BNP Paribas - U.A.E. Branches

Report and financial statements
for the year ended 31 December 2021

These audited financial statements are subject to approval of the Central Bank of the UAE.

BNP Paribas - U.A.E. Branches

Contents	**Pages**

Deloitte & Touche (M.E.)
Building 3, Level 6
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Head Office of
BNP Paribas - SA (U.A.E Branches)
Dubai
United Arab Emirates

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **BNP Paribas - U.A.E. Branches, United Arab Emirates** (the "Branches") of BNP Paribas SA ("the Bank or the Head Office"), which comprise the statement of financial position as at 31 December 2021, the statement of profit or loss and other comprehensive income, statement of changes in capital and reserves 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 financial statements present fairly in all material respect, the financial position of the Branches' as at 31 December 2021, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Responsibilities of Management and 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 their compliance with the applicable provisions of UAE Federal Law No. (2) of 2015 (as amended), and for such internal control as management determines is necessary to enable the preparation of 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 Branches' 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 Branches' or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance is responsible for overseeing the Branches' financial reporting process.

Cont'd…

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 judgement and maintain professional skepticism 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches' 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 disclosure 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 Branches' 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 represents 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Head Office of BNP Paribas - SA (U.A.E Branches), Dubai (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Law No. (2) of 2015 (as amended), we report 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 Branches have maintained proper books of account;
- no shares were purchased or invested during the financial year ended 31 December 2021;
- note 24 to the financial statements 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 Branches has contravened during the year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 (as amended) or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2021.

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

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No. 872
29 March 2022
Dubai
United Arab Emirates

Statement of financial position
As at 31 December 2021

	Notes	2021 AED'000	2020 AED'000
ASSETS			
Cash and balances with the Central Bank of the UAE	5	**768,575**	842,924
Due from other banks	6	**410,130**	66,659
Due from Head Office and branches	7	**2,449,828**	2,826,112
Financial asset measured at amortised cost	8	**199,726**	-
Loans and advances	9	**2,130,042**	2,265,125
Other assets	10	**674,248**	551,885
Furniture and equipment		**10,326**	15,057
Total assets		**6,642,875**	6,567,762
LIABILITIES AND CAPITAL AND RESERVES			
LIABILITIES			
Customers' deposits	11	**3,336,730**	3,167,004
Balances due to the Central Bank of the UAE	5	**948**	1,692
Due to other banks		**-**	2
Due to Head Office and branches	12	**924,578**	1,131,858
Other liabilities	13	**749,691**	584,617
Total liabilities		**5,011,947**	4,885,173
CAPITAL AND RESERVES			
Designated capital	14	**446,431**	446,431
Legal reserve	15	**162,720**	162,720
General reserve	15	**95,000**	95,000
Retained earnings		**931,003**	982,061
Actuarial loss		**(4,226)**	(3,623)
Total capital and reserves		**1,630,928**	1,682,589
Total liabilities, capital and reserves		**6,642,875**	6,567,762

....
Francois Regnier
Country Head - UAE

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

	Note	2021 AED'000	2020 AED'000
Interest income	16	**34,505**	67,429
Interest expense	17	**(3,015)**	(18,250)
Net interest income		**31,490**	49,179
Net fee and commission income	18	**60,278**	71,648
Net foreign exchange income		**259**	16
Operating income		**92,027**	120,843
Operating expenses	19	**(118,808)**	(96,926)
Net impairment loss on financial assets	9(d)	**(36,150)**	(167,614)
Net loss before taxation		**(62,931)**	(143,697)
Taxation	20	**11,873**	27,702
Net loss for the year after taxation		**(51,058)**	(115,995)
Items that will not be reclassified subsequently to profit or loss			
Remeasurement of employees' end of service benefits	13	**(603)**	(1,676)
Total comprehensive loss for the year		**(51,661)**	(117,671)

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

Statement of changes in capital and reserves for the year ended 31 December 2021

	Note	Designated capital AED'000	Legal reserve AED'000	General reserve AED'000	Retained earnings AED'000	Actuarial loss AED'000	Total AED'000
At 1 January 2020		446,431	162,720	95,000	1,098,056	(1,947)	1,800,260
Net loss for the year		-	-	-	(115,995)	-	(115,995)
Other comprehensive loss		-	-	-	-	(1,676)	(1,676)
Total comprehensive loss for the year		-	-	-	(115,995)	(1,676)	(117,671)
At 31 December 2020		446,431	162,720	95,000	982,061	(3,623)	1,682,589
Net loss for the year		-	-	-	(51,058)	-	(51,058)
Other comprehensive loss		-	-	-	-	(603)	(603)
Total comprehensive loss for the year		-	-	-	(51,058)	(603)	(51,661)
At 31 December 2021		**446,431**	**162,720**	**95,000**	**931,003**	**(4,226)**	**1,630,928**

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'000	2020 AED'000
Cash flows from operating activities			
Loss before taxation		**(62,931)**	(143,697)
Adjustments for:			
Net impairment loss on financial assets	8(d)	**36,150**	167,614
Depreciation	18	**5,440**	5,589
Provision for employees' end of service benefits	20	**1,100**	1,272
Operating cash flows before payment of employees' end of service benefits, income tax paid and changes in assets and liabilities		**(20,241)**	30,778
Payment/transfer of employees' end of service benefits	12	**(584)**	(1,127)
Income tax paid		**(2,322)**	(22,548)
Changes in assets and liabilities:			
Statutory deposits with the Central Bank of the UAE		**31,369**	87,492
Due from other banks excluding balances considered as cash and cash equivalents		**(306,042)**	12,237
Due from Head Office and other branches excluding balances considered as cash and cash equivalents		**1,746,123**	(1,355,621)
Loans and advances before movement in provision and amounts written of		**110,105**	26,241
Other assets excluding deferred income tax		**(108,833)**	56,020
Customers' deposits		**169,726**	(1,037,856)
Due to Head Office and branches		**(207,280)**	812,887
Balances due to the Central Bank of the UAE		**(744)**	1,692
Due to other banks		**(2)**	(8)
Other liabilities excluding provision for taxation, credit losses and employees' end of service benefits		**153,484**	(67,347)
Net cash generated from/(used in) operating activities		**1,564,759**	(1,457,160)
Cash flows from investing activities			
Certificate of deposits with the Central Bank of the UAE		**-**	950,000
Monetary bills issued by the Central Bank of the UAE	8	**(199,762)**	-
Purchase of furniture and equipment, net		**(709)**	138
Net cash (used in)/generated from investing activities		**(200,471)**	950,138
Net increase/(decrease) in cash and cash equivalents		**1,364,288**	(507,022)
Cash and cash equivalents, beginning of the year		**1,776,670**	2,283,692
Cash and cash equivalents, end of the year	21	**3,140,958**	1,776,670

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

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

1. Establishment and operations

BNP Paribas SA ("the Bank" / "Head Office") is a public limited company incorporated in France and the address of its registered office is 16, Boulevard des Italiens, 75009, Paris. The principal activity of the Bank in the United Arab Emirates ("UAE") is commercial banking which is carried out from its branches in Abu Dhabi and Dubai ("the Branches").

UAE Federal Law No. 2 of 2015 ("Companies Law") which is applicable to the branches has come into effect from 1 July 2015. 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 branches are 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.

These financial statements comprise the combined assets, liabilities and results of the branches of the Bank.

2. Application of new and revised IFRSs

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Revised 'Conceptual Framework for Financial Reporting'.
- Amendments to IFRS 3 *Business Combinations* to clarify the definition of a business.
- Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 Acc*ounting Policies, Changes in Accounting Estimates and Errors* regarding the definition of material.
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16:
  The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR).
  The amendments include the following practical expedients:
  - A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
  - Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
  - Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The Branches are currently on track to meet internal project timelines, developed with the support of the Head Office, and which are aligned with globally accepted transition timelines. Accordingly, various factors including an update in the Branches policies and procedures, existing contracts, system changes and customer education have been considered. Transition timelines and milestones are monitored closely through the global and regional IBOR governance structure, with any required adjustment or changes due to events such as new regulatory announcements are reviewed in conjunction with respective governance structures.

The potential risks as a result of IBOR reform are predominantly linked to repapering of existing contracts which is highly dependent on the client responsiveness to refinance and/or remediate.

