Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2023

Principal business address:
P.O. Box: 46733
Abu Dhabi
United Arab Emirates

Arab Bank for Investment and Foreign Trade PJSC (Al Masraf)

Financial statements

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BOARD OF DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023

Respected Shareholders,

The Board is pleased to present its report together with the audited financial statements Arab Bank for Investment and Foreign Trade PJSC (the "Bank") for the year ended 31 December 2023. The audited financial statements have been prepared in accordance with IFRS Accounting Standards and the independent auditors have issued an unmodified audit opinion.

FINANCIAL HIGHLIGHTS

As of 31 December 2023, the total assets stood at AED 21,766 million *(2022: AED* 20,580 *million),* an increase of 6% driven mainly by an increase in the investment portfolio and cash and balances with Central Bank of UAE.

The Bank's net profit for the year 2023 increased by 43% to AED 189.4 million compared to net profit of AED 132.1 million reported in previous year.

LOANS AND ADVANCES

The net loans and advances at AED 12,901 million as at 31 December 2023 were lower as compared to AED 13,422 million as at 31 December 2022 as the Bank continued to de-risk and selectively book new business.

FUNDING

In line with growth in the balance sheet, Customers' deposits increased to AED 14,750 million as at 31 December 2023 from AED 14,130 million as at 31 December 2022. As part of the active balance sheet management, the inter-bank borrowings increased to AED 2,042 million from AED 1,792 million in the previous year, an increase of 14%.

BALANCES WITH CENTRAL BANK & DUE FROM BANKS

The Bank's liquidity was well maintained, with sizeable portfolio in short-term interbank placements and balances with the Central Bank.

The balances with the Central Bank, which also includes the statutory reserves was at AED 2,532 million as at 31 December 2023 against AED 1,467 million in the previous year. The placements with banks is AED 1,318 million as at 31 December 2023 compared to AED 1,883 million as at 31 December 2022.

The Bank continued to be in compliance with the Central Bank of UAE ("CBUAE") Regulatory norms on Liquidity.

INVESTMENTS

The Bank's financial investments comprises mainly of fixed income securities measured at fair value or at amortized cost. The total value of the investment portfolio of the Bank amounted to AED 3,836 million as at 31 December 2023 compared to AED 2,658 million as at 31 December 2022. The increase was attributable to increase in the fixed income securities.

INVESTMENT PROPERTIES

The investment properties were revalued during the year by an external valuation firm. During the year, the Bank disposed of certain properties which resulted in the decrease of investment properties from AED 284 million as at 31 December 2022 to AED 168 as at 31 December 2023.

CONTINGENT LIABILITIES

The Bank had a total outstanding in Documentary Credits and Letters of Guarantee of AED 4,601 million as at the end of the year, compared to AED 4,230 million in the previous year.

Independent auditor's report to the shareholders of Arab Bank for Investment and Foreign Trade PJSC

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arab Bank for Investment and Foreign Trade PJSC (the "Bank") as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

Material accounting policy information and other explanatory information

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of profit or loss for the year then ended
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include material accounting policy information and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Independent auditor's report to the shareholders of Arab Bank for Investment and Foreign Trade PJSC (continued)

Other information

The directors are responsible for the other information. The other information comprises the annual report of the Bank (but does not include the financial statements and our auditor's report thereon). We obtained the Directors' report to the shareholders prior to the date of this auditor's report and the remaining information of the annual report is expected to be made available to us after that date.

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

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

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

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

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

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, 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, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Independent auditor's report to the shareholders of Arab Bank for Investment and Foreign Trade PJSC (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal 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 Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of directors' 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Independent auditor's report to the shareholders of Arab Bank for Investment and Foreign Trade PJSC (continued)

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021, we report that:

(i) we have obtained all the information we considered necessary for the purposes of our audit;

(ii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021;

(iii) the Bank has maintained proper books of account;

(iv) the financial information included in the Directors' report to the shareholders is consistent with the books of account of the Bank;

(v) as disclosed in note 9, 10 & 11 to the financial statements the Bank has purchased or invested in shares during the year ended 31 December 2023;

(vi) note 33 to the financial statements discloses material related party transactions, and the terms under which they were conducted; and

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2023 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2023.

(viii) Note 37 to the financial statements discloses the social contributions made during the year ended 31 December 2023.

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

PricewaterhouseCoopers Limited Partnership - Abu Dhabi
3 April 2024

Stuart Alexander Scoular
Registered Auditor Number 5563
Place: Abu Dhabi, United Arab Emirates

Statement of financial position

As at 31 December

	Note	2023 AED'000	2022 Restated* AED'000	2021 Restated* AED'000
Assets				
Cash and balances with the Central Bank of the UAE	*7*	**2,532,001**	1,466,810	1,433,471
Due from banks	*8*	**1,317,798**	1,882,565	1,571,654
Acceptances	*39*	**477,267**	381,364	578,753
Investments at fair value through other comprehensive income (FVOCI)	*9*	**3,075,277**	2,310,224	2,280,300
Investments at fair value through profit or loss (FVTPL)	*10*	**355,638**	17,577	17,577
Investments at amortised cost	*11*	**405,376**	329,906	945,521
Other assets	*14,39*	**227,753**	210,155	172,797
Loans and advances	*12*	**12,900,588**	13,422,182	14,897,420
Investment properties	*13*	**167,839**	283,643	377,768
Intangible assets	*15*	**52,724**	50,093	51,135
Property and equipment	*15*	**241,563**	214,311	222,474
		21,753,824	20,568,830	22,548,870
Asset held-for-sale	*16*	**12,042**	11,395	-
Total assets		**21,765,866**	20,580,225	22,548,870
Liabilities				
Customers' deposits	*17*	**14,750,019**	14,129,728	16,368,132
Due to banks	*18*	**2,042,547**	1,791,975	1,303,062
Acceptances	*39*	**477,267**	381,364	578,753
Other liabilities	*19*	**552,680**	515,003	509,366
Total liabilities		**17,822,513**	16,818,070	18,759,313
Equity				
Share capital	*20 (a)*	**2,000,000**	1,500,000	1,500,000
Statutory reserve	*20 (b)*	**688,113**	669,172	655,965
Special reserve	*20 (c)*	**683,523**	664,582	651,375
General reserve	*20 (d)*	**-**	380,000	380,000
Revaluation reserve	*20 (e)*	**138,522**	128,972	122,902
Fair value reserve	*20 (f)*	**(66,029)**	(112,136)	98,313
Retained earnings		**499,224**	531,565	381,002
Net equity		**3,943,353**	3,762,155	3,789,557
Total liabilities and equity		**21,765,866**	20,580,225	22,548,870

*Refer to Note 39 for details regarding the restatement of prior year financial statements.

These financial statements were authorised and approved for issue by the Board of Directors on 3 April 2024 and signed on their behalf by:

Farhat Omar ben Gdara
Chairman

Charles Doghlass
Acting Chief Executive Officer

The notes on pages 12 to 105 form an integral part of these financial statements.
The independent auditor's report on these financial statements is set out on pages 3 to 6.

Arab Bank for Investment and Foreign Trade PJSC

Statement of profit or loss
For the year ended 31 December

	Note	**2023 AED'000**	2022 AED'000
Interest income	*21*	**1,079,637**	668,512
Interest expense	*22*	**(416,538)**	(168,754)
Net interest income		**663,099**	499,758
Income from Islamic financing contracts	*23*	**106,213**	96,759
Depositors' share of profit	*24*	**(66,954)**	(26,500)
Net income from Islamic financing		**39,259**	70,259
Net interest and Islamic financing income		**702,358**	570,017
Fee and commission income	*25*	**140,728**	129,595
Fee and commission expense	*25*	**(17,900)**	(12,902)
Net fee and commission income		**122,828**	116,693
Dividend income		**-**	5,239
Net investment income		**15,720**	2,057
Net foreign exchange gain	*26*	**51,679**	43,863
Other operating income	*27*	**12,295**	14,282
Net other operating income		**79,694**	65,441
Operating income		**904,880**	752,151
General, administration and other operating expenses	*28*	**(319,755)**	(280,567)
Net profit before net impairment charge		**585,125**	471,584
Net impairment charge on financial assets	*29*	**(413,022)**	(351,544)
Net impairment reversal on properties	*30*	**17,312**	12,034
Net profit for the year		**189,415**	132,074

The notes on pages 12 to 105 form an integral part of these financial statements.
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Statement of other comprehensive income
For the year ended 31 December

	Note	**2023 AED'000**	**2022 AED'000**
Net profit for the year		**189,415**	132,074
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Revaluation gain on property and equipment	*15*	**9,550**	6,070
Change in fair value of equity investments at FVOCI		**-**	11,642
Actuarial losses on defined benefit obligation		**(3,432)**	(1,963)
Item that may be reclassified subsequently to profit or loss			
Change in fair value of debt investments at FVOCI		**46,107**	(173,960)
Other comprehensive gain/ (loss) for the year		**52,225**	(158,211)
Total comprehensive gain/ (loss) for the year attributable to shareholders		**241,640**	(26,137)
Earnings per share	*35*	**1.89**	1.32

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Arab Bank for Investment and Foreign Trade PJSC

Statement of changes in equity
For the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total equity AED'000
Balance at 1 January 2022	**1,500,000**	**655,965**	**651,375**	**380,000**	**122,902**	**98,313**	**381,002**	**3,789,557**
Profit for the year	-	-	-	-	-	-	132,074	132,074
Other comprehensive gain/ (loss)	-	-	-	-	6,070	(162,318)	(1,963)	(158,211)
Transfer to statutory reserve and special reserve (Note 20)		13,207	13,207	-	-	-	(26,414)	-
Transfer of loss on disposal of equity investments at FVOCI to retained earnings	-	-	-	-	-	(48,131)	48,131	-
Total comprehensive income for the year	-	13,207	13,207	-	6,070	(210,449)	151,828	(26,137)
Zakat	-	-	-	-	-	-	(1,265)	(1,265)
Balance at 31 December 2022	**1,500,000**	**669,172**	**664,582**	**380,000**	**128,972**	**(112,136)**	**531,565**	**3,762,155**
Balance at 1 January 2023	**1,500,000**	**669,172**	**664,582**	**380,000**	**128,972**	**(112,136)**	**531,565**	**3,762,155**
Profit for the year	-	-	-	-	-	-	189,415	189,415
Other comprehensive gain/ (loss)	-	-	-	-	9,550	46,107	(3,432)	52,225
Transfer to statutory reserve and special reserve (Note 20)	-	18,941	18,941	-	-	-	(37,882)	-
Total comprehensive loss for the year	-	18,941	18,941	-	9,550	46,107	148,101	241,640
Issue of bonus shares (Note 20)	500,000	-	-	(380,000)	-	-	(120,000)	-
Dividends paid to equity holders (Note 20)							(60,000)	(60,000)
Zakat	-	-	-	-	-	-	(442)	(442)
Balance at 31 December 2023	**2,000,000**	**688,113**	**683,523**	**-**	**138,522**	**(66,029)**	**499,224**	**3,943,353**

The notes on pages 12 to 105 form an integral part of these financial statements.
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Statement of cash flows
For the year ended 31 December

	Note	2023 AED'000	2022 AED'000	2021 AED'000
Operating activities				
Profit for the year		**189,415**	132,074	132,431
Adjustments for:				
Depreciation on investment properties	*13*	**10,662**	10,662	10,662
Depreciation on property and equipment	*15*	**24,105**	20,949	23,010
Net impairment charge on financial assets	*29*	**413,022**	351,544	370,756
Amortisation of premium on bonds		**18,032**	17,733	14,283
Change in fair value of investments at FVTPL		**-**	-	(6,556)
Impairment reversal on properties	*30*	**(17,403)**	(16,174)	(5,689)
Fair value loss on properties	*30*	**91**	4,140	-
Gain on sale of FVOCI debt securities		**(7,688)**	(2,499)	-
MTM gain on Mutual Funds		**(15,129)**	-	-
Dividend income		**-**	(5,239)	(4,777)
Provision for employees' end of service benefits	*19*	**5,898**	4,041	4,834
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**621,005**	517,231	538,954
Payment of employees' end of service benefits	*19*	**(11,685)**	(7,358)	(4,929)
Changes in:				
Loans and advances		**159,856**	1,154,153	370,020
Due from banks		**202,015**	(187,323)	154,259
Acceptances – Assets		**(95,903)**	197,389	(413,723)
Other assets		**(17,600)**	(37,360)	69,143
Customers' deposits		**620,290**	(2,238,404)	141,436
Due to banks		**250,572**	488,913	(2,115,155)
Acceptances – Liabilities		**95,903**	(197,389)	413,723
Other liabilities		**(12,719)**	(25,206)	41,598
Cash reserve with Central Bank of the UAE	*31*	**(483,355)**	43,338	328,031
Net cash outflow from operating activities		**1,328,379**	(292,016)	(476,643)
Investing activities				
Purchases of property and equipment	*15*	**(26,341)**	(19,195)	(22,249)
Proceeds from sale of property and equipment	*15*	**-**	-	930
Proceeds from sale of investment properties		**122,545**	99,640	-
Proceeds from sale/redemption of investments at FVOCI	*9*	**654,241**	574,003	376,118
Proceeds from redemption of investments at amortised cost	*11*	**679,246**	1,667,983	4,521
Proceeds from sale/redemption of investments at FVTPL		**17,577**	-	-
Purchases of investments at FVOCI	*9*	**(1,389,265)**	(775,070)	(263,264)
Purchases of investments at amortised cost	*11*	**(757,050)**	(1,058,988)	(924,133)
Purchases of investments at FVTPL		**(340,509)**	-	-
Dividends received		**-**	5,239	4,777
Net cash inflow from investing activities		**(1,039,556)**	493,612	(823,300)
Financing activities				
Payment of lease liabilities		**(9,262)**	(1,311)	(6,701)
Dividends paid		**(60,000)**	-	-
Net cash outflow from financing activities		**(69,262)**	(1,311)	(6,701)
Net increase in cash and cash equivalents		**219,561**	200,285	(1,306,644)
Cash and cash equivalents at 1 January		2,710,516	2,510,231	3,816,875
Cash and cash equivalents at 31 December	*31*	**2,930,077**	2,710,516	2,510,231

The notes on pages 12 to 105 form an integral part of these financial statements.
The independent auditor's report is set out on pages 3 to 6.

