with Central Bank AED 000	Due from Banks AED 000	Debt securities AED 000	Other assets AED 000	Total funded AED 000	Financial guarantees AED 000	Other off-balance sheet exposures AED 000	Total non-funded AED 000	Grand Total AED 000
Trading	4,056,112	-	-	-	-	4,056,112	16,062	664,689	680,751	4,736,863
Personal loans	3,319,600	-	-	-	-	3,319,600	-	208,728	208,728	3,319,621
Services	7,956,984	-	-	-	-	7,956,984	158,799	356,263	515,062	8,472,046
Manufacturing	2,588,383	-	-	-	-	2,588,383	2,707	317,415	320,122	2,908,505
Construction	1,087,547	-	-	-	-	1,087,547	160	593,136	593,296	1,680,843
Government	214,017	-	-	4,152,136	-	4,366,153	-	609,212	609,212	4,975,365
Public utilities	-	-	-	-	-	-	-	2,649	2,649	2,649
Mining and quarrying	1,058,804	-	-	-	-	1,058,804	-	11,885	11,885	1,070,689
Transport and communication	229,301	-	-	-	-	229,301	-	469,883	469,883	699,184
Agriculture	1,109	-	-	-	-	1,109	-	74	74	1,183
Financial institution	823,004	3,393,405	66,684	-	-	4,283,093	1,612	113,546	115,158	4,398,251
Others	706,635	-	-	218,360	4,635,067	5,560,062	-	28,478	28,478	5,588,540
Government related entities	1,279,461	-	-	-	-	1,279,461	-	-	-	1,279,461
Total	**23,320,957**	**3,393,405**	**66,684**	**4,370,496**	**4,635,067**	**35,786,609**	**179,340**	**3,375,958**	**3,555,298**	**39,341,907**

8.14 Impaired Loans by Geography

The group's gross credit exposure by Economic activity both funded and non-funded is detailed below:

31 December 2021	Overdue (Gross of Interest in suspense) AED 000	Interest in suspense AED 000	Overdue (Net of Interest in suspense) AED 000	Expected Credit Losses (ECL) AED 000
United Arab Emirates	1,806,443	319,627	1,486,816	747,576
GCC excluding UAE	19,240	2,343	16,897	8,451
Middle East	15,196	-	15,196	11,591
Total	**1,840,879**	**321,970**	**1,518,909**	**767,618**

8.15 Impaired Loans by Economic Activity

31 December 2021	Net of Interest in Suspense AED 000	Expected Credit Losses (ECL) AED 000
Trading	1,115,914	537,581
Manufacturing	203,630	126,860
Services	117,905	59,175
Personal loans	41,799	13,437
Construction	38,231	29,146
Transport and communication	1,328	1,328
Financial institution	7	7
Others	95	84
Total	**1,518,909**	**767,618**

8.16 Credit Risk Exposure and Credit Risk Mitigation (CRM) Effects (CR4)

The following table illustrates the effect of CRM on capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

31 December 2021	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount AED 000	Off-balance sheet amount AED 000	On-balance sheet amount AED 000	Off-balance sheet amount AED 000	RWA AED 000	RWA Density
Sovereigns and their central banks	10,701,571	-	10,701,571	-	3,394,656	32%
Public Sector Entities	1,209,360	300,229	969,177	300,229	1,057,885	83%
Multilateral development banks	-	-	-	-	-	-
Banks	84,754	35,753	63,317	35,753	40,203	41%
Securities firms	11,488	-	11,488	-	11,390	99%
Corporates	13,968,277	4,504,360	11,650,266	4,504,360	12,960,230	80%
Regulatory retail portfolios	213,578	167,022	138,755	167,022	165,371	54%
Secured by residential property	910,811	-	910,811	-	484,892	53%
Secured by commercial real estate	5,930,704	-	5,930,704	-	5,930,704	100%
Equity Investment in Funds (EIF)	-	-	-	-	-	-
Past-due loans	869,396	-	869,396	-	987,580	114%
Higher-risk categories	-	-	-	-	-	-
Other assets	3,727,370	-	3,727,370	-	3,495,286	94%
Total	**37,627,309**	**5,007,364**	**34,972,855**	**5,007,364**	**28,528,197**	**71%**

8.17 Exposures by Asset classes and Risk Weights (CR5)

The following table presents the breakdown of credit risk exposures under the standardised approach by asset class and risk weight. Exposures amount (post CCF and post-CRM)

31 December 2021	Risk weights											
								Others	Others	Others	Others	
Regulatory portfolio	0% AED 000	20% AED 000	35% AED 000	50% AED 000	75% AED 000	100% AED 000	150% AED 000	250% AED 000	85% AED 000	2% AED 000	1250% AED 000	Total credit exposures AED 000
Sovereigns	7,250,870	-	-	112,090	-	3,338,611	-	-	-	-	-	**10,701,571**
Public Sector Entities	211,521	-	-	-	-	1,057,885	-	-	-	-	-	**1,269,406**
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	**-**
Banks	-	44,895	-	45,900	-	8,275	-	-	-	-	-	**99,070**
Securities firms	-	122	-	-	-	11,366	-	-	-	-	-	**11,488**
Corporates	3,148,039	-	-	-	-	12,697,542	-	-	309,045	-	-	**16,154,626**
Regulatory retail portfolios	93,772	-	-	-	186,535	25,470	-	-	-	-	-	**305,777**
Secured by residential property	150	-	646,326	-	22,629	241,706	-	-	-	-	-	**910,811**
Secured by commercial real estate	-	-	-	-	-	5,930,704	-	-	-	-	-	**5,930,704**
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-	-	**-**
Past-due loans	147	-	-	-	-	632,586	236,663	-	-	-	-	**869,396**
Higher-risk categories	-	-	-	-	-	-	-	-	-	-	-	**-**
Other assets	451,503	18,732	-	-	-	2,788,326	468,809	-	-	-	-	**3,727,370**
Total	**11,156,002**	**63,749**	**646,326**	**157,990**	**209,164**	**26,732,471**	**705,472**	**-**	**309,045**	**-**	**-**	**39,980,219**

As per the revised capital adequacy standards and guidelines applicable from 2021, Claims on GCC sovereign in non-domestic currency attract risk weight based on country rating, previously risk weighted at 0%. Accordingly, there is a shift in sovereign exposure from 0% to 20% RW. Also, short term claims on banks in foreign currency can now attract preferential risk weight, resulting in increase in 20% RW .bucket. Other movements are mostly volume driven

8.18 Qualitative disclosure requirements related to credit risk mitigation techniques (CRC)

(a) Core features of policies and processes for, and indication of the extent to which the bank makes use of, on- and off-balance sheet netting.

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

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

The Group is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

(b) Core features of policies and processes for collateral evaluation and management.

Collateral is a form of security that the borrower provides to the lender, to secure the loan in case it is not repaid from the returns as established at the time of availing the facility. Examples of acceptable security would be cash margins, fixed deposits under lien, guarantees or fixed assets such as property, vehicles or equipment.

Requesting adequate collateral or guarantees to cover partially or wholly the loan amount is used to mitigate the default risk as a secondary source of repayment.

Consideration of collateral will depend on may factors, including the ability of the bank to liquidate and the potential volatility in market value of the asset.

The bank's Credit Policy includes specific guidelines on the evaluation process for collateral. The policy includes the procedure for the empanelment of Professional Valuers and a register of approved list of valuers. This process is overseen by the Risk department to ensure there is independence in the evaluation process and that appropriately qualified valuers are used.

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (i.e. by guarantor type, collateral and credit derivative providers).

The Bank credit policies set out the key considerations for eligibility, enforceability and effectiveness of credit risk. The Bank manages its concentration risk through its Risk Appetite and Credit Policy statements. Information on key concentration risks is provided to the Board Risk Committee. The Bank further limits risk through diversification of its assets by economic and industry sectors.

Potential credit losses from any given account, client or portfolio are mitigated using a range of tools such as collateral, netting agreements, credit derivatives and guarantees. Loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Bank has credit policies and procedures in place setting out the criteria for collateral to be recognized as a credit risk mitigants, including requirements concerning legal certainty, priority, concentration and liquidity. Collateral types that are eligible as risk mitigates include: cash margins, fixed deposits, residential/ commercial property, assets such as motor vehicles, plant and machinery, marketable securities, commodities, standby letters of credit and certain guarantees. The Bank accepts guarantees mainly from well-reputed local or international banks, well-established local or multinational corporate and high net worth private individuals. The Bank also enters into collateralized reverse repurchase agreements.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Group's Board Credit Committee and are monitored by the Financial Institutions Group on a daily basis.

8.19 Qualitative disclosures on bank's use of external credit ratings under the standardized approach for credit risk (CRD)

The group follows the standardized approach which requires banks to use risk assessments prepared by external credit assessment institutions ('ECAIs') to determine the risk weightings applied to rated counterparties. CBUAE had advised following ECAIs to be used for the rating purpose:

- Moody's Investor Service ('Moody's'); and
- Fitch ratings ('Fitch')

Based on the rating processes of these ECAIs, the CBUAE has established the following tables:

Moody's	Fitch
Aaa to Aa-	AAA to AA-
A1 to A3	A+ to A-
Baa1 to Baa3	BBB+ to BBB-
Ba1 to Ba3	BB+ to BB-
B1 to B3	B + to B-
Below B-	Below B-
Unrated	Unrated

If there is only one rating, that rating should be used to determine the risk weight of the exposure. If there are two rating that map to different risk weights, the higher risk weight must be applied.