2. Application of new and revised IFRSs (continued)

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Branches has not yet early applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

<u>**New and revised IFRSs**</u>	**Effective for annual periods <u>beginning on or after</u>**
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture.	Effective date deferred indefinitely
Amendments to IAS 1 *Presentation of Financial Statements* regarding the classification of liabilities.	1 January 2023
IFRS 17 *Insurance Contracts* establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.	1 January 2023
Amendments IFRS 3 *Business Combination* updating a reference to the Conceptual Framework.	1 January 2022
Amendments to IAS 16 *Property, Plant and Equipment* prohibiting a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use.	1 January 2022
Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the costs to include when assessing whether a contract is onerous.	1 January 2022
Annual Improvements to IFRS 2018 – 2020 Cycle amending IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022

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

3. Significant accounting policies

Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The financial statements are prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value.

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 Branches' 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 4.

The principal accounting policies are set out below:

3. Significant accounting policies (continued)

Foreign currencies

Functional and presentation currency

Items included in the financial statements of the branches are measured using the currency of the primary economic environment in which the entities operates (the "functional currency"). The financial statements are prepared in AED, which is the branches' functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Derivative financial instruments

Derivative financial instruments include foreign exchange contracts, interest rate swaps, options (both written and purchased) and other derivative financial instruments. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate.

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative, with the gain or loss taken to the statement of comprehensive income.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Reverse repurchase agreements

Securities temporarily acquired under reserve repurchase agreement are not recognized in the Branches' statement of financial position. The corresponding receivables is recognised at amortised cost under due form head Offices and branches' in the statement of financial position.

3. Significant accounting policies (continued)

Income and expense

Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Branches' estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Branches' retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

Leases

Rental contracts may contain both lease and non-lease components. The Branches allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Branches are a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until financial year 2018, leases of furniture and Equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Branches.

3. Significant accounting policies (continued)

Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date· amounts expected to be payable by the Branch under residual value guarantees;
- the exercise price of a purchase option if the Branches are reasonably certain to exercise that option and
- payments of penalties for terminating the lease, if the lease term reflects the Branches exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Branch, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Branches:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Branch, which does not have recent third party financing, and
- makes adjustments specific to the lease, term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Branches are reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

3. Significant accounting policies (continued)

Leases (continued)

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

Extension and termination options are included in a number of Furniture and Equipment leases across the Branches. These are used to maximise operational flexibility in terms of managing the assets used in the Branches' operations. The majority of extension and termination options held are exercisable only by the Branch and not by the respective lessor.

Financial assets and liabilities

Measurement methods

The amortised cost is the amount at which the financial asset or financial liability is measured at 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 loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability.

The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit- impaired ("POCI") financial assets – assets that are credit-impaired at initial recognition the Branches calculate the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Branches revise the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in statement of comprehensive income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not "POCI" but have subsequently become credit – impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Branches commit to purchase or sell the asset.

At initial recognition, the Branches measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost, which results in an accounting loss being recognised in the statement of comprehensive income when an asset is newly originated.

Financial assets

Classification and subsequent measurement

From 1 January 2018, the Branches have applied IFRS 9 and classify its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL); or
- Amortised cost.

The classification requirements for debt instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, governments and corporate bonds.

Classification and subsequent measurement of debt instruments depend on:

- the Branches' business model for managing the asset; and
- the cash flow characteristics of the asset.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represents solely payments of principal and interest ('SPPI') that are not designated as FVPL are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through profit or loss (FVPL): The Branches classified their derivative instruments at FVPL.

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

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Debt instruments (continued)

Business model: the business model reflects how the Branches manage the assets in order to generate cash flows. That is, whether the Branches' objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), the financial assets are classified as part of 'other' business model held for trading purposes), then the financial assets are measured at FVPL. Factors considered by the Branches in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Branches assess whether the financial instruments; cash flows represent solely payments of principal and interest (the 'SPPI' test). In making the assessment, the Branches consider whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

Impairment

The Branches assess on a forward- looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and with the exposure arising from loan commitments and financial guarantee contracts. The Branches recognise a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Modification of loans

The Branches sometimes renegotiate or otherwise modifies the contractual cash flows of loans. When this happens, the Branches assess whether or not the new terms are substantially different to the original terms. The Branches do this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.

3. Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial assets (continued)

Modification of loans (continued)

- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Branches derecognise the original financial asset and recognises a ‘new’ asset at fair value and recalculates a new effective interest rate for the asset.

The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Branches also assess whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in the statement of comprehensive income on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Branches recalculate the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the statement of comprehensive income.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Branches transfer substantially all the risks and rewards of ownership, or (ii) the Branches neither transfer nor retain substantially all the risks and rewards of ownership and the Branches have not retained control.

Financial liabilities

Classification and subsequent measurement

In both the current and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss: this classification is applied to derivatives.

Decrecognition

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

3. Significant accounting policies (continued)

Offsetting financial instruments

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

Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where 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, the 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

Furniture and equipment

Furniture and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branches' and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is computed using the straight line method at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful lives, as follows:

	Years
Furniture and fixtures	3 to 10
Computer and office equipment	3 to 4
Motor vehicles	5
Leasehold improvements	Lesser of lease period and 10 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with effect of any changes in estimate accounted for on a prospective basis.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. These are included in the statement of comprehensive income.

3. Significant accounting policies (continued)

Provision for employees' end of service benefits

The pension contributions in respect of international/expatriate staff are made in accordance with BNP Paribas group policy and are made in lieu of the terminal gratuity payable under the UAE Labour Law. The liability for international / expatriate staff pension is settled through the Head Office account and accounted as a charge in the statement of comprehensive income.

In accordance with the provisions of the UAE Federal Law No.(7), 1999, for Pension and Social Security, contributions for UAE national employees are made and deposited with the United Arab Emirates General Provision and Social Security Authority and are charged to the statement of comprehensive income and are disclosed under other liabilities.

Amounts due to other staff as end of service benefits for their periods of service up to the statement of financial position date are computed in accordance with the UAE Labour Law. Provision is made for the full amount of end of service benefits due to employees for their periods of service upto the statement of financial position date and are disclosed under other liabilities.

A provision is made for the estimated liability for annual leave and airfares as a result of services rendered by employees up to the statement of financial position date.

Taxation

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

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, amounts due from other banks, Head Office and branches and certificate of deposit with the Central Bank of the UAE with an original maturity of three months or less (excluding the minimum reserve deposit placed with the Central Bank of the UAE in compliance with the statutory requirements applicable in the UAE).

Impact of COVID-19 assessment

The existence of the novel coronavirus (COVID-19) was confirmed in early 2020 and was subsequently declared a pandemic by the World Health Organisation. Measures taken to contain and slow the spread of the virus have significantly impacted global economic activity as it necessitated global travel restrictions and lockdown measures in most countries of the world between February and May 2020. Due to the unprecedented adverse effect of the lockdown on the global economy and some success in the efforts to flatten the infection curve, many countries including United Arab Emirates, started to gradually ease the restrictions and open up for movement of people starting May 2020 onwards in a restricted way.

The Branches monitors the COVID-19 situation and takes timely decisions to resolve any concerns. Remote working arrangements have been put in place allowing staff to carry on their business-related activities remotely.

3. Significant accounting policies (continued)

Impact of COVID-19 assessment (continued)

As at 31 December 2021, the Branches continued to adopt certain modifications to its methodology regarding Forward Looking factors:

- The Branches implemented a medium-term perspective (MTP) for macroeconomic scenarios that consist in determining a smooth path for macroeconomic parameters (GDP level in particular). The MTP consists in extracting from the scenario the level of activity after the pandemic crisis and to assume a smooth path (for GDP level in particular) between the beginning of Covid-19 crisis and this point.

- A sector differentiation in the treatment of forward looking since the impact of the Covid-19 crisis is clearly heterogeneous among sectors.

Overall, the sectoral prospective methodology consists in setting macroeconomic scenarios at sectoral level by disaggregating the "baseline" macroeconomic scenario formulated for GDP at the sector level. These sector-level scenarios for economic activity are used to determine by sector PD term structures to be used in ECL calculations.