1 Legal status and principal activities

Arab Bank for Investment and Foreign Trade PJSC (the "Bank") was incorporated in the Emirate of Abu Dhabi by Union Decree No. 50 of 1976. It is registered as a Public Joint Stock Company in accordance with Federal Law No (8) of 1984 (as amended), and UAE Federal Law No. 2 of 2015, as amended. The address of the Bank's registered office is P.O. Box 46733 Abu Dhabi, United Arab Emirates.

The Bank is engaged in commercial and retail banking activities and carries out its operations solely in the United Arab Emirates through its five branches (31 December 2022: five branches).

The Bank's Islamic banking activities are conducted in accordance with Islamic Sharia'a laws issued by the Sharia'a Supervisory Board of the Bank.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015.

2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB") and comply with the applicable requirements of the UAE Federal Decree Law No. 32 of 2021.

(b) Basis of measurement

These financial statements have been prepared on the historical cost convention except for the following:

- financial assets at amortised cost which are measured using the effective interest method;
- investments at FVTPL which are measured at fair value;
- investments at FVOCI which are measured at fair value; and
- freehold land and buildings classified as property and equipment which are measured based on the revaluation model.
- defined benefit obligation included in employees' end of service benefits which is measured using the projected unit credit method.

(c) Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirham ("AED"), which is the currency of the primary economic environment in which the Bank operates (the 'functional currency'). Except as indicated, information presented in AED has been rounded to the nearest thousand.

2 Basis of preparation *(continued)*

(d) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 6 to the financial statements.

3 Material accounting policies

(a) Financial assets and liabilities

(i) Recognition and initial measurement

All financial assets are recognised and derecognised on a settlement date basis (other than derivative contracts which are recognised and derecognised on a trade date basis) where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Settlement date is the date that the Bank physically receives or transfers the assets. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

(ii) Classification of financial assets and financial liabilities

On initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI or FVTPL. A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

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

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

3 Material accounting policies *(continued)*

(a) ***Financial assets and liabilities*** *(continued)*

(ii) ***Classification of financial assets and financial liabilities*** *(continued)*

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

All other financial assets are classified as measured at FVTPL.

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

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments at amortised cost.

Business model assessment

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

3 Material accounting policies *(continued)*

(a) ***Financial assets and liabilities*** *(continued)*

(ii) ***Classification of financial assets and financial liabilities*** *(continued)*

Assessment of whether contractual cash flows are solely payments of principal and interest (continued)

In making the assessment, the Bank considers:
- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

(iii) ***Reclassifications***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

(iv) ***De-recognition***

Financial asset

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

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

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

3 Material accounting policies *(continued)*

(a) ***Financial assets and liabilities*** *(continued)*

(iv) ***De-recognition*** *(continued)*

Financial liability

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

(iv) ***Modifications of financial assets and financial liabilities***

Financial assets

If the terms of a financial asset are modified, then the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- Other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees receivable as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

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

3 Material accounting policies *(continued)*

(a) Financial assets and liabilities *(continued)*

(v) Subsequent measurement

The following accounting policies apply to the subsequent measurement of financial assets:

Category	Subsequent measurement
Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses are recognised in profit or loss. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss. The allowance for impairment on debt instruments designated at FVOCI is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are not reclassified to profit or loss on de-recognition.

(vi) Offsetting

As per IAS 32, financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS Accounting Standards, or for gains and losses arising from a Bank of similar transactions.

(vii) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment for financial assets.

3 Material accounting policies *(continued)*

(a) Financial assets and liabilities (continued)

(viii) Fair value measurement

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

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

When there is no quoted price in an active market, the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

(ix) Impairment of financial assets

The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- Financial assets at amortised cost;
- Loan commitments issued; and
- Financial guarantee contracts issued.

No impairment loss is recognised on equity investments as these are measured at fair value.

3 Material accounting policies *(continued)*

(a) ***Financial assets and liabilities*** *(continued)*

(x) ***Impairment of financial assets*** *(continued)*

The Expected Credit Loss (ECL) model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.

- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.

- Under Stage 3, where there is objective evidence of impairment at the reporting date, these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Measurement of ECL

IFRS 9 considers the calculation of ECL by multiplying the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

Details of these statistical parameters/inputs are as follows:

- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon;

- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and

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

Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions. Macroeconomic factors and forward-looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

3 Material accounting policies *(continued)*

(b) Financial assets and liabilities *(continued)*

(x) Impairment of financial assets *(continued)*

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired. A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

– significant financial difficulty of the borrower or issuer;
– a breach of contract such as a default or past due event;
– the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
– it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
– the disappearance of an active market for a security because of financial difficulties.

Experienced credit judgment

The Bank's ECL allowance methodology requires the use of experienced credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, and consistent with regulatory requirements. The policy on the write-off of financing transactions remains unchanged.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

3 Material accounting policies *(continued)*

(a) Financial assets and liabilities *(continued)*

(x) Impairment of financial assets *(continued)*

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, if the specific provision and general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment reserve" as an appropriation from the retained earnings. This impairment reserve should be split to that which relates to difference in specific provision and general/collective provision. The Impairment reserve will not be available for payment of dividend.

(b) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, unrestricted balances held with central banks and due from banks with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

(c) Due from banks

Amounts due from banks are stated at amortised cost, less allowance for impairment, if any.

(d) Investments measured at fair value through other comprehensive income ("FVOCI")

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Gains and losses on equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an equity investment.

(e) Investments at fair value through profit or loss ("FVTPL")

These are securities that the Bank acquire principally for the purpose of selling in the near term or holding as a part of portfolio that is managed together for short-term profit or position taking. These assets are initially recognised and subsequently measured at fair value in the statement of financial position. All changes in fair values are recognised as part of profit or loss.

3 Material accounting policies *(continued)*

(f) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances presented in the statement of financial position include:

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

- Loans and advances mandatorily measured at FVTPL or designated at FVTPL, these are measured at fair value with changes recognised immediately in the profit or loss account; and

- Lease receivables.

When the bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date (reverse repo or stock borrowing), the consideration paid is accounted for as a loan and advance, and the underlying asset is not recognised in the Bank's financial statements.

(g) Islamic financing activities

i) Murabahah "the purchase orderer"

It is the sale of a commodity by an institution to its customer (the purchase orderer) as per the purchasing price/cost with a defined and agreed profit mark-up (as set out in the promise/Wa'd), in which case it is called a banking Murabahah. The banking Murabahah involves deferred payment terms, but such deferred payment is not one of the essential conditions of such transaction, as there is also a Murabahah arranged with no deferral of payment. In this case, the seller only receives a mark-up that only includes the profit for a spot sale and not the extra charge it would, otherwise, receive for deferral of payment.

ii) Ijarah Muntahia Bittamleek & Forward Ijarah

An agreement whereby the Bank (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing / acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term / periods, payable on fixed or variable rental basis. The rental is made obligatory by the contract and the lessor's entitlement to the rental runs from the time when the lessee starts to benefit from the asset or once the lessor transfers the right to use the asset to the lessee, and the entitlement to the rental does not necessarily commence on the date of signing the Ijarah contract.

3 Material accounting policies *(continued)*

(g) ***Islamic financing activities*** *(continued)*

ii) Ijarah Muntahia Bittamleek & Forward Ijarah (continued)

This leasing contract which includes a promise by the lessor to transfer the ownership in the leased property to the lessee, either at the end of the term of the Ijarah period or by stages during the term of the contract, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement the Lessor will sell the leased asset to the Lessee at a nominal value based on a sale undertaking given by the Lessor.

An Ijarah contract may be executed for an asset undertaken by the lessor to be delivered to the lessee according to accurate specifications, even if the asset so described is not owned by the lessor. In this case, an agreement is reached to make the described asset available during the duration of the contract, giving the lessor the opportunity to acquire or to produce it.

iii) Wakala Investment

Wakala is a contract between the customer, a fund provider (the "Muwakkil"), who provides a certain amount of money (the "Wakala Capital") to the Bank (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study/ investment plan. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, Wakala profit is distributed on declaration / distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally accounted for on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The agent acts in a fiduciary capacity in relation to the investment and therefore is not liable for any loss in cases other than willful misconduct, negligence, or breach of contract unless the breach happens to be advantageous to the principal. In situations where the agent is held liable for loss of capital, such liability is limited to the capital amount and the agent is not liable for loss of expected profit whether the capital was invested immediately or delayed or not invested at all.

iv) Mudaraba

Mudaraba is a contract between the Customer, a fund provider (the "Rab Al Mal"), who would provide a certain amount of funds (the "Mudaraba Capital") to the Bank (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity (unrestricted Mudaraba).

No profit can be recognised or claimed unless the capital of the Mudarabah is maintained intact. Whenever a Mudarabah operation incurs losses, such losses stand to be compensated by the profits of future operations of the Mudarabah. The losses brought forward should be set against the future profits.

All in all, the distribution of profit depends on the final result of the operations at the time of liquidation of the Mudarabah contract. If losses are greater than profits at the time of liquidation, the balance (net loss) must be deducted from the capital. In this case, the Mudarib is a trustee and is not liable for the amount of this loss, unless there is negligence or misconduct on his part.

3 Material accounting policies *(continued)*

(g) ***Islamic financing activities*** *(continued)*

v) Monetisation "DMCC Murabahah"

Monetisation refers to the process where the Customer purchases a commodity for a deferred price determined through Murabahah (mark-up sale) from the Bank, and selling it to a third party for a spot price to obtain cash. It is one of the Shari'ah compliant financing solutions in collaboration with Dubai Multi-Commodities Centre, which provides the customer with the liquidity needed to meet its monetary requirements. The Monetisation beneficiary is a customer when he purchases the commodity from the Bank and sells it to a third party to obtain liquidity in accordance to Shari'ah compliance.

vi) Customers' accounts and Wakala deposits from banks

Customers' accounts and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

(h) ***Property and equipment***

i) Recognition and measurement

Items of property and equipment are initially measured at cost. Subsequently, all items except for freehold land and buildings are measured at cost less accumulated depreciation. Freehold land and buildings, which are measured using the revaluation model, are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses, if any. All other property and equipment is 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 recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Capital projects-in-progress are initially recorded at cost, and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Increases in the carrying amounts arising on revaluation of land and buildings are recognised in other comprehensive income and accumulated in reserves in shareholders' equity. To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

3 Material accounting policies *(continued)*

(h) ***Property and equipment*** *(continued)*

i) Recognition and measurement (continued)

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. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, any amounts included in other reserves in respect of those assets are transferred to retained earnings.

ii) Revaluation, depreciation methods and useful lives

Land and buildings are recognised at fair value based on annual valuations by external independent valuers, less subsequent depreciation for buildings. A revaluation surplus is credited to other reserves in shareholders' equity. All other property, plant and equipment is recognised at historical cost less depreciation.

Land and any asset situated on the land - e.g. a building or specialised plant - are separate assets.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives as follows:

Freehold premises	30 years
Freehold improvements	10 years
Leasehold improvements	7 years
Furniture and equipment	4 years
Computer hardware and software	4 years
Core banking software	10 years
Motor vehicles	4 years

Depreciation on additions is to be charged from the date on which the assets are available for use and ceases on the date on which they are disposed-off.

