Commercial Bank of Dubai PSC

Group condensed consolidated interim financial statements

For the three-month period ended 31 March 2022

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Independent auditors' report on Review of Group Condensed Consolidated Interim Financial Statements

To the Shareholders of Commercial Bank of Dubai PSC

Introduction

We have reviewed the accompanying 31 March 2022 Group condensed consolidated interim financial statements of Commercial Bank of Dubai PSC ("the Bank") and its subsidiaries (collectively referred to as the "Group"), which comprises:

- the Group condensed consolidated interim statement of financial position as at 31 March 2022;
- the Group condensed consolidated interim statement of profit or loss for the three-month period ended 31 March 2022;
- the Group condensed consolidated interim statement of other comprehensive income for three-month period ended 31 March 2022;
- the Group condensed consolidated interim statement of changes in equity for the three-month period ended 31 March 2022;
- the Group condensed consolidated interim statement of cash flows for the three-month period ended 31 March 2022; and
- notes to the Group condensed consolidated interim financial statements.

Management is responsible for the preparation and presentation of these Group condensed consolidated interim financial statements in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on these Group condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of Group condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2022 Group condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates

Date: 27 APR 2022

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of financial position

As at 31 March 2022

	Notes	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
ASSETS			
Cash and balances with Central Bank	7	**12,040,331**	14,667,589
Due from banks, net	8	**3,600,392**	3,154,599
Loans and advances and Islamic financing, net	9	**78,686,596**	76,441,385
Investment securities	10	**12,303,148**	8,991,321
Investment in an associate		**98,115**	95,051
Investment properties, net		**190,272**	191,406
Property and equipment		**318,909**	309,425
Bankers acceptances		**8,846,596**	7,341,210
Positive mark to market value of derivatives		**741,751**	666,709
Other assets, net	11	**2,210,069**	2,353,901
TOTAL ASSETS		**119,036,179**	114,212,596
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks		**8,333,215**	6,120,214
Customer deposits and Islamic customer deposits	12	**82,807,574**	82,721,669
Notes and medium term borrowings	13	**2,584,730**	2,584,490
Due for trade acceptances		**8,846,596**	7,341,210
Negative mark to market value of derivatives		**639,582**	547,530
Other liabilities	14	**2,828,742**	1,330,269
TOTAL LIABILITIES		**106,040,439**	100,645,382
EQUITY			
Share capital	15.1	**2,802,734**	2,802,734
Tier 1 capital notes	15.2	**2,203,800**	2,203,800
Legal and statutory reserve		**1,401,447**	1,401,447
General reserve		**1,328,025**	1,328,025
Capital reserve		**38,638**	38,638
Fair value reserve		**(319,589)**	(61,174)
Retained earnings		**5,540,685**	5,853,744
TOTAL EQUITY		**12,995,740**	13,567,214
TOTAL LIABILITIES AND EQUITY		**119,036,179**	114,212,596

To the best of our knowledge, these Group condensed consolidated interim financial information presented fairly in all material respects the financial condition, results of operation and cash flows of the Group as of, and for, the periods present herein.

These Group condensed consolidated interim financial statement were approved and authorized for issue by the Board of Directors on 27 April 2022.

The attached notes from 1 to 23 form part of these Group condensed consolidated interim financial statements. The review report of the Auditor is set out on pages 1 to 2.

H.E. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of profit or loss

For the three-month period ended 31 March 2022 (unaudited)

	Notes	**31 March 2022 AED'000 (Unaudited)**	31 March 2021 AED'000 (Unaudited)
Interest income and income from Islamic financing		**693,024**	632,700
Interest expense and distributions to Islamic depositors		**(149,807)**	(156,587)
Net interest income and net income from Islamic financing		**543,217**	476,113
Net fees and commission income		**221,612**	181,502
Net gains from foreign exchange and derivatives		**75,264**	49,808
Net gains from investments at fair value through profit or loss		**548**	1,933
Net gains from sale of debt investments at fair value through other comprehensive income		**401**	8,801
Share of gain of an associate		**3,225**	2,127
Dividend income		**2,781**	2,785
Other income		**11,827**	7,596
Total operating income		**858,875**	730,665
Reversal of impairment allowance on due from banks		**85**	350
Impairment allowance on loans and advances and Islamic financing		**(223,153)**	(205,335)
Recoveries of loans and advances and Islamic financing		**49,302**	7,825
(Charge) / reversal of impairment allowance on investment securities		**(32)**	44
Impairment allowance on other assets		**(17,767)**	(12,681)
Total net income		**667,310**	520,868
Staff and other expenses		**(227,796)**	(188,888)
Depreciation and amortisation		**(8,184)**	(6,958)
Total operating expenses		**(235,980)**	(195,846)
Net profit for the period		**431,330**	325,022
Basic and diluted earnings per share	*16*	**AED 0.15**	AED 0.12

The attached notes from 1 to 23 form part of these Group condensed consolidated interim financial statements.

The review report of the Auditor is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of other comprehensive income

For the three-month period ended 31 March 2022 (unaudited)

	31 March 2022 AED'000 (Unaudited)	31 March 2021 AED'000 (Unaudited)
Net profit for the period	**431,330**	325,022
Items that will not be reclassified to profit or loss:		
Realised gains on sale of equity investments held at FVOCI	**209**	-
Revaluation gain / (loss) on equity investments held at fair value through other comprehensive income	**28,297**	(7,002)
Items that may be subsequently reclassified to profit or loss:		
Changes in fair value of effective portion of cash flow hedge	**1,641**	2,191
Changes in fair value reserve of an associate	**(161)**	(67)
	1,480	2,124
Changes in investments held at fair value through other comprehensive income:		
Realised gain on sale of debt investments	**(401)**	(8,801)
Revaluation loss on debt investments	**(287,791)**	(64,508)
Net change in investments held at fair value through other comprehensive income	**(288,192)**	(73,309)
Other comprehensive loss for the period	**(258,206)**	(78,187)
Total comprehensive income for the period	**173,124**	246,835

The attached notes from 1 to 23 form part of these Group condensed consolidated interim financial statements.