As of the date of approval of these financial statements, the Branches does not have any risk of going concern. In 2022, a favourable trend in growth rates is expected, reflecting: a) a mechanical catch-up; b) government and central bank measures; c) positive developments in terms of vaccines. The pace of growth is expected to normalise in 2022 and 2023, and activity is expected to return to pre-crisis levels in 2022 in most mature economies.

4. Critical accounting judgements and key sources of estimation uncertainty

The Branches' makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 3, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

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

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Income taxes

The Branches' is subject to income taxes in the Emirate of Dubai. Significant estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain. The Branches' recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax.

The deferred tax assets recognised at 31 December 2021 have been based on future profitability assumptions. In the event of changes to these profitability assumptions, the tax assets recognised may be adjusted.

5. Cash and balances with the Central Bank of the UAE

	2021 AED'000	2020 AED'000
Balances due from the Central Bank of the UAE:		
- Statutory deposits	**181,533**	212,902
- Overnight placements	**587,000**	630,000
	768,533	842,902
Cash in hand	**42**	22
Cash and balances with the Central Bank of the UAE	**768,575**	842,924
Balances due to the Central Bank of the UAE	**948**	1,692

The statutory deposits with the Central Bank of the UAE amounting to AED 182 million (2020: AED 213 million) are not available to finance the day to day operations of the branches.

As at 31 December 2021, overnight placements carry an interest rate of 0.15% (2020: 0.10%) per annum.

6. Due from other banks

	2021 AED'000	2020 AED'000
Placements	**48,392**	**32,738**
Current accounts	**55,696**	**33,921**
Term Loan	**306,042**	**-**
	410,130	**66,659**

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

6. Due from other banks (continued)

As at 31 December 2021, placements due from other banks carry an interest rate of 0.54% (2020: 0.64%) per annum.

	2021 AED'000	2020 AED'000
By geographical area:		
Within UAE	**317,140**	-
Other GCC countries	**80,221**	65,952
OECD countries	**2,967**	347
Others	**9,802**	360
	410,130	66,659

Due from other banks include balances with an original maturity of three months or less amounting to AED 104 million (2020: AED 67 million).

7. Due from Head Office and branches

	2021 AED'000	2020 AED'000
Placements	**2,430,508**	2,793,990
Current accounts	**19,320**	32,122
	2,449,828	2,826,112
By geographical area:		
Other GCC countries	**38,059**	792,426
OECD countries	**2,411,545**	2,033,439
Others	**224**	247
	2,449,828	2,826,112

Due from Head Office and branches include balances with an original maturity of three months or less amounting to AED 2,450 million (2020: AED 1,080 million).

As at 31 December 2021, placements due from Head Office and branches carry an interest rate of 0.55% (2020: -0.41%) per annum.

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

8. Financial asset measured at amortised cost

	2021 AED'000	2020 AED'000
Monetary bills issued by the Central Bank of the UAE classified:		
At amortised cost	**199,762**	-
Less: Provision for impairment	**(36)**	
	199,726	-

The investments in monetary bills are paying 0.32% & 0.38% of interest per annum and will mature on 6 April 2022 & 1 June 2022.

9. Loans and advances

	2021 AED'000	2020 AED'000
Loans and advances	**2,601,693**	2,684,038
Less: Provision for impairment	**(321,033)**	(296,073)
Less: Interest in suspense	**(150,618)**	(122,840)
Net loans and advances	**2,130,042**	2,265,125

At 31 December 2021, the aggregate amount of secured loans amounted to AED Nil (2020: AED Nil).

Analysis of loans and advances

	2021 AED'000	2020 AED'000
By type:		
Overdrafts	**344,578**	252,913
Loans	**1,906,714**	2,102,144
Trust receipts	**213,545**	304,857
Bills discounted and purchased	**136,856**	24,124
	2,601,693	2,684,038

Analysis of loans and advances

	2021 AED'000	2020 AED'000
By geographical area:		
Within UAE	**1,631,823**	1,643,488
Other GCC countries	**716,138**	765,104
Others	**253,732**	275,446
	2,601,693	2,684,038

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

9. Loans and advances (continued)

Analysis of loans and advances (continued)

	2021 AED'000	2020 AED'000
By economic sector:		
Trade and commerce	**344,220**	359,947
Construction	**128,092**	127,935
Manufacturing	**589,108**	502,489
Services	**258,472**	231,027
Transport, storage and communication	**1,829**	-
Mining and quarrying	**381,913**	397,934
Financial institutions	**367,250**	367,250
Government	**527,365**	694,091
Others	**3,444**	3,365
	2,601,693	2,684,038

9(c) Provision for impairment

Movement in provision for impairment

	2021 AED'000	2020 AED'000
At 1 January	**296,073**	132,302
Net impairment during the year	**24,978**	163,731
Write-off	**(2)**	-
Foreign exchange revaluation	**(16)**	40
At 31 December	**321,033**	296,073

9(d) Net impairment loss on financial assets

	2021 AED'000	2020 AED'000
Net impairment on loans and advances	**24,978**	163,731
Net reversal on due from other banks	**-**	(28)
Net impairment on contingencies and commitments	**11,136**	3,911
Net impairment on financial asset measured at amortised cost	**36**	-
	36,150	167,614

At 31 December 2021, the aggregate amount of non-performing loans and advances including interest amounted to AED 496 million (2020: AED 470 million).

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

10. Other assets

	2021 AED'000	2020 AED'000
Derivative financial instruments (Note 26)	**565,432**	431,652
Deferred tax asset (see below)	**73,385**	59,855
Prepayments	**125**	653
Interest receivable	**1,490**	2,250
Other receivables	**33,816**	57,475
	674,248	551,885

Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20%.

The movement on the deferred income tax account is as follows:

	2021 AED'000	2020 AED'000
At 1 January	**59,855**	27,513
Charge for the year	**13,530**	32,342
At 31 December	**73,385**	59,855

Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is probable. The temporary timing difference primarily arises on account of impairment of loans and advances disallowed for tax purposes.

	2021 AED'000	2020 AED'000
Deferred tax assets:		
Deferred tax asset to be recovered after more than 12 months	**73,385**	59,855

11. Customers' deposits

	2021 AED'000	2020 AED'000
Term deposits	**556,022**	735,792
Demand accounts	**2,719,000**	2,190,984
Call accounts	**27,932**	187,950
Margin deposits	**33,776**	52,278
	3,336,730	3,167,004

Ten largest customers accounted for 38% (2020: 24%) of the customers' deposits outstanding at the year end.

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

11. Customers' deposits (continued)

	2021 AED'000	2020 AED'000
By geographical area:		
Within UAE	**3,080,521**	2,833,462
Other GCC countries	**2,279**	13,348
OECD countries	**239,254**	211,943
Others	**14,676**	108,251
	3,336,730	3,167,004

12. Due to Head Office and branches

	2021 AED'000	2020 AED'000
Borrowings	**904,422**	1,006,049
Current accounts	**20,156**	125,809
	924,578	1,131,858

	2021 AED'000	2020 AED'000
By geographical area:		
Other GCC countries	**904,826**	1,044,825
OECD	**18,839**	74,836
UAE	**913**	10,451
Others	**-**	1,746
	924,578	1,131,858

At 31 December 2021, Borrowings due to Head Office and branches carry an interest rate of 0.11% (2020: 0.16%) per annum.

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

13. Other liabilities

	2021 AED'000	2020 AED'000
Derivative financial instruments (Note 26)	**565,512**	431,657
Provision for taxation (Note 20)	**-**	665
Fees and commissions received in advance	**8,677**	8,680
Accrued expenses	**84,148**	53,441
Provision for bonus	**3,832**	3,086
Provision for employees' end of service benefits (see below)	**15,779**	14,660
Interest payable	**883**	928
Provision for credit losses arising on letters of credit and guarantees issued (Note 25)	**37,594**	26,458
Other liabilities*	**33,266**	45,042
	749,691	584,617

Movement in provision for employees' end of service benefits		
At 1 January	**14,660**	12,839
Provision made during the year (Note 21)	**1,100**	1,272
Payments made during the year	**(231)**	-
Transfer to other branches	**(353)**	(1,127)
Actuarial loss	**603**	1,676
At 31 December	**15,779**	14,660

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2021 and 2020, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 1.90% (2020: 1.30%). Under this method an assessment has been made of an employee's expected service life with the Branches' and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 2.86% (2020: 1.80%).