3 Material accounting policies *(continued)*

(i) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

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 Bank. As the right-of-use asset and lease liability at the reporting date was not material, the Bank has presented them in the statement of financial position under property and equipment and other liabilities respectively.

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,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee 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 determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Each lease payment is 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.

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3 Material accounting policies *(continued)*

(i) Leases (continued)

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in other operating income in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(j) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes. Investment properties are measured using the cost model which is cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of investment properties.

The estimated useful lives of buildings classified as investment properties for the current and comparative years are 30 years. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

(k) Non-current asset held for sale

Non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

(l) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell.

3 Material accounting policies *(continued)*

(l) ***Impairment of non-financial assets*** *(continued)*

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from a business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

Impairment losses are recognised in profit or loss. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(m) Customers' deposits and due to banks

Customers' deposits and due to banks are initially recognised at cost, being the fair value of the consideration received and subsequently measured at their amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on settlement.

(n) Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Employee benefits

(i) Employees terminal benefits

<u>Defined contribution plan</u>

UAE nationals employed by the Bank are registered in the scheme managed by the General Pension and Social Security Authority. Contributions to that scheme are charged as an expense.

3 Material accounting policies *(continued)*

(o) Employee benefits *(continued)*

(i) Employees terminal benefits (continued)

Defined benefit plan

End of service benefits due to expatriate employees are accounted for on the basis of their accumulated service at the reporting date and in accordance with the Bank's internal regulations, which comply with the UAE Federal Labour Law. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related benefit obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the statement of financial position.

(ii) Short term employee benefits

Short-term employee obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Bank has a present legal or constructive obligation to pay this amount as a result of a past service provided by the employee and the obligation can be estimated reliably.

(p) Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to perform under the terms of the contract.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 'Financial Instruments', and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 'Revenue from Contracts with Customers'.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

3 Material accounting policies *(continued)*

(q) Acceptances

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

(r) Collateral pending sale

Real estate and other collaterals that were acquired as the result of settlement of certain loans and advances are reported in "Other assets". The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan (net of impairment allowance) at the date of exchange.

(s) Earnings per share

The Bank presents basic earnings per share (EPS) information for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the year.

(t) Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

3 Material accounting policies *(continued)*

(t) ***Interest income and expense*** *(continued)*

Calculation of interest income and expense

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

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

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

(u) ***Profit distribution***

Profit distribution is the amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits and Mudaraba contracts and recognised as depositors' share of profit in the statement of profit or loss. The amounts are calculated in accordance with agreed terms and conditions of the Wakala deposits and Sharia'a principles.

(v) ***Fee and commission income and expense***

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

Fees earned for the provision of services over a period of time are accrued over that period. These fees include loan processing fees, investment management fees, placement fees and syndication fees. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fees are recognised on a straight-line basis over the commitment period.

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

(w) ***Dividend income***

Dividends are received from financial assets measured at FVTPL and at FVOCI. Dividends are recognised as other income in profit or loss when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits, unless the dividend clearly represents a recovery of part of the cost of an investment. In this case, the dividend is recognised in OCI if it relates to an investment measured at FVOCI. Dividends are presented as dividend income in statement of profit or loss.

3 Material accounting policies *(continued)*

(x) Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other gains/(losses).

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVTPL are recognised in profit or loss as part of the fair value gain or loss, and translation differences on non-monetary assets such as equities classified as at FVOCI are recognised in other comprehensive income.

(y) Fiduciary activities

Assets held in a fiduciary capacity are not treated as assets of the Bank as they are only held in trust where the Bank acts as a custodian on customers' behalf. The Bank has no liability or obligations towards the customer on these assets held in trust. Accordingly, these assets are not included in these financial statements.

(z) **Value Added Tax ("VAT")**

Expenses and assets are recognised net of the amount of VAT, except:

- When the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable; or
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of other assets or other liabilities in the statement of financial position.

4 Application of new and revised IFRS Accounting Standard

(a) New and amended standards adopted by the Bank

In the current period, the Bank has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2023. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Bank's future transactions or arrangements.

- Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8
- Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction
- IFRS 17, 'Insurance contracts'.

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2023.

(b) New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not mandatory for annual reporting periods beginning on 1 January 2023. Management anticipates that these amendments will be adopted in the initial period when they become mandatorily effective. The impact of these standards and amendments is currently being assessed by management.

Title and key requirements	Effective for annual periods beginning on or after
Amendment to IFRS 16 – Leases on sale and leaseback The amendments to IFRS 16 *Leases* include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	1 January 2024
Amendment to IAS 1 – Non-current liabilities with covenants The amendment to IAS 1 *Presentation of financial statements* clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	1 January 2024

5 Financial risk management

Overview

The Bank has exposure to the following risks from its business activities:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's Risk Management Framework. The Board has entrusted a number of managers with the risk management function along with setting up and monitoring the Bank's credit, liquidity, operational and market risks, taking credit decisions above management's discretionary powers and setting market risk limits under which the Bank's management operates.

The Bank has further set up from within management, the Asset and Liability, ("ALCO") Credit and Risk Management committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank has risk appetite / tolerance limits which is revised annually and monitored regularly.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits, implement controls, monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Bank Audit and Compliance Committee oversees how management monitors compliance with the Bank's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank Audit and Compliance Committee.

5 Financial risk management *(continued)*

(a) Credit risk

Credit risk is the risk of a financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations; and arises principally from the Bank's loans and advances, due from banks, non-trading debt instruments and certain other assets.

Management of credit risk

The Bank's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Credit Committee, Board credit and investment committee or the Board of Directors as deemed appropriate.
- Reviewing and assessing all credit exposures of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposure to counterparties, segments, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for Investments designated at FVOCI).
- Developing and maintaining the Bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk ratings system consist of 19 normal and 3 non performing categories. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The risk management team is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Credit quality analysis

The table below provides the mapping of the Bank's internal credit risk grades.

Grouping	Rating Category
Low-fair risk	Grades 1 to 5-
Marginal Risk	Grades 6+ to 7+
Higher risk	Grade 7 and 7-
Substandard	Grade 8
Doubtful	Grade 9
Loss	Grade 10

The following table sets out information about the credit quality of financial assets measured at amortised cost and FVOCI debt investments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

	31 December 2023				31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Due from banks								
Low-fair risk	**1,319,675**	**-**	**-**	**1,319,675**	1,882,924	1,046	-	1,883,970
Total gross carrying amount	**1,319,675**	**-**	**-**	**1,319,675**	1,882,924	1,046	-	1,883,970
Loss allowance	**(1,877)**	**-**	**-**	**(1,877)**	(1,381)	(24)	-	(1,405)
Carrying amount	**1,317,798**	**-**	**-**	**1,317,798**	1,881,543	1,022	-	1,882,565

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

	31 December 2023				31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers								
Low-fair risk	**6,941,924**	**111,903**	**-**	**7,053,827**	5,609,779	302,074	-	5,911,853
Marginal risk	**3,471,491**	**965,936**	**-**	**4,437,427**	3,050,512	2,158,723	-	5,209,235
Higher risk	**37,808**	**861,596**	**-**	**899,404**	7,799	1,682,411	-	1,690,210
Grade 8: Substandard	**-**	**-**	**267,678**	**267,678**	-	-	469,635	469,635
Grade 9: Doubtful	**-**	**-**	**415,569**	**415,569**	-	-	1,135,534	1,135,534
Grade 10: Loss	**-**	**-**	**2,988,566**	**2,988,566**	-	-	2,237,041	2,237,041
Total gross carrying amount	**10,451,223**	**1,939,435**	**3,671,813**	**16,062,471**	8,668,090	4,143,208	3,842,210	16,653,508
Loss allowance	**(158,955)**	**(362,869)**	**(1,992,956)**	**(2,514,780)**	(111,538)	(438,006)	(2,154,296)	(2,703,840)
Interest in suspense	**-**	**-**	**(615,257)**	**(615,257)**	-	-	(487,602)	(487,602)
Deferred profit	**(31,846)**	**-**	**-**	**(31,846)**	(39,884)	-	-	(39,884)
Carrying amount	**10,260,422**	**1,576,566**	**1,063,600**	**12,900,588**	8,516,668	3,705,202	1,200,312	13,422,182

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

	31 December 2023				31 December 2022			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Debt Securities – investments at FVOCI								
Low-fair risk	**3,091,079**	**-**	**-**	**3,091,079**	2,325,581	-	-	2,325,581
Total gross carrying amount	**3,091,079**	**-**	**-**	**3,091,079**	2,325,581	-	-	2,325,581
Loss allowance	**(20,477)**	**-**	**-**	**(20,477)**	(20,027)	-	-	(20,027)
Carrying amount	**3,070,602**	**-**	**-**	**3,070,602**	2,305,554	-	-	2,305,554

The allowance for impairment on debt instruments designated at FVOCI is included in revaluation reserve of investments carried at FVOCI and recognized in other comprehensive income.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

	31 December 2023				31 December 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Debt Securities – Amortised cost								
Low-fair risk	**405,414**	**-**	**-**	**405,414**	330,041	-	-	330,041
Total gross carrying amount	**405,414**	**-**	**-**	**405,414**	330,041	-	-	330,041
Loss allowance	**(38)**	**-**	**-**	**(38)**	(135)	-	-	(135)
Carrying amount	**405,376**	**-**	**-**	**405,376**	329,906	-	-	329,906

Loans and advances to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

Security and collaterals are bifurcated into following categories:

- Tangible: This includes cash margins, fixed deposits under lien, mortgages over immovable assets, pledges of shares, commercial pledges over movable assets.
- Non-Tangible: Guarantees and all other collaterals not having any tangible worth/ value.

Collateralisation of exposure is supported by proper documentation, charge (registered where required) etc. to ensure its enforceability/reliability.

The Bank has collateral valuation guidelines which detail the principles and frequency of valuation of securities. The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loans and advances to customers (continued)

When valuations are obtained from Banks' approved evaluators, the lowest value is taken thereafter for the purpose of collateral / LTV computation. Refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the Bank accepts fixed assets e.g. property as collateral, these are adequately insured with the Bank as loss payee, wherever applicable. If corporate guarantees are accepted, their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable. All securities are held under the custody of an independent credit administration function.

At 31 December 2023, the net carrying amount of credit-impaired loans and advances to customers amounted to AED 1,063,600 thousands (2022: AED 1,200,312 thousands) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 2,073,420 thousands (2022: AED 1,905,919 thousands). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

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

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

For the retail portfolio, historical payment behaviour of the exposure is evaluated to determine significant increase in credit risk.

In addition to the quantitative test based on movement of PD, the Bank also applies experienced credit judgement to incorporate the estimated impact of factors not captured in the modelled ECL results.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Credit risk grades

The Bank allocates each corporate exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each Borrower is assigned a credit risk grade on initial recognition based on available information about the borrower's financial information, securities provided to banks and other relevant qualitative information. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Credit risk grades (continued)

The monitoring typically involves use of the following information.

Corporate exposures	Retail exposures	All exposures
Financial and non-financial Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes etc.	- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities	Payment record – this includes overdue status as well as a range of variables about payment ratios.
Data from credit reference agencies, press articles, changes in external credit ratings, market references.	External data from credit reference agencies.	Utilisation of the granted limit.
Quoted bond and credit default swap (CDS) prices for the borrower where available.		Requests for and granting of forbearance.
Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.		Existing and forecast changes in business, financial and economic conditions.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Determining whether credit risk has increased significantly

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

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Bank determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently.

When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank. Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding; or
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

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

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

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

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Incorporation of forward-looking information (continued)

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring.

The Bank has applied the following Macro Economic Variables/Shocks for the Corporate portfolio in conditional IFRS 9 analysis with forecast scenarios:

- Equity (ADX Equity Index)
- Oil price

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the Bank's accounting policies.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

The Bank renegotiates loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Bank's Restructuring and Rescheduling policy, restructuring or rescheduling is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Modified financial assets (continued)

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. The Bank's Credit Committee and Remedial Management Committee regularly reviews reports with regards to restructured and rescheduled accounts.

For financial assets modified as part of the Bank's Restructuring and Rescheduling policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar restructuring and rescheduling action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, restructuring and rescheduling is a qualitative indicator of a significant increase in credit risk and an expectation of restructuring and rescheduling may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1 ECL provision.