The review report of the Auditor is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of changes in equity

For the three-month period ended 31 March 2022 (unaudited)

	Share capital AED'000	Tier 1 capital notes AED'000	Legal and statutory reserve AED'000	General reserve AED'000	Capital reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balance as at 1 January 2021	2,802,734	2,203,800	1,401,367	1,328,025	38,638	65,547	5,113,624	12,953,735
Transactions with shareholders, recorded directly in equity								
Cash dividend for 2020 (20%)	-	-	-	-	-	-	(560,547)	(560,547)
Directors' remuneration for 2020	-	-	-	-	-	-	(15,400)	(15,400)
Tier 1 capital notes transaction cost	-	-	-	-	-	-	(1,543)	(1,543)
Other comprehensive income								
Net profit for the period	-	-	-	-	-	-	325,022	325,022
Other comprehensive loss for the period	-	-	-	-	-	(78,187)	-	(78,187)
Total other comprehensive income for the period	-	-	-	-	-	(78,187)	325,022	246,835
Balance as at 31 March 2021 (unaudited)	2,802,734	2,203,800	1,401,367	1,328,025	38,638	(12,640)	4,861,156	12,623,080
Balance as at 1 January 2022	**2,802,734**	**2,203,800**	**1,401,447**	**1,328,025**	**38,638**	**(61,174)**	**5,853,744**	**13,567,214**
Transactions with shareholders, recorded directly in equity								
Cash dividend for 2021 (25.88%)	**-**	**-**	**-**	**-**	**-**	**-**	**(725,348)**	**(725,348)**
Directors' remuneration for 2021	**-**	**-**	**-**	**-**	**-**	**-**	**(19,250)**	**(19,250)**
Other comprehensive income								
Net profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**431,330**	**431,330**
Gain on sale of equity investments at fair value through other comprehensive income	**-**	**-**	**-**	**-**	**-**	**(209)**	**209**	**-**
Other comprehensive loss for the period	**-**	**-**	**-**	**-**	**-**	**(258,206)**	**-**	**(258,206)**
Total other comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**(258,415)**	**431,539**	**173,124**
Balance as at 31 March 2022 (unaudited)	**2,802,734**	**2,203,800**	**1,401,447**	**1,328,025**	**38,638**	**(319,589)**	**5,540,685**	**12,995,740**

The attached notes from 1 to 23 form part of these Group condensed consolidated interim financial statements.

The review report of the Auditor is set out on pages 1 to 2.

Commercial Bank of Dubai PSC

Group condensed consolidated interim statement of cash flows

For the three-month period ended 31 March 2022 (unaudited)

	Notes	**31 March 2022 AED'000 (Unaudited)**	31 March 2021 AED'000 (Unaudited)
OPERATING ACTIVITIES			
Net profit for the period		**431,330**	325,022
Adjustments for non-cash and other items:			
Depreciation and amortisation		**8,184**	6,958
Amortisation of premium / discount on investments		**2,700**	7,219
Amortisation of transaction cost on notes and medium term borrowings		**240**	236
Loss on foreign exchange translation		**4,274**	14,137
Unrealized (gain) / loss on investments at fair value through profit or loss		**(6)**	449
Realised gains on sale of investments		**(905)**	(10,936)
Net unrealized loss / (gain) on derivatives		**16,780**	(17,826)
Charge / (reversal) of impairment allowance on investment securities		**32**	(44)
Share of profit of an associate		**(3,225)**	(2,127)
Dividend income		**-**	(2,785)
Impairment allowance on loans and advances and Islamic financing		**223,153**	205,335
Reversal of impairment allowance on due from banks		**(85)**	(350)
Impairment allowance on other assets		**17,767**	12,681
(Gain) / loss on disposal of property and equipment and investment properties		**(28)**	33
		700,211	538,002
Increase in statutory reserve with the UAE Central Bank		**(131,177)**	(147,730)
Decrease in negotiable UAE Central Bank certificate of deposits with original maturity of more than three months		**-**	350,000
Decrease / (increase) in due from banks with original maturity of more than three months		**45,912**	(73,460)
Increase in loans and advances and Islamic financing		**(2,468,364)**	(4,515,048)
Decrease / (increase) in other assets		**126,065**	(47,121)
(Decrease) / increase in due to banks with original maturity of more than three months		**(229,201)**	396,195
Increase in customer deposits and Islamic customer deposits		**85,905**	1,151,613
Increase in other liabilities		**753,875**	512,605
Net cash flow used in operating activities		**(1,116,774)**	(1,834,944)
INVESTING ACTIVITIES			
Purchase of investments		**(6,695,715)**	(8,695,157)
Purchase of property and equipment and investment properties		**(16,541)**	(10,137)
Dividend income received		**-**	2,785
Proceeds from sale of investments		**3,119,977**	2,483,147
Proceeds from sale of property and equipment and investment properties		**35**	569
Net cash flow used in investing activities		**(3,592,244)**	(6,218,793)
FINANCING ACTIVITIES			
Tier 1 capital notes transaction cost		**-**	(1,543)
Net cash flow used in financing activities		**-**	(1,543)
Net decrease in cash and cash equivalents		**(4,709,018)**	(8,055,280)
Cash and cash equivalents at 1 January		**13,020,439**	13,329,709
Cash and cash equivalents at end of the period	*17*	**8,311,421**	5,274,429

The attached notes from 1 to 23 form part of these Group condensed consolidated interim financial statements.

The review report of the Auditor is set out on pages 1 to 2.

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (U.A.E.) in 1969 and is registered as a Public Joint Stock Company (PJSC) in accordance with Federal Law No. 32 of 2021. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial and retail banking. The registered address of the Bank is CBD Head Office, Al Ittihad Street, P. O. Box 2668, Dubai, United Arab Emirates.

The condensed consolidated interim financial statement of the group for the three-month period ended 31 March 2022 comprise the results of the Bank, its wholly owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries and an associate:

i. CBD Financial Services LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is providing brokerage facilities for local shares and bonds.

ii. CBD Employment Services One Person Company LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds 100% interest. Its principal activity is the supply of manpower services.

iii. Attijari Properties LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is self-owned property management services as well as buying and selling of real estate.

iv. Noor Almethaq Real Estate Development LLC, is registered as a limited liability company in accordance with Federal Law No. 32 of 2021 in Dubai, United Arab Emirates. The Group holds a 100% interest. Its principal activity is development of real estate.

v. CBD (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established for the issuance of debt securities.

vi. CBD (Cayman II) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to transact and negotiate derivative agreements.

vii. VS 1897 (Cayman) Limited is a special purpose entity (SPE) registered in the Cayman Islands. The SPE has been established to manage investment acquired in the settlement of debt.

viii. National General Insurance Co. (PJSC) is an associate of the Bank and is listed on the Dubai Financial Market. It underwrites all classes of life and general insurance business as well as certain reinsurance business. The Bank holds a 17.8% interest in the associate. The management believes that it has significant influence on the associate by virtue of having representation on the Board of Directors of the associate.

2. BASIS OF PREPARTION

2.1 Statement of compliance

These Group condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial reporting. These condensed consolidated interim financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2021.

The accounting policies adopted in the preparation of these Group condensed consolidated interim financial statements are consistent with those followed in the preparation of these Group audited consolidated financial statements for the year ended 31 December 2021, except for the new and revised International Financial Reporting Standards mentioned in note 5.

2. BASIS OF PREPARTION (CONTINUED)

2.1 Statement of compliance (continued)

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

2.2 Functional and presentation currency

These Group condensed consolidated interim financial statements are presented in United Arab Emirates Dirhams (“AED”), which is the Group’s functional and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.3 Basis of consolidation

These Group condensed consolidated interim financial statements comprise the financial statements of the Bank, its wholly owned subsidiaries (together referred to as “the Group”), which it controls and the Group’s interest in an associate, as at 31 March 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Financial Assets

3.1.1 Classification

The Group classifies financial assets on initial recognition in the following categories:
- Amortised cost;
- Fair value through other comprehensive income (FVOCI); and
- Fair value through profit or loss (FVPL).