If there are three or more ratings with different risk weights, the corresponding to the two lowest risk weights should be referred to. If this give rise to the same risk weight, that risk weight should be applied. If different, the higher risk weight should be applied.

9. Counterparty credit risk (CCR)

9.1 Analysis of Counterparty Credit Risk by approach (CCR1)

The following table provides counterparty credit risk requirements and is aligned to the Standardised Approach required by CBUAE to calculate CCR.

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	2,104	48,537	-	1.4	70,898	29,794
2	Internal Model Method (for derivatives and SFTs)	-	-	-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)	-	-	-	-	-	-
5	VaR for SFTs	-	-	-	-	-	-
6	**Total**	**2,104**	**48,537**	**-**	**1.4**	**70,898**	**29,794**

9.2 Credit valuation adjustment (CVA) capital charge (CCR2)

The following table provides counterparty credit risk requirements and is aligned to the Standardised Approach required by CBUAE to calculate CCR.

		EAD post-CRM	RWA
1	All portfolios subject to the Standardised CVA capital charge	70,898	29,794
2	All portfolios subject to the Simple alternative CVA capital charge	-	-

9.3 Standardized approach CCR exposures by regulatory portfolio and risk weights (CCR3)

The following table provides risk weights of the counterparty credit risk requirements and in aligned to the Standardised Approach by Regulatory portfolio.

Regulatory portfolio	Credit Exposure 0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	18,848	52,050	-	-	-	-	70,898
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**18,848**	**52,050**	**-**	**-**	**-**	**-**	**70,898**

9.4 Composition of collateral for Counterparty Credit Risk exposure (CCR5)

The following table provides collateral posted and received for derivative transactions.

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash - domestic currency	-	-	-	-		
Cash - other currencies	-	27,581	-	9,366	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**27,581**	**-**	**9,366**	**-**	**-**

10. Market risk

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Group classifies exposures to market risk into trading, or non-trading /banking book.

10.1 Market risk - trading book

The Executive Committee has set limits for acceptable level of risks in managing the trading book. The Group maintains a well-diversified portfolio. In order to manage the market risk in the trading book, the Group carries a limited amount of market risk based on the policy preference and this is continuously monitored by Senior Management.

The Group's trading book mainly comprises of equity instruments in companies listed on the U.A.E. exchanges. As such, the market risk in the trading book is limited to equity price risk.

Equity price risk refers to the risk of a decrease in the fair values of equities in the Group's trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's equity investments held in the trading book due to a reasonable possible change in U.A.E. equity indices, with all other variables held constant is as follows:

	31 December 2021		31 December 2020	
Market indices	Change in equity price %	Effect on income AED 000	Change in equity price %	Effect on income AED 000
Global Stock markets	**+1%**	**1,729**	+1%	1,218
Global Stock markets	**-1%**	**(1,729)**	-1%	(1,218)

10.2 Market risk - non-trading or banking book

Market risk on non-trading or banking positions mainly arises from the interest rate, foreign currency exposures and equity price changes.

i) Interest rate risk

Interest Rate Risk (IRR) is defined as the exposure arising from movements in market interest rates. Typical instruments that give rise to IRR are interest bearing and discounted financial instruments and derivatives which are based on the movement of interest rates (foreign exchange forwards, and interest rate swaps). The interest rate risk faced by the Bank could be specific – due to the yield change in the instrument, or general – due to changes in the macro-economic factors governing the market.

The Bank uses two measures to monitor and control interest rate risk in the banking book that include

- Earnings at Risk Impact
- Economic Value of Equity

Accordingly, the bank's risk appetite for IRRBB is also articulated in terms of the risk to both economic value and earnings. Policy limits are aligned to Bank of Sharjah's overall approach for measuring IRRBB and are targeted to maintain the IRRBB exposures consistent with the risk appetite and the regulatory

guidelines. The Treasury department is mandated to manage the interest rate risk with Market Risk Management acting as an independent oversight function. Since most of the Group's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Group's assets and liabilities will be re-priced within one year or less, thereby further limiting interest rate risk.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument, excluding non-interest-bearing items. The rate is a historical rate for a fixed rate instrument carried at amortised cost and the current market rate for a floating rate instrument or for an instrument carried at fair value.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Group's consolidated statement of profit or loss or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2021, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate, including the effect of any associated hedges as at 31 December 2021 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED thousands.

2021 Currency	**Increase in basis**	**Sensitivity of interest income**	**Sensitivity of equity**
AED	**+200**	**(56,710)**	**(56,710)**
USD	**+200**	**(7,757)**	**(7,757)**
Others	**+200**	**(213)**	**(213)**
AED	**-200**	**56,710**	**56,710**
USD	**-200**	**7,757**	**7,757**
Others	**-200**	**213**	**213**

2021 Currency	Increase in basis	Sensitivity of interest income	Sensitivity of equity
AED	+200	(25,586)	(25,586)
USD	+200	(3,044)	(3,044)
Others	+200	(256)	(256)
AED	-200	25,586	25,586
USD	-200	3,044	3,044
Others	-200	256	256

ii) Currency risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Board has set limits on positions by currencies, which are monitored daily, and hedging instruments are also used to ensure that positions are maintained within the limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, in the normal course of business the Group provides foreign currency exposures to finance its client's activities. The Executive Committee sets the limits on the level of exposure by currency for both overnight and intra-day positions, which are closely monitored by Senior Management. As at 31 December 2021, the Group's net currency position was not material, and all the positions were within limits approved by the Executive Committee.

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

The table below shows the foreign currencies to which the Group has a significant exposure to:

	2021 AED 000 equivalent long (short)	2020 AED 000 equivalent long (short)
EURO	-	(22,570)
GBP	(460)	-
AUD	(6)	-

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the consolidated statement of profit or loss (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A positive effect shows a potential increase in consolidated statement of profit or loss or equity; whereas a negative effect shows a potential net reduction in consolidated statement of profit or loss or equity.

(AED 000)

Currency exposure as at 31 December 2021	**Change in currency rate in %**	**Change on net profit**	**Change on Equity**
GBP	**+5%**	**(23)**	**(23)**
GBP	**-5%**	**23**	**23**

(AED 000)

Currency exposure as at 31 December 2021	Change in currency rate in %	Change on net profit	Change on Equity
EUR	+5%	(1,129)	(1,129)
EUR	-5%	1,129	1,129

iii) Equity price risk

Equity price risk refers to the risk of a decrease in the fair value of equities in the Group's non-trading investment portfolio as a result of reasonable possible changes in levels of equity indices and the value of individual stocks.

The effect on the Group's quoted equity investments held as financial assets at FVTOCI due to reasonable possible change in equity prices, with all other variables held constant is as follows:

	31 December 2021		31 December 2020	
Market indices	**Change in equity price %**	**Effect on equity AED 000**	Change in equity price %	Effect on equity AED 000
Global Stock markets	**+1%**	**1,403**	+1%	948
Global Stock markets	**-1%**	**(1,403)**	-1%	(948)

c) Market Risk Capital

The Group calculates market risk capital requirements using Basel III Standardised Approach. The following risk types are covered by Basel III Standardised Approach.

Interest rate risk:	Risk arising from fluctuations in the level of interest rates in the market environment and impacts prices of interest rate sensitivities financial instruments.
Equity risk:	Risk arising from fluctuations in equity prices, volatilities, and dividend yields.
Foreign exchange risk:	Risk arising from fluctuations in foreign exchange rates and impacts transactions denominated in a currency other than the domestic currency of the Group.
Commodity risk:	Risk arising from fluctuations in the prices of commodities.
Options Risk:	Risk arising from fluctuations in the volatilities and prices/ rates impacts financial instruments with optionality

10.3 Market Risk under the Standardised Approach – (MR1)

The following table provides the components of RWAs under the Standardised Approach for market risk:

		2021 RWA AED 000
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	36,319
3	Foreign exchange risk	30,226
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
	Total	**66,545**

10.4 Market Risk

Market risks subject to capital charge are as follows:

• Interest Rate Risk
• Foreign Exchange Risk
• Equity Exposure Risk
• Commodity Risk
• Options Risk

Capital charge on interest rate risk and equity exposure risk is restricted to Bank's 'trading book', while capital charge on Foreign exchange risk applies on the bank's entire positions.

Realised and unrealised revaluation gain/ (loss) during the year	**2021 AED 000**
Realised (loss)/ gain from sales and liquidation	(82)
Realised and unrealised gain/ (loss) on investments measured at fair value through profit or loss	50,196
Realised and unrealised gain/ (loss) on investments measured at fair value through other comprehensive income	58,803
Total	**108,917**

Items in table above included in Tier 1/Tier 2 capital	**2021**
Amount included in Tier 1 capital	58,803
Amount included in Tier 2 capital	-
Total	**58,803**

11. Interest rate risk in the banking book (IRRBB)

11.1 IRRBB risk management objectives and policies

a) Overview

Interest Rate Risk in the Banking Book (IRRBB) is defined as the potential loss to the net economic value of equity (EVE), capital and earnings arising from adverse movements in interest rates that affect the banking book positions.

b) Management

The IRRBB strategy is governed by the Board of Directors which delegates the management of Bank's overall strategy with reference to the IRRBB to the Asset and Liability Management Committee (ALCO). ALCO has a mandate to maintain the bank's IRRBB exposure at levels that are aligned to the Board of Directors' risk appetite towards IRRBB which is expressed through high-level limits included in the Risk Appetite Statement. Detailed IRRBB limits are reviewed by the ALCO and approved by the Board at least on an annual basis or more frequently where such an update appears appropriate. The IRRBB report is required to be presented to ALCO on a monthly basis where ALCO determines, if all risk measures are within limit, whether it is agrees with the bank's exposure to interest rate movements, considering the senior management view of the market outlook. The Risk Function is responsible for the model update and calibration assures the ALCO that the appropriate IRRBB models have been reviewed and validated by an independent unit on at least an annual basis. It is the responsibility of the Bank's Risk Function to ensure that any updates in the IRRBB framework are promptly reflected in the IRRBB policy, metrics and regular reporting as they are approved by ALCO. The Internal Audit function is responsible for periodic reviews in order to assess, review effectiveness and adherence to the Policy.

c) Measurement

The Bank uses two metrics for measuring the IRRBB:

- The earnings perspective which focuses on the impact interest rate changes might have on a bank's near-term earnings that will focus on assessing the earnings effects that may arise from changes in market interest rates.
- The economic value perspective which focuses on the impact interest rate changes might have on the economic value of the future cash flows and thus on the economic value of both interest rate book and capital.

d) IRRBB Calculations

The main objectives of the IRRBB measurement process consists of the following:

- Calculation of the NII is performed under parallel interest rate scenarios and a predefined holding period (known as a Gapping Period) for a year.
- Calculation of the EVE sensitivity under six regulatory scenarios.