Measurement of ECL

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

LGD is the magnitude of the likely loss if there is a default. For loans secured by retail property, LTV ratios are a key parameter in determining LGD. They are calculated on a discounted cash flow basis using the interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

5 Financial risk management *(continued)*

(a) Credit risk (continued)

Measurement of ECL *(continued)*

However, for retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take, and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

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

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

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

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance for due from banks for the year ended 31 December 2023.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	1,381	24	-	1,405
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	**24**	**(24)**	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	**472**	-	-	**472**
	1,877	**-**	**-**	**1,877**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for due from banks for the year ended 31 December 2022.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	1,381	-	-	1,381
Transfers:				
Transfer from Stage 1 to Stage 2	(1)	1	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	1	23	-	24
	1,381	24	-	1,405

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for investments at FVOCI for the year ended 31 December 2023.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	20,027	-	-	20,027
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	450	-	-	450
	20,477	**-**	**-**	**20,477**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for investments at FVOCI for the year ended 31 December 2022.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	21,370	-	-	21,370
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Impact of change in provision	(1,343)	-	-	(1,343)
	20,027	-	-	20,027

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances for the year ended 31 December 2023.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	111,538	438,006	2,154,296	2,703,840
Transfers:				
Transfer from Stage 1 to Stage 2	(2,355)	2,355	-	-
Transfer from Stage 1 to Stage 3	(688)	-	688	-
Transfer from Stage 2 to Stage 1	134,591	(134,591)	-	-
Transfer from Stage 2 to Stage 3	-	(46,303)	46,303	-
Transfer from Stage 3 to Stage 2	-	29,016	(29,016)	-
Impact of change in provision	(84,131)	74,386	370,309	360,564
Write-offs	-	-	(549,624)	(549,624)
	158,955	**362,869**	**1,992,956**	**2,514,780**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances for the year ended 31 December 2022.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	121,663	371,658	1,945,755	2,439,076
Transfers:				
Transfer from Stage 1 to Stage 2	(15,415)	15,415	-	-
Transfer from Stage 1 to Stage 3	(411)	-	411	-
Transfer from Stage 2 to Stage 1	103,022	(103,022)	-	-
Transfer from Stage 2 to Stage 3	-	(67,541)	67,541	-
Transfer from Stage 3 to Stage 2	-	192,101	(192,101)	-
Impact of change in provision	(97,321)	29,395	410,440	342,514
Write-offs	-	-	(77,750)	(77,750)
	111,538	438,006	2,154,296	2,703,840

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loss allowance (continued)

The following tables show reconciliations from the opening to the closing balance of the loss allowance for letters of credit and guarantee for the year ended 31 December 2023.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	17,918	44,238	161,393	223,549
Transfers:				
Transfer from Stage 1 to Stage 2	(634)	634	-	-
Transfer from Stage 1 to Stage 3	(1)	-	1	-
Transfer from Stage 2 to Stage 1	7,598	(7,598)	-	-
Transfer from Stage 2 to Stage 3	-	(7,477)	7,477	-
Transfer from Stage 3 to Stage 2	-	131	(131)	-
Impact of change in provision	12,966	50	37,436	50,452
	37,847	**29,978**	**206,176**	**274,001**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for letters of credit and guarantee for the year ended 31 December 2022.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	16,190	41,207	133,908	191,305
Transfers:				
Transfer from Stage 1 to Stage 2	(3,278)	3,278	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	10,559	(10,559)	-	-
Transfer from Stage 2 to Stage 3	-	(12,301)	12,301	-
Transfer from Stage 3 to Stage 2	-	642	(642)	-
Impact of change in provision	(5,553)	21,971	15,826	32,244
	17,918	44,238	161,393	223,549

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

The following table further explains the changes in the gross carrying amount of due from banks for the year ended 31 December 2023 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	1,882,924	1,046	-	1,883,970
Transfers:				
Transfer from Stage 1 to Stage 2	1,046	(1,046)	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	(564,295)	-	-	(564,295)
	1,319,675	**-**	**-**	**1,319,675**

The following table further explains the changes in the gross carrying amount of due from banks for the year ended 31 December 2022 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	1,573,035	-	-	1,573,035
Transfers:				
Transfer from Stage 1 to Stage 2	(887)	887	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	310,776	159	-	310,935
	1,882,924	1,046	-	1,883,970

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

The following table further explains the changes in the gross carrying amount of debt securities at FVOCI for the year ended 31 December 2023 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	2,325,581	-	-	2,325,581
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	765,498	-	-	765,498
	3,091,079	**-**	**-**	**3,091,079**

The following table further explains the changes in the gross carrying amount of debt securities at FVOCI for the year ended 31 December 2022 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	2,154,444	-	-	2,154,444
Transfers:				
Transfer from Stage 1 to Stage 2	-	-	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	171,137	-	-	171,137
	2,325,581	-	-	2,325,581

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

The following table further explains the changes in the gross carrying amount of loans and advances for the year ended 31 December 2023 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Beginning of the period	8,668,090	4,143,208	3,842,210	16,653,508
Transfers:				
Transfer from Stage 1 to Stage 2	(114,558)	114,558	-	-
Transfer from Stage 1 to Stage 3	(51,673)	-	51,673	-
Transfer from Stage 2 to Stage 1	972,324	(972,324)	-	-
Transfer from Stage 2 to Stage 3	-	(438,665)	438,665	-
Transfer from Stage 3 to Stage 2	-	78,854	(78,854)	-
New financial assets net of repayments/ adjustments	977,040	(986,196)	(24,699)	(33,855)
Write-Offs	-	-	(557,182)	(557,182)
	10,451,223	**1,939,435**	**3,671,813**	**16,062,471**

The following table further explains the changes in the gross carrying amount of loans and advances for the year ended 31 December 2022 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	8,650,832	5,119,869	3,901,933	17,672,634
Transfers:				
Transfer from Stage 1 to Stage 2	(788,023)	788,023	-	-
Transfer from Stage 1 to Stage 3	(10,286)	-	10,286	-
Transfer from Stage 2 to Stage 1	1,420,288	(1,420,288)	-	-
Transfer from Stage 2 to Stage 3		(596,287)	596,287	-
Transfer from Stage 3 to Stage 2		509,161	(509,161)	-
New financial assets net of repayments/ adjustments	(604,721)	(257,270)	(61,350)	(923,341)
Write-Offs	-	-	(95,785)	(95,785)
	8,668,090	4,143,208	3,842,210	16,653,508

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

The following table further explains the changes in the gross carrying amount of letters of credit and guarantee for the year ended 31 December 2023 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	3,566,277	451,226	212,111	4,229,614
Transfers:				
Transfer from Stage 1 to Stage 2	(58,266)	58,266	-	-
Transfer from Stage 1 to Stage 3	(860)	-	860	-
Transfer from Stage 2 to Stage 1	57,679	(57,679)	-	-
Transfer from Stage 2 to Stage 3	-	(113,323)	113,323	-
Transfer from Stage 3 to Stage 2	-	1,148	(1,148)	-
New financial assets net of repayments/ adjustments	435,344	27,848	(91,657)	371,535
	4,000,174	**367,486**	**233,489**	**4,601,149**

The following table further explains the changes in the gross carrying amount of letters of credit and guarantee for the year ended 31 December 2022 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Beginning of the period	3,928,907	610,633	166,289	4,705,829
Transfers:				
Transfer from Stage 1 to Stage 2	(329,222)	329,222	-	-
Transfer from Stage 1 to Stage 3	(112)	-	112	-
Transfer from Stage 2 to Stage 1	201,639	(201,639)	-	-
Transfer from Stage 2 to Stage 3	-	(99,574)	99,574	-
Transfer from Stage 3 to Stage 2	-	942	(942)	-
New financial assets net of repayments/ adjustments	(234,935)	(188,358)	(52,922)	(476,215)
	3,566,277	451,226	212,111	4,229,614

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

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

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

Gross maximum exposure	**2023**	2022 Restated*
	AED'000	AED'000
Balances with Central Bank of the UAE	**2,416,783**	1,361,941
Due from banks	**1,319,675**	1,883,970
Acceptances	**477,267**	381,364
Investments at FVOCI	**3,070,602**	2,305,554
Investments at FVTPL	**355,638**	17,577
Investments at amortised cost	**405,414**	330,041
Loans and advances	**16,062,471**	16,653,508
Other assets	**210,758**	177,342
Contingent liabilities	**4,601,150**	4,229,614
Commitments	**5,105,853**	3,731,523
	34,025,611	31,072,434

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

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured with material concessions due to deterioration in the borrower's financial position even if these accounts were under normal classification at the time of restructuring. Once a loan is restructured, it remains as a loan with renegotiated terms for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement. Any case of payment holiday or any credit that show weaknesses in its conduct, will not be removed from said disclosure until a satisfactory track record is evidenced. The Bank determines the twelve months' period starting from the first Principal inclusive payment post restructuring.

Loans with renegotiated terms

	2023	2022
	AED'000	AED'000
Non impaired loans	**1,286,809**	1,941,279
Impaired loans	**1,881,097**	1,864,012
Allowance for impairment	**(977,225)**	(990,643)
Net loans with renegotiated terms	**2,190,681**	2,814,648

Collateral

Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policies and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and / or asset types can be considered for approval.

As at 31 December 2023, the Bank held credit risk mitigants with an estimated value of AED 11,556,108 thousands (2022: AED 13,345,661 thousands) against loans and advances in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals.

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Collateral (continued)

The table below stratifies credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio:

	2023	2022
	AED'000	AED'000
LTV ratio		
Less than 50%	**275,838**	407,253
51 – 70%	**87,376**	148,969
71 – 90%	**102,246**	96,119
	465,460	652,341

The Bank holds collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of the borrowing and generally updated periodically as per the Bank's policy.

An estimate of the fair value of collateral and other security enhancements held against loans and advances is shown below:

	2023	2023
	AED'000	AED'000
Stage 3		
Properties	**2,063,157**	1,897,055
Equities	**10,263**	8,864
Others	**-**	-
	2,073,420	1,905,919
Against past due but not impaired		
Properties	**1,425,291**	2,253,650
Equities	**-**	36,560
Others	**40,987**	83,291
	1,466,278	2,373,501
Against neither past due nor impaired		
Properties	**6,617,639**	6,948,626
Equities	**383,407**	661,690
Others	**1,015,364**	1,455,925
	8,016,410	9,066,241
	11,556,108	13,345,661

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk

The Bank monitors concentrations of credit risk by industry sector and by geographic location. An analysis of concentrations of credit risk from loans and advances, due from banks and investments at FVOCI and amortised cost at the reporting date is shown below:

	Loans and advances	
	2023	2022
	AED'000	AED'000
Concentration by industry		
Real estate	**4,097,917**	4,663,462
Services	**2,506,286**	2,538,588
Financial institutions	**2,004,556**	2,571,466
Trading	**1,973,429**	2,022,114
Manufacturing	**1,406,354**	967,637
Construction	**1,222,754**	1,140,967
Individuals	**1,055,307**	1,182,283
Transport	**649,735**	531,682
Personal loans for business (HNI)	**509,155**	619,210
Electricity, gas and water	**337,513**	357,790
Government	**250,000**	-
Others	**49,465**	58,309
Gross loans and Islamic financing	**16,062,471**	16,653,508
Less: deferred profit	**(31,846)**	(39,884)
Less: interest in suspense	**(615,257)**	(487,602)
Less: allowance for impairment	**(2,514,780)**	(2,703,840)
	12,900,588	13,422,182

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk (continued)

	Due from banks	
	2023	2022
	AED'000	AED'000
Concentration by sector:		
Financial institutions	**1,319,675**	1,883,970
Less: allowance for impairment	**(1,877)**	(1,405)
Carrying amount	**1,317,798**	1,882,565

	Investment at FVOCI		Investment at amortised cost	
	2023	2022	**2023**	2022
	AED'000	AED'000	**AED'000**	AED'000
Concentration by sector:				
Public sector	**1,868,485**	1,358,573	**405,414**	330,041
Private sector	**692,019**	335,130	**-**	-
Financial institutions	**530,575**	631,878	**-**	-
	3,091,079	2,325,581	**405,414**	330,041
Less: allowance for impairment	**(20,477)**	(20,027)	**(38)**	(135)
Carrying amount	**3,070,602**	2,305,554	**405,376**	329,906

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk (continued)

	Due from banks		Loans and advances	
	2023	2022	**2023**	2022
	AED'000	AED'000	**AED'000**	AED'000
Concentration by location:				
UAE	**675,326**	473,798	**15,466,388**	16,186,183
Europe	**310,562**	29,123	**12**	2,052
GCC	**311,293**	972,409	**386,158**	209,313
Arab world	**264**	148	**209,913**	255,960
North America	**22,015**	116,395	**-**	-
Asia	**215**	292,097	**-**	-
	1,319,675	1,883,970	**16,062,471**	16,653,508
Less: deferred profit	**-**	-	**(31,846)**	(39,884)
Less: interest in suspense	**-**	-	**(615,257)**	(487,602)
Less: allowance for impairment	**(1,877)**	(1,405)	**(2,514,780)**	(2,703,840)
Carrying amount	**1,317,798**	1,882,565	**12,900,588**	13,422,182

	Investment at FVOCI		Investment at amortised cost	
	2023	2022	**2023**	2022
	AED'000	AED'000	**AED'000**	AED'000
Concentration by location:				
UAE	**1,633,494**	1,494,160	**405,414**	330,041
Europe	**-**	-	**-**	-
GCC	**1,046,619**	404,624	**-**	-
Arab world	**-**	-	**-**	-
North America	**-**	-	**-**	-
Asia	**313,978**	299,180	**-**	-
Others	**96,988**	127,617	**-**	-
	3,091,079	2,325,581	**405,414**	330,041
Less: allowance for impairment	**(20,477)**	(20,027)	**(38)**	(135)
Carrying amount	**3,070,602**	2,305,554	**405,376**	329,906

5 Financial risk management *(continued)*

(a) ***Credit risk*** *(continued)*

Concentrations of credit risk (continued)

Concentration by location for loans and advances, due from banks and investments at FVOCI, investment at FVTPL and investment at amortised cost is measured based on the residential status of the borrower.