*This includes accrual for head office charges amounting to AED 3.6 million (2020: AED 4.02 million).

14. Designated capital

In accordance with the UAE Union Law No. (2) of 2015 (as amended), designated capital represents an interest free deposit provided by the Head Office.

As at 31 December 2021, designated capital was AED 446.4 million.

During the year ended 31 December 2021, no additional capital (2020: Nil) was received from Head Office as an addition to designated capital.

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

15. Reserves

(a) Legal reserve

In accordance with Article 82 of the UAE Union Law No. (2) of 2015 (as amended), 10% of the profit for the year is required to be transferred to a legal reserve which is non-distributable. Allocations to this reserve are required to be made until such time as the balance in the reserve equals 50% of the allocated capital. Accordingly, an amount of AED Nil (2020: AED Nil) has been transferred to the legal reserve for the year ended 31 December 2021 as the branches have incurred losses. This reserve is not available for distribution.

(b) General reserve

The Branch has created a non-distributable special reserve titled as 'General reserve' in lieu of the general provision required to be created in accordance with the ''Circular No 28/2010'' issued by the UAE Central Bank.

16. Interest income

	2021 AED'000	2020 AED'000
Loans and advances	**27,853**	48,294
Head Office and branches (Note 24)	**5,685**	15,068
Other banks	**967**	4,067
	34,505	67,429
Within the UAE		
- Government	**17,302**	16,088
- Non-Government	**13,457**	39,705
Outside the UAE	**3,746**	11,636
	34,505	67,429

17. Interest expense

	2021 AED'000	2020 AED'000
Customers' deposit	**977**	13,935
Head Office and branches (Note 24)	**1,899**	4,298
Other banks	**139**	17
	3,015	18,250
Within the UAE		
- Government	**-**	6,171
- Non-Government	**606**	6,290
Outside the UAE	**2,409**	5,789
	3,015	18,250

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

18. Net fee and commission income

	2021 AED'000	2020 AED'000
Commission income:		
- On documentary credits and guarantees	**34,363**	35,934
- On transfers	**2,586**	3,513
- On others*	**31,103**	39,538
	68,052	78,985
Less: commission expense**	**(7,774)**	(7,337)
	60,278	71,648

	2021 AED'000	2020 AED'000
Commission income:		
Within the UAE		
- Government	**6,662**	5,748
- Non-Government	**32,718**	27,362
Outside the UAE	**28,672**	45,875
	68,052	78,985
Commission expense:		
Within the UAE		
- Government	**-**	-
- Non-Government	**890**	520
Outside the UAE	**6,884**	6,817
	7,774	7,337

***This includes account maintenance charges and fee income allocated by the Head Office of AED 17.2 million (2020: AED 6.1 million).

**includes subordinated cost from related parties of AED 3.8 million (2020: AED 2.9 million)

19. Operating expenses

	2021 AED'000	2020 AED'000
Staff costs (Note 21)	**32,130**	34,514
Outsourced support costs (Note 24)	**19,940**	20,451
Information technology expenses	**4,766**	11,110
Depreciation	**5,440**	5,589
Head Office charges (Note 24)	**3,610**	1,679
Others	**52,922**	23,583
	118,808	96,926

20. Income tax

	2021 AED'000	2020 AED'000
Current taxes on income during the reporting period	**-**	665
Under provision in the prior year	**1,657**	3,975
Total current tax	**1,657**	4,640
Increase in deferred tax asset (Note 10)	**(13,530)**	(32,342)
Income tax for the year	**(11,873)**	(27,702)

The income tax rate applicable to the Branches' 2021 income is 20% (2020: 20%).

Further information about deferred income tax is presented in Note 10. The tax on the Branches' profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Branches' as follows:

	2021 AED'000	2020 AED'000
Profit before taxation	**(62,931)**	(143,697)
Tax calculated at the base tax rate of the branch	**-**	-
Effect of:		
Expenses not deductible for tax	**-**	665
Increase in deferred tax asset (Note 10)	**(13,530)**	(32,342)
Adjustment for current tax of prior years	**1,657**	3,975
Income tax for the year	**(11,873)**	(27,702)

21. Staff costs

	2021 AED'000	2020 AED'000
Wages and salaries	**20,385**	21,893
Employees' end of service benefits (Note 13)	**1,100**	1,272
Other benefits	**10,645**	11,349
	32,130	34,514

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

22. Cash and cash equivalents

	2021 AED'000	2020 AED'000
Cash in hand (Note 5)	**42**	22
Placements with the Central Bank of the UAE (Note 5)	**587,000**	630,000
Due from other banks with an original maturity of three months or less (Note 6)	**104,088**	66,659
Due from Head Office and branches with an original maturity of three months or less (Note 7)	**2,449,828**	1,079,989
	3,140,958	1,776,670

23. Financial assets and liabilities maturity profile

The maturities of financial assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Branches' and its exposure to changes in interest rates and exchange rates.

The table below analyses financial assets and liabilities of the Branches' into relevant maturity groupings based on the remaining period from the statement of financial position date to the contractual maturity date.

Financial assets and liabilities	**Up to 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**> 5 years AED'000**	**Total AED'000**
31 December 2021					
Assets					
Cash and balances with the Central Bank of the UAE	**768,575**	**-**	**-**	**-**	**768,575**
Due from other banks	**104,088**	**-**	**306,042**	**-**	**410,130**
Due from Head Office and branches	**2,449,828**	**-**			**2,449,828**
Financial asset measured at amortised cost	**-**	**199,726**	**-**	**-**	**199,726**
Loans and advances	**1,087,543**	**991,477**	**27,238**	**23,784**	**2,130,042**
Other assets (excluding Deferred tax asset and Prepayments)	**600,738**	**-**	**-**	**-**	**600,738**
Total assets	**5,010,772**	**1,191,203**	**333,280**	**23,784**	**6,559,039**

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

23. Financial assets and liabilities maturity profile (continued)

Financial assets and liabilities	**Up to 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**> 5 years AED'000**	**Total AED'000**
31 December 2021					
Liabilities					
Customers' deposits	**3,077,630**	**237,600**	**3,395**	**18,105**	**3,336,730**
Due to the Central Bank of the UAE	**948**	**-**	**-**	**-**	**948**
Due to Head Office and branches	**924,578**	**-**	**-**	**-**	**924,578**
Other liabilities (excluding provision for credit losses, taxation, employees' end of service benefits and fees and commissions received in advance)	**687,641**	**-**	**-**	**-**	**687,641**
Total liabilities	**4,690,797**	**237,600**	**3,395**	**18,105**	**4,949,897**
Net liquidity gap	**319,939**	**953,639**	**329,885**	**5,679**	**1,609,142**

Financial assets and liabilities	**Up to 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**> 5 years AED'000**	**Total AED'000**
31 December 2020					
Assets					
Cash and balances with the Central Bank of the UAE	842,924	-	-	-	842,924
Due from other banks	66,659	-	-	-	66,659
Due from Head Office and branches	2,826,112	-	-	-	2,826,112
Loans and advances	644,600	1,249,904	370,621	-	2,265,125
Other assets (excluding Deferred tax asset and Prepayments)	491,377	-	-	-	491,377
Total assets	4,871,672	1,249,904	370,621	-	6,492,197

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

23. Financial assets and liabilities maturity profile (continued)

Financial assets and liabilities	Up to 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	> 5 years AED'000	Total AED'000
31 December 2020					
Liabilities					
Customers' deposits	3,069,063	86,764	11,177	-	3,167,004
Due to the Central Bank of the UAE	1,692	-	-	-	1,692
Due to other banks	2	-	-	-	2
Due to Head Office and branches	1,131,858	-	-	-	1,131,858
Other liabilities (excluding provision for credit losses, taxation, employees' end of service benefits and fees and commissions received in advance)	534,154	-	-	-	534,154
Total liabilities	4,736,769	86,764	11,177	-	4,834,710
Net liquidity gap	134,903	1,163,140	359,444	-	1,657,487

24. Related party transactions and balances

A number of banking transactions are entered into with Head Office and branches in the normal course of business. In addition to the balances reflected in Notes 7 and 12 to the financial statements, the following transactions were carried out on commercial terms and conditions and/or approved by the management of the branch.

