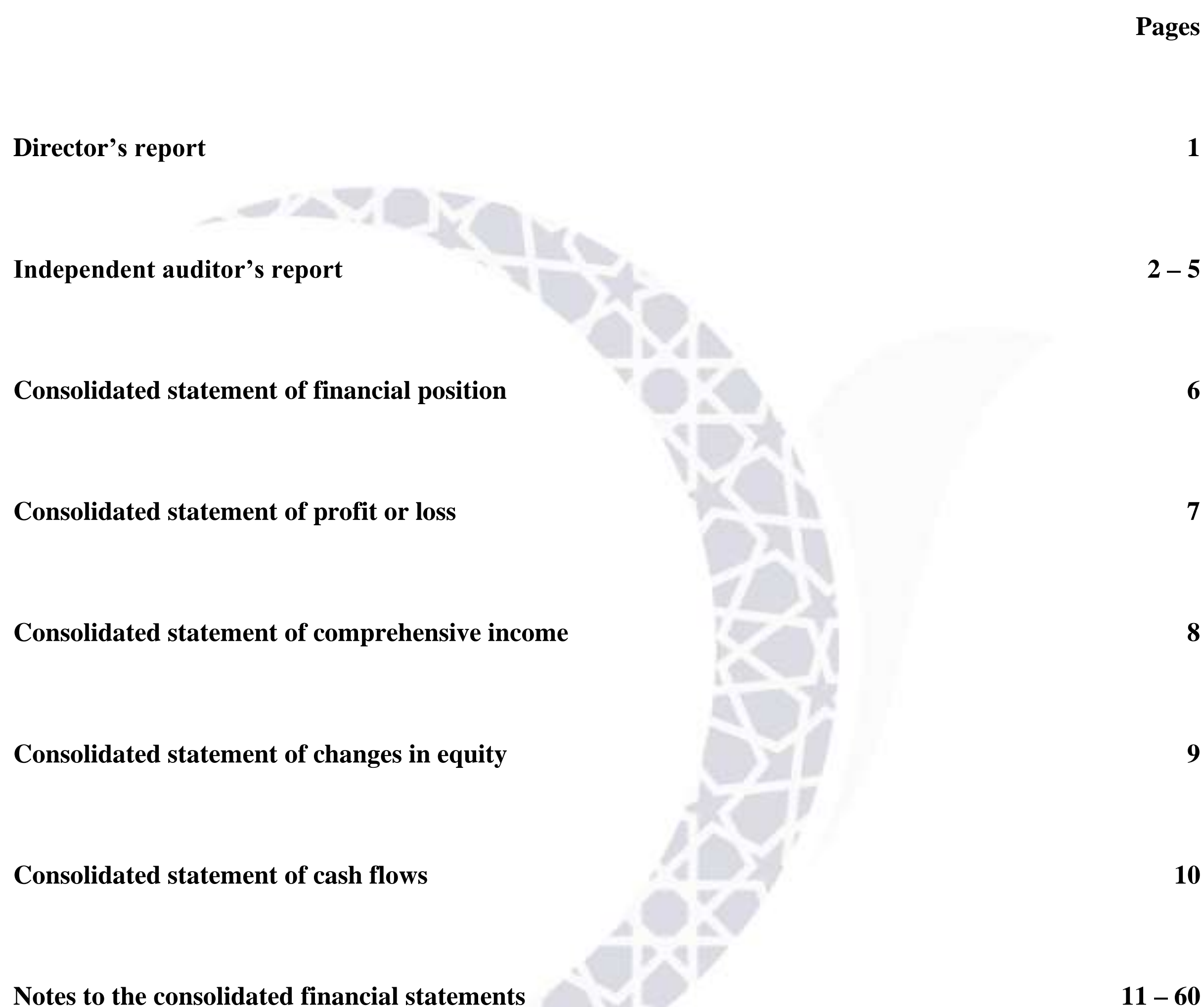
Consolidated financial statements
For the year end 31 December 2021

Towards the Future

AAFAQ ISLAMIC FINANCE P.S.C.

Reports and consolidated financial statements for the year ended 31 December 2021



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DIRECTOR'S REPORT

Dear Valued Shareholders of Aafaq Islamic Finance P.S.C.

Assalamu Alaikum Wa Rahmatullah Wa Barakatuh,

I am delighted to share with you another year of our noteworthy performance, whereby Aafaq Islamic Finance PSC (the "Group" or "Aafaq") not only sustained the pandemic but has performed remarkably well in these testing times. This is evident from the growth in profits and income achieved year-over-year. The resilience, Aafaq had demonstrated in the previous year at the time of economic slowdown owing to the global pandemic has allowed us to showcase the strength of our business model and our agility to respond to uncertain and challenging situations.

During the year, Aafaq has achieved a net profit of AED 310 million. This translates to a 103% increase in net profit comparison to the year ended 31 December 2020. The total operating income of Aafaq for the year ended 31 December 2021 reached a new high of AED 483 million, a 66% increase in comparison to the year ended 31 December 2020, the growth primarily attributable to a one-off gain from foreign currency exchange translation. The operating income for the current year still recorded a growth of 12% excluding foreign exchange gains which denotes a robust performance of the Group. Income from the core businesses like Islamic financing and net fee and commission income also witnessed year-over-year growth of 49% and 23% respectively during the year.

Overall, Aafaq's balance sheet remained strong, with total assets standing at AED 3,213 million, a year-over year increase of 11%. We continue to actively deploy our capital, by investing and growing our core assets like financing portfolio by introducing new products and services. The financing portfolio is closing the AED 2 billion milestone which is expected to cross in the next financial year.

During the year, Aafaq has managed to raise repo facilities amounting to AED 200 million and shall continue to proactively evaluate possibilities to constantly strengthen its liability base by exploring varied funding options. Aafaq continues to increase its customer deposits base by achieving growth of 122% to reach AED 718 million during the year.

Total equity of the Group has reached AED 1,028 million, a 13% increase from prior year ended 31 December 2020. During the year, Aafaq paid out 15% cash dividend for the financial year ended 31 December 2020 and would recommend distributing dividends of 20% to our shareholders for the current financial year subject to the UAE Central Bank approval.

Financial year 2021 also witnessed many strategic partnerships such as with Department of Economic Development Ajman (DEDA) to provide solutions to support various economic establishments, alliance with Mohammed Bin Rashid Housing Establishment (MBHRE) to provide tailormade and holistic financial products, partnership with RAK SME, to name a few.

We have entered 2022 as a stronger and more diversified company and are confident that our efforts over the past year have positioned us to deliver enhanced results for our shareholders in the coming years.

I would like to thank our shareholders, strategic partners and customers for their trust in us and also extend my thanks and gratitude for the support and commitment of Aafaq's Board of Directors, senior management and staff for their continuous hard work and loyalty. Wishing everyone a prosperous year to achieve better results in the future.

Year 2021 has been a historic year for the UAE, when the country celebrated its successful journey of 50 years and has penned down its vision "Towards the next fifty". Aafaq as always will continue to align itself with the vision of the exemplary leaders of our nation and contribute to the economic prosperity in the years to come. We thank our visionary leaders for their exceptional efforts in maintaining a progressive and ever-growing economic environment, may Allah allow them enjoy health and well-being.

Sultan Bin Mohammed Bin Khalid Al Nahyan

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AAFAQ ISLAMIC FINANCE P.S.C.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Aafaq Islamic Finance P.S.C. (the "Company") and its subsidiary (together, the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We have 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' Codes of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Akbar Ahmad (1141), Cynthia Corby (995), Georges Najem (809), Mohammad Jallad (1164), Mohammad Khamees Al Tah (717), Musa Ramahi (872), Mutasem M. Dajani (726), Obada Alkowatly (1056), Rama Padmanabha Acharya (701) and Samir Madbak (386) are registered practicing auditors with the UAE Ministry of Economy.

Other Information

The Board of Directors are responsible for the other information. The other information comprises the Director's Report, which we obtained prior to the date of this auditor's report, 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information 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.

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 International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the Articles of Association of the Company and UAE Federal Law No. (2) of 2015, 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 have 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.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management' 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 auditors' 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; and
- 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF AAFAQ ISLAMIC FINANCE P.S.C. (continued)

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Further, as required by the UAE Federal Law No. (2) of 2015 (as amended), we report that:

- 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;
- The Company 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 Group;
- Note 8 to the consolidated financial statements of the Group disclose purchase or investments in shares during the financial year ended 31 December 2021;
- Note 22 reflects the disclosures relating to social contributions made during the year;
- Note 25 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- For the year ended 31 December 2021, the Company was not compliant with the following provisions of UAE Federal Law No. 2 of 2015 (as amended):
    - Article 152 which restricts entering into transactions with related parties exceeding 5% of the total share capital of the Company without consent of the General Assembly and those transactions shall be assessed by an assessor approved by the by the Ministry of Economy; and

In pursuance of Clause 21 of Finance Companies Regulation Circular No. 112/2018 dated 24 April 2018 (the "Regulation"), the Company will have to adjust their provisions in accordance with the Articles of this Regulation until 30 June 2023, for which the Company has provided the Central Bank with a detailed adjustment plan to comply with the Regulation.

Based on the information that has been made available to us, except for the matters described in the preceding paragraph, nothing has come to our attention which causes us to believe that the Company has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or the Company's Articles of Association which would materially affect its activities or its financial position as at 31 December 2021.

Deloitte & Touche (M.E.)