As at 31 December 2023, twelve customers, (group wise exposures), comprised 24.96% of the total balance of loans and advances *(2022:* 27.63%*)*.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is disclosed in note 32 to the financial statements.

Expected credit loss (ECL) - Forward Looking Information

The Bank incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring (2022: 40%), and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring (2022: 30%). External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, and the International Monetary Fund, and selected private-sector and academic forecasters. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. The Bank has applied the following Macro Economic Variables for the Corporate portfolio in conditional IFRS 9 analysis with forecast scenarios: Equity (ADX Equity Index) and Oil Price. Had the weightage to the adverse scenario been increased by another 10% with a corresponding decrease of 10% in upside scenario, the impairment loss allowance would increase by AED 15.1 million at 31 December 2023.

5 Financial risk management *(continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and delegates responsibility for oversight of the implementation of this policy to the Assets and Liability Committee ("ALCO"). The Board approves the Bank's liquidity policies and procedures. The treasury department manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including any exceptions and remedial action taken, is submitted regularly to the ALCO.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Bank maintains a portfolio of short-term liquid assets, largely made up of short-term liquid financial assets at fair value through profit or loss, and inter-bank placements to ensure that sufficient liquidity is maintained within the Bank as a whole.

The Bank relies on deposits from customers and banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR"). The Bank has been internally reporting Basel III LCR numbers for a considerable period of time, and has invested heavily in ensuring a systems and controls framework is in place to comply with all the qualitative and quantitative aspects of Basel III. In addition, the Bank also ensures that it is in compliance with UAE Central Bank liquidity regulation on Eligible Liquid Assets Ratio ("ELAR") at all times.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets, i.e. total assets by maturity against total liabilities by maturity. For this purpose, high quality liquid assets ("HQLA") includes cash and cash equivalents and investment-grade debt securities for which there is an active and liquid market.

Details of the Bank's net liquid assets is summarised in the table below by the maturity profile of the Bank's assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Bank's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

5 Financial risk management *(continued)*

(b) ***Liquidity risk*** *(continued)*

Exposure to liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2023 was as follows:

	Carrying Amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with the Central Bank of the UAE	**2,532,001**	**2,532,001**	**-**	**-**	**-**	**-**	**-**
Due from banks	**1,317,798**	**1,317,798**	**-**	**-**	**-**	**-**	**-**
Acceptances	**477,267**	**445,399**	**31,788**	**80**	**-**	**-**	**-**
Investments at FVOCI	**3,075,277**	**128,197**	**526,652**	**965,172**	**641,834**	**808,747**	**4,675**
Investment at FVTPL	**355,638**	**-**	**-**	**-**	**-**	**-**	**355,638**
Investment at amortised cost	**405,376**	**201,773**	**195,315**	**-**	**8,288**	**-**	**-**
Loans and advances	**12,900,588**	**2,643,122**	**1,680,369**	**2,504,575**	**2,364,069**	**3,708,453**	**-**
Other assets	**210,758**	**210,758**	**-**	**-**	**-**	**-**	**-**
Total assets	**21,274,703**	**7,479,048**	**2,434,124**	**3,469,827**	**3,014,191**	**4,517,200**	**360,313**
Liabilities							
Customers' deposits	**14,750,019**	**11,586,237**	**2,301,404**	**32,733**	**829,645**	**-**	**-**
Due to banks	**2,042,547**	**2,041,733**	**-**	**-**	**814**	**-**	**-**
Acceptances	**477,267**	**445,399**	**31,788**	**80**	**-**	**-**	**-**
Other liabilities	**232,318**	**232,318**	**-**	**-**	**-**	**-**	**-**
Total liabilities	**17,502,151**	**14,305,687**	**2,333,192**	**32,813**	**830,459**	**-**	**-**
Statement of financial position gap	**3,772,552**	**(6,826,639)**	**100,932**	**3,437,014**	**2,183,732**	**4,517,200**	**360,313**

5 Financial risk management *(continued)*

(b) ***Liquidity risk*** *(continued)*

Exposure to liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2022 was as follows:

	Carrying Amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
Assets							
Cash and balances with the Central Bank of the UAE	1,466,810	1,466,810	-	-	-	-	-
Due from banks	1,882,565	1,680,550	202,015	-	-	-	-
Acceptances	381,364	368,530	12,485	349	-	-	-
Investments at FVOCI	2,310,224	128,375	29,699	848,174	557,603	741,703	4,670
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	329,906	144,574	174,952	-	-	10,380	-
Loans and advances	13,422,182	3,008,864	1,763,891	2,715,000	1,989,778	3,944,649	-
Other assets	177,342	177,342	-	-	-	-	-
Total assets	19,987,970	6,975,045	2,183,042	3,563,523	2,547,381	4,696,732	22,247
Liabilities							
Customers' deposits	14,129,728	10,299,456	3,059,211	771,061	-	-	-
Due to banks	1,791,975	1,791,975	-	-	-	-	-
Acceptances	381,364	368,530	12,485	349	-	-	-
Other liabilities	596,539	583,705	12,485	349	-	-	-
Total liabilities	16,518,242	12,675,136	3,071,696	771,410	-	-	-
Statement of financial position gap	3,469,728	(5,700,091)	(888,654)	2,792,113	2,547,381	4,696,732	22,247

5 Financial risk management *(continued)*

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Bank separates its exposure to market risks between trading and non-trading portfolios. Trading portfolios are mainly held by the Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and financial liabilities that are managed on a fair value basis.

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed by the ALCO/ investment committee.

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

A substantial portion of the Bank's assets and liabilities are re-priced within three months. Accordingly, there is limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

5 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Interest rate risk (continued)

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2023 is as follows:

		Re-pricing in					
	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with the Central Bank of the UAE	2,532,001	1,495,172	-	-	-	-	1,036,829
Due from banks	1,317,798	1,317,798	-	-	-	-	-
Acceptances	477,267	-	-	-	-	-	477,267
Investments at FVOCI	3,075,277	128,197	526,652	965,172	641,834	808,747	4,675
Investment at FVTPL	355,638	-	-	-	-	-	355,638
Investment at amortised cost	405,376	201,773	195,315	-	8,288	-	-
Loans and advances	12,900,558	9,914,964	918,082	675,503	752,751	639,288	-
Other assets	210,758	-	-	-	-	-	210,758
Total assets	**21,274,073**	**13,057,904**	**1,640,049**	**1,640,675**	**1,402,873**	**1,448,035**	**2,085,167**
Liabilities							
Customers' deposits	14,750,019	5,670,703	2,301,404	32,733	-	-	6,745,179
Due to banks	2,042,547	2,042,547	-	-	-	-	-
Acceptances	477,267	-	-	-	-	-	477,267
Other liabilities	232,318	-	-	-	-	-	232,318
Total liabilities	**17,502,151**	**7,713,250**	**2,301,404**	**32,733**	**-**	**-**	**7,454,764**
Statement of financial position gap	**3,772,552**	**5,344,654**	**(661,355)**	**1,607,942**	**1,402,873**	**1,448,035**	**(5,369,597)**

5 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Interest rate risk (continued)

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2022 is as follows:

		Re-pricing in					
	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
Assets							
Cash and balances with the Central Bank of the UAE	1,466,810	923,690	-	-	-	-	543,120
Due from banks	1,882,565	1,680,550	202,015	-	-	-	-
Acceptances	381,364	-	-	-	-	-	381,364
Investments at FVOCI	2,310,224	128,375	29,699	848,174	557,603	741,703	4,670
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	329,906	144,574	174,952	-	-	10,380	-
Loans and advances	13,422,182	12,272,872	320,455	189,331	246,280	393,244	-
Other assets	81,439	-	-	-	-	-	81,439
Total assets	19,892,067	15,150,061	727,121	1,037,505	803,883	1,145,327	1,028,170
Liabilities							
Customers' deposits	14,129,728	6,710,420	3,035,746	59,823	-	-	4,323,739
Due to banks	1,791,975	1,791,975	-	-	-	-	-
Acceptances	381,364	-	-	-	-	-	381,364
Other liabilities	119,272	-	-	-	-	-	119,272
Total liabilities	16,422,349	8,502,395	3,035,746	59,823	-	-	4,824,375
Statement of financial position gap	3,469,728	6,647,666	(2,308,625)	977,682	803,883	1,145,327	(3,796,205)

5 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Interest rate risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The Bank assumes a fluctuation in interest rates of 75 basis points (2022: 75 basis points) and estimates the following impact on the profit for the year and equity at that date:

	2023 Profit for the year AED'000	2022 Profit for the year AED'000	**2023 Equity AED'000**	2022 Equity AED'000
Fluctuation in yield	**45,537**	37,203	**22,507**	19,911

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios They are based on AED 16,119 million interest bearing assets at year-end (2022: AED 16,558 million) and AED 10,047 million interest bearing liabilities at year-end (2022: AED 11,598 million). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

The interest rate movements have an effect on retained earnings arising from increases or decreases in net interest income and the fair value changes reported in profit or loss.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the UAE Dirham. As at 31 December 2023, the Bank had the following significant net exposures denominated in foreign currencies:

	Net spot position AED'000	Forward position AED'000	**Net exposure 2023 AED'000**	Net exposure 2022 AED'000
Currency				
Euro	**(760)**	**811**	**51**	**477**
GBP	**(134)**	**-**	**(134)**	**(51)**
Libyan Dinar	**88**	**-**	**88**	**54**
Saudi Riyal	**(600,261)**	**629,389**	**29,128**	**7,384**
US Dollar	**1,731,644**	**605,788**	**2,337,432**	**(596,968)**

Exposure to other currencies and the effect of changes in exchange rates is insignificant.

5 Financial risk management *(continued)*

(c) ***Market risk*** *(continued)*

Other market price risk

Equity price risk arises from the change in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The effect on equity as a result of a change in the fair value of equity instruments due to a reasonably possible change in equity indices by 5%, with all other variables held constant as at 31 December 2023 is Nil (2022: Nil).

(d) ***Operational risk and Business Continuity Management***

Operational risk is inherent in all dimensions of the Bank. It can arise from all business processes, banking products, systems, external events and any business activity carried out by the Bank and that can expose it to financial losses, legal suits, regulatory penalties and/or reputational damage.

Business Continuity Management (BCM) enables the Bank to proactively minimize employee’s impact, enrich various capabilities and manage response to unplanned incidents or events; continue to conduct critical business operations and return to normal operations in a timely manner.

Effective management of operational risk and business continuity is a fundamental element of the Bank’s overall risk management program.

The Board assumes overall responsibility for operational risk and business continuity management. This includes defining risk appetite, approval of the related policies and frameworks.

Key components of the operational risk management framework includes governance committees, incident reporting, risk assessment, issues and action plans management, key indicators, training and awareness, policies, guidelines, and processes.

Key components of the business continuity management framework includes governance Committees, business impact analysis, business continuity plan, exercising and testing, emergency response, ORM Tools etc.

Senior management of the bank has the responsibility to oversee the implementation and ensure that strategies, policies and processes are effectively implemented at all levels.

The Bank has adopted the Three Lines of Defence (3 LoD) model for the management of operational risk and business continuity whereby:

- First line (business line management) own the risks and are responsible for the implementation of the operational risk and business continuity frameworks.
- Second line is responsible for developing the related operational risk and business continuity policies, frameworks and the associated tools to support first line in fulfilling their responsibilities.
- Internal audit (third line of defence) provide independent assurance to Board.

5 Financial risk management *(continued)*

(e) Capital management

The Bank's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are:

- safeguarding the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- complying with regulatory capital requirements set by the Central Bank of the UAE.

During 2023, the Bank's strategy, which was unchanged from 2022, was to:

- maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel Accord guidelines; and
- allocate capital to various businesses in an efficient manner.

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

CBUAE issued an update on Capital Adequacy Standards on November 12, 2020 vide notice number CBUAE/ BSD/N/2020/4980 replacing the earlier issued standards. The updated standards include new requirements on internal and external review, additional guidelines on credit, market and operational risk and details for Pillar 2 requirements. The regulations ensure compliance with Basel III Capital Standards set out by the Basel Committee on Banking Supervision (BCBS).