	2021 AED'000	2020 AED'000
Head office and branches		
Interest income (Note 16)	**5,685**	15,068
Interest expense (Note 17)	**1,899**	4,298
Head Office charges (Note 19)	**3,610**	1,679
Outsourced support costs (Note 19)	**19,940**	20,451
Fee income allocated by Head Office (Note 18)	**17,284**	6,124
Forex booking	**7,165**	15,557
Subordinated cost (Note 18)	**3,786**	2,888
Employee's end of service benefits transferred to other branches (Note 13)	**353**	1,127

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

24. Related party transactions and balances (continued)

	2021 AED'000	2020 AED'000
Key management personnel		
Short term benefits	**870**	889
Total compensation to key management personnel	**2,326**	2,295
Number of key management personnel	**2**	2

	2021 AED'000	2020 AED'000
Off Balance Sheet items		
Letters of guarantees and counter guarantees	**4,330,008**	4,310,360
Letters of credit	**570,949**	532,561
Acceptances	**-**	743
Derivative financial instruments	**11,645,220**	12,498,868

At 31 December 2021, letters of guarantees and counter guarantees include guarantees amounting to AED 4,330 million (2020: AED 4,310 million) and letters of credit of AED 571 million (2020: AED 533 million) which are counter guaranteed by Head Office and branches.

At 31 December 2021, derivative financial instruments amounting to AED 11,645 million (2020: AED 12,499 million) have been entered with Head Office and branches.

25. Contingent liabilities and commitments

The Branches' is a party to the following financial instruments which are subject to normal credit standards, financial controls and risk management and monitoring procedures:

	2021 AED'000	2020 AED'000
Letters of credit	**993,104**	734,526
Letters of guarantees and counter guarantees	**6,817,267**	6,914,549
Acceptances	**113,767**	19,333
Undrawn commitments	**570,045**	373,371
	8,494,183	8,041,779

At 31 December 2021, provisions in respect of contingent liabilities amounted to AED 37.6 million (2020: AED 26.5 million) (Note 13).

25. Contingent liabilities and commitments (continued)

Guarantees and standby letters of credit, which represent irrevocable assurances that the Branches' will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Branches' on behalf of a customer authorising a third party to draw drafts on the Branches' up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branches' does not generally expect the third party to draw funds under the agreement.

	2021 AED'000	2020 AED'000
By geographical area:		
Within UAE	**3,249,594**	2,780,308
Other GCC countries	**237,922**	201,612
OECD countries	**4,285,355**	4,429,826
Others	**721,312**	630,033
	8,494,183	8,041,779

26. Derivative financial instruments

The Branches' enters into derivative financial instruments with the Head Office in the normal course of business. Derivative financial contracts with the customers of the Branches' are executed with the Head Office on a back to back basis. The Branches' is exposed to credit risk on derivative financial instruments with the customers only to the extent of their carrying amount, which is their fair value.

Following are the derivative financial instruments undertaken by the Branches' and are outstanding at the year end:

	Contract amount AED'000	**Fair value assets AED'000**	**Fair value liabilities AED'000**
31 December 2021			
Forward foreign exchange contracts and currency swaps	**10,369,996**	**564,317**	**564,397**
Interest rate swaps	**3,672,500**	**1,115**	**1,115**
	14,042,496	**565,432**	**565,512**
31 December 2020			
Forward foreign exchange contracts and currency swaps	9,241,462	417,025	417,030
Interest rate swaps	7,345,000	14,627	14,627
	16,586,462	431,652	431,657

27. Financial instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

(b) Categories of financial instruments

	2021 AED'000	2020 AED'000
Financial assets:		
At amortised cost	**5,993,607**	6,060,545
At fair through profit or loss	**565,432**	431,652
	6,559,039	6,492,197
Financial liabilities:		
At amortised cost	**4,384,385**	4,417,713
At fair through profit or loss	**565,512**	431,657
	4,949,897	4,849,370

(c) Fair value of financial instruments

The fair values of financial assets and liabilities at year end approximate their carrying amounts in the statement of financial position.

28. Financial risk management

Financial risk factors

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

The Branches' risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realisable and up-to-date information systems. Senior management regularly reviews the Branches' risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by the senior management under policies that are approved by the Bank. The regional management is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, market risk and liquidity risk.

28. Financial risk management (continued)

Risk controlling

The regional management is responsible for monitoring compliance with risk principles, policies and limits, within the Branches' as well as for managing the Branches' assets and liabilities and overall financial structure. In addition to that, the Bank is primarily responsible for the funding and liquidity risks of the Branches'.

Internal audit / Inspection General

Risk management processes in the Branches' are audited by the internal audit that examines both the adequacy of the procedures and the Branches' compliance with the procedures approved by the Bank. The internal auditor discusses the results of all assessments with management, and reports its findings and recommendations to the management and Bank.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Branches' customers, client or market counterparties fail to fulfil their contractual obligations to the Branches.

Credit risk arises mainly from balances and placements with other banks, due from other offices of the Bank, loans and advances to other banks and customers, other assets and off-balance sheet credit related commitments, such as loan commitments and guarantees.

Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Branches measure credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

Credit risk grading

The Branches use internal credit risk grading that reflect its assessment of the probability of default of individual counterparties. The Branches use internal rating models tailored to the various categories of counterparty. In addition, the models enable expert judgement from the Head Office to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

The credit grades are calibrated such that the risk of default increases exponentially at each higher risk grade.

28. Financial risk management (continued)

Credit risk (continued)

Credit risk grading (continued)

The rating methods are subject to an annual validation and recalibration so that they reflect the latest projections in light of all actually observed defaults. The Branches internal rating scale are set out below:

Bank's Rating	Description of the class	External rating: Standard & Poor's equivalent
1-5	Investment grade	AAA, AA+, AA- A+, A-, BBB+, BBB, BBB-
6-10	Standard monitoring	BB+, BB, BB-, B+, B, B-, CCC to C
11-12	Sub-standard	D

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage1' and has its credit risk continuously monitored by the Branches.
- If significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit-impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR)

The Branches consider a financial instrument to have experienced a significant increase in credit risk based on quantitative, qualitative or backstop criteria.

Definition of default and credit-impaired assets

The Branches define a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

28. Financial risk management (continued)

Credit risk (continued)

Quantitative criteria

The existence of any uncured, missed or delayed payment (principal, interest, fees in the case of loans) outstanding for more than 90 days (except for situations where the payment default is demonstrably not related to the counterparty's insolvency).

The borrower meets unlikeliness to pay criteria, which indicates the borrower is in significant financial difficulty. These are instances where:

- Probable or undoubted risk of payment default, likely to generate a partial or total non-recovery of the Bank's exposure, without taking into account any of the potential recoveries resulting from the enforcement of collaterals or guarantees received.
- Any judicial, administrative or other proceedings (such as bankruptcy and insolvency).
- Any protection from creditors which is sought or commenced against the counterparty (whoever requested it) and which might avoid, suspend, differ or reduce the counterparty's payment obligation.

The criteria above have been applied to all financial instruments held by the Branches and are consistent with the definition of default used for internal credit risk management purposes.

The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD) and Loss given Default (LGD) throughout the Branches' expected loss calculations.

A counterparty is deemed to emerge from the default status when none of the above default events remains and when payments have resumed on a regular basis according to the initial or new contractual terms.

Measuring E–L - Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per Definition of default and credit-impaired above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Branches expect to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Branches' expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

28. Financial risk management (continued)

Credit risk (continued)

Quantitative criteria (continued)

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Branches have performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Economic variable assumptions

The most significant assumptions affecting the ECL allowance are set out below:

- A baseline scenario which describes the most likely path of the economy over the projection horizon. This scenario is updated on a quarterly basis. It is designed by Group Economic Research in collaboration with various experts within the Head Office. Projections are provided for key markets, through main macro-economic variables (GDP and its components, unemployment rate, consumer prices, interest rates, foreign exchange rates, oil prices and real estate prices) which are drivers for risk parameter models used downstream in the credit stress testing process;

- An adverse scenario which describes the impact of materialisation of some of the risks weighing on the baseline scenario, resulting in a much less favourable economic path. The starting point is a shock on GDP. This shock on GDP is applied with variable magnitudes, but simultaneously among economies when the crisis considered is a global contemporaneous crisis. Other variables (unemployment, inflation and interest rate) are deducted on the basis of econometric relationships and expert judgment; and

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

28. Financial risk management (continued)

Credit risk (continued)

Economic variable assumptions (continued)

- A favourable scenario which reflects the impact of materialisation of some of the upside risks for the economy, resulting in a much more favourable economic path. To achieve an unbiased estimation of provisions, the favourable scenario is designed in such a way that the probability of the shock on GDP growth (on average over the cycle) is equal to the probability of the corresponding shock in the adverse scenario. Other variables (unemployment, inflation and interest rate) are deducted in the same way as in the adverse scenario.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Branches' maximum exposure to credit risk on these assets.

