INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED
ABU DHABI BRANCH

2021

Reports and Financial Statements

Industrial and Commercial Bank of China Limited
Abu Dhabi Branch

Reports and financial statements
for the year ended 31 December 2021

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REPORT OF THE MANAGEMENT

We are pleased to submit this report and the audited financial statements of Industrial and Commercial Bank of China Limited - Abu Dhabi Branch (the "Branch") for the year ended 31 December 2021.

Incorporation and registered offices

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch (the "Branch") is registered as a Branch of Industrial and Commercial Bank of China Limited (the "Head Office") in Abu Dhabi, United Arab Emirates ("UAE"). The Head Office is an international public shareholding bank registered in the People's Republic of China and is listed on both the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.

The Branch obtained a 'wholesale banking license' from the UAE Central Bank on 14 December 2009 and is engaged in the provision of financial services as stipulated by its license. The Branch commenced operations from 7 June 2011. The Branch's registered office is at Addax Tower, Offices 5207, 5208, and 5209, Al Reem Island, Abu Dhabi, UAE, P.O. Box 62108, Abu Dhabi, United Arab Emirates.

Financial position and results

The financial position and results of the Branch for the year ended 31 December 2021 are set out in the accompanying financial statements.

The Branch recorded a net operating income of AED 30 million during the year ended 31 December 2021 (2020: AED 41 million) and net profit of AED 15 million for the year ended 31 December 2021 (2020: AED 14 million).

Signed on behalf of the Management

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Mr. Zhang Junguo
General Manager

28 March 2022

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INDEPENDENT AUDITOR'S REPORT

To the Head Office of
Industrial and Commercial Bank of China Limited
Abu Dhabi Branch

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Industrial and Commercial Bank of China Limited - Abu Dhabi Branch** (the "Branch"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and other comprehensive income, statement of changes in Head Office equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for opinion

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

Other information

Management is responsible for the other information. The other information comprises the Report to the management, which we obtained prior to the date of this auditor's report. The other information does not include the financial statements and our report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

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Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Head Office of Industrial and Commercial Bank of China Limited (continued)

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with 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.

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Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Head Office of Industrial and Commercial Bank of China Limited (continued)

Report on other legal and regulatory requirements

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

- we have obtained all the information we considered necessary for the purposes of our audit;
- the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended);
- the Branch has maintained proper books of account;
- the financial information included in the management's report is consistent with the books of account of the Branch;
- investments during the year ended 31 December 2021 are disclosed in note 9 to the financial statements;
- note 8 to the financial statement discloses material related party transactions and the terms under which they were conducted;
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Branch has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Article of Association which would material affect on its activities or its financial position as at 31 December 2021; and
- note 29 to the financial statements discloses social contributions made during the year ended 31 December 2021.

Further, as required by the Article 114 of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purposes of our audit.

Deloitte & Touche (M.E.)

Akbar Ahmad
Registration No: 1141
28 March 2022
Dubai
United Arab Emirates

Statement of financial position
as at 31 December 2021

	Notes	2021 AED	2020 AED
ASSETS			
Cash in hand and balances with UAE Central Bank	6	**309,995,371**	298,678,318
Due from banks	7	**99,847,025**	56,650,753
Due from Head Office, affiliates and branches	8	**72,359,247**	50,353,126
Investment securities	9	**918,790,012**	987,448,644
Loans and advances	10	**845,088,107**	1,041,984,775
Property, furniture and equipment	11	**8,976,939**	9,574,475
Other assets	12	**13,814,570**	10,002,877
Total assets		**2,268,871,271**	2,454,692,968
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Due to banks	7	**3,739,065**	282,246,024
Due to Head Office, affiliates and branches	8	**805,528,120**	659,363,932
Subordinated borrowings	8	**183,625,000**	183,625,000
Customer deposits	13	**691,213,840**	772,060,272
Other liabilities	14	**39,471,685**	25,867,740
Total liabilities		**1,723,577,710**	1,923,162,968
HEAD OFFICE EQUITY			
Allocated capital	17	**312,120,000**	312,120,000
Statutory reserve	18	**21,849,908**	20,305,875
Investment revaluation reserve		**14,674,486**	16,351,252
Retained earnings		**196,649,167**	182,752,873
Total Head Office equity		**545,293,561**	531,530,000
Total liabilities and Head Office equity		**2,268,871,271**	2,454,692,968

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Mr. Zhang Junguo
General Manager

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

Statement of profit or loss and other comprehensive income for the year ended 31 December 2021

	Notes	2021 AED	2020 AED
Interest income	21	**41,644,413**	56,426,147
Interest expense	22	**(18,285,359)**	(24,684,961)
Net interest income		**23,359,054**	31,741,186
Fees and commission income		**3,971,689**	4,093,565
Fees and commission expense		**(239,739)**	(130,734)
Net fees and commission income		**3,731,950**	3,962,831
Net gain on foreign exchange		**184,271**	1,162,796
Net gain on fair valuation of derivative financial instruments	20	**2,908,819**	4,197,038
Operating income		**30,184,094**	41,063,851
General and administrative expenses	24	**(13,601,086)**	(7,923,981)
Provision released/(charged) for expected credit losses	23	**2,170,719**	(12,335,585)
Profit for the year before tax		**18,753,727**	20,804,285
Income tax expense	15	**(3,313,400)**	(6,620,000)
Profit for the year		**15,440,327**	14,184,285
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Debt investments at FVOCI-net change in fair value		**(1,676,766)**	8,701,990
Total comprehensive income for the year		**13,763,561**	22,886,275

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

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

	Allocated capital AED	Statutory reserve AED	Investment revaluation reserve AED	Retained earnings AED	Total AED
At 1 January 2020	312,120,000	18,887,446	7,649,262	169,987,017	508,643,725
Profit for the year	-	-	-	14,184,288	14,184,288
Other comprehensive income	-	-	8,701,990	-	8,701,990
Total comprehensive income for the year	-	-	8,701,990	14,184,285	22,886,275
Transfer to statutory reserve	-	1,418,429	-	(1,418,429)	-
At 31 December 2020	312,120,000	20,305,875	16,351,252	182,752,873	531,530,000
At 1 January 2021	312,120,000	20,305,875	16,351,252	182,752,873	531,530,000
Profit for the year	-	-	-	15,440,327	15,440,327
Other comprehensive loss	-	-	(1,676,766)	-	(1,676,766)
Total comprehensive income for the year	-	-	(1,676,766)	15,440,327	13,763,561
Transfer to statutory reserve	-	1,544,033	-	(1,544,033)	-
At 31 December 2021	**312,120,000**	**21,849,908**	**14,674,486**	**196,649,167**	**545,293,561**

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

Statement of cash flows
for the year ended 31 December 2021

	Notes	2021 AED	2020 AED
Operating activities			
Net profit before tax for the year		**18,753,727**	20,804,285
Adjustments:			
Depreciation	24	**672,747**	394,929
Expected credit loss (released)/charged on financial instruments	23	**(2,170,719)**	12,335,585
Amortisation of (discount)/premium on investment securities	9	**(6,238,114)**	239,988
Provision for employees' end of service benefits	16	**240,903**	60,756
Cash generated from operations before changes in operating assets and liabilities		**11,258,544**	33,835,543
Changes in operating assets and liabilities:			
Decrease in due from the UAE Central Bank		**8,216,450**	44,190,539
Decrease in due from the banks, Head Office, affiliates and branches		**-**	310,517,000
Decrease/(increase) in loans and advances		**199,091,912**	(41,648,054)
(Increase)/decrease in other assets		**(3,811,693)**	10,984,588
(Decrease)/increase in due to the banks, Head Office, affiliates and branches		**(166,185,146)**	277,738,057
Decrease in customer deposits		**(80,846,432)**	(375,318,778)
Increase/(decrease) in other liabilities		**17,185,841**	(125,592,324)
Cash (used in)/generated from operations		**(15,090,524)**	100,871,028
Income tax paid	15	**(6,627,974)**	(6,229,488)
Employees' end of service benefits paid	16	**(508,225)**	(277,071)
Net cash (used in)/generated from operating activities		**(22,226,723)**	128,200,012
Investing activities			
Purchase of property, furniture and equipment	11	**(75,211)**	(9,007,102)
Proceeds from redemption of investments		**326,529,992**	162,750,143
Purchase of investment securities		**(253,334,537)**	(334,796,850)
Net cash generated from/(used in) investing activities		**73,120,244**	(181,053,809)
Increase/(decrease) in cash and cash equivalents		**50,893,521**	(52,853,797)
Cash and cash equivalents at the beginning of the year		**(128,679,587)**	(75,825,790)
Cash and cash equivalents at the end of the year		**(77,786,066)**	(128,679,587)