11.2 Sensitivity of economic value of equity and NII - IRRBB1

The below table indicates the economic value of equity and net interest income under each of the prescribed interest rate shock scenarios.

In reporting currency	ΔEVE	ΔNII
Year	**2021**	**2021**
	(AED 000)	**(AED 000)**
Parallel up	(132,352)	72,978
Parallel down	169,352	(72,978)
Steepener	(155,062)	-
Flattener	125,769	-
Short rate up	52,393	-
Short rate down	(52,476)	-
Maximum	(155,062)	**73,491**
Year	**2021**	
Tier 1 capital	2,920,471	

Average repricing maturity assigned to NMDs. – 4.59 years
Longest re-pricing maturity assigned to NMDs – 5 years

12. Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud, or external events. When controls fail to perform, operational risks can cause damage to reputation, and may have legal or regulatory implications, or lead to financial losses. The Group would not be able to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group could minimise the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Basel III framework outlines three methods for calculating the risk charge for operational risk – Basic Indicator, Standardised Approach and Advanced Measurement Approach. The Group presently follows the Basic Indicator Approach.

13. Liquidity risk management

Executive Committee (EC) & Board Risk Committee (BRC)

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

In addition to its credit related activity, the Executive Committee along with the Board Risk Committee have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. The EC and BRC review liquidity ratios; asset and liability structure; interest rate and foreign exchange exposures; internal and statutory ratio requirements; funding gaps; and general domestic and international economic and financial market conditions. The

EC & BRC formulate liquidity risk management guidelines for the Group's operation on the basis of such review.

The Group's Senior Management monitors the liquidity on a daily basis and uses an interest rate simulation model to measure and monitor interest rate sensitivity and varying interest rate scenarios.

The Board Executive Committee members comprise of the Chairman and four Board Members. The Board Executive Committee meets once or more every 45 days, as circumstances dictate. The quorum requires all members to be present at the meeting and decisions taken to be unanimous.

The Group manages its liquidity in accordance with U.A.E. Central Bank requirements and the Group's internal guidelines. The U.A.E. Central Bank sets cash ratio reserve requirements on overall deposits ranging between 1.0 percent for time deposits and 14.0 percent for demand deposits, according to the tenor of the deposits. In addition, the U.A.E. Central Bank requires that banks regulated under the Eligible Liquid Asset Ratio (ELAR) regime maintain a stock of High-Quality Liquid Assets (HQLA), as a buffer against unexpected deposit outflows, of a minimum of 10% (reduced during the COVID-19 pandemic to 7%) of all deposits. The Group complies with this regulation at all times, and applies a higher standard in its internal guidelines. The U.A.E. Central Bank also imposes a mandatory 1:1 utilisation ratio, whereby; loans and advances (combined with inter-bank placements having a remaining term of 'greater than three months') should not exceed stable funds as defined by the U.A.E. Central Bank. Stable funds are defined by the U.A.E. Central Bank to mean free-own funds, inter-bank deposits with a remaining term of more than six months, and stable customer deposits. To guard against liquidity risk, the Group diversifies its funding sources and manages its assets with liquidity in mind, seeking to maintain a preferable proportion between cash, cash equivalent, and readily marketable securities. The Board Risk Committee sets and monitors liquidity ratios and regularly revises and updates the Group's liquidity management policies to ensure that the Group would be in a position to meet its obligations as they fall due. Management of liquidity risk within the parameters prescribed by the Board Risk Committee has been delegated to an Asset and Liability Committee (ALCO) comprising the General Manager (Operations) and senior executives from treasury, finance, risk, corporate credit, operations, and investment departments.

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or potential damage to the Group's reputation.

The Treasury department communicates with other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury maintains a portfolio of liquid assets to ensure liquidity is maintained within the Group's operations as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is performed under a variety of scenarios covering both normal and severe market conditions. All liquidity policies and procedures are subject to review and approval by the Board. The Daily Position sheet, which reports the liquidity and exchange positions of the Group is reviewed by Senior Management. A summary report, including any exceptions and remedial action taken, is submitted to the Board Risk Committee.

13.1 Exposure to liquidity risk

The key measure used by the Group for measuring liquidity risk is the advances to stable resources ratio (regulatory ratio) which is 88.25% as at 31 December 2021 (2020: is 91.31%). In addition, the Group also uses the following ratios/information on a continuous basis for measuring liquidity risk:

- Liquid assets to total assets ratio;
- Net loans to deposits ratio (LDR);
- Basel III ratios (including ASRR, ELAR, etc.) are also monitored internally and shared with the Board on quarterly basis.

13.2 Eligible Liquid Asset Ratio (ELAR)

	2021	2021
	AED 000	AED 000
High Quality Liquid Assets	**Nominal Amount**	**Eligible Liquid Asset**
Physical cash in hand at the bank + balance with the CBUAE	3,044,620	
UAE Federal Government Bonds and Sukuks	12,856	
Subtotal	**3,057,476**	**3,057,476**
UAE governments publicly traded debt securities	3,175,261	
UAE Public sector publicly traded debt securities	-	-
Subtotal	**3,175,261**	**940,762**
Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
Total	**6,232,737**	**3,998,238**
Total liabilities		**32,471,965**
Eligible Liquid Assets Ratio (ELAR)		**12.31%**

13.3 Advances to Stables Resources Ratio (ASRR)

	2021 AED 000
Computation of Advances	
Net Lending (Gross loans - specific and collective provisions + interest in suspense)	23,704,214
Lending to Non-banking financial institutions	-
Financial Guarantees & Stand-by LC (Issued - Received)	1,280,808
Interbank placements with a remaining life of more than 3 months	5,582
Total Advances	**24,990,604**
Calculation of Net Stable Resources	
Total own funds	4,510,602
Deduct:	
Goodwill and other intangible assets	23,362
Fixed Assets	1,793,398
Funds allocated to branches abroad	-
Unquoted Investments	272,910
Investment in subsidiaries, associates and affiliates	-
Total deduction	**2,089,670**
Net Free Capital Funds	**2,420,932**
Other stable resources:	
Interbank deposits with remaining life of more than 6 months	-
Refinancing of Housing Loans	332,961
Deposits from non-banking financial institutions remaining life of more than 6 months	165,515
85% of the rest of NBFI Deposits	902,791
Total customer deposits with remaining life of more than 6 months	5,575,792
85% of the rest of Customer Deposits	15,873,972
Capital market funding/ term borrowings maturing after 6 months from reporting date	3,044,975
Total other stable resources	**25,896,006**
Total Stable Resources	**28,316,938**
Advances to stable resources ratio	**88.25%**

14 Remuneration Policy

14.1 Remuneration Policy (REMA)

The Board, through the Remuneration, Compensation and Nomination Committee is responsible for approving HR Policies at Bank of Sharjah.

These policies are subject to regular updates to reflect relevant changes in the regulatory landscape.

Bank of Sharjah's Performance metrics include aspects around Key Performance Indicators (KPI's), Behavioral Competencies, Performance against established Business Goals and Training and Development.

Currently, there is no framework that integrates Risk and Reward other than the KPI's. The Bank has set objectives of developing these specific frameworks in 2022 while endeavoring to fully adopt and implement the requirements of the Central bank of UAE's Corporate Governance Regulations for Banks.