	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000
Balances with the Central Bank of the UAE					
Investment grade	**768,533**	**-**	**-**	**768,533**	842,902
Impairment loss allowance	**-**	**-**	**-**	**-**	-
Carrying amount	**768,533**	**-**	**-**	**768,533**	842,902

	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	AED'000
Due from other banks					
Investment grade	**410,130**	**-**	**-**	**410,130**	66,659
Impairment loss allowance	**-**	**-**	**-**	**-**	-
Carrying amount	**410,130**	**-**	**-**	**410,130**	66,659

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

28. Financial risk management (continued)

Maximum exposure to credit risk - Financial instruments subject to impairment

		2021			2020
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**	Total AED'000
Financial asset measured at amortised cost					
Investment grade	**199,762**	**-**	**-**	**199,762**	-
Impairment loss allowance	**(36)**	**-**	**-**	**(36)**	-
	199,726	**-**	**-**	**199,726**	-
Loans and advances					
Investment grade	**1,694,224**	**20,215**	**-**	**1,714,439**	1,837,477
Standard monitoring	**388,268**	**2,732**	**-**	**391,000**	376,567
Default	**-**	**-**	**496,254**	**496,254**	469,994
	2,082,492	**22,947**	**496,254**	**2,601,693**	2,684,038
Less interest in suspense	**-**	**-**	**(150,618)**	**(150,618)**	(122,840)
Impairment loss allowance	**(2,371)**	**(850)**	**(317,812)**	**(321,033)**	(296,073)
Carrying amount	**2,080,121**	**22,097**	**27,824**	**2,130,042**	2,265,125
Off-balance sheet commitments					
Investment grade	**7,361,040**	**68,842**	**-**	**7,429,882**	6,934,915
Standard monitoring	**735,376**	**282,940**	**-**	**1,018,316**	1,060,879
Default	**-**	**-**	**45,985**	**45,985**	45,985
Carrying amount	**8,096,416**	**351,782**	**45,985**	**8,494,183**	8,041,779
Impairment loss allowance	**(1,857)**	**(4,825)**	**(30,912)**	**(37,594)**	(26,458)

Collateral

The Branches employ a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Branches implement guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The fair value of the collaterals held for Off-balance sheet commitments as at 31 December 2021 amounts to AED 184 million (2020: AED 227.3 million).

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

28. Financial risk management (continued)

Loss allowance

	2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Financial asset measured at amortised cost				
Loss allowance as at 1 January	-	-	-	-
New financial assets and repayments during the year - net	36	-	-	36
Loss allowance as at 31 December	36	-	-	36
Loans and advances and due from banks				
Loss allowance as at 1 January	2,747	2,189	291,137	296,073
Transfer from Stage 1 to Stage 2	(640)	640	-	-
Write-off	-	-	(2)	(2)
Transfer from Stage 1 to Stage 3	-	-	-	-
New financial assets and repayments during the year - net	280	(1,979)	26,677	24,978
Foreign exchange revaluation	(16)	-	-	(16)
Loss allowance as at 31 December	2,371	850	317,812	321,033
Off balance sheet commitments				
Loss allowance as at 1 January	3,409	2,597	20,452	26,458
Transfer from Stage 1 to Stage 2	(118)	118	-	-
Transfer from Stage 2 to Stage 1	995	(995)	-	-
New financial assets and repayments during the year - net	(2,429)	3,105	10,460	11,136
Loss allowance as at 31 December	1,857	4,825	30,912	37,594

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

28. Financial risk management (continued)

Loss allowance (continued)

	2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loans and advances and due from banks				
Loss allowance as at 1 January	1,475	782	130,073	132,330
Transfer from Stage 1 to Stage 2	(187)	187	-	-
Transfer from Stage 2 to Stage 1	66	(66)	-	-
Transfer from Stage 1 to Stage 3	(151)	-	151	-
New financial assets and repayments during the year - net	1,522	1,268	160,913	163,703
Foreign exchange revaluation	22	18	-	40
Loss allowance as at 31 December	2,747	2,189	291,137	296,073
Off balance sheet commitments				
Loss allowance as at 1 January	1,206	822	20,452	22,480
Transfer from Stage 1 to Stage 2	(117)	117	-	-
Transfer from Stage 2 to Stage 1	174	(174)	-	-
New financial assets and repayments during the year - net	1,694	2,217	-	3,911
Foreign exchange revaluation	452	(385)	-	67
Loss allowance as at 31 December	3,409	2,597	20,452	26,458

Gross carrying amount

	2021			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Due from banks				
Gross carrying amount as at 1 January	**66,659**	**-**	**-**	**66,659**
New financial assets and repayments during the year - net	**343,471**	**-**	**-**	**343,471**
Gross carrying amount as at 31 December	**410,130**	**-**	**-**	**410,130**

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

28. Financial risk management (continued)

Loss allowance (continued)

	2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Due from banks				
Gross carrying amount as at 1 January	42,457	-	-	42,457
New financial assets and repayments during the year - net	24,202	-	-	24,202
Gross carrying amount as at 31 December	66,659	-	-	66,659

	2021			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Loans and advances to customers				
Gross carrying amount as at 1 January (net of interest in suspense)	**2,164,408**	**49,636**	**347,154**	**2,561,198**
Transfers from Stage 1 to Stage 2	**(53)**	**53**	**-**	**-**
New financial assets and repayments during the year - net	**(81,864)**	**(26,741)**	**(1,518)**	**(110,123)**
Gross carrying amount as at 31 December (net of interest in suspense)	**2,082,491**	**22,948**	**345,636**	**2,451,075**
Off balance sheet commitments				
Gross carrying amount as at 1 January	**7,589,285**	**406,509**	**45,985**	**8,041,779**
Transfers from Stage 1 to Stage 2	**(5)**	**5**	**-**	**-**
Transfers from Stage 2 to Stage 1	**106,006**	**(106,006)**	**-**	**-**
New financial assets and repayments during the year – net	**401,130**	**51,274**	**-**	**452,404**
Gross carrying amount as at 31 December	**8,096,416**	**351,782**	**45,985**	**8,494,183**

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

28. Financial risk management (continued)

Loss allowance (continued)

	2020			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Loans and advances to customers				
Gross carrying amount as at 1 January (net of interest in suspense)	2,430,266	26,401	130,704	2,587,371
Transfers from Stage 1 to Stage 2	(37,618)	37,618	-	-
Transfers from Stage 2 to Stage 1	15,025	(15,025)	-	-
Transfers from Stage 1 to Stage 3	(236,864)	-	236,864	-
New financial assets and repayments during the year - net	(6,401)	642	(20,414)	(26,173)
Gross carrying amount as at 31 December (net of interest in suspense)	2,164,408	49,636	347,154	2,561,198
Off balance sheet commitments				
Gross carrying amount as at 1 January	8,270,790	257,922	47,340	8,576,052
Transfers from Stage 1 to Stage 2	(398,129)	398,129	-	-
Transfers from Stage 2 to Stage 1	100,908	(100,908)	-	-
Transfers from Stage 1 to Stage 3	(168)	-	168	-
New financial assets and repayments during the year – net	(384,116)	(148,634)	(1,523)	(534,273)
Gross carrying amount as at 31 December	7,589,285	406,509	45,985	8,041,779

The other financial assets of the Branches were in stage 1 throughout the year and therefore have insignificant ECLs. Accordingly, there have been no significant movements between stages in respect of these financial instruments.