Statement of cash flows
for the year ended 31 December 2021 (continued)

	Notes	2021 AED	2020 AED
Cash and cash equivalents			
Cash in hand	6	**31,971**	1,171
Balances with the UAE Central Bank with original maturity of less than three months excluding reserve	6	**267,065,500**	247,562,797
		267,097,471	247,563,968
Following balances where the respective original maturity is less than three months:			
- Due from banks, Head Office, affiliates and branches		**172,206,272**	107,003,879
- Due to banks, Head Office, affiliates and branches		**(517,089,809)**	(483, 247,434)
		(344,883,537)	(376,243,555)
Total cash and cash equivalents		**(77,786,066)**	(128,679,587)

Notes to the financial statements
for the year ended 31 December 2021

1. Incorporation and principal activities

Industrial and Commercial Bank of China Limited - Abu Dhabi Branch (the "Branch") is registered as a Branch of Industrial and Commercial Bank of China Limited (the "Head Office") in Abu Dhabi, United Arab Emirates ("UAE"). The Head Office is an international public shareholding bank registered in the People's Republic of China and is listed on both the Shanghai Stock Exchange and the Stock Exchange of Hong Kong.

The Branch obtained a 'wholesale banking license' from the UAE Central Bank on 14 December 2009 and is engaged in the provision of financial services as stipulated by its license. The Branch commenced operations from 7 June 2011. The Branch's registered office is at Addax Tower, Offices 5207, 5208, and 5209, Al Reem Island, Abu Dhabi, UAE, P.O. Box 62108, Abu Dhabi, United Arab Emirates.

The activities of the Branch are also governed by the provisions of the Federal Law No. 2 of 2015 (as amended) and the Decretal Federal Law No. (14) of 2018. Federal Law No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on 20 September 2021 and will come into effect on 2 January 2022, to entirely replace Federal Law No. 2 of 2015 on Commercial Companies, as amended (the "2015 Law"). The 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.

The accompanying financial statements represent the operations of the Abu Dhabi Branch only and do not extend to any other operations elsewhere. For consideration of the financial position relating to the overall operations of Industrial and Commercial Bank of China Limited, reference should be made to consolidated financial statements of the Head Office.

2. Basis of preparation

a) Statement of Compliance

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and Interpretations ("IFRIC") issued by the International Accounting Standard Board ("IASB") and applicable requirements of the law of the UAE.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.5.

b) Basis of measurement

The financial statements are prepared under the historical cost convention, except for derivative financial instruments and fair value through other comprehensive income (FVOCI) investments at fair value.

The financial statements are presented in UAE Dirhams (AED), which is the functional and presentation currency of the Branch and all the values are rounded to the nearest AED except where otherwise stated.

3. Application of new and revised IFRSs

3.1 New and amended IFRS standards and interpretations that are effective for the current year

In the current year, the Branch has applied the below amendments to IFRS Standards and Interpretations that are effective for an annual period that begins on or after 1 January 2021.

3. Application of new and revised IFRSs (continued)

3.1 New and amended IFRS standards and interpretations that are effective for the current year (continued)

IBOR Transition (Interest Rate Benchmark Reforms)

Effective from 1 January 2021, the Branch implemented Phase 2 of the Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The areas impacted by the amendments include application of practical expedient for accounting for modifications to financial instruments that are measured at other than fair value through profit or loss when transactions are updated for the new Risk Free Rate (RFR) 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 branch is exposed and how it manages those risks. The amendments are applied retrospectively with no restatement required for prior periods.

During 2020, the Branch implemented Phase 1 of the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16), which provided relief on hedge accounting requirements for those hedges existing before the IBOR replacement. The Branch's exposure to hedging instruments (Interest Rate Swaps and Cross-Currency Swaps) and hedged items maturing from the year 2021 onwards which are in scope of Phase 1 amendments.

Under the Phase 1 amendments the Branch determined that:

- Hedge accounting relationships will continue:
- For cash flow hedges of IBOR cash flows despite the uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reform;
- The Branch will not discontinue hedge accounting due to the application of practical expedient
- The Branch will retain the cumulative gain or loss in the cash flow hedge reserve for designated IBOR cash flow hedges that are subject to the interest rate benchmark reform even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items.
- The Branch will continue to apply the Phase 1 amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reform with respect to the timing and the amount of the underlying cash flows to which the branch is exposed to ends. The Branch expects this uncertainty will continue until the branch's contracts that reference IBORs are amended to specify the date on which the interest rate benchmark will be replaced.

As a result of the Phase 2 amendments in 2021:

- When the contractual terms of non-derivative financial instruments have been amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change), the Branch changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate updated to reflect the change in an interest rate benchmark from IBOR to Risk Free Rate (RFR) without adjusting the carrying amount. If additional changes are made, which are not economically equivalent, the applicable requirements of IFRS 9 are applied to the additional changes.
- When changes are made to the hedging instruments, hedged item and hedged risk, as a result of the interest rate benchmark reform which are economically equivalent, the branch updates the hedge documentation without discontinuing the hedging relationship.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

3. Application of new and revised IFRSs (continued)

3.1 New and amended IFRS standards and interpretations that are effective for the current year (continued)

As a result of the Phase 2 amendments in 2021(continued)

The Branch is primarily exposed to USD LIBOR which are subject to the interest rate benchmark reform. The exposures arise on derivatives and non-derivative financial assets and liabilities.

The Branch has cash flow and fair value relationships affected by the interest rate benchmark reform. Hedged items include issued and USD fixed rate debt and advances to and deposits from customers linked to USD LIBOR. Hedging instruments include IBOR-linked interest rate swaps and cross-currency swap.

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

31 December 2021 **in AED**	***Non-derivative financial assets- carrying value***	***Non-derivative financial liabilities – carrying value***	***Derivatives Nominal amount***
LIBOR USD (3 months)	417,391,465	-	217,840,438

3.2 New and revised IFRS Standards and interpretations that are issued but not yet effective

At the date of authorisation of these financial statements, the Branch has not yet applied the following new and revised IFRSs that have been issued but are not yet effective

New and revised IFRSs	***Effective for annual periods beginning on or after***
Amendments to IAS 16 *Property, plant and equipment* relating to proceeds before intended use.	1 January 2022
Amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* relating to onerous contracts.	1 January 2022
Amendments to IFRS 3 *Business Combinations* relating to reference to conceptual framework	1 January 2022
Annual improvements to IFRS standards 2018 - 2020	1 January 2022
Amendments to IAS 8 *Accounting policies, Changes in accounting estimates and errors*	1 January 2023
Amendments to IAS 1 *Presentation of Financial Statements* relating to classification of Liabilities as Current or Non-Current	1 January 2023
Amendment to IFRS 17 *Insurance Contracts*	1 January 2023
Amendment to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to treatment of sale or contribution of assets from investors	Effective date deferred indefinitely.
Amendment to IAS 12 *Deferred tax*	1 January 2023

The Branch anticipates that these new standards, interpretations and amendments will be adopted in the Branch's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of Branch in the period of initial application.