Georges F. Najem
Registration No. 1056
14 March 2022
Abu Dhabi
United Arab Emirates

aafaq islamic finance

Consolidated Statement of financial position
as at 31 December 2021

	Notes	2021 AED'000	(Restated) 2020 AED'000
ASSETS			
Cash and cash equivalents	4	245,367	301,015
Wakala deposits with Islamic financial institutions	5	43,736	273,130
Islamic financing assets	6	1,657,097	973,794
Investment securities	8	918,277	1,059,220
Investment properties	9	217,192	208,192
Other assets	10	96,644	82,355
Property and equipment	11	34,746	31,025
Total assets		3,213,059	2,928,731
LIABILITIES AND EQUITY			
Margins against letters of guarantee	12	901,440	1,316,227
Customer accounts and deposits	13	718,399	323,489
Short term Murabaha facilities	15	200,000	-
Other liabilities	14	365,209	378,570
Total liabilities		2,185,048	2,018,286
Equity			
Share capital	16	275,000	275,000
Legal reserve	17	139,900	139,384
Investment revaluation reserve	17	33,851	9,834
Translation reserve	17	(168,256)	(18,026)
Retained earnings		715,448	468,869
Equity attributable to shareholders of the Group		995,943	875,061
Non-controlling interests		32,068	35,384
Total equity		1,028,011	910,445
Total liabilities and equity		3,213,059	2,928,731

Chairman **Director** **SVP – Finance and Treasury**

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

Consolidated Statement of profit or loss
for the year ended 31 December 2021

	Notes	2021 AED'000	*(Restated)* 2020 AED'000
Operating income			
Profit from Islamic financing assets		**110,537**	74,022
Profit from wakala deposits and bank balances	**18**	**5,861**	21,859
Profit from sukuks		**26,208**	31,420
Net fair value gain on investments	**19**	**14,975**	9,131
Net fees and commission income	**20**	**107,138**	87,083
Other operating income	**21**	**220,546**	67,693
Profit expense on short term borrowings		**(2,066)**	-
Operating income		**483,199**	291,208
Depositors share of profit		**(17,171)**	(8,973)
Net operating income		**466,028**	282,235
Operating expenses			
General and administrative expenses	**22**	**(114,306)**	(86,213)
Gain / (loss) on fair valuation of investment properties	**9**	**9,000**	(20,000)
Impairment loss on financial assets	**23**	**(42,837)**	(16,263)
Tax and zakat		**(7,856)**	(7,254)
Profit for the year		**310,029**	152,505
Profit for the year attributable to:			
Shareholders of the Group		**270,817**	148,822
Non-controlling interests		**39,212**	3,683
		310,029	152,505

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

Consolidated Statement of comprehensive income
for the year ended 31 December 2021

	2021 AED'000	*(Restated)* 2020 AED'000
Profit for the year	**310,029**	152,505
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Movement in investment revaluation reserve for debt instrument at FVTOCI		
- fair value (losses) / gains arising during the year	**(2,854)**	6,090
- Reversal/(charge) for impairment loss on debt securities	**53**	(364)
Exchange difference arising on translation of foreign operations	**(196,224)**	(32,461)
Items that will not be reclassified to profit or loss		
Movement in investment revaluation reserve for equity instrument at FVTOCI	**42,541**	(42)
Total other comprehensive loss for the year	**(156,484)**	(26,777)
Total comprehensive income for the year	**153,545**	125,728
Total comprehensive income for the year attributable to:		
Shareholders of the Group	**160,327**	129,512
Non-controlling interests	**(6,782)**	(3,784)
	153,545	125,728

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

Consolidated Statement of changes in equity
for the year ended 31 December 2021

	Share capital AED'000	Legal reserve AED'000	Investment revaluation reserve AED'000	Translation reserve AED'000	Retained earnings AED'000	Equity attributable to shareholders of the Group AED'000	Non controlling interests AED'000	Total equity AED'000
At 1 January 2021 *(Restated)**	**275,000**	**139,384**	**9,834**	**(18,026)**	**468,869**	**875,061**	**35,384**	**910,445**
Profit for the year	-	-	-	-	270,817	270,817	39,212	310,029
Other comprehensive loss for the year	-	-	39,740	(150,230)	-	(110,490)	(45,994)	(156,484)
Total comprehensive income	-	-	39,740	(150,230)	270,817	160,327	(6,782)	153,545
Dividends paid**	-	-	-	-	(41,404)	(41,404)	(47)	(41,451)
Transfer to legal reserve	-	516	-	-	(516)	-	-	-
Transfer to retained earnings			(15,723)	-	15,723	-	-	-
Impact of right issue of a subsidiary	-	-	-	-	1,959	1,959	3,513	5,472
At 31 December 2021	**275,000**	**139,900**	**33,851**	**(168,256)**	**715,448**	**995,943**	**32,068**	**1,028,011**
At 1 January 2020	**275,000**	**138,371**	**4,150**	**6,968**	**350,461**	**774,950**	**39,215**	**814,165**
Profit for the year *(Restated)**	-	-	-	-	148,822	148,822	3,683	152,505
Other comprehensive income *(Restated)**	-	-	5,684	(24,994)	-	(19,310)	(7,467)	(26,777)
Total comprehensive income *(Restated)**	-	-	5,684	(24,994)	148,822	129,512	(3,784)	125,728
Directors' remuneration	-	-	-	-	(10,151)	(10,151)	(47)	(10,198)
Dividends paid	-	-	-	-	(19,250)	(19,250)	-	(19,250)
Transfer to legal reserve	-	1,013	-	-	(1,013)	-	-	-
At 31 December 2020 *(Restated)**	**275,000**	**139,384**	**9,834**	**(18,026)**	**468,869**	**875,061**	**35,384**	**910,445**

*Refer note 27 for the restatement of comparative balances
** Shareholders at the Annual General Meeting held on 24 March 2021, approved a cash dividend of AED 0.15 per share which was paid during the year.

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

Consolidated Statement of cash flows
for the year ended 31 December 2021

	Notes	2021 AED'000	2020* AED'000 *Restated*
Cash flows from operating activities			
Profit for the year before tax and zakat		**317,885**	159,759
Adjustments for:			
Depreciation on property and equipment	**22**	**6,617**	7,647
Gain on disposal of property and equipment		**12**	(52)
Provision for end of service benefit	**14**	**1,040**	915
Fair value gain on revaluation of investments		**(14,975)**	(9,131)
Fair value (gain)/loss on revaluation of investment properties	**9**	**(9,000)**	20,000
Impairment charge on financial assets	**23**	**42,837**	16,263
Finance cost on lease liability	**14**	**56**	19
Finance cost on short term Murabaha facilities		**2,066**	-
Foreign currency translation adjustment		**(197,863)**	(33,927)
Operating cash flow		**148,675**	161,493
(Increase)/decrease in assets			
Islamic financing assets		**(699,385)**	(152,566)
Other assets		**(25,652)**	(30,142)
Increase/(decrease) in liabilities			
Margins against letters of guarantee		**(414,787)**	(1,056,245)
Customer accounts and deposits		**394,910**	213,109
Other liabilities		**(13,963)**	13,704
Cash generated from operations		**(610,202)**	(850,647)
Overseas income tax and zakat		**(7,856)**	(7,254)
End of service benefit paid	**14**	**(783)**	(829)
Net cash used in operating activities		**(618,841)**	(858,730)
Cash flows from investing activities			
Acquisition of property and equipment	**11**	**(10,218)**	(2,081)
Proceeds from disposal of property and equipment		**172**	52
Net disposals/(purchases) of investments securities		**197,453**	(90,772)
Acquisition of investment properties		**-**	(531)
Net placements of Wakala deposits		**230,194**	1,050,498
Net cash generated from investing activities		**417,601**	957,166
Cash flows from financing activities			
Lease payments	**14**	**(1,943)**	(1,007)
Directors' remuneration		**-**	(10,198)
Dividend paid		**(41,451)**	(19,250)
Impact of right issue of a subsidiary		**5,472**	-
Short term Murabaha facility obtained		**200,000**	-
Net cash generated from / (used in) financing activities		**162,078**	(30,455)
Net (decrease) / increase in cash and cash equivalents		**(39,162)**	67,981
Cash and cash equivalents at beginning of year		**324,436**	256,455
Cash and cash equivalents at end of year		**285,274**	324,436

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

1 Legal status and principal activities

Aafaq Islamic Finance P.S.C. (the "Company") is a Private Joint Stock Company incorporated in the Emirate of Dubai on November 8, 2006 with limited liability in accordance with the provisions of United Arab Emirates (UAE) Commercial Companies Law No. (8) of 1984 which was replaced by (UAE) Federal Law No. (2) of 2015 (concerning the commercial companies) from July 2017.

The Company is licensed by the Dubai Economy (formerly Department of Economic Development of Government of Dubai) and by the Central Bank of the UAE as an Islamic finance company and is primarily engaged in financing and investing activities that are conducted in accordance with Islamic Shari'a Laws, which prohibits usury, and within the provisions of its Memorandum and Articles of Association.

As at 31 December 2021, the Company was 80.1% owned by Mawarid Holding Investment LLC (the "Parent"). The Company is ultimately controlled by Alpha Dhabi Holding PJSC. The registered office of the Company is located at Single Business Tower, Business Bay, Sheikh Zayed Road, P.O. Box 282400, Dubai, UAE.

2 Summary of significant accounting policies

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and applicable provisions of UAE Federal Law No. (2) of 2015. Federal Decree-Law No. 26 of 2020 which amends certain provisions of Federal Law No. (2) of 2015 on Commercial Companies was issued on 27 September 2020. Federal Law No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on 20 September 2021 and will come into effect on 2 January 2022, to entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended. The Company is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

(b) Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets at fair value through profit and loss, financial assets at fair value through other comprehensive income and investment properties.

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which is described as follows:

- Level 1 input are quoted price (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company (together referred to as the "Group"). Control is achieved when the Company:

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

2 Summary of significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

The Company 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.

When the Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group 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 at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group 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 and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests 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 and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group’s equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests’ proportionate share of the fair value of the acquiree’s identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests’ share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group’s interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount 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 or received is recognised directly in equity and attributed to the owners of the Group.

2 Summary of significant accounting policies *(continued)*

(c) Basis of consolidation *(continued)*

When the Group loses control of a subsidiary, the gain or loss on disposal recognised in profit or loss 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), less 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 Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). 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 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

The details of the Group's subsidiary is as follows:

Name of subsidiary	Place of incorporation	Proportion of ownership interest		Principal Activity
		31 Dec 2021	31 Dec 2020	
National Bank of Sudan	Republic of Sudan	**77.8%**	76.6%	Banking operations

(d) Business combinations

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

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

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

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

2 Summary of significant accounting policies *(continued)*

(d) Business combinations *(continued)*

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

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

(e) Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of 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.

On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Functional and presentation currency

The functional currency of the Group is United Arab Emirates Dirham ("AED"). These consolidated financial statements are presented in AED and amounts have been rounded to the nearest thousand except when otherwise indicated.