Business model assessment

The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- the stated policies and objectives for the business 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 and the financial asset held within the portfolio is evaluated and reported to the management.
- the risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed.
- how the managers of the business are compensated; and

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.1 Classification (continued)

Business model assessment (continued)

- 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 Group'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 FVPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument.

For the purpose 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.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- 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).

3.1.2 Impairment of financial assets

The Group recognizes, where applicable, loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at FVPL:

- balances with central banks;
- due from banks;
- debt investment securities;
- loans and advances, Islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

No impairment loss is recognized on equity investments.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

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

Stage 1: When loans are first recognised, the Group recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Loans considered credit-impaired. The Group records an allowance for the LTECLs.

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); and
- 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 Effective Interest Rate (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 structures of the following variables:
- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EADs 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. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- 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, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, history of recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

(i) Assessment of significant increase in credit risk

Assessment of significant increase in credit risk is performed on monthly basis for each individual exposure. Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. In addition to quantitative criteria the Group has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. The criteria may be rebutted on a case by case basis, depending upon individual circumstances of customers.

(ii) Improvement of credit risk profile

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(ii) Improvement of credit risk profile (continued)

- Significant decrease in credit risk will be upgraded in stage (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 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

Default definition

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

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

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 Group 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 Group; and
- based on data developed internally and obtained from external sources.

The Group has performed a historical default rate analysis to identify homogeneous segments and further estimated ECL parameters (i.e. PD, LGD and EAD) at similar granularities. To perform a historical default rate analysis, the Group has adopted two separate definitions of default for the non-retail and the retail portfolio.

○ ***Non-retail portfolio***

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Group. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

○ ***Retail portfolio***

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days. The default rate analysis for the retail portfolio is performed at the account level.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(iii) Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward looking information as economic inputs such as:

- House prices like real estate – Dubai and Abu Dhabi Index;
- Economic Composite Index (ECI);
- Non-Oil Economic Composite Index (NIECI);
- Oil Price per Barrel (OPB);
- Consumer Price Index (CPI) and
- Hotel Occupancy Dubai

(iv) Modification of financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Assets (continued)

3.1.2 Impairment of financial assets (continued)

(iv) Modification of financial assets (continued)

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. For financial assets modified as part of the Group’s forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group’s ability to collect the modified cash flows taking into account the Group’s previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower’s payment performance against the modified contractual terms.

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower’s improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Interest Rate Benchmark Reform

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), play a critical role in global financial markets, serving as reference rates for derivatives, loans and securities, and as parameters in the valuation of financial instruments.

Uncertainty surrounding the integrity of IBOR has in recent years, led regulators, central banks and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs") and market-led working groups in respective jurisdictions have recommended alternative risk-free reference rates, which are gradually being adopted.

The majority of market LIBOR and other IBOR were discontinued after 31 December 2021 and replaced with certain Alternative Reference Rates ("ARRs"), with the exception of certain USD LIBOR rates where cessation is delayed until 30 June 2023. The transition away from the IBORs covers most of the business units and support functions of the Group.

The Group established a cross-functional IBOR Committee to manage its transition to alternative rates. This committee is running a project on the Group's transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

IBOR reform exposes the Group to various risks, which the project group is reviewing and monitoring to manage the changes appropriately. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform;
- Financial and Market risk to the Group and its clients that IBOR reform disrupts markets giving rise to financial losses;
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable; and
- Accounting risk if the Group's hedging relationships fail and form an unrepresentative income statement volatility as financial instruments transition to RFRs.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR the group is working to amend contracts to include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate. The Group has signed up to fallback mechanisms for centrally cleared derivatives and will transfer exposures to the new benchmark subject to Central bank guidance.

The Group monitors the progress of transition from IBORs to new benchmark rates by reviewing the amounts of contracts that have yet to transition to an alternative benchmark rate. The Group considers that a contract is not yet transitioned to an alternative benchmark rate (and referred to as an 'unreformed contract') when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fallback clause that deals with the cessation of the existing IBOR. The Group has started to adopt SOFR for some USD Transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Interest Rate Benchmark Reform (continued)

The LIBOR Transition has so far had no material impact on the financial statements.

The Group holds derivatives in its trading book as hedging instruments. The Group had a single USD LIBOR transaction designated in hedge accounting relationships as at 31 March 2022 with a nominal amount of USD 20 million (AED 73.46 million), this transaction matures in April 2023, prior to the USD Libor transition deadline. There were no items designated in hedging relationships with exposures to other LIBOR.

4. USE OF ESTIMATES AND JUDGMENTS

The preparation of these Group condensed consolidated interim financial information requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, significant judgement is exercised by management in applying the Group's accounting policies. The key sources of estimation uncertainty are consistent with the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2021, with the exception of the impact of the COVID-19 outbreak on the Group which are detailed below:

Impact of COVID-19

On 11 March 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. In light of the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty as a result of measures taken by governments to contain or delay the spread of the virus. This note describes the impact of the outbreak on the Group's operations and the significant estimates and judgements applied by management in assessing the values of assets and liabilities as at 31 March 2022.

(i) Credit risk management

In addition to the management of credit risk described in Note 35 b. (i) to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2021, the Group has identified the most vulnerable sectors to this stressed situation in response to the COVID-19 outbreak, and reviews are being conducted on a more frequent basis:

- Tourism and Hospitality
- Aviation and Airlines
- Retail
- Logistics
- Real Estate
- Education

The Group continues to apply robust underwriting standards to companies in the above sectors, especially for any new to bank customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process. The Bank will continue to demonstrate sound prudence and vigor in underwriting across the retail sector whilst supporting customers and businesses across the UAE.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(i) Credit risk management (continued)

On a case by case basis in the Institutional, Corporate and Personal banking segments, the Group has approved payment holidays to certain customers. The bank has extensively reviewed the past account conduct and payment history of the borrowers requesting for deferral, prior to approval. Significant judgment is applied when assessing whether the cash flow and liquidity issues faced by the customer are temporary or long term in nature.

As required by the UAE Central Bank under the notice no CBUAE/BSD/N/2020/2019, the customers benefitting from payment deferrals under the TESS program and the customers benefitting outside the program (Non-TESS) have been split into the below two main categories:

Group 1: Customers that are temporarily and mildly impacted by the Covid-19 crisis.

This sub segment includes borrowers for which the credit deterioration is not considered significant enough to trigger a significant increase in credit risk. Such customers are expected to face short term liquidity issues caused by business disruption / salary cuts and are expected to recover rapidly once the economic environment stabilizes. These accounts are not considered to have sufficient deterioration in credit quality to trigger a stage migration and the staging maybe retained at the pre-crisis level.

Group 2: Customers that are expected to face substantial changes in their credit worthiness beyond liquidity issues.

This sub segment includes borrowers for which the credit deterioration is more significant and prolonged, ranging beyond liquidity issues, with an extended recovery period. For customers in Group 2, there may be sufficient deterioration in credit risk to trigger a migration to stage 2 or 3.