4. Significant Accounting Policies

a) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with UAE Central Bank and other banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Branch in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

b) Due from banks, Head Office, branches and affiliates

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any.

c) Property, furniture and equipment

Property, furniture and equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of the equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

	Years
Property	over 30
Vehicle	over 6
Furniture and fixtures	over 5
Computer equipment	over 3

The carrying values of property, furniture and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property, furniture and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the assets) is included in the statement of profit or loss and other comprehensive income in the period the asset is derecognised. The assets residual values, useful lives and methods of depreciation are reviewed and adjusted if appropriate, at each financial period end.

d) Customer deposits, due to banks and other financial institutions and other liabilities

Customer deposits, due to banks and other financial institutions and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

e) Provisions and contingent liabilities

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

Notes to the financial statements
for the year ended 31 December 2021 (continued)

4. Significant accounting policies (continued)

e) Provisions and contingent liabilities (continued)

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.

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

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

f) Revenue recognition

Net Interest income

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method.

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

4. Significant accounting policies (continued)

f) Revenue recognition (continued)

Net Interest income (continued)

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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

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

Fee and commission income

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

g) Employees' benefits

The Branch provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

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

4. Significant accounting policies (continued)

h) Impairment of non-financial assets

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

i) Foreign currency transactions

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling on the date of the transaction. Realised and unrealised exchange gains and losses have been dealt within the income statement.

(i) Functional and presentation currency

Items included in the financial statements of the Branch are measured in UAE Dirhams (AED) which is the functional and presentation currency of the Branch, rounded to the nearest except when otherwise stated.

(ii) Transactions and balances

Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the statement of Profit or loss and other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

j) Fair value measurement

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants.

4. Significant accounting policies (continued)

j) Fair value measurement (continued)

For investments in equity instruments where a reasonable estimate of fair value cannot be determined, the investment is carried at cost.

Fair values of non-financial instruments are measured based on valuation provided by independent valuators.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branch determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

k) Financial instruments

Financial assets and liabilities are recognised when a Branch's entity becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Business model assessment

The Branch makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Branch's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and Its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.
- Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) Financing instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

(ii) Financing instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

(iii) all other financing instruments (e.g. instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Branch may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis:

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

(iv) the Branch may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and

(v) the Branch may irrevocably designate a financing instruments that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Financing instruments at amortised cost or at FVTOCI

The Branch assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Branch's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and profit on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are payments of principal).

Profit consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs, as well as a margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic financing arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Branch determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

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

At initial recognition of a financial asset, the Branch 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 Branch 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 Branch has not identified a change in its business models.

Financing instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets at FVTPL are:

(i) assets with contractual cash flows that are not SPPI; or/and

(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or

(iii) 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 option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an “accounting mismatch”). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued. Financial assets designated as FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in investment income.

i) Reclassifications

If the business model under which the Branch 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 Branch’s financial assets. During the current period and previous accounting period, there was no change in the business model under which the Branch holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

ii) Impairment

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

- Balances with the UAE Central Bank
- Due from banks and other financial institutions
- Due from Head Office, branches and other affiliates
- Loans and advances, net
- Investment securities at amortized cost
- Loan commitments, financial guarantees and letters of credit
- Interest rate swaps and other derivatives

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

ii) Impairment (continued)

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime 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, i.e. 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.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the branches under the contract and the cash flows that the Branch expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.
- for undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the branches if the holder of the commitment draws down the finance and the cash flows that the Branch expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Branch expects to receive from the holder, the customer or any other party.

The Branch 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 EIR, regardless of whether it is measured on an individual basis or a collective basis.

iii) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the financer of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financer would not otherwise consider;
- the financer of the customer has downgraded the ratings because of deterioration in financial condition of the customer; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Branch assesses whether financing instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate financing instruments are credit impaired, the Branch considers factors such as delinquency, watchlist indication, restructuring flag, deterioration in credit ratings and the ability of the customer to raise funding.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

iii) Credit-impaired financial assets (continued)

A financial asset is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

iv) Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Branch recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

As at 31 December 2021 no POCI was purchased nor recorded in the books of the Branch.

v) 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 Branch considers the following as constituting an event of default:

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

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Further, the cases where the criteria of 90 days overdue are rebutted using reasonable information. When assessing if the customer is unlikely to pay its credit obligation, the Branch takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate financing a qualitative indicator used is the 'watchlist flag'. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Branch uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

vi) Significant increase in credit risk

The Branch monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Branch will measure the loss allowance based on lifetime rather than 12-month ECL.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

vi) Significant increase in credit risk (continued)

The Branch's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Branch monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Branch compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Branch considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Branch's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators like Crude Oil price, obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

The Branch allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Branch considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Branch compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Branch relies on a broad range of forward looking information as economic inputs, such as: average oil prices, real estate Dubai and Abu Dhabi, inflation, ECI, hotel room occupancy etc. along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

vi) Significant increase in credit risk (continued)

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Branch still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For Corporate financing, when an asset becomes 30 days past due, the Branch considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

vii) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the profit rate that arises when covenants are breached).

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the profit rate that arises when covenants are breached).

The Branch renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the customer is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the finance, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and profit forgiveness) and amendments to covenants. The Branch has an established forbearance policy which applies for corporate financing.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial assets (continued)

vii) Modification and derecognition of financial assets (continued)

When a financial asset is modified the Branch assesses whether this modification results in derecognition. In accordance with the Branch's policy a modification results in derecognition when it gives rise to substantially different terms.

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

Where a modification does not lead to derecognition the Branch calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Branch measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

vii) Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the company. The company categorises a finance or receivable for write off after almost all possible avenues of payments have been exhausted. However where finances or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial liabilities

i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other 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, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;

Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and

Financial guarantee contracts and financial commitments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

ii) Derivative financial instruments

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Branch and its original financer of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred as recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial liabilities (continued)

ii) Derivative financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due in accordance with the terms of a financing instrument.

Financial guarantee contracts issued by the Branch are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount come recognised in accordance with the Branch's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Branch has not designated any financial guarantee contracts as at FVTPL.

Derivative financial instruments

The Branch makes use of derivative financial instruments to manage exposures to interest rate and foreign currency. In order to manage particular risks, the Branch applies hedge accounting for transactions which meet specified criteria.

At inception of the hedge relationship, the Branch formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period to qualify for hedge accounting. Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item.

Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognised in the statement of profit or loss and other comprehensive income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognised in the statement of profit or loss and other comprehensive income.

4. Significant accounting policies (continued)

k) Financial instruments (continued)

Financial liabilities (continued)

ii) Derivative financial instruments (continued)

Fair value hedges (continued)

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated EIR method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the statement of profit or loss and other comprehensive income.

Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognised directly in equity. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in statement of profit or loss and other comprehensive income.

When the hedged cash flow affects the statement of profit or loss and other comprehensive income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of profit or loss and other comprehensive income. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognised in other comprehensive income at that time remains in other comprehensive income and is recognised when the hedged forecast transaction is ultimately recognised in the statement of profit or loss and other comprehensive income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported

l) Offsetting

Financial assets and financial liabilities are only offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to set off the recognised amounts and the Branch intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

m) Leases

The Branch assesses whether a contract is or contains a lease, at inception of the contract. The Branch 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, with a lease term of 12 months or less, and leases of low value assets. For these leases, the Branch 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.

As at 31 December 2021, the Branch did not have any lease agreements.

4. Significant accounting policies (continued)

n) Provisions

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

o) Taxation

Provision for taxation is made in respect of the Branch's operations in the Emirate of Abu Dhabi whereby tax is payable at the rate of 20% of the adjusted net profit generated during the year, in accordance with the relevant legislation of the Emirate.

5. Critical accounting judgments and key sources of estimation of uncertainty

Critical judgments in applying the Branch's accounting policies

The Branch's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRSs are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Branch's results and financial situation due to their materiality.

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Branch's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Judgement

Business model assessment

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Branch 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 their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. the Branch 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 Branch'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.