2 Summary of significant accounting policies *(continued)*

(g) New and revised IFRS and interpretations

In the current year, the Group has applied the below amendments to IFRS standards and interpretations issued by the International Accounting Standard Board (IASB) that are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). Their adoption has not had any material impact on the disclosures or on the amounts reported in these consolidated financial statements except as disclosed below. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

The impact of the replacement of IBOR with alternative risk-free rates on the Group's products and services remains a key area of focus. The Group has limited exposure to contracts referencing IBOR, such as EIBOR, extending past 2021 when it is likely that these IBORs will cease being published. As at 31 December 2021, the Group's exposure is limited to the financing portfolio, which is mainly linked to EIBOR only. Further the Group does not have exposure to any hedges linked to IBOR maturing beyond the year 2021.

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

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16
On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Group has not received COVID-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective. Management does not expect that the adoption of the Standards will have a material impact on the consolidated financial statements of the Group in future periods except if mentioned in respect of the amendments below.

2 Summary of significant accounting policies *(continued)*

(g) New and revised IFRS and interpretations

The following table reflects new and revised forthcoming IFRS and interpretations that are not yet effective.

IFRS	Title	Nature	Effective Date	As at 31 December 2021
IAS 16	Property Plant and Equipment - relating to proceeds before intended use	Amendments to IFRS	01/01/2022	**
IAS 37	Provisions, Contingent Liabilities and Contingent Assets - relating to onerous contracts	Amendments to IFRS	01/01/2022	**
IFRS 3	Business Combinations - relating to reference to conceptual framework	Amendments to IFRS	01/01/2022	**
	Annual improvements to IFRS standards 2018 – 2020	Improvements to IFRS	01/01/2022	**
IAS 1	Presentation of Financial Statements - relating to classification of Liabilities as Current or Non-Current	Amendments to IFRS	01/01/2023	**
IAS 8	Accounting Policies, Changes in accounting Estimates and Errors	Amendments to IFRS	01/01/2023	**
IFRS 17	Insurance Contracts	Amendments to IFRS	01/01/2023	**
IFRS 10 IAS 28	Consolidated Financial Statements Investments in Associates and Joint Ventures - relating to treatment of sale or contribution of assets from investors	Amendments to IFRS	Deferred indefinitely	**
Annual improvements to IFRS	Annual Improvements to IFRS Standards 2018-2020 cycle amending IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture	Improvements to IFRS	01/01/2022	**
IAS 1	Amendments to IAS 1 Presentation of financial statements and IFRS Practice Statement 2 Making materiality judgements related to disclosure of accounting policies	Amendments to IFRS	01/01/2023	**
IAS 12	Amendments to IAS 12 related to deferred tax related to assets and liabilities arising from a single transaction	Amendments to IFRS	01/01/2023	**
IFRS 16	IFRS 16 Leases amendment to extend the exemption from assessing whether a COVID-19-related rent concession is a lease modification	Amendments to IFRS	01/04/2021	**

*** Not yet effective – forthcoming standards, amendments or interpretations*

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments

The Group classifies its financial instruments in the following categories: financial assets or financial liabilities and measures them at fair value through profit or loss ("FVTPL"), amortised cost and fair value through other comprehensive income ("FVTOCI"). Management determines the classification of financial instruments at the time of initial recognition based on the requirements of IFRS 9.

Recognition and derecognition
Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire or is sold to another party. On derecognition of a financial asset (except for equity investments designated as FVTOCI), the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized through other comprehensive income and accumulated in equity is recognized in the statement of profit or loss.

Upon derecognition of equity instruments where the Group had elected FVTOCI option, gains or losses are not recognised in the statement of profit or loss. Correspondingly, the Group transfers such gains or losses including their respective accumulated balance in reserves directly to retained earnings.

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

Measurement
Upon recognition, financial assets and financial liabilities are initially measured at fair value plus (in the case of a financial asset or financial liability not classified as FVTPL) transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities.

Financial assets that are classified as FVTPL, the transaction costs are taken directly to the statement of profit or loss.

Financial assets at amortised cost
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 profit on the principal amount outstanding.

These include cash and cash equivalents, wakala deposits, due from related parties, financing assets and other financial assets.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments *(continued)*

Financial assets (continued)
Financial assets at FVTOCI
A **debt instrument** is measured at FVTOCI 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 profit on the principal amount outstanding.

These include Group's sukuk portfolio.

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

Financial assets at FVTPL
All financial assets other than those mentioned above are classified as measured at FVTPL. These includes Group's portfolio of investment securities and unquoted equity instruments

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

Financial liabilities
Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Financial liabilities are subsequently measured at amortised cost, except for financial liabilities at FVTPL. These includes Short term Murabaha facilities, margin deposits and other liabilities.

FVTPL classification is applied financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability) and partially in profit or loss (the remaining amount of change in the fair value of the liability). The Group has not designated any liability as FVTPL.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Business model assessment

Financial assets at amortised cost or at FVTOCI

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how group of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However, this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and
- reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in
- particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

Financial assets at FVTPL

These are:

- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 26 (g).

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Business model assessment *(continued)*

Assessment whether contractual cash flows are solely payments of principal and profit

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Profit' 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 costs and profit margin.

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

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

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets.

Modifications of financial assets

If the cash flows of the modified asset carried at amortised cost are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in profit or loss.

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.

In case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine net carrying amount of the asset at that date. The difference between the revised carrying amount and the fair value of the new financial asset with the new terms is transferred to profit or loss as a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except where the new finance is considered to be originated credit impaired. This occurs only in the case where the fair value of the new finance is significantly discounted to its revised carrying value due to 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.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Offsetting financial instruments

Financial assets and liabilities are offset and the net amounts reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously. Income and expenses are offset in the statement of profit or loss where it reflects the substance of the transaction or other event.

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- balances with central banks;
- deposits and balances due from banks;
- sukuk
- financing to customers; and
- finance commitments issued;

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired financial assets, ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are explained in Credit risk policy under risk management note 26.

Expected credit losses ("ECL") are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR. However, for unfunded exposures, ECL is measured as the difference between 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 finance and the cash flows that the Group expects to receive if the finance is drawn down.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of finances that share similar economic 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 EPR, regardless of whether it is measured on an individual basis or a collective basis.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Impairment of financial assets (continued)

Measurement of ECL

Credit loss allowances are categorised and 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, 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 impaired, 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 impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

A financial asset or a group of financial assets are **"impaired"** when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets and that the loss event has an impact on the future cash flow of the assets.

At each reporting date, the bank assesses whether there is an objective evidence that financial assets not carried at FVTPL are impaired. Objective evidence that financial assets are impaired includes, but not limited to:

- Significant financial difficulty of a borrower or issuer
- Decrease in the risk rating
- Non-payment of obligations to other banks
- Default or delinquency by a borrower
- Restructuring of a facility by the Group on terms that the bank would not consider otherwise
- Indication that a borrower or issuer would enter bankruptcy
- Disappearance of an active market for a security

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

Probability of default (PD)

The probability of default is an estimate of the likelihood of default over a given time horizon.

Loss given default (LGD)

The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

Exposure at default (EAD)

The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date.

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

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Impairment of financial assets (continued)

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due for more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. The decision to use cross-default is based on case by case assessment of borrower and facility conditions such as collateral and materiality of exposure.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

Significant increase in credit risk (SICR)
While determining whether the risk of default on a financial instrument has increased significantly since its origination, 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 historical experience and expert credit assessment and including forward-looking information. For retail financing SICR is measure based on days past due.

The following are indicators to be considered for determination of SICR:

- internal risk grade;
- external credit rating (where available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or the quality of third-party
- guarantees or credit enhancements;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information is incorporated as part of the internal rating model.

2 Summary of significant accounting policies *(continued)*

(h) Financial instruments (*continued*)

Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position
Allowances for ECL are presented in the statement of financial position as follows:

Classification of financial instrument	Presentation in consolidated financial statements
Financial assets measured at amortised cost	Deducted from the gross carrying amount of the assets.
Debt instruments measured at FVTOCI	No loss allowance is recognised in the statement of financial position as the carrying amount of these assets is at their fair value. Correspondingly, the loss allowance is recognised in the other comprehensive income of these instrument.
Off balance sheet obligations	As a provision.

(i) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets 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 asset is estimated in order to determine the extent of the impairment loss (if any). When 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. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the 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.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the 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.

2 Summary of significant accounting policies *(continued)*

(j) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Gains or losses arising from changes in the fair value of investment properties are included in the statement of profit or loss in the period they 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. Any gain or loss on the retirement or disposal of an investment property is recognised in the statement of profit or loss in the year of retirement or disposal.

(k) Property and equipment

Property and equipment is stated at cost less accumulated depreciation and provisions for impairment. Depreciation is provided for on a straight-line basis on all property and equipment. Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed of and are taken into account in determining operating income. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Land and buildings	up to 10 years
Furniture and fixtures	up to 5 years
Office equipment	up to 10 years
Systems	up to 7 years
Motor vehicles	4 years
Right of use asset	3.5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(l) Staff termination and other benefits

In compliance with UAE Labour Law, the Group has a gratuity benefit scheme for all of its expatriate salaried employees. The Group is also a participant in a pension scheme in respect of eligible UAE national employees in compliance with applicable law.

Obligations for contributions to pension and gratuity schemes are recognised as an expense in the statement of profit or loss on an accrual basis.

(m) Income recognition

Profit income on investments, deposits and bank balances are recognised in profit or loss as it accrues, taking into account the effective yield of the asset or an applicable floating rate. Profit income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of a profit generating instrument and its amount at maturity calculated on an effective profit rate basis.

The effective profit rate ("EPR") 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 profit 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 profit rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

2 Summary of significant accounting policies *(continued)*

(m) Income recognition *(continued)*

Fees and commission income and expenses that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate. Other fees and commission income are recognised as the related services are performed.

Revaluation gains on investments include unrealised gains and losses due to changes in the fair value of financial assets designated at fair value through profit or loss and realised gains or losses on financial assets (debt investments) at fair value through other comprehensive income.

Dividend income is recognised in the profit or loss when the Group's right to receive payment is established.

Rental income arising from investment properties is accounted for on a straight-line basis over the lease terms and is presented as a part of other operating income.

(n) Provisions

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, taking into account 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 (where the effect of the time value of money is material).

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

(o) Cash and cash equivalents

Cash and cash equivalents include cash in hand and balances with banks. However, for the purpose of the statement of cash flows, it includes wakala deposits and marketable investments with an original maturity up to three months.