14.2 Remuneration awarded during the financial year (REM1)

	Fixed Remuneration- AED 000	**Senior Management**
1	Number of employees	**11**
2	Total fixed remuneration (3 + 5 + 7)	**20,632**
3	Of which: cash-based	20,632
4	Of which: deferred	-
5	Of which: shares or other share-linked instruments	-
6	Of which: deferred	-
7	Of which: other forms	-
8	Of which: deferred	-
	Variable Remuneration- AED 000	
9	Number of employees	**8**
10	Total variable remuneration (11 + 13 + 15)	**1,825**
11	Of which: cash-based	1,825
12	Of which: deferred	-
13	Of which: shares or other share-linked instruments	-
14	Of which: deferred	-
15	Of which: other forms	-
16	Of which: deferred	-
17	**Total Remuneration (2+10)- AED 000**	**22,457**

14.3 Special payments (REM2)

	Guaranteed Bonuses		**Sign on Awards**		**Severance Payments**	
Special Payments	**Number of employees**	**Total amount** AED 000	**Number of employees**	**Total amount** AED 000	**Number of employees**	**Total amount** AED 000
Senior Management	3	6,200	-	-	-	-

14.4 Deferred remuneration (REM3)

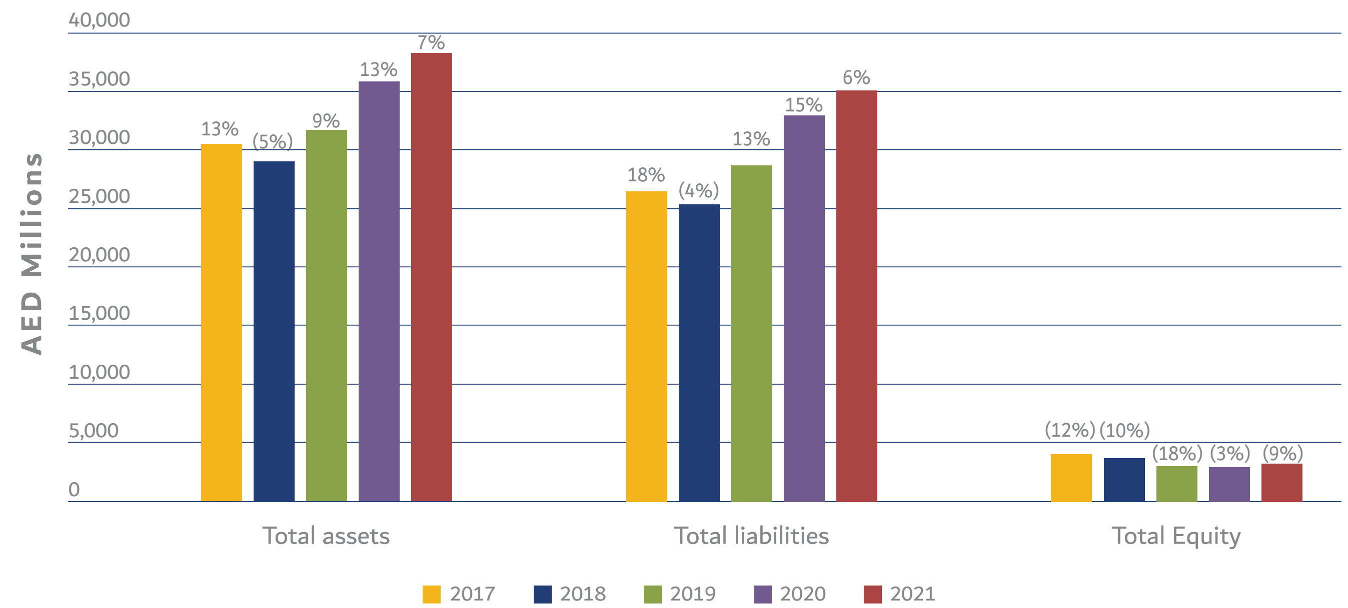
Deferred and retained remuneration	**Total amount of outstanding deferred remuneration** AED 000	**Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/ or implicit adjustment** AED 000	**Total amount of amendment during the year due to ex post explicit adjustments** AED 000	**Total amount of amendment during the year due to ex post implicit adjustments** AED 000	**Total amount of deferred remuneration paid out in the financial year** AED 000
Senior management	-	-	-	-	-
Cash	-	-	-	-	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	-	-	-	-	-
Cash	-	-	-	-	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Total	-	-	-	-	-

GRAPHS

GRAPHS

الرسوم البيانية

تطور مجموع الموجودات، المطلوبات و حقوق المساهمين الموحد
Evolution of Consolidated Total Assets, Liabilities and Equity
(Before applying IAS 29 & IAS 21)



تطور مجموع الموجودات، المطلوبات و حقوق المساهمين الموحد
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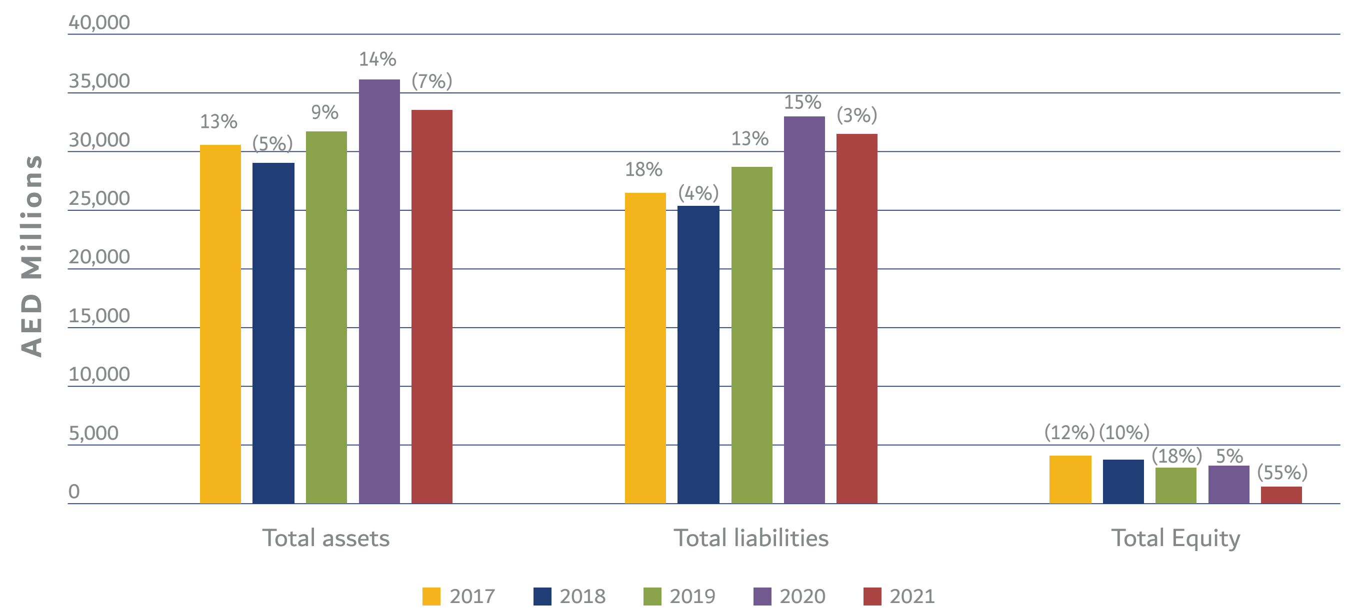
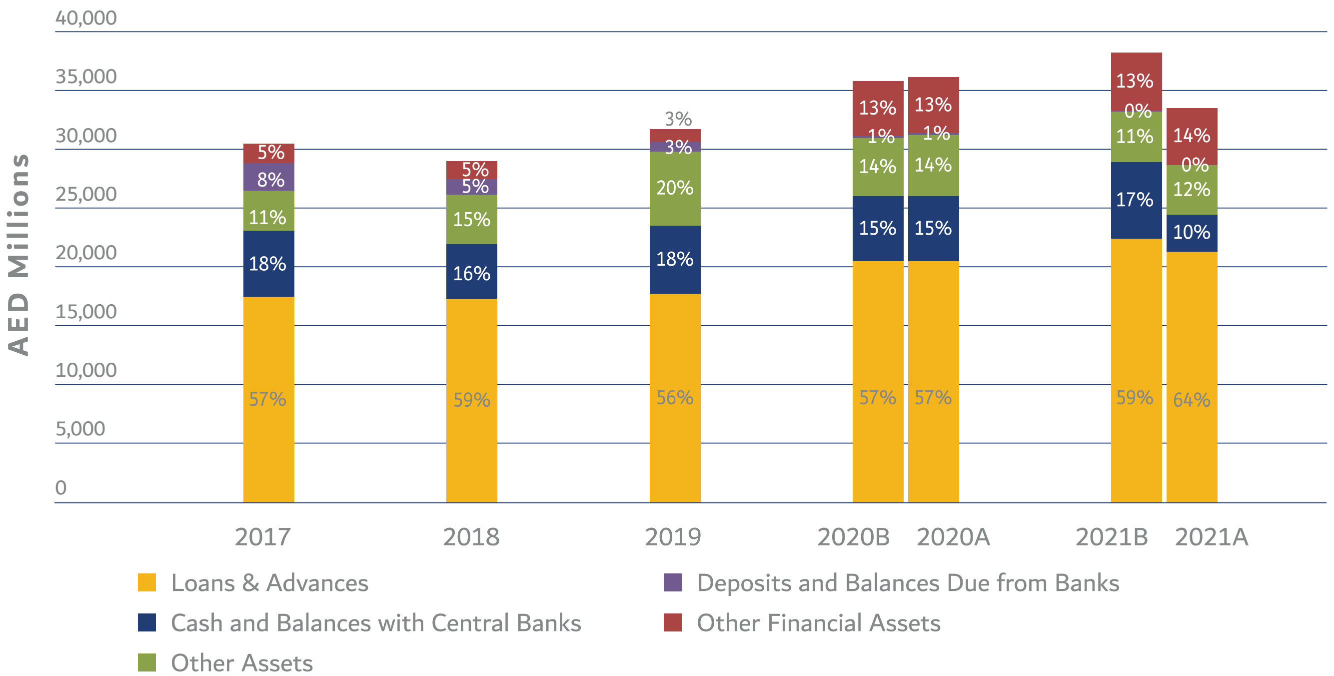
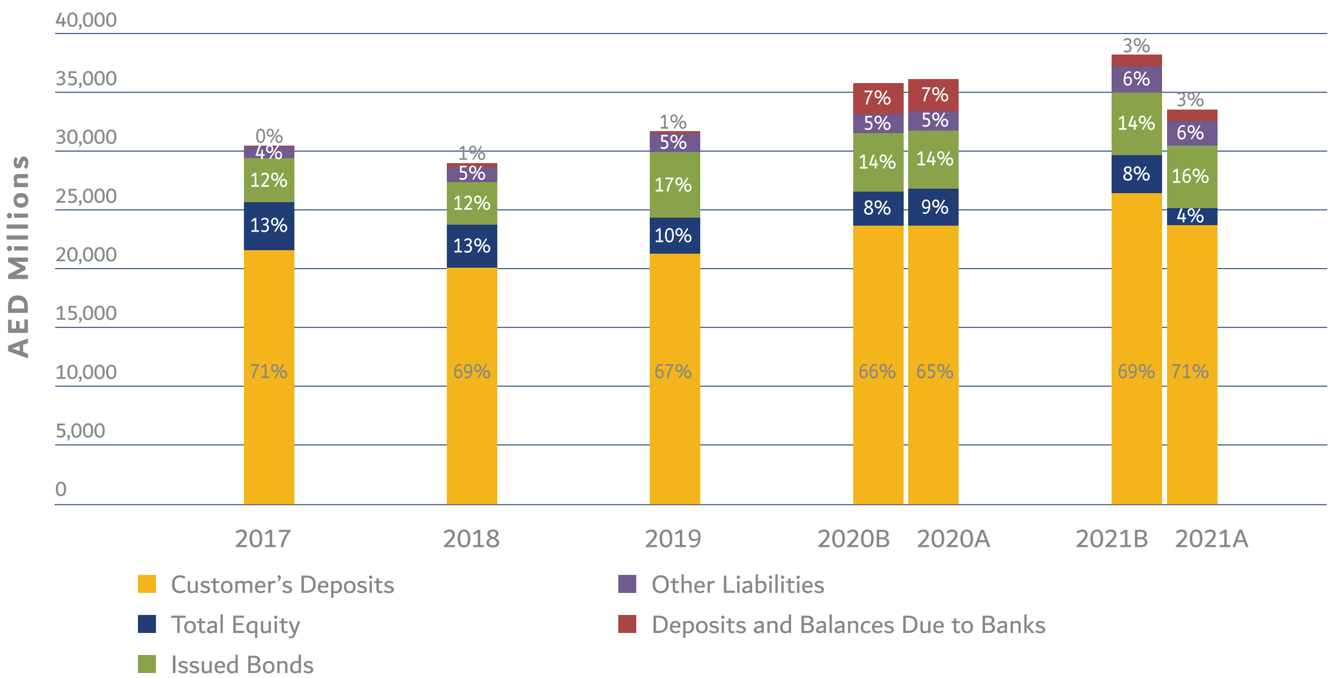