5. Critical accounting judgments and key sources of estimation of uncertainty (continued)

Critical judgments in applying the Branch's accounting policies (continued)

<u>Judgement (continued)</u>

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Branch takes into account qualitative and quantitative reasonable and supportable forward-looking information, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

Establishing groups of assets with similar credit risk characteristics

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, stage classification etc.). The Branch 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

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.

<u>Estimates</u>

Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Branch's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

When measuring ECL the Branch uses reasonable and supportable forward-looking information, to establish relative weightings of forward-looking scenarios for each type of product/market. Determining the forward-looking information relevant to each scenario is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

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

5. Critical accounting judgments and key sources of estimation of uncertainty (continued)

Critical judgments in applying the Branch's accounting policies (continued)

Estimates (continued)

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer–dated derivatives and discount rates, prepayment rates and default rate assumptions for asset-backed securities.

6. Cash and balances with the UAE Central Bank

	2021 AED	2020 AED
Cash on hand	**31,971**	1,171
Balances with the UAE Central Bank:		
- Current accounts	**37,065,500**	27,562,797
- Overnight deposits	**230,000,000**	220,000,000
- Reserve requirements	**42,897,900**	51,114,350
Balances maturing in less than three months	**309,995,371**	298,678,318

The reserve requirements are kept with the UAE Central Bank in AED are not available for use in the Branch's day to day operations and cannot be withdrawn without the UAE Central Bank's approval.

7. Due from/to banks

	2021 AED	2020 AED
Current accounts	**99,847,036**	56,650,764
Less: Expected credit loss allowance (Note 23)	**(11)**	(11)
	99,847,025	56,650,753

Due from banks is classified under Stage 1 per IFRS 9.

	2021 AED	2020 AED
Due to banks	**3,739,065**	282,246,024

Notes to the financial statements
for the year ended 31 December 2021 (continued)

8. Related party transactions and balances

The Branch carries out transactions in the ordinary course of business with related parties, defined as shareholders who have a significant equity interest in Industrial and Commercial Bank of China Limited, directors of Industrial and Commercial Bank of China Limited and entities in which such shareholders and directors have a significant influence and key management personnel. Pricing policies and terms of these transactions are approved by the Branch's management.

Significant balances outstanding as at 31 December 2021 with related parties were as follows:

	2021 AED	2020 AED
Due from the Head Office, affiliates and branches	**72,359,247**	50,353,126
Due to Head Office, affiliates and branches	**805,528,120**	659,363,932
Interest payable (Note 14)	**4,168,969**	3,612,376
Subordinated borrowings	**183,625,000**	183,625,000
Counter guarantees	**121,121,509**	120,803,838

The following table shows the transactions with related parties for the year:

	2021 AED	2020 AED
Interest income, fees and commission income	**99,302**	223,611
Interest expense, fees and commission expense	**(15,441,493)**	(13,889,753)

Terms and conditions of transactions with related parties

Outstanding balances at the year-end are mainly unsecured interest-bearing financial assets. For the year ended 31 December 2021, the Branch has not recorded any impairment loss allowance on amounts owed by related parties (31 December 2020: Nil) as these are not past due.

Compensation of key management personnel

	2021 AED	2020 AED
Compensation of key Management Personnel	**1,143,000**	864,000

9. Investment securities

	2021 AED	2020 AED
Designated at FVOCI		
Domestic		
Government debt securities	**11,951,123**	104,874,628
Financial institutions debt securities	**477,787,331**	406,154,188
Corporate debt securities	**29,929,834**	98,773,478
Overseas		
Government debt securities	**203,398,144**	148,150,208
Financial institutions debt securities	**28,477,621**	125,039,811
Corporate debt securities	**48,003,171**	31,018,523
	799,547,224	914,010,836
Designated at amortised cost		
Domestic		
Financial institutions debt securities	**119,242,788**	73,437,808
	918,790,012	987,448,644

During the year, an unrealised loss of AED 1,676,766 (2020: unrealised gain of AED 8,701,990) has been recorded in other comprehensive income on the above investment securities. It is comprised of the negative fair value movement of FVOCI investment securities amounted to AED 1,655,256 (2020: positive fair value movement of AED 8,737,356), impairment allowance movement for FVOCI investment securities of AED 21,510 (2020: AED 35,366); and Impairment allowance movement for Amortised Cost investment securities of AED 3,003 (2020: AED 7,058). Other than the fair value adjustment and impairment, the movement in investment securities also includes movement additions amounting to AED 257,470,500, redemptions totalling AED 326,529,992 and net amortization of premium and discounts amounting to AED 6,238,114.

10. Loans and advances

The composition of the loans and advances portfolio is as follows:

	2021 AED	2020 AED
(a) By type:		
Corporate lending		
Loan	**875,296,772**	1,072,470,060
Trade bills discounted	**8,565,794**	10,003,688
Loans and advances, gross	**883,862,566**	1,082,473,748
Less: Expected credit loss allowance	**(38,774,459)**	(40,488,973)
Loans and advances, net	**845,088,107**	1,041,984,775

Notes to the financial statements
for the year ended 31 December 2021 (continued)

10. Loans and advances (continued)

	2021 AED	2020 AED
(b) By economic sector (Gross)		
Manufacturing	**481,984,437**	522,029,961
Financial institutions	**110,175,000**	110,175,000
Construction and Real Estate	**128,537,500**	25,460,708
Trade and service	**54,519,127**	175,338,288
Transport, Storage and Communication	**51,722,752**	170,970,348
Electricity, Gas, and Water	**-**	22,187,776
Other services	**56,923,750**	56,311,667
Gross amount of loans and advances	**883,862,566**	1,082,473,748
(c) By geographical area (Gross)		
Within UAE	**426,777,678**	351,715,122
China	**363,899,437**	529,447,061
Rest of the world	**93,185,451**	201,311,565
Gross amount of loans and advances	**883,862,566**	1,082,473,748

Loans and advances are stated net of provision for impairment. The movements for provision are as follows:

	2021 AED	2020 AED
Balance at 1 January	**40,488,973**	27,652,227
(Reversal)/net impairment for the year (Note 23)	**(1,714,514)**	12,836,746
	38,774,459	40,488,973

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 AED	Stage 2 AED	Stage 3 AED	Total AED
Gross exposure at 1 January 2021	961,375,264	121,098,484	-	1,082,473,748
Net repayments	(77,512,698)	(121,098,484)	-	(198,611,182)
At 31 December 2021	**883,862,566**	**-**	**-**	**883,862,566**
ECL allowance at 1 January 2021	28,084,238	12,404,735	-	40,488,973
Net impairment charge/reversal (Note 23)	10,690,221	(12,404,735)	-	(1,714,514)
At 31 December 2021	**38,774,459**	**-**	**-**	**38,774,459**

Notes to the financial statements
for the year ended 31 December 2021 (continued)

11. Property, furniture and equipment

	Property AED	Vehicle AED	Furniture and fixtures AED	Computer equipment AED	Total AED
Cost					
At 1 January 2020	-	-	983,130	710,041	1,693,171
Additions	7,793,749	167,689	1,021,886	23,778	9,007,102
At 31 December 2020	7,793,749	167,689	2,005,016	733,819	10,700,273
Additions	-	-	-	75,211	75,211
At 31 December 2021	**7,793,749**	**167,689**	**2,005,016**	**809,030**	**10,775,484**
Accumulated depreciation					
At 1 January 2020	-	-	174,906	555,962	730,868
Charge for the year	60,475	4,791	218,031	111,633	394,930
At 31 December 2020	60,475	4,791	392,937	667,595	1,125,798
Charge for the year	259,672	28,667	324,798	59,610	672,747
At 31 December 2021	**320,147**	**33,458**	**717,735**	**727,205**	**1,798,545**
Carrying amount					
At 31 December 2021	**7,473,602**	**134,231**	**1,287,281**	**81,825**	**8,976,939**
At 31 December 2020	7,733,274	162,898	1,612,079	66,224	9,574,475