The Grouping of the client is based on a combination of quantitative analysis and judgmental approach based on subject matter expert views within the Group.

As of 31 March 2022, there are no clients benefiting from payment deferrals under the TESS program.

Non-Targeted Economic Support Scheme (Non-TESS) utilization by industry and segment as at 31 March 2022 are summarised below:

AED'000

Sector	Group 1		Group 2	
	Amount deferred	Total loans and advances	Amount deferred	Total loans and advances
Hospitality	-	-	**66,900**	**172,045**
	-	-	**66,900**	**172,045**
Expected Credit Loss (ECL)		**-**		**129**

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(i) Credit risk management (continued)

Below is an analysis of change in ECL allowance by industry sector since 1 January 2022 on the bank's customers benefitting from payment deferrals under the Non-TESS program as at 31 March 2022:

AED'000

Sector	Impairment Allowance
ECL allowance as at 1 January 2022	**2,230**
Hospitality	**(2,101)**
ECL allowance as at 31 March 2022	**129**

A case by case analysis has been performed for wholesale customers with material exposures and portfolio approach has been followed for retail customers and customers with smaller exposures. Based on the above considerations, customers availing Non-TESS as at 31 March 2022 have been categorised as follows:

AED'000

Segment	Group	Number of Customers	Payment deferrals under Non-TESS	Exposure	Impairment allowance
Institutional and Corporate banking	Group 1	-	-	-	-
	Group 2	**1**	**66,900**	**172,045**	**129**
Total		**1**	**66,900**	**172,045**	**129**

Migration of staging

Customers that are categorised as Group 1 will remain in the same stage as of deferral date unless conditions of significant increase in credit risk are met, since these customers do not have substantial changes to their credit worthiness.

The IFRS 9 stage classifications of customers availing Non-TESS as at 31 March 2022 are summarized below:

AED'000

Segment	Stage	Group	Payment deferrals under Non-TESS	Exposure	Impairment allowance
Institutional and corporate banking	Stage 2	Group 1	-	-	-
		Group 2	**66,900**	**172,045**	**129**
Total			**66,900**	**172,045**	**129**

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(i) Credit risk management (continued)

Stage migration of exposure since 1 January 2022, of customers benefiting from payment deferrals under the Non-TESS program by business segment as at 31 March 2022 are summarised below:

AED'000

	Stage 1	Stage 2	Stage 3	Total
Institutional and corporate banking				
As at 1 January 2022	**-**	**172,045**	**-**	**172,045**
- Transfer from stage 1 to stage 2	-	-	-	-
- Transfer from stage 2 to stage 1	-	-	-	-
- Transfer from stage 3 to stage 2	-	-	-	-
Change in exposure within same stage	-	-	-	-
As at 31 March 2022 (unaudited)	**-**	**172,045**	**-**	**172,045**

The CBUAE has terminated the TESS deferral programme as of 31 December 2021. As a transition, the grouping approach will formally terminate as of 30 June 2022. Banks and finance companies are required to fully complete the reclassification of all accounts at the earliest and no later than 30 June 2022.

As of 30 June 2022, the grouping approach will cease and will no longer be reported. However, banks and finance companies are expected to continue to report the exposure amounts linked to deferred facilities separately, along with their associated IFRS9 stages.

(ii) Use of estimates and judgements:

The Bank exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. The bank has updated its ECL model based on the latest macro-economic data provided by Moody's during Q1-2022.

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro-economic scenarios and weightages will have on the Bank's ECL, the Bank has further strengthened its processes, controls and governance frameworks around macro-economic forecasting and the computation of ECL. The Bank's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Bank's ECL models. To ensure the ongoing integrity of ECL calculations during times of extreme uncertainty and volatility, the Bank's IFRS 9 Committee exercises oversight by conducting regular reviews of the portfolio. The committee has been closely monitoring the macro-economic inputs applied to the IFRS 9 model at the bank and has recommended changes required during the current year in the light of relevant information received. The committee continually assess the performance of the bank's portfolio, ensuring that credit risk behaviors align with the significant increase in credit risk policy and that the staging criteria remain relevant.

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(ii) Use of estimates and judgements: (continued)

Governance around IFRS 9 ECL models and calculations (continued)

The IFRS 9 Committee had reviewed the inputs and assumptions for IFRS 9 ECL measurement in light of available information. During 2021, the bank had updated the macro economic variables that feed into the ECL model and this update reflects the impact of COVID-19 on the macro economic environment and in turn into the bank's ECL. In Q1-2021, the macro-economic scenario weights were updated in alignment to Moody's recommended weightage using baseline, upside and downside scenarios with 40%, 30% and 30% weightings respectively. This is in light of the favorable economic outlook, the progress in the vaccination process in UAE and around the globe, the significant easing concerns of second/third wave of coronavirus, impact of new strains of coronavirus and efficacy of the vaccines toward the new strains. Accordingly, the Group has taken the impact arising on ECL.

(iii) Fair value measurement of financial instruments

The Group's existing policy on fair value measurement of financial instruments is disclosed in note 3.1 (b) to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2021. Given the significant impact of the COVID-19 pandemic on the global financial markets, the bank is closely monitoring whether the fair values of the financial assets and liabilities represent the price that would be achieved for transactions between market participants in the current scenario.

(iv) Investment properties

The Group's existing policy on the recognition and measurement of investment properties is disclosed in note 3.7 to the annual audited consolidated financial statements of the Group as at and for the year ended 31 December 2021.

As the real estate market has recovered significantly and became highly active, the Bank has not identified any significant impact to the fair values of investment properties during the period ended 31 March 2022.

(v) Recent Regulatory Updates

On 15th March 2021, the CBUAE launched the Targeted Economic Support Scheme (TESS) to address and mitigate the adverse systematic economic impacts of COVID-19 on the UAE banking sector. The objectives of the program were to:

- Facilitate the provision of temporary relief for the payments of principal and / or interest / profit on outstanding loans for all affected private sector corporates, SMEs and individuals, excluding loans extended to governments, government related entities ("GREs") and non-residents; and
- Facilitate additional lending capacity of banks, through the reliefs on existing capital buffers.