هيكلية بيان المركز المالي الموحد - الموجودات
Consolidated Statement of Financial Position Structure - Assets
(Before and after applying IAS 29 & IAS 21)



Note: 2020B and 2021B refer to figures before applying IAS 29 & IAS 21; whereas 2020A and 2021A refer to figures after applying IAS 29 & IAS 21

هيكلية بيان المركز المالي الموحد - المطلوبات وحقوق المساهمين
Consolidated Statement of Financial Position Structure - Liabilities and Equity
(Before and after applying IAS 29 & IAS 21)



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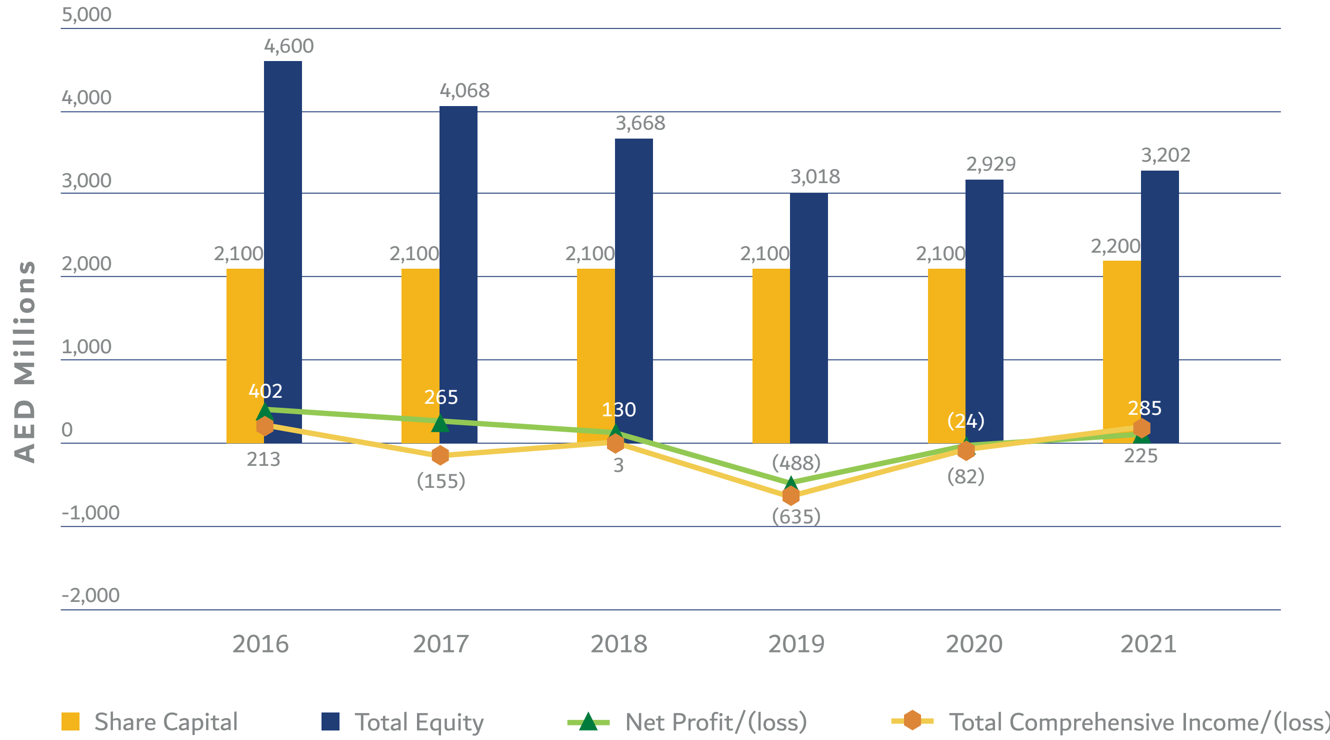
تطور رأس المال و حقوق المساهمين والربح الصافي
Evolution of Share Capital, Total Equity & Net Profit
(Before applying IAS 29 & IAS 21)