12. Other assets

	2021 AED	2020 AED
Interest receivable	**9,450,395**	8,985,063
Positive fair value of derivatives	**3,778,141**	-
Prepayments	**120,018**	289,781
Other receivables	**466,016**	728,033
	13,814,570	10,002,877

13. Customer deposits

	2021 AED	2020 AED
Corporate customers		
Time deposits	**35,816,844**	128,537,500
Current accounts	**588,119,834**	421,502,352
Saving accounts	**67,277,162**	222,020,420
	691,213,840	772,060,272

Notes to the financial statements
for the year ended 31 December 2021 (continued)

14. Other liabilities

	2021 AED	2020 AED
Interest payable	**4,168,969**	3,612,376
Deferred income	**1,105,995**	1,484,116
Negative fair value of derivatives (note 20)	**2,412,750**	678,164
Income tax payable (note 15)	**3,315,275**	6,629,849
Provision for employees' end of service benefits (note 16)	**127,774**	395,096
Other staff related provisions	**3,400,254**	2,082,521
Fund transfer clearing items*	**23,757,657**	9,227,884
Others	**1,183,011**	1,757,734
	39,471,685	25,867,740

* The clearing items pertain to fund transfer payment that takes place from the Branch to other banks through the UAE Central Bank system.

15. Taxation

The taxable income is calculated after making certain adjustments (timing differences) as guided by existing tax laws, regulations and practices to the net profit before tax for the year. Tax determination is based on management's best estimate.

The tax rate applicable to the Branch is 20%.

The components of income tax expense for the year ended 31 December 2021 and 2020 are:

	2021 AED	2020 AED
Current income tax	**3,313,400**	6,620,000

The relationship between the tax expense for the year and the accounting profit before tax for the year is as follows:

	2021 AED	2020 AED
Net profit for the year before tax	**18,753,724**	20,804,285
(Deduct)/Add: (Non-taxable income)/Disallowable expense	**(2,186,724)**	12,295,715
Taxable income	**16,567,000**	33,100,000
Income tax expense at 20%	**3,313,400**	6,620,000

Notes to the financial statements
for the year ended 31 December 2021 (continued)

15. Taxation (continued)

Due to timing differences, non-taxable income of AED 2,186,724; (2020: AED 12,295,715; Disallowable expense) represents an estimate of the actual impairment gained on financial instruments of AED 2,170,719 (2020: AED 12,335,585; Impairment losses) in the statement of profit or loss and other comprehensive income.

Movement in the provision for tax is as follows:

	2021 **AED**	2020 AED
Balance at the beginning of the year	**6,629,849**	6,239,337
Add: Provision for the year	**3,313,400**	6,620,000
Less: Income tax paid during the year	**(6,627,974)**	(6,229,488)
Balance at the end of the year	**3,315,275**	6,629,849

16. Provision for employees' end of service benefits

The movement of provision for employees' end of service benefits is as follows:

	2021 **AED**	2020 AED
At 1 January	**395,096**	611,411
Charge for the year	**240,903**	60,756
Paid during the year	**(508,225)**	(277,071)
At 31 December (Note 14)	**127,774**	395,096

17. Allocated capital

The capital allocated to the Branch by the Head Office is USD 85 million. This capital was re-measured to AED 312,120,000 as required by the UAE Central Bank. The allocated capital is not distributable to the Head Office.

The Head Office provided a subordinated loan facility of USD 50 million with a fixed rate of 4.5% pa to the Branch after the approval of the UAE Central Bank (Note 8). The subordinated loan (after grandfathering rule) is eligible at present for inclusion in the calculation of Tier 2 capital as per Basel III. The principal is fully repayable in May 2025.

18. Statutory reserves

As required by Article 82 of the Federal Law No. 10 of 1980, 10% of the net profit for the year is transferred to a legal reserve. Such transfers may be discontinued when the reserve equals 50% of the allocated capital. This reserve is not available for distribution, except under the circumstances stipulated by the law.

19. Regulatory impairment reserve

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

The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

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

	2021	2020
	AED	AED
Allowances for impairment losses - General		
General provisions under Circular 28/2010 of CBUAE (at 1.5% of Credit Weighted Assets)	**21,275,295**	22,474,080
Less: Stage 1 and Stage 2 provisions under IFRS 9 [note 26(a)]	**41,418,430**	43,589,149
General provision transferred to the impairment reserve*	**-**	-
Allowances for impairment losses - Specific		
Specific provisions under Circular 28/2010 of CBIUAE	**-**	-
Less: Stage 3 provisions under IFRS 9	**-**	-
Specific provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**-**	-

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

20. Derivatives

In the ordinary course of business, the Branch enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. During the year the Branch entered into forward foreign exchange contracts only.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

20. Derivatives (continued)

	Positive fair value AED	**Negative fair value AED**	**Notional amount AED**	***Notional amounts by term to maturity*** **Within 3 months AED**	**3-12 months AED**	**1-5 Years AED**
At 31 December 2021						
Derivatives designated as hedging instruments						
Interest rate swaps	**3,532,349**	**138,630**	**217,840,438**		**-**	**217,840,438**
Derivatives not designated as hedging instruments						
Currency swaps	**245,792**	**2,274,120**	**460,795,054**	**460,795,054**	**-**	**-**
	3,778,141	**2,412,750**	**678,635,492**	**460,795,054**	**-**	**217,840,438**

	Positive fair value AED	Negative fair value AED	Notional amount AED	*Notional amounts by term to maturity* Within 3 months AED	3-12 months AED	1-5 Years AED
At 31 December 2020						
Derivatives designated as hedging instruments						
Interest rate swaps	-	675,465	50,802,122	-	-	50,802,122
Derivatives not designated as hedging instruments						
Currency swaps	-	2,699	301,207,600	301,207,600	-	-
	-	678,164	352,009,722	301,207,600	-	50,802,122

During the year, a net gain on fair valuation of derivative financial instruments (Designated at FVTPL) of AED 2,908,819 has been recognised in the statement of profit or loss and other comprehensive income (2020: AED 4,197,038 Loss). As at 31 Dec 2021, the Branch had thirteen existing derivative financial instruments, six interest rate swaps with negative fair value of AED 138,630 and positive fair value of AED 3,532,349 (2020: negative fair value of AED 675,465) designated as hedging instrument and Seven currency swaps not designated as hedging instruments.

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Branch.

Over-the-counter derivatives may expose the Branch to the risks associated with the absence of an exchange market on which to close out an open position.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of such instruments.

20. Derivatives (continued)

Purpose of derivatives

In the normal course of meeting the needs of the Branch's customers, the Branch is the party to forward foreign exchange contracts.

21. Interest income

	2021 AED	2020 AED
Interest on loans and advances	**16,774,790**	22,764,089
Interest on money market and inter-bank transactions	**567,713**	4,674,527
Interest on investments	**24,301,910**	28,987,531
	41,644,413	56,426,147

22. Interest expense

	2021 AED	2020 AED
Interest on customer deposits	**217,852**	6,336,015
Interest on money market and interbank transactions	**8,078,213**	9,957,025
Interest on subordinated borrowings	**8,377,892**	8,263,125
Net interest expense on interest rate swap	**1,611,402**	128,796
	18,285,359	24,684,961

23. Expected credit losses

	2021 AED	2020 AED
Net impairment release on due from banks (Note 7)	**-**	(40,779)
Net impairment release on investments (Note 9)	**(24,513)**	(28,309)
Net impairment (release)/charge on loans and advances (Note 10)	**(1,714,514)**	12,836,746
Net impairment release on off-balance sheet (Note 25)	**(431,692)**	(432,073)
	(2,170,719)	12,335,585

24. General and administrative expenses

	2021 AED	2020 AED
Staff costs	**11,166,477**	5,478,940
Rental costs - operating leases	**119,852**	197,051
Depreciation	**672,748**	394,929
Other operating expenses	**1,642,009**	1,853,061
	13,601,086	7,923,981

25. Contingent liabilities and commitments

Credit related commitments

The Branch's contractual amounts in respect of letters of credit, guarantees and acceptances commit the Branch to make payments on behalf of customers contingent upon the terms of the contract being satisfied. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

Credit related commitments

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry date or other termination clauses and require a payment of a fee. Since commitments may expire without being drawn down, the total contract amounts do not necessarily represent future cash requirements:

	2021 **AED**	2020 AED
Contingent liabilities:		
Letters of credit	**-**	3,316,054
Guarantees	**631,243,666**	721,507,760
	631,243,666	724,643,814
Less: Counter guaranteed by cash	**(673,845)**	(623,845)
Counter guaranteed by bank	**(317,671)**	(317,671)
Counter guaranteed by related parties	**(155,906,895)**	(120,803,838)
Net exposure	**474,345,255**	602,898,460

During the year, an impairment reversal of AED 431,692 (31 December 2020: AED 432,073 charge) was recognised in profit or loss on these contingent liabilities (note 23).