(p) Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates of exchange ruling at the statement of financial position date. Any resultant gains and losses are recognised in the statement of profit or loss.

2 Summary of significant accounting policies *(continued)*

(q) Islamic financing and investments – products, definitions and income recognition

Shari'a is the Islamic law which is essentially derived from the Quran and Sunnah that governs beliefs and conducts of human beings. The Group incorporates the Shari'a rules and principles in its activities.

Wakala deposits
Wakala deposit is an agreement whereby the Group (the Muwakkil) provides certain amount of funds (the Wakala Capital) to an agent (the Wakeel) to invest it in a Shari'a compliant manner and in accordance with the feasibility study/investment plan submitted to the Muwakkil by the Wakeel, who is entitled to a fixed fee (the Wakala Fee) as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. The Muwakkil bears the loss unless caused by the default, negligence or violation of any of the terms and conditions of the Wakala by the Wakeel. Wakala deposits are stated at amortised cost of the Wakala assets net of provision for impairment, if any, and Wakala capital amounts settled.

Estimated income from Wakala deposits is amortized on a time-apportioned basis over the period, adjusted by actual income when declared by the Wakeel, whereas the losses are charged to profit or loss on their declaration by the Wakeel.

Istisna'a
Istisna'a is a sale contract between two parties whereby one party (Sani' or seller) undertakes to construct, for the other party (Mustasni' or buyer), a specific asset or property according to certain pre-agreed specifications in consideration of a pre-determined price to be delivered during a pre-agreed period of time. The work undertaken is not restricted to be accomplished by the Sani' alone and the whole or part of the construction can be undertaken by third parties under the control and responsibility of the Sani'. Under an Istisna'a contract, the Group could be the Sani' or the Mustasni'.

Murabaha
A Murabaha Contract whereby the Group (the Seller) sells an asset to the Client (the Purchaser), on a deferred payment basis, after purchasing the asset, which the Seller has purchased and acquired, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha purchase price, payable by the Purchaser, comprises the cost of the asset and an agreed profit amount. The Purchaser usually pays the Murabaha Sale price on an instalment basis over the period of the Murabaha contract. Where the income is quantifiable, it is recognised on a time-apportioned basis over the period of the Murabaha contract.

Ijara
Ijara is an agreement whereby the Group (Lessor) leases an asset to the customer (Lessee) (after purchasing/acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and promise to lease), against certain rental payments for specific lease term/periods, payable on a fixed or variable rental basis. Leased assets are usually residential properties or commercial real estate.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as the basis for rental calculation, the timing of rental payments and responsibilities of both parties during the lease term. The customer provides the Group with an undertaking to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Group retains the ownership of the assets throughout the lease term. At the end of the lease term, upon fulfilment of all the obligations by the customer under the Ijara agreement, the Group will sell the leased asset to the customer at a nominal value based on a sale undertaking given by the Group.

2 Summary of significant accounting policies *(continued)*

(q) Islamic financing and investments – products, definitions and income recognition *(continued)*

Income is recognized on an accrual basis over the lease term based on the fixed rental amount outstanding (which predominantly represents the cost of the leased asset).

Musharaka
Musharaka is used to provide venture capital or project finance. The Group and customer contribute towards the capital of the Musharaka. Usually a special purpose company or a partnership is established as a vehicle to undertake the Musharaka. Profits are shared according to a pre-agreed profit distribution ratio but losses are borne according to the capital contributions. Capital contributions may be in cash or in kind, as valued at the time of entering into the Musharaka.

Estimated profit is amortized on a time-apportioned basis over the period, adjusted by actual profit when received, whereas the losses are charged to profit or loss on their declaration.

(r) Foreign operations

The activities of subsidiaries based outside the UAE are not deemed an integral part of the head office operations, as they are financially and operationally independent of the head office. The assets and liabilities of the foreign operations are translated into UAE Dirhams at rates of exchange at the reporting date. The income and expense of foreign operations are translated at average rates, as appropriate. Exchange differences arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to the foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest NCI.

(s) Leases

The Group assesses whether contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease

The lease liabilities are included in other liabilities line in the statement of financial position.

2 Summary of significant accounting policies *(continued)*

(s) Leases *(continued)*

The lease liability is subsequently measured by increasing the carrying amount to reflect profit on the lease liability (using effective profit method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are included in property and equipment line in the statement of financial position.

The Group applies IAS36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the 'Property, plant and equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line 'General and administrative expenses' in the statement of profit or loss.

As a practical expedient, IFRS16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient.

3 Critical accounting judgments and key sources of estimation uncertainty

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

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are continually evaluated and are based on historical experience and other factors. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows in order to determine the level of impairment provisions required for financing as well as for non-trading investments. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Classification and measurement of financial assets (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 judgment reflecting all relevant evidence including how the performance of the assets is evaluated and 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 derecognised 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.

Expected credit losses

Significant increase of credit risk

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

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 (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). 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.

3 Critical accounting judgments and key sources of estimation uncertainty *(continued)*

Expected credit losses

ECL Model and assumptions

The Group uses various models and assumptions in measuring ECL of financial assets. 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.

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 the 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)

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)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Fair value measurement of investment properties

The fair value of investment properties is determined by independent real estate valuation experts using the Comparable Method and the Income Capitalisation Method. The Comparable Method utilizes the evidence of transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research and discussion with independent agents. Under the Income Capitalisation Method the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates. Information about the valuation techniques and inputs used in determining the fair value of investment properties are disclosed in note 9.

Fair value measurement of financial assets and valuation process

Some of the Group's financial assets are measured at fair value for financial reporting purposes. The Board of Directors of the Group are responsible to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of a financial asset, the Group uses market-observable data to the extent it is available. However, certain financial instruments are valued on the basis of valuation techniques that include one or more significant market inputs that are unobservable. These valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs.

Information about the valuation techniques and inputs used in determining the fair value of various assets are disclosed in note 26 (g).

4 Cash and cash equivalents

	2021 AED'000	2020* AED'000
Cash in hand	**5,442**	2,066
Balances with Central bank	**20,396**	40,467
Balances with banks		
Current accounts	**139,768**	88,164
Call and savings accounts	**119,668**	193,739
	285,274	324,436
Loss allowances	**(39,907)**	(23,421)
	245,367	301,015

* Restated

As at 31 December 2021, AED 220.7 million (2020: AED 248.7 million) of cash and cash equivalents are held with banks and other financial institutions based in the UAE.

See note 7 for movement in impairment for financial assets.

5 Wakala deposits with Islamic financial institutions

Wakala deposits include AED 51.3 million mainly invested in financial institutions in UAE (2020: AED 281.5 million). These deposits carry profit rates ranging from 1.0% to 4.25% (2020: 1.0% to 5.50%) per annum. The impairment allowance on such Wakala placement amounts to AED 7.6 million (2020: AED 8.4 million).

See note 7 for movement in impairment for wakala deposits.

6 Islamic financing assets

	2021 AED'000	2020 AED'000
Murabaha financing	**1,804,956**	1,215,857
Ijarah financing	**321,619**	75,782
Istisna'a financing	**1,894**	2,462
Other financing	**3,637**	27,252
Gross financing assets	**2,132,106**	1,321,353
Deferred income	**(324,069)**	(211,489)
Profit in suspense	**(4,201)**	(5,413)
Net financing assets before impairment	**1,803,836**	1,104,451
Impairment allowances	**(146,739)**	(130,657)
	1,657,097	973,794

In accordance with Shari'a principles, Islamic financing are provided for the activities that are entirely Sharia' compliant. As at 31 December 2021, AED 1,751 million (2020: AED 1,032 million) of Islamic financing assets are provided to customers based in the UAE.

Gross Ijara and related present value of the minimum Ijara payments

	2021 AED'000	2020 AED'000
Not later than one year	**33,500**	18,460
Later than one year but not later than five years	**162,438**	26,890
Later than five years	**145,559**	53,189
Gross Ijara	**341,497**	98,539
Less: Deferred income	**(19,878)**	(22,757)
Net Ijara	**321,619**	75,782
Net present value		
Not later than one year	**31,091**	15,331
Later than one year but not later than five years	**150,828**	15,199
Later than five years	**139,700**	45,252
Total net present value	**321,619**	75,782

See note 7 for movement in impairment for Islamic financing assets.

7 Impairment allowances

The movements in impairment allowance on financial assets, during the year are as follows:

	Cash and cash equivalents AED'000	Wakala deposits AED'000	Islamic financing assets AED'000	Sukuk AED'000	Other assets AED'000	Total AED'000
As at 1 January 2020	**7,614**	**11,855**	**154,632**	**7,161**	**3,440**	**184,702**
Charge/(reversal) for the year**	17,581	(3,447)	837	(364)	1,656	16,263
Other adjustments*	(1,774)	-	(266)	-	-	(2,040)
Amounts written off	-	-	(24,546)	-	(295)	(24,841)
As at 31 December 2020**	**23,421**	**8,408**	**130,657**	**6,797**	**4,801**	**174,084**
Charge/(reversal) for the year	26,689	(800)	18,139	(1,795)	604	42,837
Other adjustments*	(10,203)	-	(1,458)	-	-	(11,661)
Amounts written off	-	-	(599)	-	-	(599)
As at 31 December 2021	**39,907**	**7,608**	**146,739**	**5,002**	**5,405**	**204,661**

** Includes foreign exchange translation impact.*
*** Restated*

ECL impairment on sukuk is included in revaluation reserve for debt investments carried at FVTOCI and recognised in other comprehensive income.

8 Investment securities

	Quoted	2021 AED'000 Unquoted	Total
FVTPL investments			
Equity instruments	**101,891**	**280,000**	**381,891**
Investment in funds	**17,964**	**-**	**17,964**
	119,855	**280,000**	**399,855**
Debt instruments carried at amortised cost			
Cost	**-**	**8**	**8**
Loss allowances	**-**	**-**	**-**
	-	**8**	**8**
FVTOCI investments:			
Equity instruments	**26,497**	**132**	**26,629**
Sukuk	**491,785**	**-**	**491,785**
	518,282	**132**	**518,414**
	638,137	**280,140**	**918,277**

ECL impairment on FVTOCI sukuk is included in revaluation reserve for debt investments carried at FVTOCI and recognised in other comprehensive income. See note 7 for movement in impairment for debt securities classified as FVTOCI.