The constituents of the TESS program which are still effective as at 31 March 2022 are detailed below:

- Reduction of the reserve requirements by half for CASA deposits for all banks, from 14% to 7%;
- Under liquidity requirements relief, banks are allowed to fall below Liquidity Coverage Ratio (LCR) up to 70% and Eligible Liquid Assets Ratio (ELAR) up to 7%, to accommodate for the use of ZCF and to provide banks with additional flexibility to support the UAE economy;

4. USE OF ESTIMATES AND JUDGMENTS (CONTINUED)

Impact of COVID-19 (continued)

(v) Recent Regulatory Updates (continued)

- As part of stable funding relief, banks are allowed to fall below Net Stable Funding Ratio (NSFR) up to 90% and Advances to Stable Resources Ratio can be up to 110% to provide banks with additional flexibility to support the UAE economy;
- In line with the CBUAE circular notice no. CBUAE/BSD/N/2020/4980 dated 12 November 2020, it had decided to implement the remaining of the Standards in a phased in manner. Basel III part 1 and part 2 were implemented in 2021 and Basel III part 3 will be implemented in Q2 2022 as follows:
  - Q2 2021: (Basel III part 1) Credit Risk, Market Risk and Operational Risk.
  - Q4 2021: (Basel III part 2) Equity Investment in Funds, Securitisation, Counterparty Credit Risk, Leverage Ratio, and Pillar 3 (except for Credit Value Adjustment).
  - Q2 2022: (Basel III part 3) Credit Value Adjustment and Pillar 3 (for Credit Value Adjustment).
- In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, has allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID-19 crisis. The filter will allow Banks to partially add incremental ECL provisions back to their Tier 2 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024). The CBUAE has also granted extension of the capital buffer relief to 30 June 2022 for banks enrolled in the TESS program.

Concentration analysis:

Please refer to note 9 to these Group condensed consolidated interim financial statements, which discloses the sector categorization of loans and advances as at 31 March 2022.

(vi) Sanctions and Economic Updates

A variety of sanctions have been imposed on Russia in response to the conflict in Ukraine by a number of jurisdictions, which may be broadened in the foreseeable future to include further individuals, additional entities, and a wider range of goods and services than currently targeted.

Turkey and Egypt have experienced an economic crisis including a shortage of foreign currency, a rapidly rising inflation rate and devaluation of their currencies.

The Bank has assessed the exposure to this, and confirm no material exposures to these jurisdictions.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

Relevant new and revised IFRS applied with no material effect on these Group condensed consolidated interim financial statements.

The following new and revised IFRS have been adopted in these condensed consolidated interim financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

		Effective for annual periods beginning on or after
a	Amendments to IAS 16 Property, plant and equipment relating to proceeds before intended use	1 January 2022
b	Amendment to IAS 37 Provisions, Contingent Liabilities and Contingent Assets relating to onerous contracts.	1 January 2022
c	Amendments to IFRS 3 Business Combinations relating to reference to conceptual framework	1 January 2022
d	Annual improvements to IFRS standards 2018 - 2020	1 January 2022

6. RISK GOVERNANCE AND FINANCIAL RISK MANAGEMENT

The Group’s Risk Governance and Financial Risk Management objectives, policies and procedures are consistent with those disclosed in these Group audited consolidated financial statements as at and for the year ended 31 December 2021.

7. CASH AND BALANCES WITH CENTRAL BANK

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Cash on hand	**915,636**	796,104
Balances with Central Bank U.A.E		
- Statutory reserves and other deposits	**3,624,695**	3,071,485
- Negotiable certificates of deposit	**7,500,000**	10,800,000
	12,040,331	14,667,589

Effective 28 October 2020, the CBUAE introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and the directives of the Central Bank.

Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, these are low credit risk and there are no expected credit losses and hence no provision has been recognised.

8. DUE FROM BANKS, NET

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Current and demand deposits	**2,486,988**	1,836,296
Overnight, call and short notice	**426,228**	585,300
Loans to banks	**689,147**	735,059
Gross due from banks	**3,602,363**	3,156,655
Less: Expected credit losses	**(1,971)**	(2,056)
Net due from banks	**3,600,392**	3,154,599
Within the U.A.E.	**41,844**	197,982
Outside the U.A.E.	**3,558,548**	2,956,617
	3,600,392	3,154,599

Due from banks is classified under stage 1 as per IFRS 9.

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
At Amortised Cost		
Loans and advances		
Overdrafts	**8,800,717**	8,653,532
Time Loans	**55,621,550**	54,393,536
Advances against letters of credit and trust receipts	**2,695,033**	2,188,459
Bills discounted	**3,015,033**	2,366,805
Gross loans and advances	**70,132,333**	67,602,332
Islamic financing		
Murabaha and Tawaruq	**5,001,119**	4,941,516
Ijara	**7,578,172**	7,565,613
Others	**487,836**	355,742
Gross Islamic financing	**13,067,127**	12,862,871
Gross loans and advances and Islamic financing	**83,199,460**	80,465,203
Less: Expected credit losses	**(4,512,864)**	(4,023,818)
Net loans and advances and Islamic financing	**78,686,596**	76,441,385

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (CONTINUED)

An analysis of IFRS 9 stage distribution of the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
At 31 March 2022 (Unaudited)				
Gross loans and advances and Islamic financing	**69,611,263**	**7,221,166**	**6,367,031**	**83,199,460**
Less: Expected credit losses	**(623,212)**	**(637,882)**	**(3,251,770)**	**(4,512,864)**
Net loans and advances and Islamic financing	**68,988,051**	**6,583,284**	**3,115,261**	**78,686,596**
At 31 December 2021 (Audited)				
Gross loans and advances and Islamic financing	67,128,686	7,234,414	6,102,103	80,465,203
Less: Expected credit losses	(595,324)	(662,964)	(2,765,530)	(4,023,818)
Net loans and advances and Islamic financing	66,533,362	6,571,450	3,336,573	76,441,385

The following is the concentration by sector for loans and advances and Islamic financing:

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Manufacturing	**4,863,703**	4,387,817
Construction	**6,004,094**	5,458,048
Real estate	**23,963,978**	24,814,731
Trade	**8,116,178**	7,599,868
Transportation and storage	**3,799,287**	3,880,144
Services	**5,116,500**	5,051,121
Hospitality	**3,299,996**	2,337,033
Financial and insurance activities	**7,515,521**	7,224,430
Government entities	**2,207,177**	2,059,268
Personal - mortgage	**8,475,590**	7,454,864
Personal - schematic	**4,715,226**	5,462,188
Individual loans for business	**1,149,658**	976,207
Others	**3,972,552**	3,759,484
Gross loans and advances and Islamic financing	**83,199,460**	80,465,203
Less: Expected credit losses	**(4,512,864)**	(4,023,818)
Net loans and advances and Islamic financing	**78,686,596**	76,441,385

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (CONTINUED)

An analysis of changes in the ECL is as follows:

	31 March 2022 AED'000 (Unaudited)	31 March 2021 AED'000 (Unaudited)
ECL allowance at the beginning of the period	**4,023,818**	3,760,727
Net expected credit losses	**74,817**	205,335
Interest not recognised	**96,074**	94,224
Recoveries	**(28,523)**	(8,651)
Amounts written back / (written off)	**346,678**	(30,938)
ECL allowance at the end of the period	**4,512,864**	4,020,697

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

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**1,236,678**	1,210,773
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,261,094**	1,258,288
General provision transferred to the impairment reserve*	**-**	-
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**2,943,734**	2,506,119
Less: Stage 3 provisions under IFRS 9	**3,251,770**	2,765,530
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

*In the case provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing is AED 41.5 million (31 December 2021: AED 45.6 million). Net positive fair value of the hedged component is AED 0.9 million (31 December 2021: AED 1.9 million).