26. Financial risk management objective

Introduction

Risk is inherent in the Branch's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities.

The risk reporting line is independent from operational processes and monitors credit risk, operational risk including legal and compliance risk, anti-money laundering and market risk, the latter being subdivided into trading and non-trading risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored by the General Manager in association with the Head Office management.

Risk mitigation

The Branch actively, when appropriate, uses collateral to reduce credit risks.

26. Financial risk management objective (continued)

Introduction (continued)

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Branch's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

a) Credit risk

Credit risk is the risk that a customer or counterparty will fail to meet a commitment, resulting in financial loss to the Branch. Such risk arises from lending, trade finance, treasury and other activities undertaken by the Branch. Credit risk is actively monitored in accordance with the credit policies which clearly define delegated lending authorities, policies and procedures. The management of credit risk also involves the monitoring of risk concentrations by industrial sector as well as by geographic location.

The Branch has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Branch to assess the potential loss as a result of the risks to which they are exposed and take corrective action.

The Branch manages, limits and controls concentration of credit risk wherever it is identified - in particular, to individual counterparties and groups, and to industries and countries. The Branch has a Guide that sets limits of exposure and lending criteria. The Branch also has credit limits that set out the lending and borrowing limits to/from other banks.

The Branch stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee department.

The Branch builds, validates and uses Credit Scoring tools that are populated by internally and externally derived historical data, forward looking models and behavioural models to assess counterparty risk on a customer and portfolio level for some of its Corporate products.

Significant increase in credit risk

The Branch monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, The Branch will measure the loss allowance based on lifetime rather than 12-month ECL.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

a) Credit risk (continued)

Internal credit risk ratings

In order to minimize credit risk, The Branch has adopted the Head Offices' credit risk grading to categorize exposures according to their degree of risk of default. The Group's credit risk grading framework comprises 13 categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The table below provides a mapping of the Group's internal credit risk grades to external ratings:

Moody's rating	*Credit risk grades*	*Internal description*
Aaa	1	Low. The borrower has extremely strong capacity to meet its financial commitments. This is the highest credit rating assigned.
Aa1	2	Low. The borrower has very strong capacity to meet its financing commitments. It differs from the highest rated borrowers only to a small degree. This credit rating is in the upper level in its category and closest to the highest rating.
Aa2	3	Low. The borrower has very strong capacity to meet its financial commitments. This credit rating is in the base level in its category. An upgrade to 2 or a downgrade to 4 will not change the risk perception.
Aa3	4	Low. The borrower has very strong capacity to meet its financial commitments. This credit rating is in the lower level in its category. A downgrade will change the overall perception from very strong to strong capacity,
A1 A2 A3	5 5 5	Medium The borrower has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than borrower in higher rated categories.
Baa1 Baa2 Baa3	6 6 6	Medium. The borrower has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the borrower to meet its financial commitments.
Ba1 Ba2 Ba3	7 7 7	Monitoring. The borrower is less vulnerable in the near term than other lower rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions which could lead to its inadequate capacity to meet its financial commitments.

26. Financial risk management objective (continued)

a) Credit risk (continued)

Internal credit risk ratings (continued)

Moody's rating	*Credit risk grades*	*Internal description*
B1 B2 B3	8 8 8	Monitoring. The borrower is vulnerable to any adverse business, financial or economic conditions which would likely impairs its capacity or willingness to meet its financial commitments.
Caa1 Caa2	9 10	Monitoring. The borrower is highly vulnerable, and is dependent upon favourable business, financial, and economic conditions to meet its financial commitments.
Caa3	11	Substandard
Ca	11	Substandard
C	12	Doubtful
D	13	Loss

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Branch's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Branch analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data. The Branch generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Branch then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Branch uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

26. Financial risk management objective (continued)

a) Credit risk (continued)

Incorporation of forward-looking information

The Branch uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Branch employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Branch applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Branch for strategic planning and budgeting. The Branch has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Branch has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Credit quality

The Branch monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument:

Class of financial instrument	***Notes***
Due from banks	7
Due from the Head Office, affiliates and branches	8
Investments	9
Loans and advances	10
Interest rate swaps and other derivatives	20

Credit quality

An analysis of the Branch's credit risk exposure without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

a) Credit risk (continued)

Exposure to credit risk

The Branch measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

	2021				31 December
	Stage 1 AED	**Stage 2 AED**	**Stage 3 AED**	**Total AED**	2020 AED
Due from banks					
Gross exposure	**99,847,036**	**-**	**-**	**99,847,036**	56,650,764
Allowance for expected credit losses	**(11)**	**-**	**-**	**(11)**	(11)
Net carrying amount	**99,847,025**	**-**	**-**	**99,847,025**	56,650,753
Loans and advances					
Gross exposure	**883,862,566**	**-**	**-**	**883,862,566**	1,040,825,694
Allowance for expected credit losses	**(38,774,459)**	**-**	**-**	**(38,774,459)**	(40,488,973)
Net carrying amount	**845,088,107**	**-**	**-**	**845,088,107**	1,041,984,775
Investment securities					
Gross exposure	**920,437,166**	**-**	**-**	**920,437,166**	987,448,644
Allowance for expected credit losses	**(1,647,154)**	**-**	**-**	**(1,647,154)**	(1,671,666)
Net carrying amount	**918,790,012**	**-**	**-**	**918,790,012**	985,776,978

Expected credit loss allowance

A summary of the provision for credit loss and the net movement on financial instruments by category are as follows:

	1 January 2021 AED	**Net release during the year AED**	**31 December 2021 AED**
Due from banks (note 7)	(11)	-	(11)
Investment securities (note 9)	(1,671,666)	24,513	(1,647,153)
Loans and advances (note 10)	(40,488,973)	1,714,514	(38,774,459)
Guarantees (note 25)	(1,428,499)	431,692	(996,807)
Total	**(43,589,149)**	**2,170,719**	**(41,418,430)**

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

a) Credit risk (continued)

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

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities, derivatives, commitments and excluding cash on hand. The maximum exposure is shown including impairment provision on loans and advances but before the effect of mitigation through the use of master netting and collateral agreements:

	Note	2021 AED	2020 AED
Cash and balances with the UAE Central Bank	6	**309,963,400**	298,677,147
Due from banks	7	**99,847,036**	56,650,764
Due from the Head Office, affiliates and branches	8	**72,359,247**	50,353,126
Investments	9	**918,799,202**	987,460,836
Loans and advances	10	**883,862,566**	1,082,473,748
Other assets (excluding prepayments)	12	**13,694,553**	9,713,096
Total		**2,298,526,004**	2,485,328,717
Off-balance sheet			
Letters of credit		**-**	3,136,054
Guarantees	25	**631,243,666**	721,507,760
Interest swaps and other derivatives	20	**678,635,492**	352,009,722
Total		**1,309,879,158**	1,076,653,536
Total credit risk exposure		**3,608,405,162**	3,561,982,253