8 Investment securities *(continued)*

Investment securities as of 31 December 2020 were classified as following:

	2020 AED'000 Quoted	Unquoted	Total
FVTPL investments			
Equity instruments	84,064	280,000	364,064
Investment in funds	7,715	-	7,715
	91,779	280,000	371,779
Debt instruments carried at amortised cost			
Cost	-	6,575	6,575
Loss allowances	-	(1,848)	(1,848)
	-	4,727	4,727
FVTOCI investments:			
Equity instruments	9,958	716	10,674
Sukuk	672,040	-	672,040
	681,998	716	682,714
	773,777	285,443	1,059,220

9 Investment properties

The below table shows the movements in investment properties. The valuations of these properties are based on significant unobservable inputs and as a result are classified as Level 3 under the fair value hierarchy.

	2021 AED'000	2020 AED'000
At 1 January	**208,192**	222,000
Additions during the year	**-**	6,192
Gain / (loss) on fair valuation of investment properties	**9,000**	(20,000)
At 31 December	**217,192**	208,192

The fair values of the investment properties are arrived at on the basis of a valuation carried out by accredited independent valuers not connected with the Company. The valuers are members of professional valuers' associations and have appropriate qualifications and experience in the valuation of properties at the relevant locations. In estimating the fair value of the investment properties, the highest and best use of the properties is their current use. The valuations were mainly determined by using the Comparative Method (Market Approach), except for residential villas where the fair value is determined on the basis of subsequent sales of those residential villas. There has been no change to the valuation techniques during the year. Refer to note 3 for the key assumptions used in determination of fair value of investment properties and significant estimation uncertainty related to determination of the fair value.

9 Investment properties *(continued)*

The valuation models in accordance with those recommended by the International Valuation Standards Committee have been applied and are consistent with the principles in IFRS 13. The investment properties are categorised under Level 3 in the fair value hierarchy. There were no transfers between Levels 1, 2 or 3 during 2021 or 2020.

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

A description of the valuation techniques used and key inputs to the valuations of investment properties as at 31 December 2021 and 2020 is as follows:

Property	Valuation technique	Significant unobservable inputs	Sensitivity
Plots of land	Comparable Method	Comparable transactions Current market prices of similar assets	Change in micro and macro-economic conditions would cause a significant impact

Details of rental income and direct operating costs relating to investment properties are as follow:

	2021 AED'000	2020 AED'000
Rental income	**3,481**	2,241
Direct operating costs	**302**	290

10 Other assets

	2021 AED'000	2020 AED'000
Accrued profit	**6,309**	11,397
Advances, deposits and prepayments	**4,642**	27,112
Other assets	**89,642**	47,532
Staff advances	**1,456**	1,115
	102,049	87,156
Impairment allowances	**(5,405)**	(4,801)
	96,644	82,355

See note 7 for movement in impairment of other assets.

11 Property and equipment

	Land and Buildings AED'000	Furniture and fixtures AED'000	Office and computer equipment AED'000	Motor Vehicles AED'000	Right of use Asset* AED'000	Total AED'000
Cost						
January 1, 2021	25,702	3,726	16,101	1,498	2,923	49,950
Additions	2,637	4,699	2,670	212	1,943	12,161
Disposals	-	-	-	(388)	-	(388)
Other adjustments[1]	(922)	-	(1,217)	(491)	-	(2,630)
At 31 December 2021	27,417	8,425	17,554	831	4,866	59,093
Accumulated depreciation						
At 1 January 2021	5,451	2,889	9,769	572	244	18,925
Charge for the year	2,544	707	1,875	199	1,292	6,617
Disposals	-	-	-	(204)	-	(204)
Other Adjustment[1]	(451)	-	(379)	(161)	-	(991)
At 31 December 2021	7,544	3,596	11,265	406	1,536	24,347
Net book value	19,873	4,829	6,289	425	3,330	34,746
Cost						
January 1, 2020	25,822	3,365	15,620	1,518	5,501	51,826
Additions	137	361	696	887	2,923	5,004
Disposals	-	-	(5)	(819)	(5,501)	(6,325)
Other adjustments[1]	(257)	-	(210)	(88)	-	(555)
At 31 December 2020	25,702	3,726	16,101	1,498	2,923	49,950
Accumulated depreciation						
At 1 January 2020	3,068	1,568	8,149	1,124	2,001	15,910
Charge for the year	2,503	1,321	1,718	301	1,804	7,647
Disposals	-	-	(5)	(819)	(3,561)	(4,385)
Other Adjustment[1]	(120)	-	(93)	(34)	-	(247)
At 31 December 2020	5,451	2,889	9,769	572	244	18,925
Net book value	20,251	837	6,332	926	2,679	31,025

*Right of use asset pertains to office space occupied in a buildings which is used as office premises by the Group.
[1] pertains to foreign currency translation adjustment on property and equipment.

12 Margins against letters of guarantee

	2021 AED'000	2020 AED'000
Labour guarantees [1]	**889,121**	1,302,683
Corporate guarantees[2]	**12,319**	13,544
	901,440	1,316,227

[1] These are 100% margins collected by the Company on issuance of letters of guarantee in favour of the Ministry of Human Resources and Emiratisation (MOHRE) on behalf of its customers.
[2] These represent varying margins against corporate letters of guarantee (Note 24).

13 Customer accounts and deposits

	2021 AED'000	2020 AED'000
Savings accounts	**659**	2,413
Current accounts	**22,509**	48,891
Wakala deposits	**695,231**	272,185
	718,399	323,489

Wakala deposits amounting to AED 695.2 million invested by UAE corporate customers (2020: AED 272.2 million) and AED Nil by non-UAE corporate customers and financial institutions (2020: AED Nil). Wakala deposits are deposits made by customers. These deposits carry profit rates ranging from 0.60% to 4.50% per annum (2020: 0.50% to 4.55% per annum) having fixed maturity term which ranges up to 48 months.

14 Other liabilities

	2021 AED'000	2020 AED'000
Collections payable[1]	**204,347**	90,528
Outstanding cheques	**41,794**	93,671
End of service benefits	**5,908**	5,651
Lease Liability	**1,991**	1,935
Others[2]	**111,169**	186,785
	365,209	378,570

[1] These represent collections made on behalf of Government organisations and subsequently payable to them.
[2] Others includes deferred income of AED 34.7 million (2020: 57.4 million) collected in advance from customers, payable to unrestricted investment account holders of AED 9.3 million (2020: AED 34.5 million) and bills payable for trade finance to suppliers of AED Nil (2020: AED 10.8 million).

14 Other liabilities *(continued)*

Lease Liabilities

	2021 AED'000	2020 AED'000
1 January	**1,935**	1,940
Additions	**1,943**	2,923
Deletions	**-**	(1,940)
Profit accretion	**56**	19
Lease payment during the year	**(1,943)**	(1,007)
	1,991	1,935

The remaining lease liabilities are payable within two years.

The Group provides gratuity benefits to its eligible employees. The movement in the employees' gratuity payable obligation was as follows:

	2021 AED'000	2020 AED'000
Balance at 1 January	**5,651**	5,565
Charge for the year	**1,040**	915
Payments during the year	**(783)**	(829)
Balance at 31 December	**5,908**	5,651

15 Short term Murabaha facilities

Short term Murabaha facility (the "Facility") obtained during the year represents an Islamic Liquidity Murabaha with a local bank for AED 200 million. The Facility carries a profit rate of 1.5% p.a. + 3 Months EIBOR to be paid quarterly whereas the principal has three months maturity with a rollover option, renewable at the discretion of the bank. Short term Murabaha facilities are secured against pledge over the Company's investment securities in favor of the bank. The fair values of such securities pledged amounts to AED 268.8 million (2020: Nil).

16 Share capital

The authorised, issued and fully paid-up share capital of the Company is 275 million shares of AED 1 each (2020: 275 million shares of AED 1 each).

17 Reserves

Legal reserve
In accordance with Article 239 of the Commercial Companies Federal Law No. 2 of 2015 (as amended), the Company is required to transfer 10% of its net profit for the year to a non-distributable legal reserve until the amount of the legal reserve is equal to 50% of the Company's share capital. The share premium of AED 125 million has been included in legal reserve as directed by Article 19 of the Company's Articles of Association.

Investment revaluation reserves
As at 31 December 2021, investment revaluation reserve represents cumulative gains or losses arising on revaluation of FVTOCI debt, equity investments and the impact of ECL on FVTOCI debt investments.

Translation reserve
As at 31 December 2021, translation reserve represents cumulative gains or losses arising on translation on the exchange differences arising from translation of the net investment in foreign operations.

18 Income from wakala deposits and bank balances

	2021 AED'000	2020 AED'000
Profit on wakala deposits	**5,328**	18,481
Profit on bank balances	**533**	3,378
	5,861	21,859

19 Net fair value gain on investments

	2021 AED'000	2020 AED'000
Net fair value gain on quoted investments classified as FVTPL	**14,975**	9,131
	14,975	9,131

20 Net fees and commission income

	2021 AED'000	2020 AED'000
Fees and commission income:		
Fees	**84,466**	25,010
Commissions	**27,723**	68,006
	112,189	93,016
Fees and commissions expenses:		
Cash collection charges	**(1,823)**	(2,366)
Labour guarantees expenses	**(122)**	(105)
Bank fees and commissions	**(1,058)**	(1,521)
Credit card expenses	**(1,903)**	(1,245)
Others	**(145)**	(696)
	(5,051)	(5,933)
Net fees and commission income	**107,138**	87,083

21 Other operating income

	2021 AED'000	2020 AED'000
Dividend income	**25,985**	35,082
Others	**194,561**	32,611
	220,546	67,693

Others include net gain on translation of foreign currency balances amounting to AED 191 million (2020: AED 30 million).

22 General and administrative expenses

	2021 AED'000	2020 AED'000
Salaries and related benefits	**61,538**	53,395
Sponsorship and marketing expenses	**6,617**	7,647
Legal and professional expenses	**27,264**	5,918
Depreciation (Note 11)	**9,558**	7,376
Other general and administrative expenses*	**9,329**	11,877
	114,306	86,213

*Other general and administrative expenses include social contributions amounting to AED Nil (2020: AED 4 million).