10. INVESTMENT SECURITIES

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
31 March 2022 (Unaudited)				
Held at fair value through profit or loss				
Fixed rate securities				
- Government	**-**	**-**	**-**	**-**
- Others	**737**	**-**	**-**	**737**
Quoted equity instruments	**-**	**-**	**-**	**-**
Unquoted equity instruments and fund	**1,837**	**-**	**239,559**	**241,396**
Held at fair value through other comprehensive income				
Quoted equity instruments	**81,266**	**-**	**-**	**81,266**
Unquoted equity instruments and fund	**-**	**-**	**21,589**	**21,589**
Fixed rate securities				
- Government	**1,786,709**	**831,019**	**805,240**	**3,422,968**
- Others	**814,530**	**229,173**	**1,692,516**	**2,736,219**
Floating rate non-government securities	**146,944**	**-**	**146,586**	**293,530**
At amortised cost				
Fixed rate government securities	**5,505,443**	**-**	**-**	**5,505,443**
	8,337,466	**1,060,192**	**2,905,490**	**12,303,148**
31 December 2021 (Audited)				
Held at fair value through profit or loss				
Fixed rate securities				
- Government	-	-	-	-
- Others	-	-	-	-
Quoted equity instruments	-	-	-	-
Unquoted equity instruments and fund	1,837	-	255,073	256,910
Held at fair value through other comprehensive income				
Quoted equity instruments	54,107	-	-	54,107
Unquoted equity instruments and fund	-	-	24,479	24,479
Fixed rate securities				
- Government	1,803,851	747,680	641,693	3,193,224
- Others	909,430	182,656	1,384,243	2,476,329
Floating rate non-government securities	166,183	-	58,769	224,952
At amortised cost				
Fixed rate government securities	2,761,320	-	-	2,761,320
	5,696,728	930,336	2,364,257	8,991,321

Included in fixed and floating rate securities held at fair value through other comprehensive income securities is an amount of AED 4.8 billion (31 December 2021: AED 2.6 billion), pledged under repurchase agreements with banks.

11. OTHER ASSETS, NET

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Accrued interest receivable	**313,141**	348,850
Accounts receivable and prepayments	**299,460**	475,698
Properties acquired in settlement of debt-held for sale, net	**1,597,468**	1,529,353
	2,210,069	2,353,901

12. CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Customer deposits		
Current and demand accounts	**29,763,514**	27,692,171
Savings accounts	**4,276,294**	4,188,259
Time deposits	**32,730,051**	33,689,371
	66,769,859	65,569,801
Islamic customer deposits		
Current and demand accounts	**4,072,243**	4,881,439
Mudaraba savings accounts	**617,600**	588,262
Investment and Wakala deposits	**11,347,872**	11,682,167
	16,037,715	17,151,868
Total customer deposits and Islamic customer deposits	**82,807,574**	82,721,669

13. NOTES AND MEDIUM TERM BORROWINGS

	Notes	31 December 2021 AED'000 (Audited)	Cash flow changes AED'000	Non cash flow changes AED'000	31 March 2022 AED'000 (Unaudited)
Syndicated loan	13.1	**621,852**	**-**	**240**	**622,092**
Repurchase agreements - I	13.2	**551,442**	**-**	**-**	**551,442**
Repurchase agreements - III	13.2	**1,135,721**		**-**	**1,135,721**
Medium term notes	13.3	**275,475**		**-**	**275,475**
Total		**2,584,490**	**-**	**240**	**2,584,730**

13. NOTES AND MEDIUM TERM BORROWINGS (CONTINUED)

		31 December 2020 AED'000 (Audited)	Cash flow changes AED'000	Non cash flow changes AED'000	31 December 2021 AED'000 (Unaudited)
Syndicated loan	13.1	620,818	-	1,034	621,852
Repurchase agreements - I	13.2	551,442	-	-	551,442
Repurchase agreements - II	13.2	591,799	(591,799)	-	-
Repurchase agreements - III	13.2	-	1,135,721	-	1,135,721
Medium term notes	13.3	-	275,475	-	275,475
Total		1,764,059	819,397	1,034	2,584,490

13.1 *Syndicated loan*

In August 2019, the Group entered into a club deal of USD 170 million (AED 624.4 million) priced at 6 month Libor plus 135 bps. for a term of 5 years with an option to roll over on a semi-annual basis maturing in August 2024.

13.2 *Repurchase agreements*

The Group entered into multiple repo transactions to obtain financing against the sale of certain debt securities. The repo transactions details are as follows;

	Purchase date	Maturity date	Amount in USD (millions)	Amount in AED (millions)
Repurchase agreements - I	July 2012	July 2022	150.1	551.4
Repurchase agreements - II	June 2016	July 2021	161.1	591.8
Repurchase agreements - III	June 2021	June 2026	309.2	1,135.7

As at 31 March 2022 the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 2,016.2 million (USD 548.9 million) (31 December 2021: AED 2,095.9 million (USD 570.6 million)).

13.3 *Medium term notes*

In July 2021, CBD issued USD 50 million (AED 183.7 million) of conventional notes. These notes were priced at 3 month Libor plus 130 bps. floating rate and will mature on 8 July 2026.

In September 2021, CBD issued USD 25 million (AED 91.8 million) of conventional notes. These notes were priced at 3 month Libor plus 130 bps. floating rate and will mature on 15 September 2026.

14. OTHER LIABILITIES

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Accrued interest payable	**196,078**	223,012
Employees' terminal benefits	**54,128**	54,190
Accounts payable	**1,125,516**	425,419
Cash dividend payable	**725,348**	-
Accrued expenses	**95,567**	136,865
Manager cheques	**570,691**	441,290
Unearned fee income and deferred credits	**61,414**	49,493
	2,828,742	1,330,269

15. EQUITY

15.1 Share capital

The fully paid up and authorised ordinary share capital as at 31 March 2022 comprised 2,802,733,968 ordinary shares of AED 1 each (31 December 2021: 2,802,733,968 shares of AED 1 each). There was no movement in authorised ordinary share capital during the period.

15.2 Tier 1 capital

The Group had issued USD 600 million (AED 2,203.8 million) of Tier 1 Capital Securities at a price of 6% per annum on 21 October 2020. The notes are non-callable for 6 years and are listed on Euronext Dublin and Nasdaq Dubai.

The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default.

The accounting treatment for the securities is governed by IAS 32 Financial Instruments Presentation. As per IAS 32, the instrument qualifies as an equity instrument and the interest paid on the securities is accounted for as a deduction from retained earnings. The accounting treatment for issuing securities transaction costs are accounted for as a deduction from equity. These are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

16. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit (further adjusted for interest expense and transaction cost on Tier 1 capital notes) divided by the weighted average number of ordinary shares outstanding 2,802,733,968 (31 March 2021: 2,802,733,968).