For credit and market risk, CBUAE has issued guidelines for implementation of standardised approach and banks are required to comply and report under Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements since March 2010. For operational risk, the CBUAE has given banks the option to use the Basic Indicators approach or the standardised approach and the Bank has chosen to use the Basic Indicators approach.

The Bank has complied with all externally imposed capital requirements throughout the years presented.

The Bank seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

As per Basel III requirement, capital should comprise of the following:

Tier 1 capital - Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instruments issued by banks which are eligible for inclusion in AT 1 and are not included in CET 1.

5 Financial risk management *(continued)*

(e) ***Capital management*** *(continued)*

Tier 2 capital - Tier 2 capital includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets).

Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets and cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit specified by the Central Bank regulations for Basel III.

As per Central Bank regulation for Basel III, the capital requirements is 13% inclusive of capital conservation buffer.

The Bank must comply with following minimum requirement:

i.) CET1 must be at least 7% of risk weighted assets (RWA);
ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA);
iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA);

Additionally, capital conservation buffer ("CCB") is to be maintained at 2.5%.

Capital allocation

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular activities, it is not the sole basis used for decision making. Account is also taken of synergies with other activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors as part of Internal Capital Adequacy assessment program ("ICAAP").

5 Financial risk management *(continued)*

(e) ***Capital management*** *(continued)*

The Bank's regulatory capital positions as 31 December 2023 and 2022 is as follows:

	2023	2022
	AED'000	AED'000
Tier 1 capital		
Share capital	**2,000,000**	1,500,000
Statutory reserve	**688,113**	669,172
Special reserve	**683,523**	664,582
General reserve	**-**	380,000
Fair value reserve	**(66,029)**	(112,136)
Retained earnings	**499,224**	531,565
IFRS transitional arrangement: Partial addback of ECL	**59,353**	110,744
Other deductions	**(52,724)**	(53,082)
Proposed dividend	**-**	(60,000)
Eligible Tier 1 capital (a)	**3,811,460**	3,630,845
Tier 2 capital		
Eligible general provisions	**213,399**	211,808
Eligible Tier 2 capital (b)	**213,399**	211,808
Total capital base (a+b)	**4,024,859**	3,842,653
Risk weighted assets:		
Credit risk	**17,071,887**	16,944,636
Market risk	**31,743**	44,426
Operational risk	**1,500,101**	1,409,653
Total risk weighted assets	**18,603,731**	18,398,715
CET 1 ratio	**20.5%**	19.7%
Tier 1 ratio	**20.5%**	19.7%
Capital adequacy ratio	**21.6%**	20.9%

6 Use of estimates and judgements

(a) Key sources of estimation uncertainty

(i) Allowances for credit losses

Impairment losses are evaluated as described in accounting policy 3(a)(x).

The Bank evaluates impairment on loans and advances and investments on an on-going basis and a comprehensive review is performed on a quarterly basis to assess whether an impairment charge should be recognised in the income statement. In particular, considerable judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgements about the counterparty's financial situation and other means of settlement and the net realisable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgement and uncertainty, and actual results may differ resulting in future changes to such impairment charges.

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades;
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(ii) Determining fair values

The determination of fair value for financial and non-financial assets and liabilities of which there is no observable market price requires the use of valuation techniques as described in note 3(a)(ix). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degree of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument *(Note 6(b)(iii))*.

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

(i) Financial assets and liabilities classification

The Bank's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, such as in classifying financial assets as at amortised cost, FVTPL or FVOCI, the Bank has determined that it meets the description as set out in note 3(a)(ii).

(ii) Contingent liability arising from litigation

Due to the nature of its operations, the Bank may be involved in litigation arising in the ordinary course of business. Provision for contingent liabilities arising from litigation is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(iii) Valuation of financial instruments and other assets

The Bank's accounting policy on fair value measurements is discussed in note 3(a)(ix).

Fair value hierarchy:

Fair value measurements recognised in the statement of financial position

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- **Level 1**: Quoted market price (unadjusted) in an active market for an identical instrument. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

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

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies *(continued)*

(iii) Valuation of financial instruments and other assets(continued)

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

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

Fair values of assets and liabilities that are traded in active markets are based on quoted market prices or dealer priced quotations. For all other assets and liabilities the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other inputs used in estimating discount rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument and other assets at the reporting date that would have been determined by market participants acting at arm's length.

Observable prices and model inputs are usually available in the market for listed equity securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies *(continued)*

(iii) Valuation of financial instruments and other assets (continued)

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

The table below analyses assets measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2023				
Investments at FVOCI *(Note 9)*	**3,070,602**		**4,675**	**3,075,277**
Investment at FVTPL *(Note 10)*	**-**	**355,638**		**355,638**
Investment properties *(Note 13)*	**-**	**-**	**167,839**	**167,839**
Property and equipment *(Note 15)*	**-**	**-**	**192,002**	**192,002**
Property acquired in settlement of debt *(Note 14)*	**-**	**-**	**-**	**-**
Asset held for sale *(Note 16)*	**-**	**-**	**12,042**	**12,042**
	3,070,602	**355,638**	**376,588**	**3,802,798**
At 31 December 2022				
Investments at FVOCI *(Note 9)*	2,305,554	-	4,670	2,310,224
Investment at FVTPL *(Note 10)*	-	-	17,577	17,577
Investment properties *(Note 13)*	-	-	283,643	283,643
Property and equipment *(Note 15)*	-	-	183,538	183,538
Property acquired in settlement of debt *(Note 14)*	-	-	1,406	1,406
Asset held for sale *(Note 16)*	-	-	11,395	11,395
	2,305,554	-	502,229	2,807,783

There have been no transfers of assets between Level 1 and Level 2 or any transfers into or out of Level 3 of the fair value hierarchy during the year ended 31 December 2023 (2022: Nil).

Although the Bank believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values.

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies *(continued)*

(iii) *Valuation of financial instruments and other assets (continued)*

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

Level 3 reconciliation

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	Investments at FVOCI AED'000	Investments at FVTPL AED'000	Investment properties AED'000	Property & equipment AED'000	Property acquired in settlement of debt AED'000	Asset held for sale AED'000	Total AED'000
At 1 January 2023	**4,670**	**17,577**	**283,643**	**183,538**	**1,406**	**11,395**	**502,229**
Changes in fair value	5	-	-	9,550	-	-	9,555
Additions / (disposals)	-	(17,577)	(122,545)	-	(1,406)	-	(141,528)
Depreciation	-	-	(10,662)	(348)	-	-	(11,010)
Net reversal / (impairment) charge (Note 30)	-	-	17,403	(738)	-	647	17,312
At 31 December 2023	**4,675**	**-**	**167,839**	**192,002**	**-**	**12,042**	**376,558**

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies *(continued)*

(iii) *Valuation of financial instruments and other assets (continued)*

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

Level 3 reconciliation (continued)

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

	Investments at FVOCI AED'000	Investments at FVTPL AED'000	Investment properties AED'000	Property & equipment AED'000	Property acquired in settlement of debt AED'000	Asset held for sale AED'000	Total AED'000
At 1 January 2022	14,508	17,577	377,768	175,807	6,910	-	592,570
Changes in fair value	-	-	-	6,070	-	-	6,070
Additions / (disposals)	(9,838)	-	(99,641)	-	(5,500)	17,544	(97,435)
Depreciation	-	-	(10,662)	(348)	-	-	(11,010)
Net reversal / (impairment) charge (Note 30)	-	-	16,178	2,009	(4)	(6,149)	12,034
At 31 December 2022	4,670	17,577	283,643	183,538	1,406	11,395	502,229

6 Use of estimates and judgements *(continued)*

(b) Critical accounting judgements in applying the Bank's accounting policies *(continued)*

(iii) *Valuation of financial instruments and other assets (continued)*

Fair value hierarchy (continued)

Fair value measurements recognised in the statement of financial position (continued)

Accounting classifications and fair values

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through profit or loss and investments at FVOCI and other non-financial assets which are measured at fair value by reference to published price quotations in an active market or from prices quoted by counterparties or through use of valuation techniques.

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. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The fair values of due from banks, customers' deposits and due to banks that are predominantly short-term in tenure and issued at market rates are considered to reasonably approximate their book value.

The Bank estimates that the fair value of its loans and advances portfolio is not materially different from its book value since the majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans considered impaired, expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

7 Cash and balances with the Central Bank of the UAE

	2023 AED'000	2022 AED'000
Cash in hand	**115,224**	104,870
Balances with the Central Bank of the UAE	**1,495,178**	923,691
Cash reserve with Central Bank of the UAE	**921,605**	438,250
Gross balance	**2,532,007**	1,466,811
Allowance for expected credit losses	**(6)**	(1)
	2,532,001	1,466,810

Cash reserve deposits are available for the Bank's day-to-day operations under certain specified conditions.

The movement in the allowance for impairment during the year is shown below:

	2023 AED'000	2022 AED'000
Opening balance	**1**	5
Impairment reversal for the year, net	**5**	(4)
	6	1

8 Due from banks

	2023 AED'000	2022 AED'000
Current, call and nostro balances	**212,234**	366,891
Fixed deposits	**1,107,441**	1,517,079
Gross balance	**1,319,675**	1,883,970
Allowance for expected credit losses	**(1,877)**	(1,405)
Net balance	**1,317,798**	1,882,565
By location:		
Within the UAE	**675,326**	473,798
Outside the UAE	**644,349**	1,410,172
	1,319,675	1,883,970

8 Due from banks *(continued)*

The movement in the allowance for impairment during the year is shown below:

	2023 AED'000	2022 AED'000
Opening balance	**1,405**	1,381
Impairment charge for the year, net	**472**	24
	1,877	1,405

9 Investment at fair value through other comprehensive income (FVOCI)

	2023 AED'000	2022 AED'000
Investment in quoted debt securities (UAE)	**1,626,518**	1,484,156
Investment in quoted debt securities (outside UAE / others)	**1,444,084**	821,398
Total debt securities at FVOCI	**3,070,602**	2,305,554
Investment in quoted equity securities (UAE)	**-**	-
Investment in unquoted equity securities (outside UAE)	**3,406**	3,406
Investment in quoted equity securities (outside UAE)	**-**	-
Investment in unquoted equity securities (UAE)	**1,080**	1,080
Investment in overseas funds	**189**	184
Total equities at FVOCI	**4,675**	4,670
Total investments at FVOCI	**3,075,277**	2,310,224

The above investments at FVOCI are denominated in UAE Dirhams and US Dollar. Unquoted securities are measured at fair value based on the investee company's net asset value as of the year end.

9 Investment at fair value through other comprehensive income (FVOCI) (*continued*)

Movements during the year in investment designated at FVOCI were as follows:

	2023 **AED'000**	2022 AED'000
Fair value at 1 January	**2,310,224**	2,280,300
Purchases during the year	**1,389,265**	775,070
Sales / redemptions during the year	**(654,241)**	(525,872)
Change in fair value	**46,107**	(162,197)
Impairment reversal for the year	**(450)**	1,343
Amortisation of premium on debt securities	**(15,720)**	(10,279)
Transfer of loss on disposal of equity investments at FVOCI to retained earnings	**-**	(48,131)
Translation loss	**92**	(10)
Fair value at 31 December	**3,075,277**	2,310,224

As at 31 December 2023, the allowance for impairment on debt instruments designated at FVOCI amounting to AED 20,477 thousand (2022: AED 20,027 thousand) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

10 Investment at fair value through profit or loss (FVTPL)

	2023 **AED'000**	2022 AED'000
Investment in contingent convertible instrument	**-**	17,577
Investment in mutual funds	**355,638**	-
	355,638	17,577

11 Investment at amortised cost

	2023 **AED'000**	2022 AED'000
Investment in quoted debt security (UAE)	**8,288**	10,379
Central Bank of UAE M-Bills	**397,126**	319,662
Less: Allowance for expected credit losses	**(38)**	(135)
	405,376	329,906

11 Investment at amortised cost *(continued)*

	2023 AED'000	2022 AED'000
As at 1 January	**329,906**	945,521
Purchases during the year	**757,050**	1,058,988
Sales / redemptions during the year	**(679,245)**	(1,667,983)
Impairment reversal for the year	**97**	461
Amortisation of premium on debt securities	**(2,432)**	(7,081)
As at 31 December	**405,376**	329,906

12 Loans and advances

	2023 AED'000	2022 AED'000
Loans and advances	**14,114,418**	14,434,747
Islamic financing	**1,948,053**	2,218,761
Gross loans and Islamic financing	**16,062,471**	16,653,508
Deferred profit	**(31,846)**	(39,884)
Interest in suspense	**(615,257)**	(487,602)
Allowance for expected credit losses	**(2,514,780)**	(2,703,840)
Net loans and advances	**12,900,588**	13,422,182