23 Net impairment loss on financial assets

	2021 AED'000	2020* AED'000
Charge / (Reversal) for the year (net of write backs)		
Financing assets at amortised cost	**42,784**	16,332
Financial assets at FVTOCI	**53**	(364)
Others	**-**	-
Write off / Bad debt recovered	**-**	295
	42,837	16,263

*Restated

24 Contingencies and commitments

The amounts reflected in the table for guarantees represent the maximum accounting loss that would be recognized at the statement of financial position date.

	2021 AED'000	2020 AED'000
Guarantee given to the Central Bank of the UAE[1]	**100,000**	200,000
Guarantee to Government and other organisations	**12,836**	12,886
Labour guarantees issued	**1,013,462**	1,400,846
Corporate guarantees issued	**131,920**	79,453
Trade related contingencies	**80,244**	97,700
	1,338,462	1,790,885
Margin collected against guarantees	**(901,440)**	(1,316,227)
Wakalas encumbered against guarantees	**(87,441)**	(82,918)
	349,581	391,740

[1] Financial asset with a fair values of AED 168.7 million (2020: AED 253.7 million million) had been pledged as at 31 December 2021 relating to the guarantee given to the Central Bank of the UAE.

25 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise major shareholders, directors and key management personnel of the Group. Key management personnel comprise those who are involved in the strategic planning and decision making of the Group. The terms of these transactions are approved by the management and are made on terms agreed by the Board of Directors or management.

Remuneration of key management personnel and the Board of Directors remuneration during the year are as follows:

	2021 AED'000	2020 AED'000
Short term benefits	**10,350**	6,567
Post-employment benefits	**394**	517
Directors' remuneration	**16,998**	9,997

25 Related party transactions *(continued)*

The significant balances and transactions included in the consolidated financial statements are as follows:

	Parent[1] / Major Shareholder AED'000	Directors AED'000	Key Management Personnel AED'000	Total AED'000
At 31 December 2021				
Financing assets	**51,428**	**280,582**	**-**	**332,010**
Other assets / (liability)	**66,293**	**-**	**-**	**66,293**
Wakala deposits (liability)	**3,000**	**-**	**-**	**3,000**
Profit income	**1,850**	**20,047**	**-**	**21,897**
At 31 December 2020				
Financing assets	37,689	310,776	-	348,465
Other assets / liabilities	(185)	-	-	(185)
Profit income	2,289	12,683	-	14,972

[1] Parent includes the Parent of the Group and its subsidiaries.

26 Financial risk management

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

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up to date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The key risks are credit, liquidity, market and operational risks. Market risk includes currency, profit rate and other price risks.

Risk Management Framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework and they are assisted by two board committees (Risk and Compliance Committee ("BRCC') and Board Audit Committee ("BAC").

Board risk and Compliance Committee ("BRCC")
BRCC comprising of members from the Board, is responsible for recommending and setting the Group's risk strategy and policy guidelines, and subsequently monitoring adherence. BRCC takes credit decisions above management's discretionary powers, defines risk limits within which the Group's management operates and also monitors the overall risks for the Group. BRCC also has a responsibility to oversight the compliance with applicable laws and regulation. BRCC receives regular reports from Head of Risk and compliance summarising developments in the risk environment, alignment of business strategy with risk appetite, performance trends in the key Portfolios and actual or potential non-compliance with applicable laws and regulations.

The BRCC is assisted by two Management Level Committees in order to carry out reviews and make recommendations to the BRCC. These are the Management Risk and Compliance Committee (MRCC) and Assets and Liability Committee (ALCO).

26 Financial risk management *(continued)*

Risk Management Framework

Management Risk and Compliance Committee (MRCC)
The MRCC reviews and recommends the risk policies, risk appetite limits, potential credit and investment proposal recommendations to the BRCC and also ensures effective management of credit, market, operational, business continuity and reputational risks.

Asset Liability Committee (ALCO)
The ALCO reviews and advise to the BRCC for the Group's balance sheet structure and quality, management of liquidity and funding plans including profit rates on deposits and lending's.

Board Audit Committee (BAC)
The Board Audit Committee (BAC), assisted by the internal audit division, is charged with directly supporting the Board in fulfilling its responsibilities in safeguarding shareholders' funds. The BAC provides assurances to the Board that the policies and procedures and the objectives set by the Board, are being complied with. The BAC comprises three Board members and the Head of Audit, as its secretary, and meets at least four times a year.

The Group manages risks using three lines of defence comprising of business units, control units and Internal Audit. Business units, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and are in compliance with all relevant internal policies and processes. Risk, Legal and Compliance division, as the second line of defence, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defence. The Head of Risk has a direct reporting line to the BRCC to ensure the independence of Risk from business. Internal audit, headed by Head of Audit, as the third line of defence, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defence. The Head of Audit has a direct reporting line to the BAC.

In broad terms, the structure enables the establishment of risk management policies, and monitoring and review of compliance with those policies. Significant risk issues are escalated to the appropriate committee for information and/or action. The identification, assessment, measurement and management of specific risks is further discussed below:

(a) Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to a financial instrument, to meet its obligations under a contract. It arises principally from financing, trade finance and non-trading investment activities. For risk management purposes, credit risk arising on trading investments is reported as a component of market risk exposure. The Group has policies and procedures dedicated to controlling and monitoring risk from all such activities.

The Group's primary exposure to credit risk arises from financing and receivables, due from banks, and investments. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Group is exposed to credit risk through commitments to extend financing and financial guarantees.

26 Financial risk management *(continued)*

(a) Credit risk

The maximum exposure to credit risk at the reporting date is shown below:

	Gross maximum exposure	
	2021 AED'000	2020 AED'000
Assets		
Cash and cash equivalents	**285,274**	324,436
Wakala deposits	**51,344**	281,538
Financing assets	**1,803,836**	1,104,451
Investment securities	**491,793**	678,615
Other assets	**95,096**	80,259
Contingencies and commitments	**1,338,462**	1,790,885
	4,065,805	4,260,184

Credit risk management
Credit risk is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counter party is evaluated, and appropriate credit limits are established. To reduce individual counterparty credit risk, the Group ensures that established limits and actual levels of exposure are regularly reviewed and updated by management. In addition, the Group's credit review procedures are designed to identify, at an early stage, exposures that require more detailed monitoring and review.

The Group uses an internal risk rating system to assess the credit quality of corporate borrowers having exposure above AED 1 million. Each corporate borrower is assigned a rating, including classified accounts. The risk rating system has 10 grades. Grades 1-7 are performing, and Grades 8 -10 are non– performing.

Exposures to Government and related entities, banks and non-banking financial institutions are evaluated using external ratings (where available). For sukuk, issue ratings is used, where available. Where issue rating is not available, issuer ratings considered for risk evaluation.

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/10 of the CBUAE, no amount is required to be transferred to the impairment reserve.

Impact of Covid-19
World Health Organization ("WHO") officially declared COVID-19 a global pandemic on 11 March 2020. Considering the rapid spread of COVID-19 across the globe, various economies and sectors have faced significant disruptions and uncertainty and governments and authorities have instigated a host of measures to contain or delay the spread of the virus.

26 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Impact of Covid-19

On 27th March 2020, the IASB issued a guidance note, advising that both the assessment of Significant Increase in Credit risk ("SICR") and the measurement of expected credit loss ("ECL") are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken. It is difficult currently to incorporate the specific effects of COVID-19 and government support measures on a reasonable and supportable basis.

In line with other global regulators, the Central Bank of UAE ("CBUAE") issued the Targeted Economic Support Scheme ("TESS") standards effective from 15th March 2020 followed by further guidance and circulars from time to time, to introduce the provision of temporary deferment of principal and/or profit on outstanding financing for all affected individuals and businesses with specific conditions. CBUAE also provided guidelines for assessment of SICR and related Credit Losses in line with IASB Guidelines.

Though the guidelines restricts movement of accounts from Stage 1 to Stage 2 or Stage 3 merely on the basis of deferment of instalments, it does provides a provision of appropriate ECL overlay based on the available information and assessment of COVID – 19 impact of particular customers.

Considering the notices issue by IASB and CBUAE as mentioned above, the Group has considered the potential impact (based on the best available information) of the uncertainties caused by the Covid-19 pandemic and taken in to account the economic support and relief measures of governments and central banks to support the economy.

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.

The Group believes that allowing temporary deferments or providing extension of certain payments do 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.

Any changes made to ECL to estimate the overall impact of Covid-19 is subject to very high levels of uncertainty as limited forward-looking information is currently available on which to base those changes. Accordingly, detailed individual assessments can be reconducted for the significant facilities after the expiry of the relief period granted to certain customers.

The Group has recognized an additional ECL of AED 5.5 million of management overlays on a collective basis, based on the assessment of possible outcome of payment reliefs and impact of downturn weighting of macroeconomic parameters. This impact assessment is highly judgmental, and the Group will continue to reassess its position and the related impact on a regular basis for changes in macroeconomic environment as well as individual assessment of significant exposures.

Analysis of customers benefiting from payment deferrals.

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

26 Financial risk management *(continued)*

(a) Credit risk *(continued)*

31 December 2021

		Number of clients	Payment Deferrals AED'000	Exposure at default AED'000	Impairment allowance AED'000
Retail banking					
Stage 1	Group 1	49	1,146	20,299	907
	Group 2	8	126	2,782	247
		57	1,272	23,081	1,154
Stage 2	Group 1	6	5	81	15
	Group 2	7	34	797	214
		13	39	878	229
Stage 3	Group 1	1	4	39	33
	Group 2	3	26	590	501
		4	30	629	534
Wholesale banking					
Stage 1	Group 1	8	3,626	49,475	2,854
	Group 2	5	242	3,000	284
		13	3,868	52,475	3,138
Stage 2	Group 1	-	-	-	-
	Group 2	2	85	910	128
		2	85	910	128
Stage 3	Group 1	-	-	-	-
	Group 2	4	227	4,487	4,031
		4	227	4,487	4,031

As per the requirements of the Central Bank of UAE, the Company 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 Company continues to monitor the creditworthiness of these customers, particularly indications of potential inability to pay any of their obligations as and when they become due.

26 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management (continued)

Analysis of stage migrations of EAD and ECL for customers benefiting from payment deferrals.