	31 March 2022 AED'000 (Unaudited)	31 March 2021 AED'000 (Unaudited)
Net profit for the period	**431,330**	325,022
Deduct : Interest on Tier 1 capital notes	**-**	-
Deduct : Tier 1 capital notes transaction cost	**-**	(1,543)
Adjusted net profit for the period	**431,330**	323,479
Weighted average number of ordinary shares ('000)	**2,802,734**	2,802,734
Adjusted earnings per share (AED)	**0.15**	0.12

Diluted earnings per share for the three-month period ended 31 March 2022 and 31 March 2021 are equivalent to basic earnings per share as no new shares have been issued that would impact earnings per share when executed.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in these Group condensed consolidated interim statement of cash flows comprise the following Group's condensed consolidated interim statement of financial position amounts:

	31 March 2022 AED'000 (Unaudited)	31 March 2021 AED'000 (Unaudited)
Cash on hand	**915,636**	579,179
Statutory reserves and other deposits	**3,624,695**	2,568,664
Negotiable certificates of deposit with the UAE Central Bank	**7,500,000**	5,800,000
Due from banks	**3,602,363**	2,595,175
	15,642,694	11,543,018
Less: UAE Central Bank statutory reserves requirement	**(3,147,525)**	(2,568,664)
Less: Negotiable certificates of deposit with the UAE Central Bank with original maturity more than three months	**-**	-
Less: Due from banks with original maturity of more than three months	**(689,147)**	(413,738)
Less: Due to UAE Central Bank balances	**-**	(219,321)
Less: Due to banks with original maturity of less than three months	**(3,494,601)**	(3,066,866)
	8,311,421	5,274,429

18. CONTINGENT LIABILITIES AND UNDRAWN COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Contingent liabilities:		
Letters of credit	**3,216,099**	2,961,640
Letters of guarantee	**11,754,079**	11,098,639
Total contingent liabilities	**14,970,178**	14,060,279
Undrawn commitments to extend credit	**20,361,096**	17,714,851
Total contingent liabilities and undrawn commitments	**35,331,274**	31,775,130

In the normal course of business, certain litigations were filed by or against the Bank. However based on management assessment, none of the litigations have a material impact on Bank's financial results.

The bank seeks to comply with all applicable laws by which it is governed and is not aware of any material fines or penalties that warrant disclosure in the financial statements.

19. SEGMENTAL REPORTING

The Group uses business segments for presenting its segment information, which is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance. During the quarter, there have been no material changes to the organization structure and the portfolio allocation to the business segments. The prior comparative period figures have been reclassified to conform to the current period presentation.

The business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs. Interest is charged or credited to business segments and branches to match funding at transfer pricing rates which approximate the cost of funds.

Business segments

Institutional banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to institutional clients (including Government related entities).
Corporate banking	Includes loans, working capital financing, trade finance and deposits products to corporate (mid-sized and emerging) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to retail clients. It also includes the enterprise wide liabilities unit serving non-borrowing wholesale and small business clients.
Trading & other	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

	Institutional banking	Corporate banking	Personal banking	Trading & Other	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 March 2022 (Unaudited)					
Assets	**34,534,034**	**43,036,911**	**12,813,883**	**28,651,351**	**119,036,179**
Liabilities	**47,596,443**	**16,691,113**	**30,125,562**	**11,627,321**	**106,040,439**
31 December 2021 (Unaudited)					
Assets	32,793,065	41,911,521	12,125,274	27,382,736	114,212,596
Liabilities	44,573,786	16,733,692	30,025,272	9,312,632	100,645,382

19. SEGMENTAL REPORTING (CONTINUED)

	Institutional banking AED'000	Corporate banking AED'000	Personal banking AED'000	Trading & Other AED'000	Total AED'000
31 March 2022 (Unaudited)					
Net interest income and net income from Islamic financing	**132,899**	**267,970**	**139,464**	**2,884**	**543,217**
Non-interest and other income	**85,301**	**99,037**	**108,402**	**22,918**	**315,658**
Total operating income	**218,200**	**367,007**	**247,866**	**25,802**	**858,875**
Expenses *(note a)*	**40,042**	**36,875**	**114,695**	**44,368**	**235,980**
Net provisions *(note b)*	**17,479**	**145,668**	**10,618**	**17,800**	**191,565**
	57,521	**182,543**	**125,313**	**62,168**	**427,545**
Net profit / (loss) for the period	**160,679**	**184,464**	**122,553**	**(36,366)**	**431,330**
31 March 2021 (Unaudited)					
Net interest income and net income from Islamic financing	136,468	274,438	139,489	(74,282)	476,113
Non-interest and other income	63,763	71,590	88,656	30,543	254,552
Total operating income	200,231	346,028	228,145	(43,739)	730,665
Expenses *(note a)*	41,020	35,447	115,385	3,994	195,846
Net provisions *(note b)*	96,007	99,608	1,545	12,637	209,797
	137,027	135,055	116,930	16,631	405,643
Net profit / (loss) for the period	63,204	210,973	111,215	(60,370)	325,022

a) This includes staff and other expenses and depreciation and amortization.

b) This includes expected credit loss on due from banks, loans and advances and Islamic financing, investment securities, and other assets, net of recoveries.

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

	External Parties		**Inter-segment**	
	31 March 2022 AED'000 (Unaudited)	31 March 2021 AED'000 (Unaudited)	**31 March 2022 AED'000 (Unaudited)**	31 March 2021 AED'000 (Unaudited)
Institutional banking	**178,255**	**138,517**	39,945	61,714
Corporate banking	**439,630**	**379,595**	(72,623)	(33,567)
Personal banking	**206,423**	**166,682**	41,443	61,463
Trading & Other	**34,567**	**45,871**	(8,765)	(89,610)
Total operating income	**858,875**	**730,665**	-	-

20. FINANCIAL ASSETS AND LIABILITIES

20.1 Financial asset and liabilities classification

The table below set out the Group's financial assets and liabilities classification:

	Fair value through profit or loss AED'000	Fair value through OCI AED'000	Amortised cost AED'000	Total carrying amount AED'000
31 March 2022 (Unaudited)				
Cash and balances with Central Bank	-	-	12,040,331	12,040,331
Due from banks, net	-	-	3,600,392	3,600,392
Loans and advances and Islamic financing, net	-	-	78,686,596	78,686,596
Investment securities	242,133	6,555,572	5,505,443	12,303,148
Bankers acceptances	-	-	8,846,596	8,846,596
Other assets, net	741,751	-	588,518	1,330,269
Total financial assets	983,884	6,555,572	109,267,876	116,807,332
Due to banks	-	-	8,333,215	8,333,215
Customer deposits and Islamic customer deposits	-	-	82,807,574	82,807,574
Notes and medium term borrowing	-	-	2,584,730	2,584,730
Due for trade acceptances	-	-	8,846,596	8,846,596
Other liabilities	639,582	-	2,767,328	3,406,910
Total financial liabilities	639,582	-	105,339,443	105,979,025

20. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

20.1 Financial asset and liabilities classification (continued)

	Fair value through profit or loss	Fair value through OCI	Amortised cost	Total carrying amount
	AED'000	AED'000	AED'000	AED'000
31 December 2021 (Audited)				
Cash and balances with Central Bank	-	-	14,667,589	14,667,589
Due from banks, net	-	-	3,154,599	3,154,599
Loans and advances and Islamic financing, net	-	-	76,441,385	76,441,385
Investment securities	256,910	5,973,091	2,761,320	8,991,321
Bankers acceptances	-	-	7,341,210	7,341,210
Other assets, net	666,709	-	796,863	1,463,572
Total financial assets	923,619	5,973,091	105,162,966	112,059,676
Due to banks	-	-	6,120,214	6,120,214
Customer deposits and Islamic customer deposits	-	-	82,721,669	82,721,669
Notes and medium term borrowing	-	-	2,584,490	2,584,490
Due for trade acceptances	-	-	7,341,210	7,341,210
Other liabilities	547,530	-	1,280,776	1,828,306
Total financial liabilities	547,530	-	100,048,359	100,595,889

20.2 Fair value measurement – fair value hierarchy:

The table below shows categorization of fair value of financial assets and liabilities into different levels of the fair value hierarchy.