Islamic finance breakdown

	2023 AED'000	2022 AED'000
By type:		
Ijarah	**1,153,178**	1,226,824
Murabaha	**794,875**	991,937
Gross Islamic financing	**1,948,053**	2,218,761
Deferred profit	**(31,846)**	(39,884)
Profit in suspense	**(21,565)**	(10,141)
Allowance for expected credit losses	**(159,178)**	(136,255)
Net Islamic financing	**1,735,464**	2,032,481

12 Loans and advances *(continued)*

The maturities of minimum Ijara payments

	2023	2022
	AED'000	AED'000
Less than one year	**154,362**	178,833
Between one year and five years	**786,253**	772,465
More than five years	**212,563**	275,526
Gross Ijara financing	**1,153,178**	1,226,824

An analysis of gross loans and advances by segment at the reporting date is shown below:

	2023	2022
	AED'000	AED'000
Corporate segment	**15,347,295**	15,847,008
Consumer segment	**715,176**	806,500
Gross loans and Islamic financing	**16,062,471**	16,653,508

The movement in the allowance for impairment during the year is shown below:

	2023	2022
	AED'000	AED'000
Opening balance	**2,703,840**	2,439,076
Net charge for the year	**360,564**	342,514
Net amounts written off	**(549,624)**	(77,750)
	2,514,780	2,703,840

13 Investment properties

	Freehold land and building AED'000
Cost	
At 1 January 2022	833,611
Disposals	(187,210)
At 31 December 2022	646,401
Disposals	(297,286)
At 31 December 2023	349,115
Accumulated depreciation	
At 1 January 2022	125,081
Charge for the year	10,662
Disposals	(18,235)
At 31 December 2022	117,508
Charge for the year	10,662
Disposals	(36,085)
At 31 December 2023	92,085
Net carrying amount	
At 31 December 2023	257,030
Less: allowance for impairment	(89,191)
	167,839
At 31 December 2022	528,893
Less: allowance for impairment	(245,250)
	283,643

13 Investment properties *(continued)*

Towards the end of 2023, the Bank carried out a valuation exercise of the investment properties and investment properties under development through qualified, independent external valuators. The valuation methodologies used by the external valuators include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions and asking prices of comparable properties within the same and comparable communities applying adjustments to reflect differences to the subject property.

- Investment method (Income Capitalisation & DCF): The Income Capitalisation Method has been used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield after allowing for appropriate maintenance and vacancies. A net yield range of 6% to 8.5% has been applied which reflects what an investor would expect for an investment of the duration of the interest being valued for the respective properties.

All investment properties of the Bank are located in the United Arab Emirates.

Details of rental income and direct operating expenses relating to investment properties are as follows:

	2023 AED'000	2022 AED'000
Rental income	**21,170**	23,954
Direct operating expenses	**(11,081)**	(11,794)
	10,089	12,160

The movement in the allowance for impairment during the year is shown below:

	2023 AED'000	2022 AED'000
At 1 January	**245,250**	330,762
Net impairment reversal for the year (note 30)	**(17,403)**	(16,178)
Disposals	**(138,656)**	(69,334)
At 31 December	**89,191**	245,250

14 Other assets

	2023 **AED'000**	2022 AED'000
Interest receivable	**214,670**	168,749
Sundry debtors and other assets	**13,083**	40,000
Property acquired in settlement of debt, net	**-**	1,406
	227,753	210,155

15 Property and equipment

	Freehold land and Building AED'000	Furniture equipment & vehicles AED'000	Capital Work in - progress AED'000	Right of use Assets AED'000	Total AED'000	Intangible Assets AED'000
Cost						
At 1 January 2022	356,758	107,258	26,301	24,298	514,615	86,824
Additions	-	-	19,195	-	19,195	-
Transfer to asset held for sale	-	-	(15,529)	-	(15,529)	-
Transfers	-	2,558	(12,456)	-	(9,898)	9,898
Disposals	-	-	-	-	-	-
Gain on revaluation	8,079	-	-	-	8,079	-
At 31 December 2022	364,837	109,816	17,511	24,298	516,462	96,722
At 1 January 2023	**364,837**	**109,816**	**17,511**	**24,298**	**516,462**	**96,722**
Additions	**-**	**-**	**25,603**	**19,572**	**45,175**	**-**
Transfer to asset held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Transfers	**-**	**7,221**	**(23,717)**	**-**	**(16,496)**	**16,496**
Disposals	**-**	**-**	**-**	**(19,082)**	**(19,082)**	**-**
Gain on revaluation	**8,812**	**-**	**-**	**-**	**8,812**	**-**
At 31 December 2023	**373,649**	**117,037**	**19,397**	**24,788**	**534,871**	**113,218**

15 Property and equipment *(continued)*

	Freehold land and Building AED'000	Furniture equipment & vehicles AED'000	Capital Work in - progress AED'000	Right of use Assets AED'000	Total AED'000	Intangible Assets AED'000
Accumulated depreciation						
At 1 January 2022	180,951	92,054	-	19,136	292,141	35,689
Charge for the year	348	4,869	-	-	5,217	10,940
Right of use assets	-	-	-	4,793	4,793	-
Disposals	-	-	-	-	-	-
At 31 December 2022	181,299	96,923	-	23,929	302,151	46,629
At 1 January 2023	**181,299**	**96,923**	-	**23,929**	**302,151**	**46,629**
Charge for the year	**348**	**5,392**	-	**-**	**5,740**	**13,865**
Right of use assets	-	-	-	**4,499**	**4,499**	-
Disposals	-	-	-	**(19,082)**	**(19,082)**	-
At 31 December 2023	**181,647**	**102,315**	-	**9,346**	**293,308**	**60,494**
Net carrying amount						
At 31 December 2022	183,538	12,893	17,511	369	214,311	50,093
At 31 December 2023	**192,002**	**14,722**	**19,397**	**15,442**	**241,563**	**52,724**

15 Property and equipment *(continued)*

The freehold land and buildings were valued towards year end by qualified, independent external valuators. The valuation methodologies used by the external valuators include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions and asking prices of comparable properties within the same and comparable communities applying adjustments to reflect differences to the subject property.

- Investment method (Income Capitalisation & DCF): The Income Capitalisation Method has been used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield after allowing for appropriate maintenance and vacancies. A net yield range of 6% to 8.5% has been applied which reflects what an investor would expect for an investment of the duration of the interest being valued for the respective properties.

The fair value of the buildings as at 31 December 2023, as provided by the valuers was AED 192.0 million (2022: AED 183.5 million), resulting in an increase in the revaluation reserve by AED 9.5 million (2022: increase by AED 6.1 million). The table below represents the movement in the revaluation reserve of the freehold land and building:

	2023 **AED'000**	2022 AED'000
Revaluation reserve – freehold land and buildings		
At 1 January	**128,972**	122,902
Fair value gain	**9,550**	6,070
At 31 December	**138,522**	128,972

At 31 December 2023, total cost of AED 178.2 million (2022: AED 178.2 million) of fully depreciated assets was included in freehold land and buildings.

16 Asset held-for-sale

	2023 AED'000	2022 AED'000
Building	**12,042**	11,395

During 2022, the Bank decided to sell a building which was originally being constructed for use in the Bank's operations and presented under project-in-progress under Property and equipment. The building was reclassified as held for sale during 2022 and was measured at the lower of its carrying amount and fair value less costs to sell at the time of the reclassification, resulting in the recognition of an impairment reversal of AED 0.6 million (Note 30) (2022: impairment loss of AED 6.1 million) in the statement of profit or loss.

17 Customers' deposits

	2023 AED'000	2022 AED'000
By type:		
Time deposits	**4,927,417**	7,709,460
Call accounts	**848,295**	746,389
Current accounts	**4,533,598**	3,710,267
Savings accounts	**1,733,631**	246,098
	12,042,941	12,412,214
Islamic deposits		
By type:		
Current accounts	**615,972**	428,130
Mudaraba term and savings deposits	**12,984**	5,594
Wakala deposits	**2,078,122**	1,283,790
	2,707,078	1,717,514
Total deposits	**14,750,019**	14,129,728
By sector:		
Private sector	**8,334,470**	7,117,418
Government sector	**4,777,412**	4,934,050
Individuals	**1,638,137**	2,078,260
	14,750,019	14,129,728

18 Due to banks

	2023 AED'000	2022 AED'000
Current, call and vostro balances	**219,415**	207,398
Fixed deposits	**1,823,132**	1,584,577
	2,042,547	1,791,975
By location:		
Within the UAE	**842,441**	714,076
Outside the UAE	**1,200,106**	1,077,899
	2,042,547	1,791,975

19 Other liabilities

	2023 AED'000	2022 AED'000
Allowance for expected credit loss on contingent assets	**274,001**	223,549
Interest payable	**84,254**	66,015
Provision for employees' end of service benefits	**18,668**	21,308
Others	**175,757**	204,131
	552,680	515,003

The movement in the provision for employees' end of service benefits was as follows:

	2023 AED'000	2022 AED'000
At 1 January	**21,308**	22,662
Provided during the year (Note 28)	**5,898**	4,041
Actuarial losses on defined benefit obligation	**3,147**	1,963
Paid during the year	**(11,685)**	(7,358)
	18,668	21,308

The Bank provides end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2023 to ascertain present value of the defined benefit obligation. A registered actuary was appointed to evaluate the same. The liabilities were measured using the projected unit credit method. For valuing liability as at 31 December 2023, a discount rate of 5.08% (2022: 4.9%) and salary escalation rate of 3 % (2022: 3%) were used.

The liability would be higher by AED 821 thousand had the discount rate used in the assumption been lower by 0.5% and the liability would be lower by AED 765 thousand had the discount rate used in the assumption been higher by 0.5%. Similarly, the liability would be higher by AED 840 thousand had the salary increment rate used in the assumption been higher by 0.5% and the liability would be lower by AED 748 thousand had the salary increment rate used in the assumption been lower by 0.5%.

20 Capital and reserves

a) Share capital

The authorized, issued and paid up share capital as at 30 September 2023 is comprised of 100,000 shares of AED 20,000 each (31 December 2022: 75,000 thousand ordinary shares of AED 20,000 each).

The Bank received a no-objection from the Central Bank of UAE to increase the paid-up share capital of the Bank from AED 1.5 billion to AED 2 billion by issuance of Bonus Shares through capitalization of the General reserve and Retained Earnings. This was approved by the shareholders in the Annual General Meeting held on 13 April 2023 and the shares have been issued in the second quarter of 2023.

b) Statutory reserve

As required by Article 241 of the UAE Federal Decree Law No 32 of 2021 on Commercial Companies, and the Bank's Articles of Association, 10% of the net profit for each year is transferred to a statutory reserve until this reserve equals 50% of the share capital. There has been a transfer of AED 18.9 million to the reserve during the year (2022: AED 13.2 million).

c) Special reserve

In accordance with UAE Federal Law No. (14) of 2018 Regarding the Central Bank & Organisation of Financial Institutions and Activities, 10% of the net profit for each year is transferred to a special reserve until this reserve equals 50% of the share capital. There has been a transfer of AED 18.9 million to the reserve during the year (2022: AED 13.2 million).

d) General reserve

The general reserve has been established to enhance the equity base of the Bank. Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the Shareholders.

The Bank received a no-objection from the Central Bank of UAE to increase the paid-up share capital of the Bank from AED 1.5 billion to AED 2 billion by issuance of Bonus Shares through capitalization of the General reserve and Retained Earnings. This was approved by the shareholders in the Annual General Meeting held on 13 April 2023 and the shares have been issued in the second quarter of 2023.

e) Revaluation reserve

The revaluation reserve includes gains on revaluation of freehold land and buildings, amounting to AED 138.5 million (2022: AED 129 million). During the year 2023 a revaluation gain of AED 9.5 million (2022: gain of AED 6 million) was adjusted in the reserves, resulting from the revaluation exercise performed over freehold land and buildings *(Note 15)*.

20 Capital and reserves *(continued)*

f) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of Investments at fair value through other comprehensive income (FVOCI), until the investments are derecognised.

	2023	2022
	AED'000	AED'000
Fair value reserve – Investments designated at FVOCI		
At 1 January	**(112,136)**	98,313
Fair value changes - net	**46,107**	(210,449)
At 31 December	**(66,029)**	(112,136)

g) Dividends

For the year ended 31 December 2023, the Board of Directors has proposed to pay a cash dividend of AED Nil per ordinary share (2022: AED 800 per ordinary share).

h) Zakat

The Bank has paid AED 0.4 million as Zakat during the year (2022: AED 1.3 million).