As at 31 December 2021

	Non Credit impaired		Credit impaired		
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Retail banking (EAD)					
As of 1 January, 2021	8,542	618	140	-	9,300
Transfers from stage 1 to stage 2	(777)	777	-	-	-
Transfers from stage 2 to stage 1	360	(360)	-	-	-
Transfers from 1 and 2 to stage 3	-	(629)	629	-	-
Other movements	14,956	472	(140)	-	15,288
	23,081	878	629	-	24,588
Wholesale banking (EAD)					
As of 1 January, 2021	37,803	6,817	2,698	-	47,318
Transfers from stage 1 to stage 2	(910)	910	-	-	-
Transfers from stage 2 to stage 1	3,665	(3,665)	-	-	-
Transfers from 1 and 2 to stage 3	-	(1,936)	1,936	-	-
Other movements	11,917	(1,216)	(147)	-	10,554
	52,475	910	4,487	-	57,872
Retail banking (ECL)					
As of 1 January, 2021	525	154	119	-	798
Transfers from stage 1 to stage 2	(211)	211	-	-	-
Transfers from stage 2 to stage 1	32	(32)	-	-	-
Transfers from 1 and 2 to stage 3	-	(534)	534	-	-
Other movements	808	430	(119)	-	1,119
	1,154	229	534	-	1,917
Wholesale banking (ECL)					
As of 1 January, 2021	2,218	1,338	2,293	-	5,849
Transfers from stage 1 to stage 2	(128)	128	-	-	0
Transfers from stage 2 to stage 1	258	(258)	-	-	0
Transfers from 1 and 2 to stage 3	-	(1,862)	1,862	-	0
Other movements	790	782	(124)	-	1,448
	3,138	128	4,031	-	7,297

26 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management (continued)

ECL change (flow) for the year ended 31 December 2021

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Retail banking				
At I January 2021	525	154	119	798
Credit Cards	-	-	-	-
Housing Loans	-	-	-	-
Personal Loans	316	(19)	86	383
Auto Loans	313	94	329	736
	1,154	229	534	1,917
Wholesale banking				
At I January 2021	2,218	1,338	2,293	5,849
Other Corporates	312	-	-	312
SMEs	608	(1,210)	1,738	1,136
	3,138	128	4,031	7,297

External credit risk ratings

The table below presents the external credit ratings as at December 31 of the Group's deposits and balances due from banks, gross, and sukuk securities designated at FVTOCI based on Moody's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever Moody's ratings are not available, comparable Fitch or S&P's equivalent ratings scale is used.

	Balances with banks		Wakala deposits		Sukuk at FVTOCI	
	2021	2020	2021	2020	2021	2020
Ratings	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Aaa to Aa3	24,113	10,549	-	-	19,008	19,443
A1 to A3	192,099	236,045	-	241,372	24,866	253,077
Baa1 to Baa3	214	4	-	40,000	127,004	112,686
Ba1 to B3	-	-	-	-	205,477	235,208
Caa to C	-	-	-	-	-	17,952
Unrated	63,406	75,772	51,344	166	115,438	40,249
	279,832	322,370	51,344	281,538	491,793	678,615

Credit quality per class of financial assets

The credit exposures categorised and measured using a three-stage approach at the reporting date is shown below:

As at 31 December 2021

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	ECL provision AED'000	Net amount AED'000
Assets					
Cash and cash equivalents	249,288	-	35,986	(39,907)	245,367
Wakala deposits	51,344	-	-	(7,608)	43,736
Islamic financing assets	1,694,756	66,005	43,075	(146,739)	1,657,097
Investment securities	491,793	-	-	(5,002)	486,791
Other assets	94,539	-	-	(5,405)	89,134
	2,581,720	66,005	79,061	(204,661)	2,522,125

26 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit risk management *(continued)*

As at 31 December 2020 *(Restated)*

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	ECL provision AED'000	Net amount AED'000
Assets					
Cash and cash equivalents	288,450	-	35,986	(23,421)	301,015
Wakala deposits	281,538	-	-	(8,408)	273,130
Islamic financing assets	954,471	82,304	67,676	(130,657)	973,794
Investment securities	678,615	-	-	(6,797)	671,818
Other assets	80,259	-	-	(4,801)	75,458
	2,283,333	82,304	103,662	(174,084)	2,295,215

The concentrations of credit risk by industry sector at the reporting date is shown below:

As at 31 December 2021

	Cash and bank balances AED'000	Wakala deposits AED'000	Financing assets AED'000	Investment Securitie AED'000
Financial institutions	**279,831**	**51,344**	**11,471**	**286,083**
Construction	**-**	**-**	**233,659**	**-**
Transport, Storage & Communication	**-**	**-**	**30,064**	**37,459**
Services	**-**	**-**	**118,344**	**-**
Trade	**-**	**-**	**273,952**	**-**
Consumers	**-**	**-**	**249,633**	**-**
Healthcare	**-**	**-**	**81,184**	**-**
Government	**-**	**-**	**-**	**3,704**
Real estate	**-**	**-**	**321,201**	**140,124**
Others	**-**	**-**	**484,328**	**24,423**
	279,831	**51,344**	**1,803,836**	**491,793**

As at 31 December 2020

	Cash and bank balances AED'000	Wakala deposits AED'000	Financing assets AED'000	Investments Securities AED'000
Financial institutions	**322,370**	**281,538**	**75,301**	**328,732**
Construction	**-**	**-**	**195,700**	**-**
Transport, Storage & Communication	**-**	**-**	**3,293**	**76,294**
Services	**-**	**-**	**72,458**	**-**
Trade	**-**	**-**	**160,668**	**-**
Consumers	**-**	**-**	**301,527**	**-**
Healthcare	**-**	**-**	**102,224**	**-**
Government	**-**	**-**	**-**	**82,350**
Real Estate	**-**	**-**	**5,174**	**159,984**
Others	**-**	**-**	**188,106**	**31,255**
	322,370	**281,538**	**1,104,451**	**678,615**

26 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Impaired financing assets and debt investments
Impaired financing assets and debt investments are financial assets for which the Group determines that there is objective evidence that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The classification and measurement of ECL is further explained in note 2(h) of these consolidated financial statements.

Financing with renegotiated terms
Financing with renegotiated terms are financing that have been restructured due to deterioration in the borrower's financial position and where the Group has made material concessions that it would not otherwise consider. Once a financing is restructured, it remains in this category for a minimum period of twelve months, in order to establish a satisfactory track record of performance under the restructuring agreement. The twelve-month period commences from the date of signing of the agreement for restructuring.

Write-off policy
The Group writes off a financing or investment balance (and any related allowances for impairment losses) when it determines that the financing or investments are uncollectible. This is determined after all possible efforts of collecting the amounts have been exhausted.

Collaterals and other credit enhancements
The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible securities wherever possible. The Group ensures that all documentation used in collateralized transactions is binding on all parties and is legally enforceable in relevant jurisdictions. In addition, if the finance provided by the Group is asset backed (in accordance with the principles of Shari'a), the properties are funded based on the Group's appraised value. The appraised value is based on the internal assessment and a report from an independent valuer.

26 Financial risk management *(continued)*

(b) Liquidity risk

Liquidity or funding risk is the risk that the Group will encounter difficulty in meeting all foreseeable funding commitments and deposits / margins withdrawal that may arise. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time-frame in order to meet the funding requirements.

Management of liquidity risk

Management monitors the maturity profiles to ensure that adequate liquidity is maintained. This enhances funding flexibility, limits dependence on one source of funds. The ALCO is responsible for review and approval of liquidity policies and procedures.

Maturity profile of financial assets and liabilities:
The following table reflects the contractual maturities of assets and liabilities which have been determined based on the remaining period to maturity as at the statement of financial position date. It does not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds.

The maturity profiles of financial assets (gross) and liabilities are as follows:

As at 31 December 2021

	Profit Bearing			Non Profit bearing			
	Up to three months AED'000	From three months to 1 year AED'000	Over 1 year AED'000	Up to three months AED'000	From three months to 1 year AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and cash equivalents	187,907	-	-	97,367	-	-	285,274
Wakala deposits	-	51,344	-	-	-	-	51,344
Islamic financing assets	135,855	201,604	1,466,377	-	-	-	1,803,836
Investments securities	-	59,416	432,377	-	-	426,484	918,277
Other assets	-	-	-	-	95,096	-	95,096
	323,762	312,364	1,898,754	97,367	95,096	426,484	3,153,827
LIABILITIES							
Margins against letters of guarantee	-	-	-	901,440	-	-	901,440
Customer accounts and deposits	378,088	316,700	443	23,168	-	-	718,399
Other liabilities	-	-	-	393,408	6,557	-	399,965
Short term Murabaha facilities	200,000	-	-	-	-	-	200,000
	578,088	316,700	443	1,318,016	6,557	-	2,219,804
Undiscounted Cash flow of liabilities*							
Customer accounts and deposits	332,222	367,392	443	23,168	-	-	723,225
Short term Murabaha facilities	201,106	-	-	-	-	-	201,106

*undiscounted cashflows of liabilities except for customer accounts and deposits and short term Murabaha facilities (shown separately above) are same as their maturity profiles.

26 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

Management of liquidity risk ***(continued)***

As at 31 December 2020

	Profit Bearing			Non Profit bearing			
	Up to three months AED'000	From three months to 1 year AED'000	Over 1 year AED'000	Up to three months AED'000	From three months to 1 year AED'000	Unspecified maturity AED'000	Total AED'000
ASSETS							
Cash and cash equivalents	276,949	-	-	47,487	-	-	324,436
Wakala deposits	165,000	116,538	-	-	-	-	281,538
Islamic financing assets	5,596	4,476	1,094,379	-	-	-	1,104,451
Investments securities	110,385	79,855	488,374	-	-	382,454	1,061,068
Other assets	-	-	-	-	80,259	-	80,259
	557,930	200,869	1,582,753	47,487	80,259	382,454	2,851,752
LIABILITIES							
Margins against letters of guarantee	-	-	-	1,316,227	-	-	1,316,227
Customer accounts and deposits	134,720	137,427	38	51,304	-	-	323,489
Other liabilities	-	-	-	320,992	145	-	321,137
	134,720	137,427	38	1,688,523	145	-	1,960,853
Undiscounted Cash flow of liabilities*							
Customer accounts and deposits	136,330	193,775	41	51,304	-	-	381,450

Analysis of financial liabilities by contractual undiscounted payment obligation
The table above also represents the maturity profile of the Goups's financial liabilities as at 31 December 2021 and 2020 as the contractual undiscounted payment obligations are same as their carrying values except for Wakala deposits in other liabilities.