Write-off policy

The Branches write off financial assets, in whole or in part, when they have exhausted all practical recovery efforts and have concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) Where the Branches' recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full

a) Credit risk and concentrations of risk

The Branches' takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Branches' by failing to discharge an obligation. Financial assets which potentially subject the Branches' to concentrations of credit risk consist principally of balances and placement with other banks, due from other offices of the Bank, loans and advances to other banks and customers and other assets. Credit risk is the most important risk for the Branches' business; management therefore carefully manages its exposure to credit risk. There is also credit risk in off-balance sheet credit related commitments, such as loan commitments and guarantees.

28. Financial risk management (continued)

a) Credit risk and concentrations of risk (continued)

Industry segmentation

The Branches' industry concentration of financial assets and off-balance sheet items is set out below:

	In AED 000	
	Financial assets	**Contingent liabilities and commitments**
At 31 December 2021		
Industry sectors		
Trading and manufacturing	**461,673**	**124,215**
Banks and financial institutions	**4,195,467**	**5,012,998**
Construction	**128,092**	**624,817**
Other	**1,208,375**	**2,732,153**
	5,993,607	**8,494,183**
At 31 December 2020		
Industry sectors		
Trading and manufacturing	646,005	279,577
Banks and financial institutions	4,102,920	4,897,709
Construction	105,373	688,724
Other	1,206,247	2,175,769
	6,060,545	8,041,779

The Branches have not availed the benefits of the Targeted Economic Support Scheme in the United Arab Emirates.

b) Market risk

Market risk is the risk that the value of the financial instruments will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. The Branches' limits market risk through its Head Office by maintaining a diversified portfolio, proactively monitoring the key factors that affect market movements and periodically analysing the operating and financial performance of its customers.

Currency risk

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

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

28. Financial risk management (continued)

b) Market risk (continued)

Currency risk (continued)

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Branches' maintains a position in United States Dollar ("USD") within limits approved by the management of the Branches'.

The Branches' takes positions on exposures to manage the effects of fluctuation in the prevailing foreign currency exchange rates on its financial position and cash flows. The Head Office sets limits on the level of exposures by currency and in total, which are monitored regularly.

The following table summarises the Branches' exposure to foreign currency exchange rate risk at 31 December 2021 and 2020. Included in the table are the Branches' financial assets and liabilities and off-balance sheet items at carrying amounts, categorised by currency:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2021				
Assets				
Cash and balances with the Central Bank of the UAE	768,575	-	-	768,575
Due from other banks	1,987	352,446	55,697	410,130
Due from Head Office and branches	1	421	2,449,406	2,449,828
Financial asset measured at amortised cost	199,726	-	-	199,726
Loans and advances	157,950	1,962,830	9,262	2,130,042
Other assets	24,753	292,683	283,302	600,738
Total assets	1,152,992	2,608,380	2,797,667	6,559,039
Liabilities				
Customers' deposits	1,550,705	1,415,330	370,695	3,336,730
Due to the Central Bank of the UAE	948	-	-	948
Due to Head Office and branches	46,783	877,795	-	924,578
Other liabilities	44,104	289,781	353,756	687,641
Total liabilities	1,642,540	2,582,906	724,451	4,949,897
Net balance sheet position	(489,548)	25,474	2,073,216	1,609,142

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

28. Financial risk management (continued)

b) Market risk (continued)

Currency risk (continued)

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2020				
Assets				
Cash and balances with the Central Bank of the UAE	842,924	-	-	842,924
Due from other banks	-	32,738	33,921	66,659
Due from Head Office and branches	8	795,935	2,030,169	2,826,112
Loans and advances	240,496	2,024,306	323	2,265,125
Other assets	41,344	222,546	227,487	491,377
Total assets	1,124,772	3,075,525	2,291,900	6,492,197
Liabilities				
Customers' deposits	1,631,854	1,138,775	396,375	3,167,004
Due to the Central Bank of the UAE	1,692	-	-	1,692
Due to other banks	-	-	2	2
Due to Head Office and branches	106,285	910,413	115,160	1,131,858
Other liabilities	55,451	219,695	273,668	548,814
Total liabilities	1,795,282	2,268,883	785,205	4,849,370
Net balance sheet position	(670,510)	806,642	1,506,695	1,642,827

Interest rate risk

Interest rate risk arises from the possibility that the changes in interest rates will affect either the fair values or the future cash flows of the financial instruments. The branches have established interest rate gap limits for stipulated periods. The branches monitor positions daily and use hedging strategies to ensure maintenance of positions within the established gap limits.

The branches' exposure to interest rate mismatches arise from balances from Central Bank of UAE AED 587 million (2020: AED 630 million), Due from other banks of AED 354 million (2020: AED 33 million), Due from Head Office and branches of AED 2,431 million (2020: AED 2,794 million), Financial asset at amortised cost of AED 200 million (2020: Nil), Loans and advances of AED 2,602 million (2020: AED 2,684 million), Customers' deposits of AED 590 million (2020: AED 788 million) and Due to Head Office and branches of AED 904 million (2020: AED 1,006 million), which is re-priced periodically. Management monitors interest rate risk through the use of a detailed gap report and stress tests to analyse the impact of anticipated movements in interest rates.

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

28. Financial risk management (continued)

b) Market risk (continued)

Interest rate risk (continued)

The following table summarises the Branches' financial assets and liabilities at carrying amounts, categorised by maturity dates.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 year to 5 years AED'000	Non-interest bearing AED'000	Total AED'000	Effective interest rate %
At 31 December 2021						
Assets						
Cash and balances with the Central Bank of the UAE	587,000	-	-	181,575	768,575	0.15%
Due from other banks	354,434	-	-	55,696	410,130	0.54%
Due from Head Office and branches	2,430,508	-	-	19,320	2,449,828	0.55%
Financial asset measured at amortised cost	-	199,726	-	-	199,726	0.35%
Loans and advances						
Gross	1,276,680	1,273,991	51,022	-	2,601,693	0.91%
Provision	-	-	-	(471,651)	(471,651)	-
Other assets	-	-	-	600,738	600,738	-
Total assets	4,648,622	1,473,717	51,022	385,678	6,559,039	
Liabilities						
Customers' deposits	150,995	415,630	23,173	2,746,932	3,336,730	0.24%
Due to the Central Bank of the UAE	-	-	-	948	948	-
Due to Head Office and branches	904,422	-	-	20,156	924,578	0.12%
Other liabilities	-	-	-	687,641	687,641	
Total liabilities	1,055,417	415,630	23,173	3,455,677	4,949,897	
Net position	3,593,205	1,058,087	27,849			

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

28. Financial risk management (continued)

b) Market risk (continued)

Interest rate risk (continued)

	Less than 3 months AED'000	From 3 months to 1 year AED'000	From 1 year to 5 years AED'000	Non-interest bearing AED'000	Total AED'000	Effective interest rate %
At 31 December 2020						
Assets						
Cash and balances with the Central Bank of the UAE	630,000	-	-	212,924	842,924	0.10%
Due from other banks	32,738	-	-	33,921	66,659	0.64%
Due from Head Office and branches	1,047,865	1,746,123	-	32,124	2,826,112	-0.41%
Loans and advances						
Gross	883,391	1,430,026	370,621	-	2,684,038	1.03%
Provision	-	-	-	(418,913)	(418,913)	-
Other assets	-	-	-	491,377	491,377	-
Total assets	2,593,994	3,176,149	370,621	351,433	6,492,197	
Liabilities						
Customers' deposits	409,206	360,430	18,583	2,378,785	3,167,004	0.36%
Due to the Central Bank of the UAE	-	-	-	1,692	1,692	-
Due to other banks	-	-	-	2	2	-
Due to Head Office and branches	1,006,048	-	-	125,810	1,131,858	0.16%
Other liabilities	-	-	-	548,814	548,814	-
Total liabilities	1,415,254	360,430	18,583	3,055,103	4,849,370	
Net position	1,178,740	2,815,719	352,038			

28. Financial risk management (continued)

b) Market risk (continued)

Interest rate risk (continued)

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of comprehensive income. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, as at 31 December. All banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed:

	2021	2020
	AED'000	AED'000
Effect of a ± 25 bps change in EIBOR	**11,698**	9,816

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 6,173 million (2020: AED 5,721 million) interest bearing assets and AED 1,494 million (2020: AED 1,794 million) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Branches' takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Head Office sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

c) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at a price that approximates its fair value. Liquidity risk is managed by regular monitoring of the availability of sufficient funds to meet future commitments. Head Office funding is available for any liquidity need of the Branches'.