Different level of fair value hierarchy have been defined as follows:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Except for financial assets and liabilities specified in the below table, the fair value of financial assets and liabilities is not materially different from their carrying value.

20. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

20.2 Fair value measurement – fair value hierarchy: (continued)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000
31 March 2022 (Unaudited)				
Investments				
Equity instruments and funds	**81,266**	**-**	**262,985**	**344,251**
Fixed and floating rate securities	**5,165,219**	**1,288,235**	**-**	**6,453,454**
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**741,751**	**-**	**741,751**
Held for fair value hedge	**-**	**-**	**-**	**-**
Held for cash flow hedge	**-**	**-**	**-**	**-**
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	**-**	**(636,887)**	**-**	**(636,887)**
Held for fair value hedge	**-**	**(2,695)**	**-**	**(2,695)**
Held for cash flow hedge	**-**	**-**	**-**	**-**
	5,246,485	**1,390,404**	**262,985**	**6,899,874**

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000
31 December 2021 (Audited)				
Investments				
Equity instruments and funds	54,107	-	281,389	335,496
Fixed and floating rate securities	4,417,192	1,477,313	-	5,894,505
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	663,944	-	663,944
Held for fair value hedge	-	2,164	-	2,164
Held for cash flow hedge	-	601	-	601
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	-	(541,329)	-	(541,329)
Held for fair value hedge	-	(3,959)	-	(3,959)
Held for cash flow hedge	-	(2,242)	-	(2,242)
	4,471,299	1,596,492	281,389	6,349,180

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

During the period, there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior period.

21. RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 March 2022 and 31 December 2021 the Investment Corporation of Dubai ("ICD") owns 20% share capital of the Group. ICD is a wholly owned entity by the Government of Dubai (the "Government").

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors.

	Directors and key management personnel		**Government related parties**		**Other related parties**	
	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)	**31 March 2022 AED'000 (Unaudited)**	31 December 2021 AED'000 (Audited)	**31 March 2022 AED'000 (Unaudited)**	31 December 2021 AED'000 (Audited)
Due from banks	**-**	-	**88,703**	99,685	**-**	-
Loans and advances and Islamic financing	**144,181**	150,208	**1,609,418**	1,482,351	**2,452,281**	2,427,352
Investment securities	**-**	-	**483,780**	565,379	**-**	-
Bankers acceptances	**-**	-	**-**	-	**6,030**	5,721
Letters of credit	**-**	-	**-**	-	**4,215**	4,319
Letters of guarantee	**-**	-	**100,058**	79,778	**23,299**	24,576
Undrawn commitments to extend credit	**13,933**	11,001	**623,820**	79,882	**352,179**	354,037
Due to banks	**-**	-	**550,950**	459,125	**-**	-
Customer deposits and Islamic customer deposits	**91,708**	144,443	**5,813,970**	6,000,409	**606,906**	491,068

	31 March 2022 AED'000 (Unaudited)	31 March 2021 AED'000 (Unaudited)	**31 March 2022 AED'000 (Unaudited)**	31 March 2021 AED'000 (Unaudited)	**31 March 2022 AED'000 (Unaudited)**	31 March 2021 AED'000 (Unaudited)
Interest income and commission income	**1,404**	2,134	**10,519**	10,515	**17,924**	15,460
Interest expense	**53**	40	**15,502**	11,313	**856**	692

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represents major shareholders and parties related to directors, key management personnel.

Sitting fees paid to directors for attending committee meetings during the three-month period ended 31 March 2022 amounted to AED 980 thousand (31 March 2021: AED 780 thousand).

21. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

Key management compensation	**31 March 2022 AED'000 (Unaudited)**	31 March 2021 AED'000 (Unaudited)
Salaries	**4,959**	5,600
Post-employment benefits	**211**	197
Other benefits	**15,503**	38,569

22. CAPITAL ADEQUACY

The Central Bank of UAE ('CBUAE') supervises 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. Effective from 2017, the capital is 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, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

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

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The table below summarizes the composition of regulatory capital and the ratios of the Group as per Basel III guidelines and has complied with all of the externally imposed capital requirements to which it is subject.

As per the Central Bank regulation for Basel III, the capital requirement as at 31 March 2022 is 13% inclusive of capital conservation buffer of 2.5%. However, effective from 15 March 2020 until 30 June 2022, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, as part of the measures adopted by the CBUAE to help banks deal with the COVID-19 crisis. The Bank has also applied the standards issued vide its circular dated 12 November 2020 by the CBUAE which includes additional Guidance on the topics of Credit Risk, Market Risk, and Operational Risk. The Standards support the implementation of the "Regulations re Capital Adequacy" (Circular 52/2017).

22. CAPITAL ADEQUACY (CONTINUED)

	31 March 2022 AED'000 (Unaudited)	31 December 2021 AED'000 (Audited)
Common equity tier 1 (CET1) capital		
Share capital	**2,802,734**	2,802,734
Legal and statutory reserve	**1,401,447**	1,401,447
General reserve and other reserves	**1,366,663**	1,366,663
Retained earnings	**5,540,685**	5,113,083
Accumulated other comprehensive income	**(328,933)**	(72,764)
IFRS transitional arrangement	**100,746**	131,522
	10,883,342	10,742,685
Regulatory deductions and adjustments	**(154,756)**	(164,554)
Total CET1 capital	**10,728,586**	10,578,131
Additional tier 1 (AT1) Capital	**2,203,800**	2,203,800
Tier 1 capital	**12,932,386**	12,781,931
Tier 2 capital		
Eligible general provision	**1,030,565**	1,008,978
Tier 2 capital	**1,030,565**	1,008,978
Total regulatory capital	**13,962,951**	13,790,909
Risk weighted assets (RWA)		
Credit risk	**82,445,223**	80,718,220
Market risk	**1,241,742**	731,729
Operational risk	**5,746,505**	5,746,505
Risk weighted assets	**89,433,470**	87,196,454
Tier 1 ratio	**14.46%**	14.66%
Tier 2 ratio	**1.15%**	1.16%
Capital adequacy ratio	**15.61%**	15.82%

23. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these Group condensed consolidated interim financial statements, the effect of which are considered immaterial.