Repayments which are subject to notice are treated as if notice was given immediately. However, the Group expects that many customers will not request payment on the earliest date the Group could be required to pay, and the table does not reflect the expected cash flows indicated by the Groups's deposit / margin retention history.

(c) Market risk

Market risk is the risk that movement in market risk factors e.g. profit rates, foreign exchange rates, credit spreads and equity prices, will affect the Group's income or the value of its financial instruments.

Management of market risk

The Group separates its exposure for market risk purposes into trading and non-trading portfolios. All trading instruments are recognised at fair value, and changes in fair value are directly shown in the statement of profit or loss. Exposure to market risk is managed in accordance with risk limits set by senior management in response to changing market conditions.

26 Financial risk management *(continued)*

(c) Market risk *(continued)*

Management of market risk *(continued)*

Profit rate risk

Profit rate risk arises from profit bearing financial instruments and reflects the possibility that changes in profit rates will adversely affect the value of the financial instruments and the related income. Repricing mismatches expose the Group to unanticipated fluctuations in profit income or underlying economic value.

The Group manages the profit rate risk by monitoring profit rate mismatches. The Group is not materially exposed to profit rate risk (except for FVTOCI debt instruments) due to regular profit rate fluctuations, as almost all its profit generating assets are at a fixed rate and liabilities are either fixed rated or not profit bearing.

A change in the price by 1% would have immaterial (2020: not material) impact on the profit or loss. As the Group is not exposed to any material floating rate instrument, the maturity dates and contractual repricing dates would be the same and thus the profit rate mismatch is the same as the maturity mismatches disclosed in Note 26(b).

(d) Foreign currency risk

The Group does not have any significant foreign currency dealings except for USD which is pegged with AED.

(e) Equity price risk

Equity price risk arises from changes in the value of investments at fair value through profit or loss and FVTOCI equity investments. A change in the price by 1% would have AED 3,999 thousand (2020: AED 3,718 thousand) impact on the profit or loss and AED 266 thousand (2020: AED 107 thousand) impact on other comprehensive income.

(f) Operational risk

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

The primary responsibility related to operational risk rests with the Board, however, the board has delegated such responsibility to BRCC, supported by MRCC and Head of Risk, as detailed in the risk framework above. The operational risk management process includes risk identification, assessment, measurement and the development and implementation of controls to mitigate or minimise potential impacts due to failure of such controls.

The Group has established standard policies, procedures, processes and controls in order to appropriately identify and manage operational risks. The key features of the Group's operational risk management process include but not limited to:

- segregation of duties, including the independent authorisation of transactions;
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- periodic assessment of operational risks faced, and the adequacy of control procedures to address the risks identified;

26 Financial risk management *(continued)*

(f) Operational risk *(continued)*

- incidence reporting and management process;
- whistle blowing and fraud risk management policy;
- reporting of operational losses and proposed remedial action;
- development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation through risk transfer strategy such as insurance, where effective.

Compliance with Group standards is supported by periodic reviews undertaken by the Internal Audit function and results are submitted to the Audit Committee and senior management of the Group. Periodic reviews are also conducted by compliance department and any breaches or non-compliance is reported to the BRCC and senior management.

(g) Fair value measurement

The Group's consolidated financial statements are prepared on a fair value basis for investment properties and available for sale investments except those for which a reliable measure of fair value is not available. Other financial assets and liabilities are stated at amortised cost or historical cost.

The fair value of the Group's assets and liabilities is not materially different from the carrying value at 31 December 2021.

The table below sets out the Group's classification of each class of financial assets and liabilities and their gross carrying amounts as at 31 December 2021 and 31 December 2020:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Carrying amount AED'000
At December 31, 2021				
Cash and cash equivalents	-	-	285,274	285,274
Wakala deposits	-	-	51,344	51,344
Islamic financing assets	-	-	1,803,836	1,803,836
Investment securities	399,855	518,414	8	918,277
Other assets	-	-	94,539	94,539
	399,855	518,414	2,235,001	3,153,270
Liabilities				
Margins against letters of guarantee	-	-	901,440	901,440
Customer accounts and deposits	-	-	718,399	718,399
Other liabilities	-	-	330,453	330,453
Short term Murabaha facilities			200,000	200,000
	-	-	2,150,292	2,150,292

26 Financial risk management *(continued)*

(g) Fair value measurement *(continued)*

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Carrying amount AED'000
At December 31, 2020				
Cash and cash equivalents	-	-	324,436	324,436
Wakala deposits	-	-	281,538	281,538
Islamic financing assets	-	-	1,104,451	1,104,451
Investment securities	371,779	682,714	6,575	1,061,068
Other assets	-	-	80,259	80,259
	371,779	682,714	1,797,259	2,851,752
Liabilities				
Margins against letters of guarantee	-	-	1,316,227	1,316,227
Customer accounts and deposits	-	-	323,489	323,489
Other liabilities	-	-	321,137	321,137
	-	-	1,960,853	1,960,853

Fair value hierarchy

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

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted bid prices for identical assets or unadjusted quoted offer prices for identical liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on latest available information and observable inputs of a similar nature, historical observations or other analytical techniques.

This category mainly includes private equity instruments. The carrying values of these investments are based on the latest available valuations performed by management.

26 Financial risk management *(continued)*

(g) Fair value measurement *(continued)*

Valuation techniques using significant unobservable inputs – Level 3 *(continued)*

Investment properties classified as Level 3 are stated at fair value, which has been determined based on valuations performed by independent professional valuers. The valuation methodologies considered by external valuers include the Income Capitalisation Method and Comparable Method.

Under the Income Capitalisation Method, the income receivable under existing lease agreements and projected future rental streams are capitalised at appropriate rates to reflect the investment market conditions at the valuation dates.

The Comparable Method utilizes the evidence of transactions or current asking prices of similar sites in the immediate vicinity and, if appropriate, applies adjustments to the sales figures based on market research, and discussions with independent agents.

Such estimations are based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

The table below shows the hierarchy used by the Group for the assets and liabilities that are measured at fair value or for which fair value information is disclosed as at:

31 December 2021

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
Assets				
Investment securities	**638,137**	**-**	**280,132**	**918,269**
Investment properties	**-**	**-**	**217,192**	**217,192**
	638,137	**-**	**497,324**	**1,135,461**

31 December 2020

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Assets				
Investment securities	773,777	-	280,716	1,054,493
Investment properties	-	-	208,192	208,192
	773,777	-	488,908	1,262,685

During the year ended 31 December 2021, there were no transfers between Levels (2020: nil).

Movement in investments securities that are measured based on the Level 3 hierarchy are as follows:

	2021 AED'000	2020 AED'000
At 1 January	**280,716**	280,669
(Reclassification)/purchases	**(68)**	170
Fair value adjustments	**-**	-
Other adjustments	**(516)**	(123)
At 31 December	**280,132**	280,716

27 Prior year adjustments

As at 31 December 2020, the Group recognized a loss allowance of nil against exposure of bank balances held with a foreign bank in Beirut, Lebanon. This has been determined as an error and resulted in an overstatement of cash and cash equivalents, total equity and total comprehensive income for the year ended 31 December 2020 by AED 15.8 million.

Management applied the correction retrospectively in the financial statements as an accounting error as it is material. Since the error arose in the application of IFRS 9, balances as of 31 December 2020 are restated in accordance with the requirements of IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The effect of the restatement of comparative information as of 31 December 2021 is summarized below:

	As previously Reported AED ('000)	Restatement AED ('000)	As restated AED ('000)
Consolidated statement of financial position as at 31 December 2020			
Cash and cash equivalents	316,812	(15,797)	301,015
Total assets	2,944,528	(15,797)	2,928,731
Retained earnings	482,321	(13,452)	468,869
Translation reserve	(19,385)	1,359	(18,026)
Non- controlling interest	39,088	(3,704)	35,384
Total equity	926,242	(15,797)	910,445
Consolidated statement of profit or loss for the year ended 31 December 2020			
Reversal/(charge) of Impairment on financial assets	1,308	(17,571)	(16,263)
Net Profit	170,076	(17,571)	152,505
Consolidated statement of other comprehensive income for the year ended 31 December 2020			
Exchange difference arising on translation of foreign operations	(34,235)	1,774	(32,461)
Total comprehensive income for the year	141,525	(15,797)	125,728
Consolidated statement of cash flow for the year ended 31 December 2020			
Profit for the year before taxation	177,330	(17,571)	159,759
Adjustment for: Credit loss on financial assets	(1,308)	17,571	16,263

28 Non-controlling interests

The table below shows details of the non-controlling interests of the National Bank of Sudan:

Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Total comprehensive income/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
	2021	2020	**2021 AED'000**	2020 AED'000 *Restated*	**2021 AED'000**	2020 AED'000 *Restated*
Republic of Sudan	**77.8%**	76.6%	**(6,782)**	**(3,784)**	**32,068**	**35,384**

Summarised financial information in respect of the Group's subsidiary National Bank of Sudan that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2021 AED'000	2020 AED'000 *Restated*
Assets	**215,100**	294,186
Liabilities	**(47,225)**	(120,865)
	167,875	173,321
Revenue	**210,051**	49,884
Expenses	**(42,764)**	(34,172)
Other comprehensive (loss)/income	**(196,224)**	(31,854)
Total comprehensive (loss)/income for the year	**(28,937)**	(16,142)
Total comprehensive (loss)/income for the year attributable to owners	**(22,155)**	(12,358)
Total comprehensive (loss)/income for the year attributable to the non-controlling interests	**(6,782)**	(3,784)
Total comprehensive (loss)/income for the year	**(28,937)**	(16,142)
Dividends paid to non-controlling interests	**47**	47
Net cash inflows from operating activities	**10,018**	12,185
Net cash outflows from investing activities	**(133,069)**	(10,942)
Net cash inflows from financing activities	**180,781**	54,263
At 31 December	**57,730**	55,506

29 Non-cash transaction

Following non-cash transaction has been excluded from statement of cash flows:

	2021 AED'000	2020 AED'000
Settlement of Islamic financing asset against acquisition of investment property	-	5,661

30 Approval of separate financial statements

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 March 2022.