The Branches' liquidity management process, as carried out within the Branches' and monitored by the Treasury Department includes:

- As a starting point, the Branches' analyses the contractual maturity of the financial liabilities and the expected collection date of all the financial assets at each currency level. The assets without contractual maturity are spread over a period based on BNP Paribas group methodology and statistical behavior of the asset.
- Based on the net result and gap analysis, treasury decides to borrow the shortages / lend the excesses in the interbank market. The Head Office offers liquidity to the Branches' for their lending and borrowing needs.
- Day to day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature.

28. Financial risk management (continued)

c) Liquidity risk (continued)

Liquidity risk management process

The Branches' manages its liquidity in accordance with the requirements of the Central Bank of the UAE and the Branches' internal guidelines. The Central Bank of the UAE has prescribed reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of the UAE also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the UAE. The management of the Branches' monitors the liquidity ratios on a regular basis.

Non-derivative cash flows

The table below presents the cash flows payable by the Branches' under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 3 months AED'000	**3 – 12 months AED'000**	**1 – 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2021					
Customers' deposits	**3,077,628**	**237,600**	**21,502**	**-**	**3,336,730**
Due to the Central Bank of the UAE	**948**	**-**	**-**	**-**	**948**
Due to Head Office and branches	**924,578**	**-**	**-**	**-**	**924,578**
Other liabilities	**687,641**	**-**	**-**	**-**	**687,641**
Total	**4,690,795**	**237,600**	**21,502**	**-**	**4,949,897**

	Up to 3 months AED'000	**3 – 12 months AED'000**	**1 – 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
31 December 2020					
Customers' deposits	3,069,063	86,764	11,177	-	3,167,004
Due to the Central Bank of the UAE	1,692	-	-	-	1,692
Due to other banks	2	-	-	-	2
Due to Head Office and branches	1,131,858	-	-	-	1,131,858
Other liabilities	548,814	-	-	-	548,814
Total	4,751,429	86,764	11,177	-	4,849,370

28. Financial risk management (continued)

c) Liquidity risk (continued)

Derivative cash flows

The Branches' derivatives that will be settled on a gross basis include foreign exchange contracts.

The table below analyses Branches' derivative financial instruments that will be settled on a gross basis into the relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	1 – 3 months AED'000	3 -12 months AED'000	1– 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2021						
Foreign exchange contracts						
-Outflow	**4,589,180**	**244,867**	**328,594**	**17,855**	**-**	**5,180,496**
-Inflow	**4,595,225**	**248,465**	**328,575**	**17,235**	**-**	**5,189,500**
At 31 December 2020						
Foreign exchange contracts						
-Outflow	2,010,314	2,516,015	83,549	17,755	-	4,627,633
-Inflow	2,014,009	2,500,810	81,775	17,235	-	4,613,829

Off-balance sheet items

	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
31 December 2021				
Contingent liabilities and commitments	**2,687,799**	**4,778,299**	**1,028,085**	**8,494,183**
31 December 2020				
Contingent liabilities and commitments	7,341,925	620,522	79,332	8,041,779

d) Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. The estimated fair value of the Branches' financial assets and liabilities are not significantly different from their respective carrying values.

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

28. Financial risk management (continued)

e) Capital management

Capital management is performed at Head Office level. The Bank maintains sufficient fund at the branches level to support the development of their business.

BNP Paribas SA will continue to provide such financial support to meet the branches' ongoing financial commitments as may be required.

For assessment of current capital requirements, as specified below, by the Central Bank of the UAE, the branches calculate their risk asset ratio in accordance with guidelines established by the Central Bank prescribing the ratio of total capital to total risk-weighted assets.

Capital structure and capital adequacy as per Basel II requirement

	2021 Minimum requirement	**2021 Actual ratio**
Common equity tier 1 ratio	**7.00%**	**21.99%**
Tier 1 capital ratio	**8.50%**	**21.99%**
Capital adequacy ratio	**12.50%**	**23.43%**

	2020 Minimum requirement	2020 Actual ratio
Common equity tier 1 ratio	9.50%	24.48%
Tier 1 capital ratio	11.00%	24.48%
Capital adequacy ratio	13.00%	26.00%

Including capital conservation buffer requirement of 2.5% (2020: 2.50%).

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

28. Financial risk management (continued)

e) Capital management (continued)

Capital structure and capital adequacy as per Basel II requirement (continued)

The consolidated ratio of the branches is in line with the assessment of capital adequacy ratio in accordance with the Basel I and Basel II Accord as shown in the following table:

	2021 **AED'000**	2020 AED'000
Tier 1 capital		
Allocated capital	**446,431**	446,431
Legal reserves	**162,720**	162,720
Retained earnings	**931,003**	982,061
Actuarial loss	**(4,226)**	(3,623)
	1,535,928	1,587,589
Regulatory deductions		
Deferred tax	**(73,385)**	(59,855)
Total Tier 1 Capital	**1,462,543**	1,527,734
Tier 2 capital		
General reserves	**95,000**	95,000
Total regulatory capital	**1,557,543**	1,622,734
Risk weighted assets		
Credit risk	**6,323,551**	5,913,868
Market risk	**22,738**	24,829
Operational risk	**301,973**	301,973
Total risk weighted assets	**6,648,262**	6,240,670
Capital adequacy ratio on regulatory capital	**23.43%**	26.00%
Capital adequacy ratio on tier 1 capital	**21.99%**	24.48%

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

28. Financial risk management (continued)

e) Capital management (continued)

Analysis of Branches' exposure based on Basel II standardised approach

Credit risk

	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion AED'000	Credit Risk Mitigation (CRM) Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
31 December 2021						
Claims on sovereigns	**968,295**	**-**	**968,295**	**-**	**968,295**	**-**
Claims on banks	**2,859,955**	**1,369,592**	**4,229,547**	**(2,399,246)**	**1,830,301**	**493,053**
Claims on corporates	**2,105,441**	**8,494,606**	**10,600,047**	**(1,076,109)**	**9,523,938**	**5,593,395**
Past due loans	**496,259**	**15,073**	**42,902**	**-**	**42,902**	**42,902**
Other assets	**132,952**	**-**	**132,952**	**-**	**132,952**	**194,201**
Total claims	**6,562,902**	**9,879,271**	**15,973,743**	**(3,475,355)**	**12,498,388**	**6,323,551**

	On balance sheet gross outstanding AED'000	Off balance sheet net exposure after credit conversion AED'000	Credit Risk Mitigation (CRM) Exposure before CRM AED'000	CRM AED'000	After CRM AED'000	Risk weighted assets AED'000
31 December 2020						
Claims on sovereigns	842,902	-	842,902	-	842,902	-
Claims on banks	2,892,769	99,487	2,992,256	(2,793,989)	198,267	117,036
Claims on corporates	1,532,482	3,995,769	5,528,251	(206,291)	5,321,960	5,513,760
Past due loans	79,012	-	79,012	-	79,012	79,012
Other assets	136,062	-	136,062	-	136,062	204,060
Total claims	5,483,227	4,095,256	9,578,483	(3,000,280)	6,578,203	5,913,868

	Risk weighted assets		**Capital charge**	
	2021 AED'000	2020 AED'000	**2021 AED'000**	2020 AED'000
Foreign exchange risk	**22,738**	24,829	**1,819**	1,986

Capital charge for the year ended 31 December 2021 has been calculated at 8% (2020: 8%).

29. Leases

This note provides information for leases where the Branch is a lessee.

(i) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases (net of depreciation):

	2021	2020
	AED’000	AED’000
Right of use assets		
Leasehold properties	**5,128**	7,476
Lease liabilities	**4,113**	6,437

Additions to right of use assets during the year ended 2021 was Nil (2020: AED Nil).

(ii) Amounts recognised in the statement of profit or loss

The statement of comprehensive income shows the following amounts relating to leases:

	2021	2020
	AED’000	AED’000
Depreciation charge of right of use assets	**2,600**	3,379
Interest expense	**67**	130

The total cash outflow for leases in 2021 was AED 2,643 thousand (2020: AED 3,012 thousand).

30. Approval of the financial statements

The financial statements were approved on behalf of the Head Office and authorised for issue on 29 March 2022.