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

For more detail on the maximum exposure to credit risk for each class of financial instrument, references have been made to the specific notes. The effect of collateral and other risk mitigation techniques is shown below.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

a) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk

Amounts due from banks

The Branch held amounts due from banks consists of placements with banks and current account. The table below presents and analysis of debt securities by rating agency designation at 31 December 2021 and 2020, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	2021 **AED**	2020 AED
AAA to AAA-	**-**	-
AA to AA-	**-**	-
A+ to A-	**99,649,742**	56,611,615
BBB+ to BBB-	**187,553**	39,149
BB+ to BB	**9,741**	-
B+ to B-	**-**	-
Total	**99,847,036**	56,650,764

Amounts Due from the Head Office, affiliates and branches

The Branch held amounts due from related parties consists of placements with banks and current account. The table below presents and analysis of debt securities by rating agency designation 31 December 2021 and 2020, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	2021 **AED**	2020 AED
A+ to A-	**72,359,247**	50,353,126

Investments

Investment securities mainly comprise of debt securities issued by various governments and local/foreign reputable organisations. The table below presents and analysis of debt securities by rating agency designation at 31 December 2021 and 2020, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	2021 **AED**	2020 AED
AAA to A-	**747,882,973**	678,662,211
BBB to B-	**170,916,229**	308,798,625
	918,799,202	987,460,836

26. Financial risk management objective (continued)

a) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The total credit exposure to clients or counterparties as of 31 December 2021 was AED **2,929,769,670** (2020: AED **3,209,972,531**) before taking account of collateral or other credit enhancements.

Interest rate swaps and other derivatives

The Branch entered into interest rate swaps and other back to back derivatives with banks. The table below presents an analysis of commitments with other banks by rating agency designation at 31 December 2021 and 2020, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	2021 AED	2020 AED
AAA+ to AAA-	**-**	-
AA+ to AA-	**-**	-
A+ to A-	**678,635,492**	352,009,722
	678,635,492	352,009,722

The Branch's maximum exposure to credit risk, before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions:

	2021		2020	
	Assets AED	**Contingent liabilities and commitments AED**	Assets AED	Contingent liabilities and commitments AED
United Arab Emirates	**1,343,797,422**	**475,019,100**	1,343,602,642	603,522,305
Other Middle East countries	**326,919,620**	**-**	499,864,001	-
China	**498,221,064**	**156,224,566**	561,262,761	116,800,641
Hong Kong	**7,070,563**	**-**	5,372,794	-
Europe	**9,952,415**	**-**	1,053,448	4,320,868
Rest of the world	**112,564,920**	**-**	74,173,071	-
	2,298,526,004	**631,243,666**	2,485,328,717	724,643,814

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

a) Credit risk (continued)

Risk concentrations of the maximum exposure to credit risk (continued)

An industry sector analysis of the Branch's maximum exposure to credit risk (excluding cash on hand) before taking into account collateral held or other credit enhancements, is as follows:

	2021 **AED**	2020 AED
Government and public sectors	**674,048,917**	692,699,085
Financial sectors	**1,077,817,333**	958,313,599
Commercial and business	**1,177,903,420**	1,558,959,847
	2,929,769,670	3,209,972,531

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, inventory and trade receivables.

The Branch also obtains guarantees from parent companies for loans to their subsidiaries or other group companies.

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

It is the Branch's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Measurement of ECL

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

a) Credit risk (continued)

Collateral and other credit enhancements (continued)

Measurement of ECL (continued)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan. Regulatory LGDs are taken for portfolios with limited historic data and low default portfolios.

EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the product of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Branch measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Branch's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Branch's exposure to credit losses to the contractual notice period. For such financial instruments the Branch measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period.

These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Branch does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Branch becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Branch expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;

26. Financial risk management objective (continued)

a) Credit risk (continued)

Collateral and other credit enhancements (continued)

Groupings based on shared risks characteristics (continued)

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Branch uses external benchmark information for portfolios with limited historical data and for low default portfolios where there are no instances of historical default.

The Branch has in place policies, which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Branch's major collaterals are mortgaged properties, investments, vehicles & other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

b) Liquidity risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management has diversified funding sources and assets are managed with liquidity in mind and by maintaining a healthy balance of cash and cash equivalents.

The Branch maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Branch also has committed lines of credit that it can access to meet liquidity needs. In addition, the Branch maintains a statutory deposit with the Central Bank of UAE equal to 14% of demand deposits and 1% of time deposits. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Branch.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

b) Liquidity risk (continued)

Maturities of assets and liabilities based on the remaining period at the statement of financial position date to the contractual maturity date not taking account of the effective maturities as indicated by the Branch's deposit retention history and the availability of liquid funds, as at 31 December 2021 is as follows:

	Less than 3 months AED	3 months to 12 months AED	1-5 years AED	Over 5 years AED	Total AED
2021					
ASSETS					
Cash and balances with the UAE Central Bank	309,995,371	-	-	-	309,995,371
Due from banks	99,847,025	-	-	-	99,847,025
Due from the Head Office, affiliates and branches	72,359,247	-	-	-	72,359,247
Investment securities	-	-	724,898,134	193,891,878	918,790,012
Loans and advances - net	74,105,794	444,543,057	310,959,741	15,479,515	845,088,107
Property, furniture and equipment	-	-	-	8,976,939	8,976,939
Other assets	13,814,570	-	-	-	13,814,570
Total	**570,122,007**	**444,543,057**	**1,035,857,875**	**218,348,332**	**2,268,871,271**
LIABILITIES					
Due to banks	3,739,065	-	-	-	3,739,065
Due to the Head Office affiliates and branches	513,350,744	261,634,437	30,542,939	-	805,528,120
Subordinated borrowings	-	-	-	183,625,000	183,625,000
Customer deposits	655,396,996	35,816,844	-	-	691,213,840
Other liabilities (including taxation)	36,156,410	3,315,275	-	-	39,471,685
Total	**1,208,643,215**	**300,766,556**	**30,542,939**	**183,625,000**	**1,723,577,710**
Net liquidity gap	**(638,521,206)**	**143,776,501**	**1,005,314,935**	**34,723,331**	**545,293,561**

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

b) Liquidity risk (continued)

	Less than 3 months AED	3 months to 12 months AED	1 - 5 years AED	Over 5 years AED	Total AED
2020					
ASSETS					
Cash and balances with the UAE Central Bank	298,678,318	-	-	-	298,678,318
Due from banks	56,650,753	-	-	-	56,650,753
Due from the Head Office, affiliates and branches	50,353,126	-	-	-	50,353,126
Investment securities	-	316,593,007	646,492,419	24,363,218	987,448,644
Loans and advances - net	226,860,949	320,572,983	365,116,726	129,434,117	1,041,984,775
Furniture and equipment	-	-	-	9,574,475	9,574,475
Other assets	10,002,877	-	-		10,002,877
Total	642,546,023	637,165,990	1,011,609,145	163,371,810	2,454,692,968
LIABILITIES					
Due to banks	135,346,024	146,900,000	-	-	282,246,024
Due to the Head Office affiliates and branches	347,901,410	260,660,400	50,802,122	-	659,363,932
Subordinated borrowings	-	-	-	183,625,000	183,625,000
Customer deposits	643,522,772	128,537,500	-	-	772,060,272
Other liabilities (including taxation)	19,237,891	6,629,849	-	-	25,867,740
Total	1,146,008,097	542,727,749	50,802,122	183,625,000	1,923,162,968
Net liquidity gap	(503,462,074)	94,438,241	960,807,023	(20,253,190)	531,530,000

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

b) Liquidity risk (continued)

Analysis of undiscounted financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Branch's financial liabilities at 31 December 2021 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Branch expects that many customers will not request repayment on the earliest date the Branch could be required to pay and the table does not reflect the expected cash flows indicated by the Branch's deposit retention history.