تطور رأس المال و حقوق المساهمين والربح الصافي
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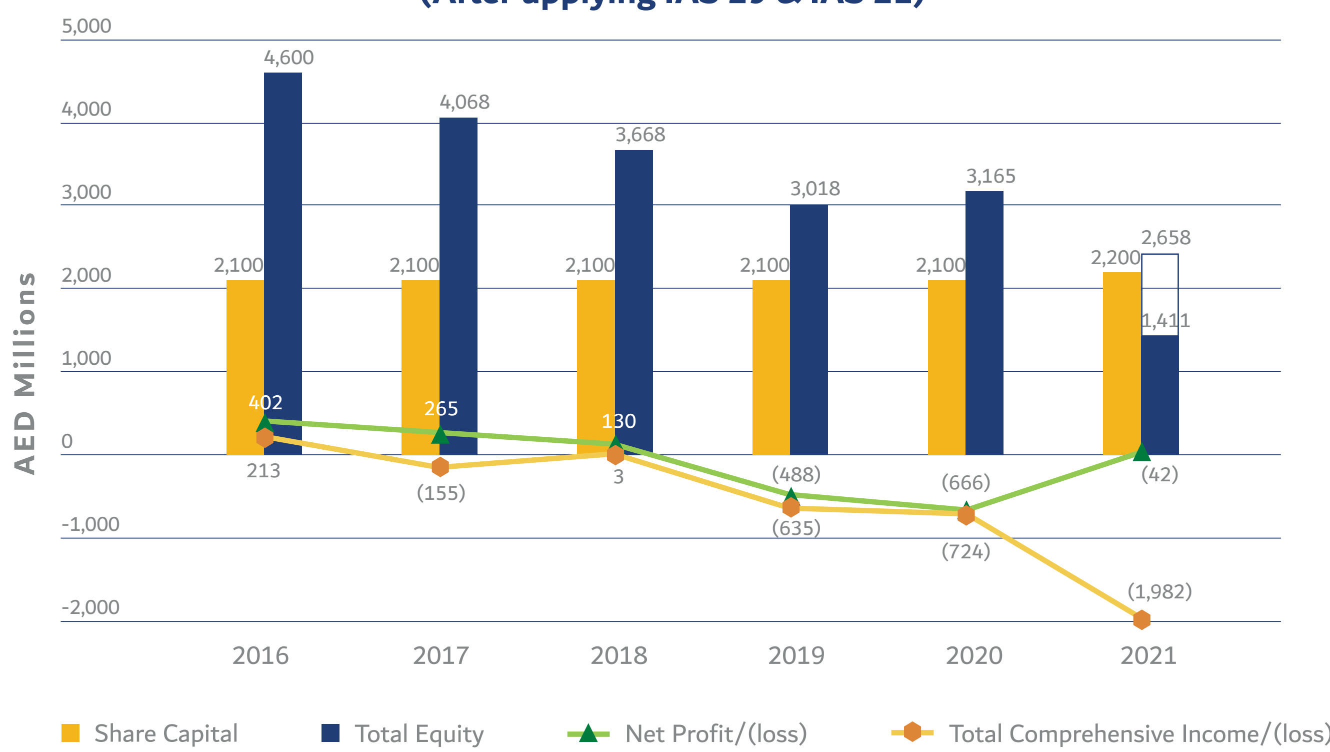
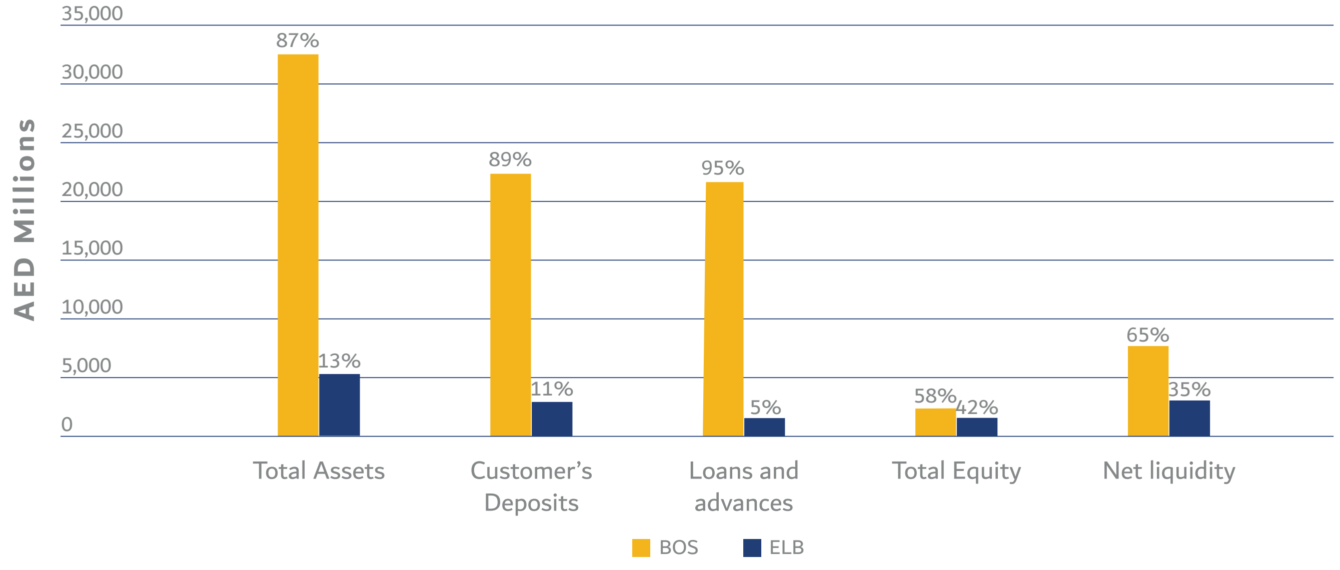
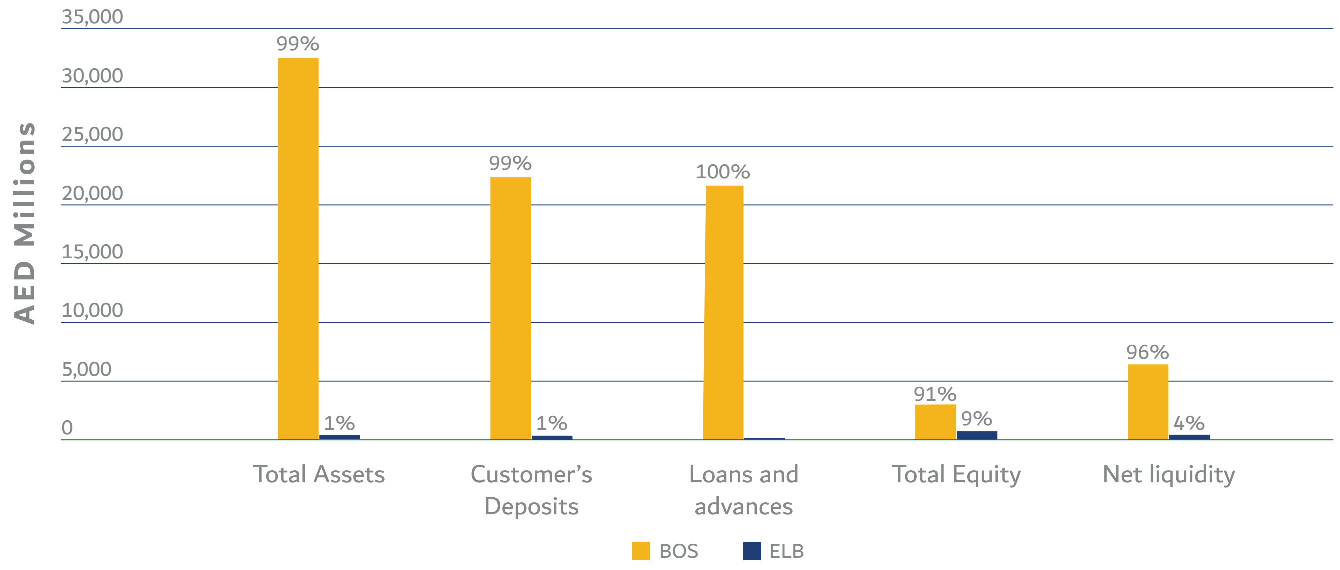
(After applying IAS 29 & IAS 21)



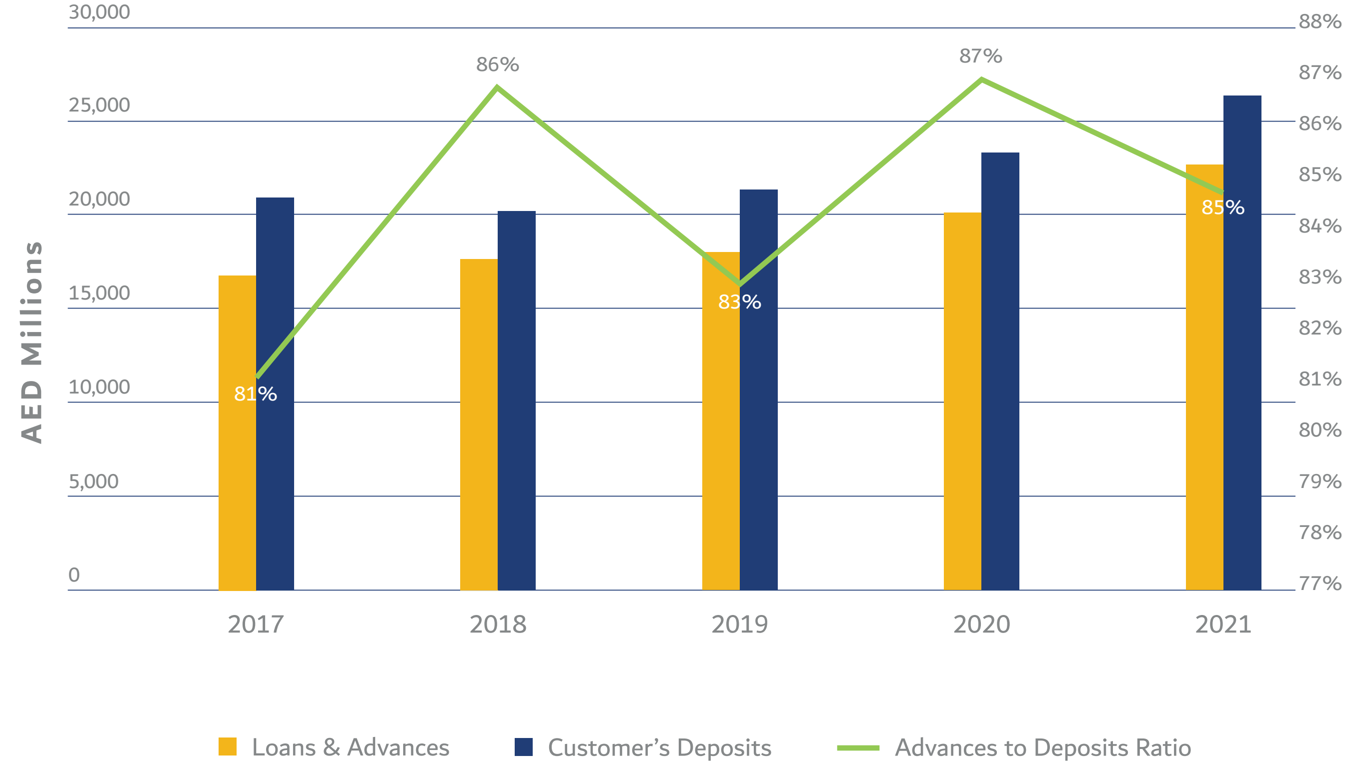
بيان المركز المالي الموحد
Consolidated statement of financial position
(Before applying IAS 29 & IAS 21)



بيان المركز المالي الموحد
Consolidated statement of financial position
(After applying IAS 29 & IAS 21)



تطور القروض والسلفيات وودائع العملاء
Evolution of Loans and Advances and Customers' Deposits
(After applying IAS 29 & IAS 21)