21 Interest income

	2023	2022
	AED'000	AED'000
Loans and advances to customers	**811,342**	555,551
Due from banks	**136,946**	22,666
Investment securities	**131,349**	90,295
	1,079,637	668,512

22 Interest expense

	2023	2022
	AED'000	AED'000
Customers' deposits	**311,047**	146,598
Due to banks	**105,491**	22,156
	416,538	168,754

23 Income from Islamic financing contracts

	2023 AED'000	2022 AED'000
Ijarah	**70,482**	61,110
Murabaha	**35,731**	35,649
	106,213	96,759

24 Depositors' share of profit

	2023 AED'000	2022 AED'000
Wakala	**66,771**	26,496
Mudaraba deposits and saving accounts	**183**	4
	66,954	26,500

25 Net fee and commission income

	2023 AED'000	2022 AED'000
Fee and commission income		
Letters of credit	**58,042**	46,550
Retail and corporate lending fees	**24,088**	19,098
Letters of guarantee	**19,131**	23,158
Transfers and other fees	**14,140**	10,291
Others	**25,327**	30,498
Total fee and commission income	**140,728**	129,595
Fee and commission expense		
Brokerage fees	**(5,390)**	(4,155)
Handling charges	**(1,818)**	(1,225)
Others	**(10,692)**	(7,522)
Total fee and commission expense	**(17,900)**	(12,902)
Net fee and commission income	**122,828**	116,693

25 Net fee and commission income *(continued)*

Performance obligations and revenue recognition policies

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	**Nature and timing of satisfaction of performance obligations, including significant payment terms**	**Revenue recognition under IFRS 15**
Retail and corporate banking service	The Bank provides banking services to retail and corporate customers, including account management, provision of overdraft facilities, foreign currency transactions, credit card and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Bank sets the rates separately for retail and corporate banking customers in each jurisdiction on an annual basis. Transaction-based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account service and servicing fees is 96ecognized over time as the services are provided. Revenue related to transactions is 96ecognized at the point in time when the transaction takes place.

26 Net foreign currency exchange gain

	2023 AED'000	2022 AED'000
Trading and retranslation gain	**319**	2,627
Dealing with customers	**51,360**	41,236
	51,679	43,863

27 Other operating income

	2023 AED'000	2022 AED'000
Rental income, net	**10,089**	12,160
Others	**2,206**	2,122
	12,295	14,282

28 General, administration and other operating expenses

	2023 AED'000	2022 AED'000
Staff costs (i)	**205,061**	164,173
Depreciation (ii)	**34,767**	31,612
Board of Directors expenses	**16,687**	16,526
Others	**63,240**	68,256
	319,755	280,567

(i) Staff costs are divided as follows:

	2023 AED'000	2022 AED'000
Salaries and wages	**91,380**	66,611
End of service benefits (note 19)	**5,898**	4,041
Other benefits	**107,783**	93,521
	205,061	164,173

28 General, administration and other operating expenses *(continued)*

(ii) Depreciation comprises of depreciation charge for the year on property and equipment and right of use assets amounting to AED 24.1 million (2022: AED 20.9 million) and investment properties amounting to AED 10.7 million (2022: AED 10.7 million).

29 Net impairment charge on financial assets

	2023 AED'000	2022 AED'000
Net impairment charge on loans and advances	**360,564**	342,514
Net impairment charge on unfunded exposures	**50,452**	32,244
Net impairment charge on due from banks	**472**	24
Net impairment charge / (reversal) on balances with CBUAE	**5**	(4)
Net impairment charge / (reversal) on investment securities	**354**	(1,804)
Write-off of impaired financial assets	**8,818**	753
Recovery of loans previously written – off	**(7,643)**	(22,183)
	413,022	351,544

The balance of recoveries includes write back of written off loans and advances including the related suspended interest.

30 Impairment and fair value loss on properties

	2023 AED'000	2022 AED'000
Net impairment reversal on investment properties	**(17,403)**	(16,178)
Net impairment charge on property acquired in settlement of debt	**-**	4
Net impairment reversal on properties	**(17,403)**	(16,174)
Fair value (gain) / loss on assets held-for-sale	**(647)**	6,149
Fair value loss / (gain) on own properties	**738**	(2,009)
Net fair value loss on properties	**91**	4,140

31 Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following amounts maturing within three months of the date of the acquisition / placement:

	2023 AED'000	2022 AED'000
Cash and balances with the Central Bank of the UAE	**2,532,007**	1,466,811
Due from banks	**1,319,675**	1,883,970
	3,851,682	3,350,781
Less: cash reserve with Central Bank of the UAE	**(921,605)**	(438,250)
Less: due from banks with original maturity of more than 3 months	**-**	(202,015)
Cash and cash equivalents	**2,930,077**	2,710,516

32 Commitments and contingencies

	2023 AED'000	2022 AED'000
Letters of guarantee	**2,990,986**	3,012,558
Letters of credit	**1,610,164**	1,217,056
	4,601,150	4,229,614

Commitments at the reporting date are shown below:

	2023 AED'000	2022 AED'000
Un-drawn commitments to extend credit	**5,105,853**	3,731,523
Commitment for future capital expenditure	**13,726**	16,046
	5,119,579	3,747,569
Total commitments and contingencies	**9,720,729**	7,977,183

32 Commitments and contingencies *(continued)*

Irrevocable undrawn commitments to extend credit as at 31 December 2023 amounted to AED 276.2 million (2022: AED 438.3 million)

Letters of credit and guarantee commit the Bank to make payments on behalf of customers contingent upon the production of documents or the failure of the customer to perform under the terms of the contract.

Commitments to extend credit represent contractual commitments to extend loans and revolving credits. They generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

As at 31 December 2023, the ECL on unfunded exposures amounted to AED 274.0 million (2022: AED 223.5 million).

33 Related parties

Identity of related parties

The parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operational decisions. The Bank's shareholding pattern is as follows:

	Shareholding percentage(%)	
	2023	2022
Emirates Investment Authority	**42.28**	42.28
Libyan Foreign Bank	**42.28**	42.28
Banque Exterieure d'Algerie	**15.44**	15.44

In the normal course of business, the Bank has various transactions with its related parties.

Banking transactions are entered into with related parties on terms and conditions approved by either the Bank's management or the Board of Directors.

33 Related parties *(continued)*

The volume of related party transactions, outstanding balances and related expenses and income for the year were as follows:

	Key management personnel		Others	
	31 December 2023 AED'000	31 December 2022 AED'000	**31 December 2023 AED'000**	31 December 2022 AED'000
Balances				
Loans and advances	**5,884**	8,429	**385,759**	331,288
Due from banks	**-**	-	**19,241**	4,236
Deposits	**25,204**	20,208	**4,500,437**	3,275,648
Due to banks	-	-	**915,762**	860,821
Commitments and contingencies	-	-	**1,005,194**	1,308,347
Transactions				
Board of Directors' remuneration	**16,687**	16,526	**-**	-
Salaries and benefits	**14,599**	13,440	**-**	-
Post-employment benefits	**1,489**	1,153	**-**	-
Interest income	**586**	537	**20,126**	11,033
Interest expense	**328**	202	**171,031**	57,158
Fee and commission	**-**	-	**7,837**	4,052
Other operating expenses	**-**	-	**-**	184
Dividends paid	**-**	-	**60,000**	-

Included within others above are balances and transactions with the Bank's shareholders and parties related to them.

Loans and advances issued to related parties are repayable over one year and bear interest rates ranging between 6% and 11% (2022 4% and 9%). No collateral is under lien on loans and advances to related parties. There were no loans and advances to related parties that were classified as Stage 3 as of 31 December 2023 (2022: Nil).

33 Related parties *(continued)*

Due to banks from other related parties include term deposits under lien amounting to AED 845 million (2022: AED 845 million).

The Bank has received a corporate guarantee from a related party as a collateral for loans and advances amounting to AED 1,039 million (2022: AED 975 million).

34 Derivative contracts

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Unrealised gains and losses are recognised in profit and loss. In the ordinary course of business, the Bank utilises the following derivative financial instruments:

Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

				Notional amount by term to maturity		
	Positive fair value AED'000	**Negative fair value AED'000**	**Notional Amount AED'000**	**Up to 3 months AED'000**	**3 to 6 months AED'000**	**6 to 12 months AED'000**
31 December 2023						
Forward Foreign Exchange contract	**395**	**184**	**2,028,936**	**1,731,330**	**297,607**	**-**
31 December 2022						
Forward Foreign Exchange contract	172	1,305	1,278,176	887,222	390,954	-

35 Earnings per share

The calculation of basic earnings per share was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding calculated as follows:

	2023	2022
	AED'000	AED'000
Profit for the year	**189,315**	132,074
Weighted average number of ordinary shares	**100,000**	100,000
Earnings per share (AED)	**1.89**	1.32

There were no potentially dilutive securities as at 31 December 2023 or 2022, and accordingly, diluted earnings per share are the same as basic earnings per share.

36 Legal proceedings

In 2022, an unfavourable judgement was handed down against the Bank in respect of a legal claim made by a customer. However, after taking appropriate legal advice, the Bank has decided to appeal against the decision. No payment has been made to the claimant pending outcome of the appeal. If upheld, payment of AED 13.6 million will be required and has been recognised as a provision. This amount was subsequently paid in 2023. The Bank is involved in various other legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, the management does not believe that these matters will have a material adverse effect on the Bank's financial statements, if disposed unfavourably.

37 Social contributions

There are no social contributions made by the Bank during the year (2022: Nil).

38 Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2023, the market value of such assets amounted to AED 312.3 million (2022: AED 330.2 million) and are excluded from the financial statements of the Bank.

39 Comparative figures

Comparative figures have been reclassified in accordance with IAS 1 'Presentation of financial statements' in order to conform with the presentation for the current year.

In the prior years Acceptances were presented within Other Assets and Other Liabilities. During the current year, due to the nature and liquidity of such balances, Acceptances have been presented separately within the Statement of Financial Position.

Other Assets are now presented below Investments at Amortised Cost and above Loans and Advances on the basis of the liquidity of this balance.

The following is the impact of the corrections:

Statement of financial position (Extracts)	31 December 2022	Increase/ (Decrease)	31 December 2022 (Restated)	31 December 2021	Increase/ (Decrease)	31 December 2021 (Restated)
Acceptances (Assets)	-	381,364	381,364	-	578,753	578,753
Other Assets	591,519	(381,364)	210,155	751,555	(578,753)	172,797
Acceptances (Liabilities)	-	381,364	381,364	-	578,753	578,753
Other liabilities	896,367	(381,364)	515,003	1,088,119	(578,753)	509,366

The impact on the Statement of Cash Flows was follows:

Statement of cash flows (Extracts)	31 December 2022	Increase/ (Decrease)	31 December 2022 (Restated)	31 December 2021	Increase/ (Decrease)	31 December 2021 (Restated)
Acceptances (Assets)	-	197,389	197,389	-	(413,723)	(413,723)
Other Assets	160,029	(197,389)	(37,360)	(344,580)	413,723	69,143
Acceptances (Liabilities)	-	(197,389)	(197,389)	-	413,723	413,723
Other liabilities	(222,595)	197,389	(25,206)	455,321	(413,723)	41,598

40 Implementation of corporate tax law & application of IAS 12 income taxes

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (UAE CT Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The Corporate Tax Law shall apply to Tax Periods commencing on or after 1 June 2023 (where the Tax Period is generally aligned with the financial accounting period).

The UAE CT Law shall apply to the Bank with effect from 1 January 2024. The UAE CT Law is subject to further clarification by supplemental Decisions of the Cabinet of Ministers of the UAE (Decisions). Such Decisions, and other interpretive guidance of the UAE Federal Tax Authority, are required to fully evaluate the impact of the UAE CT Law on the Bank.

Decision No. 116 of 2022 (published in December 2022 and considered to be effective from 16 January 2023) specifies that taxable income not exceeding AED 375,000 would be subject to the 0% UAE CT rate, and taxable income exceeding AED 375,000 would be subject to the 9% UAE CT rate. With the publication of this Decision, we would consider the UAE CT Law to be substantively enacted for the purposes of IAS 12 – Income Taxes, and that the impact of the UAE CT Law should be assessed on the financial statements for the Bank. Following assessment of the potential impact of the UAE CT Law on the balance sheet, there are no material temporary differences on which deferred taxes should be accounted for. The Bank has performed an assessment of the potential impact of the UAE CT Law. Based on this assessment, there are no material temporary differences on which deferred taxes should be accounted for as of 31 December 2023 and accordingly the implementation of the UAE CT Law has no impact on the statement of financial position of the Bank as at 31 December 2023 nor on the statement of profit or loss of the Bank for the year ended 31 December 2023. The Bank will continue to monitor the publication of subsequent decisions and related guidance, as well as continuing its more detailed review of its financial matters, to consider any changes to this position at subsequent reporting dates.

41 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported or require disclosure in the financial statements as at and for the year ended 31 December 2023.

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