	Total carrying amount AED	**Gross nominal outflows AED**	**Less than 3 months AED**	**3 months to 12 months AED**	**1-5 years AED**	**Over 5 years AED**
2021						
Due to banks and other financial institutions	**3,739,065**	**-**	**-**	**-**	**-**	**-**
Due to the banks, Head Office, affiliates and branches	**805,528,120**	**821,508,381**	**514,317,359**	**271,312,996**	**35,878,026**	**-**
Subordinated borrowings	**183,625,000**	**220,235,234**	**-**	**-**	**220,235,234**	
Customer deposits	**691,213,840**	**711,371,171**	**706,300,355**	**5,070,816**	**-**	**-**
Other liabilities	**7,779,395**	**7,779,395**	**7,779,395**	**-**	**-**	**-**
Total liabilities	**1,691,885,420**	**1,760,894,181**	**1,228,397,109**	**276,383,812**	**256,113,260**	
2020						
Due to banks and other financial institutions	282,246,024	275,624,766	275,624,766	-	-	
Certificate of deposit	-	-	-	-	-	-
Due to the banks, Head Office, affiliates and branches	659,363,932	668,293,424	347,995,387	264,491,792	55,806,245	-
Subordinated borrowings	183,625,000	220,235,234	-	-	-	220,235,234
Customer deposits	772,060,272	772,181,031	680,256,953	91,924,078	-	-
Other liabilities	6,038,966	6,038,966	6,038,966	-	-	-
Total liabilities	1,903,334,194	1,942,373,421	1,316,724,596	356,415,870	55,806,245	220,235,234

26. Financial risk management objective (continued)

b) Liquidity risk (continued)

The table below shows the contractual expiry by maturity of the Branch's contingent liabilities and commitments:

	On demand AED	Less than 3 months AED	3 to 12 months AED	1 to 5 years AED	Over 5 years AED	Total AED
2021						
Contingent liabilities	**110,977,125**	**133,169,664**	**206,310,064**	**180,786,813**	**-**	**631,243,666**
2020						
Contingent liabilities	134,608,562	31,083,514	213,850,883	345,100,855	-	724,643,814

The Branch expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

Notes to the financial statements
for the year ended 31 December 2021 (continued)

26. Financial risk management objective (continued)

c) Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The Board at the Head Office has set limits on the value of risk that may be accepted. This is monitored on a regular basis by the Branch's Asset and Liability Committee (ALCO). However, the UAE Branch of Industrial and Commercial Bank of China Limited do not have a trading book, and thus these Branch has limited banking book positions in the foreign exchange market.

d) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Branch is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off statement of financial position instruments that mature or reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis to ensure that these are maintained within the established limits.

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Branch's statement of comprehensive income. There is no material impact on the Branch's equity.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2021.

	2021		*2020*	
Currency	***Change in basis points***	***Sensitivity of net interest income AED***	*Change in basis points*	*Sensitivity of net interest income AED*
UAE dirhams and US Dollars	**+100**	**968,689**	+100	6,854,068
UAE dirhams and US Dollars	**-100**	**(968,689)**	-100	(6,854,068)

The interest rate sensitivity set out above relates primarily to the UAE Dirhams and US Dollars as the Branch does not have any significant net exposure for non-trading financial assets and financial liabilities denominated in other currencies.

Currency risk

The Branch has foreign exchange exposure on the transactions that are denominated in Chinese Yuan (CNY). At 31 December 2021, the Branch had assets and liabilities of AED 405,225,758 (2020: AED 453,255,421) and AED 329,369,044 (2020: AED 450,763,020) respectively denominated in CNY.

For the year ended 31 December 2021, had the exchange rates on net foreign exchange exposure increased/decreased by 5% with all other variables remaining constant, the approximate impact on the results of the Branch would have been as follows:

	2021 AED	2020 AED
Chinese Yuan - net	**3,792,836**	124,620

26. Financial risk management objective (continued)

e) Operational risk

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

27. Fair value of financial instruments

Financial assets consist of cash and balances with the UAE Central Bank, due from banks, due from the Head Office, affiliates and branches, investment securities, loans and advances, derivative financial instruments and other assets. Financial liabilities consist of due to banks, due to the Head Office, affiliates and branches, derivative financial instruments, subordinated borrowings, customer deposits, certificates of deposit and other liabilities.

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps. The most frequently applied valuation techniques include swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties and interest rate curves.

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Branch determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument;

Level 2: Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and

Level 3: Inputs are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations

27. Fair value of financial instruments (continued)

a) Fair value hierarchy of assets/liabilities measured at fair value

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
2021				
Financial assets				
FVOCI debt instruments				
Quoted investments				
Investment securities	**918,790,012**	**-**	**-**	**918,790,012**
Derivative financial instruments				
Currency swaps	**-**	**245,792**	**-**	**245,792**
Interest rate swaps	**-**	**3,532,349**	**-**	**3,532,349**
Financial liabilities				
Derivative financial instruments				
Currency swaps	**-**	**(2,274,120)**	**-**	**(2,274,120)**
Interest rate swaps	**-**	**(138,630)**	**-**	**(138,630)**
2020				
Financial assets				
FVOCI debt instruments				
Quoted investments				
Investment securities	987,448,644	-	-	987,448,644
Derivative financial instruments				
Currency swaps	-	2,699	-	2,699
Interest rate swaps	-	675,465	-	675,465
Financial liabilities				
Derivative financial instruments				
Currency swaps	-	-	-	-

b) Financial instruments not measured at fair value

The fair values of financial instruments not measured at fair value approximates the carrying amounts of the financial instruments.

28. Capital adequacy

The Branch maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Branch's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios") and adopted by the Central Bank of UAE in supervising the Branch.

During the past year, the Branch had complied in full with all its externally imposed capital requirements.

28. Capital adequacy (continued)

Capital management

The primary objective of the Branch's capital management is to ensure that the Branch complies with externally imposed capital requirements and that the Branch maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1 '), Additional Tier 1 ('AT1 ') and Total Capital.

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

Minimum common equity tier I (CET 1) ratio of 7% of risk weighted assets (RWAs).

Minimum Tier 1 Capital ratio of 8.5% of RWAs.

Total capital adequacy ratio of 10.5% of RWAs.

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

	2021 AED	2020 AED
Tier 1 capital		
Allocated capital	**312,120,000**	312,120,000
Statutory reserves	**28,453,427**	27,880,000
Retained earnings	**196,649,167**	177,409,000
	537,222,594	517,409,000
Tier 2 capital		
Impairment provision (1.25% of Risk weighted assets)	**17,729,000**	18,728,000
Subordinated borrowings (60%)	**110,175,000**	128,538,000
	127,904,000	147,266,000
Total capital base	**665,126,594**	664,675,000
Risk weighted assets (RWA) Pillar 1		
Credit risk	**1,418,353,000**	1,498,272,000
Market risk	**8,113,000**	6,004,000
Operational risk	**71,035,000**	69,404,000
Total risk-weighted assets	**1,497,501,000**	1,573,680,000

Notes to the financial statements
for the year ended 31 December 2021 (continued)

28. Capital adequacy (continued)

	2021 AED	2020 AED
Tier 1 ratio	**35.87%**	32.88%
Tier 2 ratio	**8.54%**	9.36%
Capital adequacy ratio	**44.41%**	42.24%

Regulatory capital consists of Tier 1 capital, which comprises allocated capital, retained earnings (excluding net profit after taxation for the year), general reserve and Statutory reserves. The other component of regulatory capital is Tier 2 capital. Branch’s Tier 2 capital comprised the general provision recorded in accordance with the provisioning requirement by the Central Bank of UAE.

29. Other information

Social contributions amounting to AED Nil were made during the year ended 31 December 2021 (2020: AED Nil).

30. Approval of financial statements

The financial statements were approved by the General Manger and authorised for issue on 28 March 2022.

ICBC