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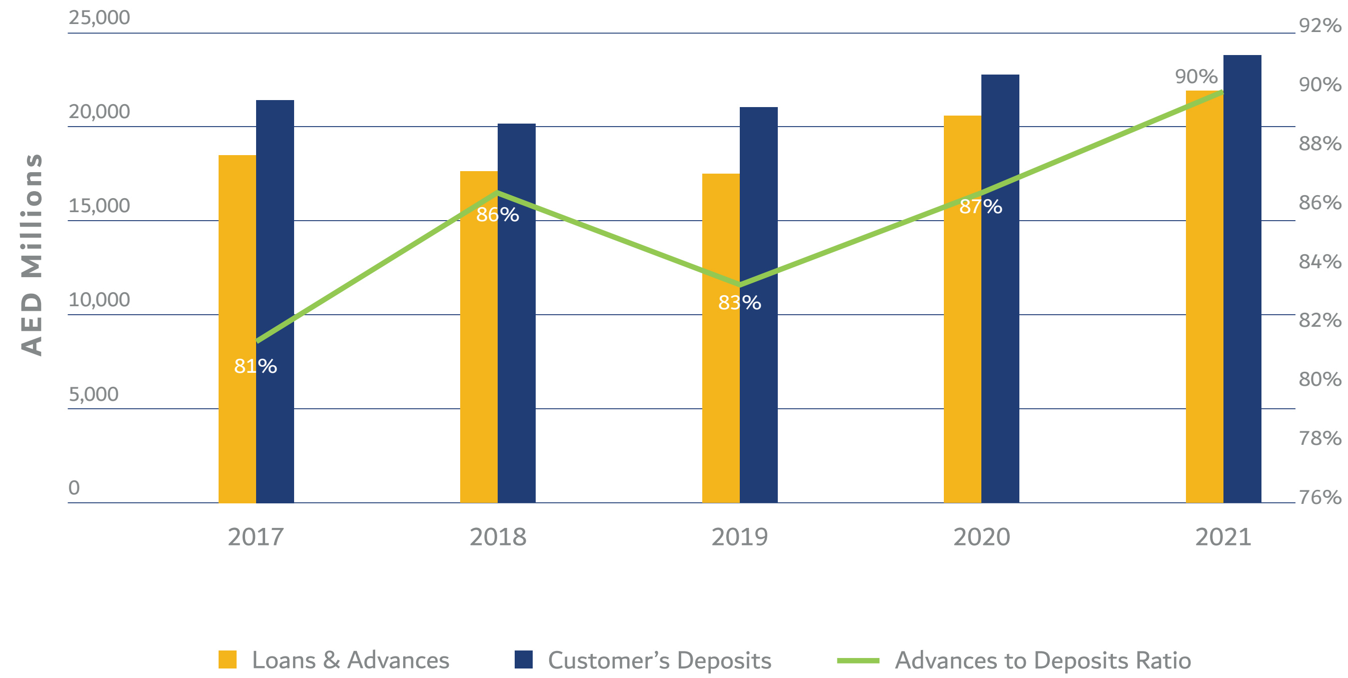
(After applying IAS 29 & IAS 21)

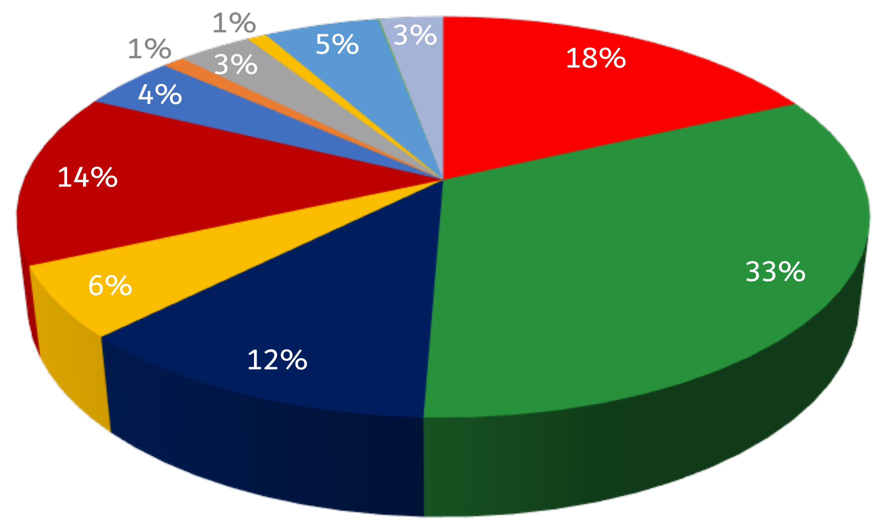


2021

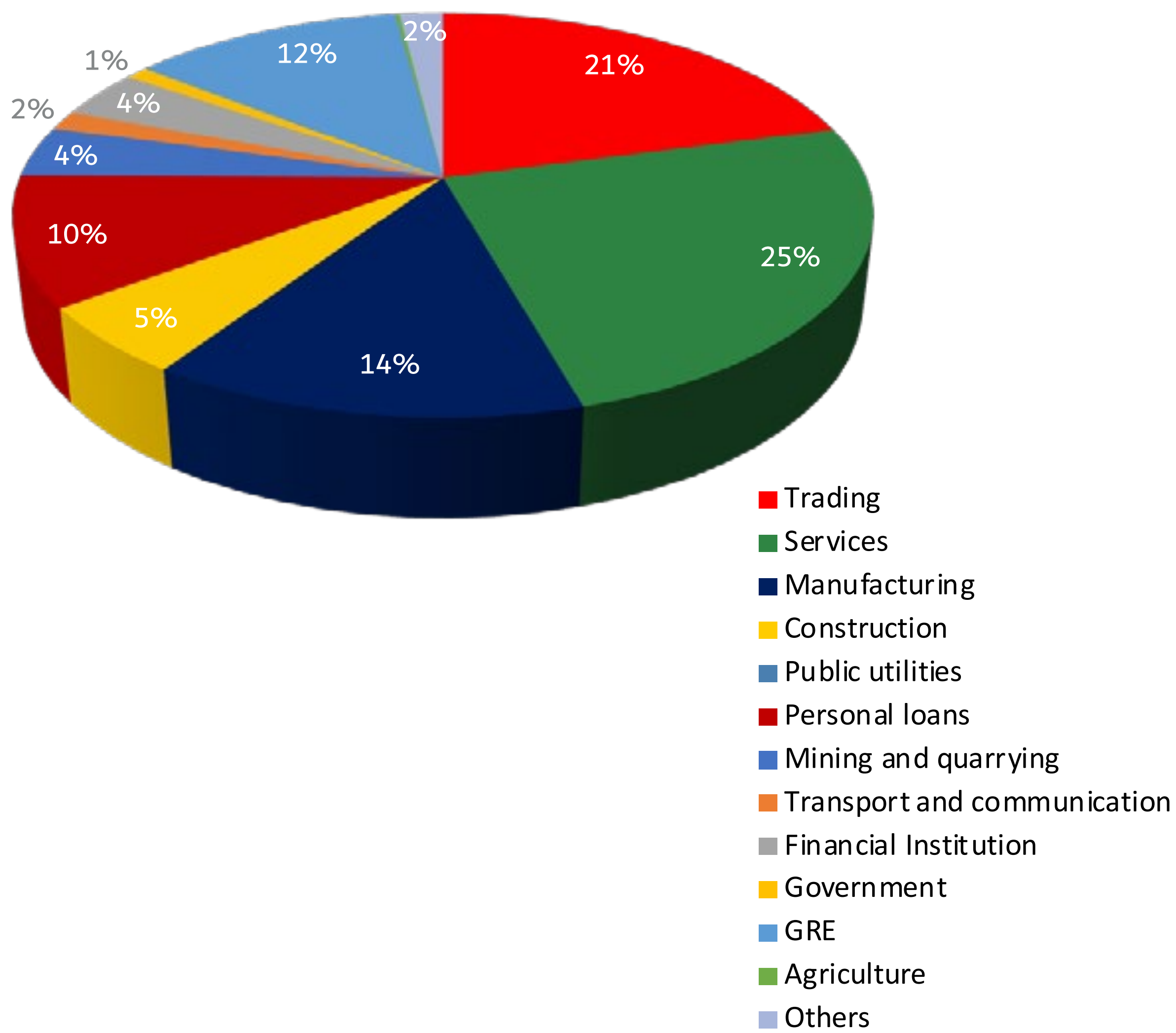
2021

توزيع القروض والسلفيات حسب القطاع الاقتصادي
Breakdown of Loans and Advances by economic sector
(Before applying IAS 29 & IAS 21)

2021



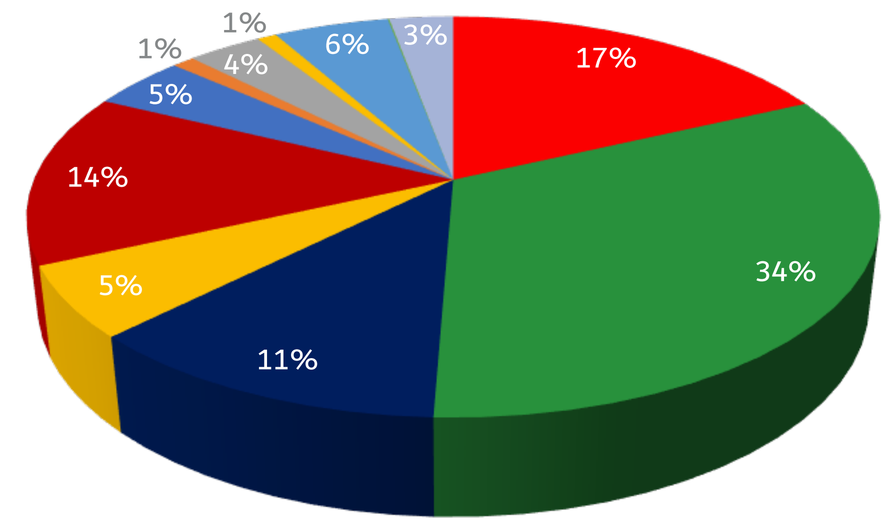
2020



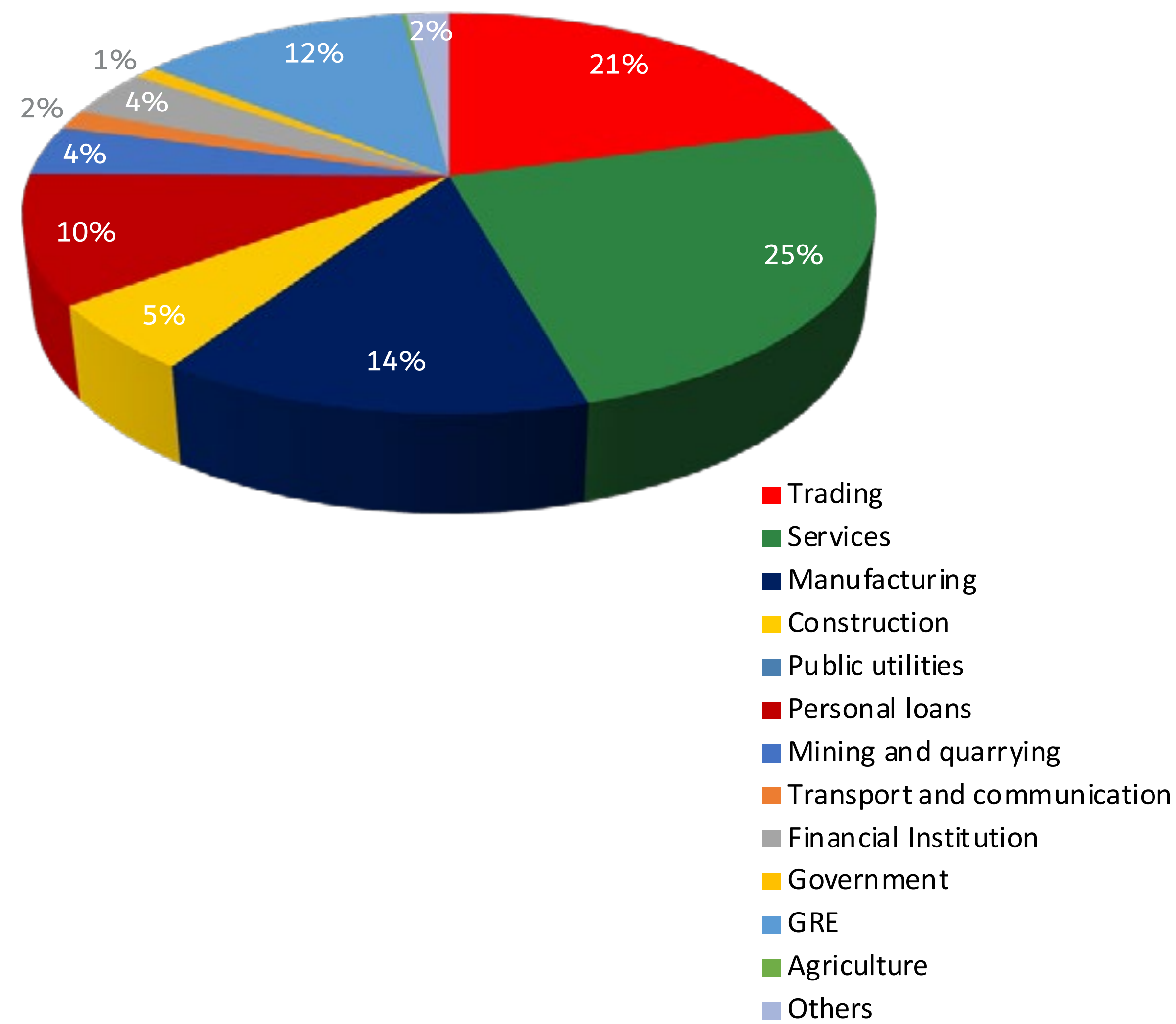
2021

توزيع القروض والسلفيات حسب القطاع الاقتصادي
Breakdown of Loans and Advances by economic sector
(After applying IAS 29 & IAS 21)

2021



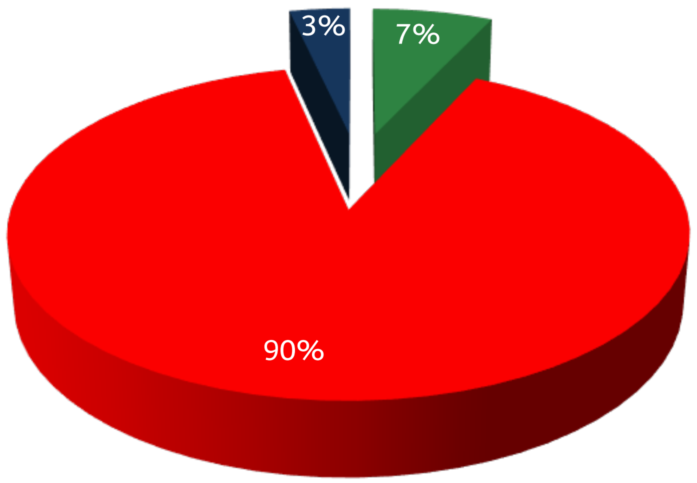
2020



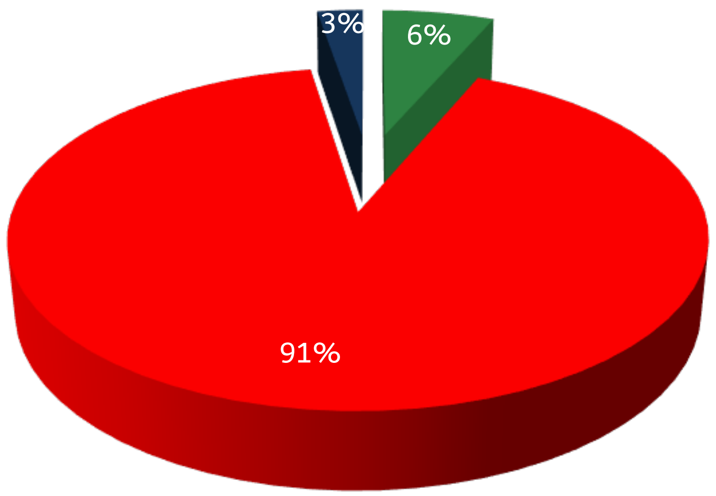
2021

تصنيف الموجودات المالية الأخرى
Details of Other Financial Assets by Classification
(Before applying IAS 29 & IAS 21)

2021



2020

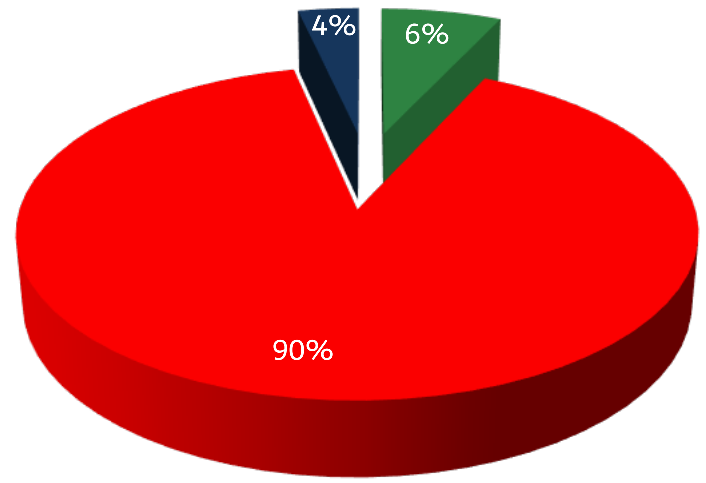


- Fair Value Through Other Comprehensive Income
- Measured at Amortized Cost (includes Govt sukuks for AED 4 billion)
- Fair Value Through P&L

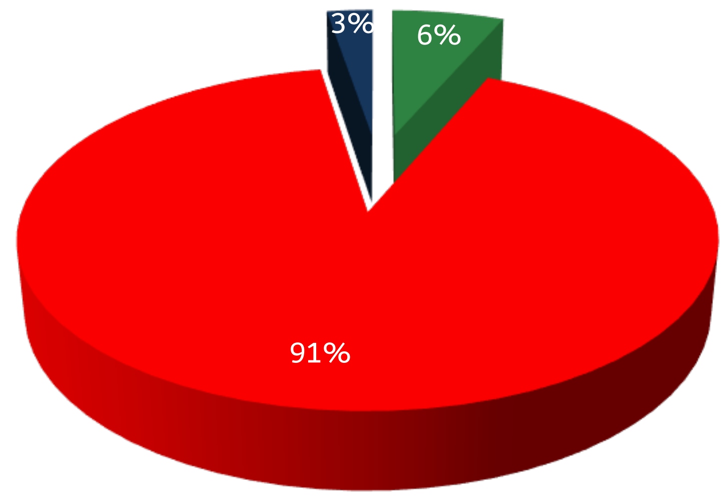
2021

تصنيف الموجودات المالية الأخرى
Details of Other Financial Assets by Classification
(After applying IAS 29 & IAS 21)

2021



2020



- Fair Value Through Other Comprehensive Income
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- Fair Value Through P&L

2021