CONSOLIDATED FINANCIAL STATEMENTS

بنك أبوظبي الأول

FAB

First Abu Dhabi Bank

The audited Consolidated Financial Statements are subject to approval of the Central Bank of UAE and adoption by Shareholders at the Annual General Meeting.

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Independent auditors' report

To the Shareholders of First Abu Dhabi Bank P.J.S.C.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of First Abu Dhabi Bank P.J.S.C. ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs') and applicable requirements of Financial Statements Auditing Standards for the Subject Entities issued vide ADAA Chairman's Resolution No. (88) of 2021 in the United Arab Emirates (ADAA Auditing Standards). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) ('IESBA Code') together with the ethical and independence requirements of ADAA / United Arab Emirates that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters (continued)

Impairment of loans, advances and Islamic financing

See Note 8 and 34 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group recognized allowances for credit losses in its consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors captured by the models. This is considered a key audit matter, as the determination of ECL involves significant management judgement, estimates, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, and our business understanding. • Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the Group's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Assessing the design, implementation, and testing the operating effectiveness of selected relevant controls. • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends. • Testing the completeness and accuracy of the data used within the ECL calculation. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process. • Re-performing key aspects of the Group's SICR determinations for selected samples of loans, advances and Islamic financing to determine whether a SICR event was appropriately identified.. • Evaluating the reasonableness of and testing a sample of management overlays. • Involving our valuation specialists on a sample basis to assess the reasonableness of the valuation of real estate collaterals held by the Group, relating to the determination of ECL.

Key Audit Matters (continued)

Impairment of loans, advances and Islamic financing (continued)

See Note 8 and 34 to the consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	• Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation for a sample of borrowers. • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Report but does not include the Bank's consolidated financial statements and our auditors' report thereon ('the Annual report'). The Annual report is expected to be made available to us after the date of this auditors' report.

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

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

When we read the Annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 and applicable provisions of the laws and regulations and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 and ADAA Auditing Standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021 we report that for the year ended 31 December 2022:

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Chairman's statement (as included in Management Discussions & Analysis Report) is consistent with the books of account of the Group;

v) as disclosed in notes 5 and 9 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2022;

vi) note 42 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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 Group has contravened during the financial year ended 31 December 2022 any of 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 consolidated financial position as at 31 December 2022; and

viii) note 33 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2022.

Further, as required by 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.

Further, as required by the Abu Dhabi Accountability Authority's Chairman Resolution No.(88) of 2021 pertaining to Financial Statements Auditing Standards for the Subject Entities, we report that based on the procedures performed and information provided to us by management and those charged with governance, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material aspects, with any of the provisions of the following laws, regulations and circulars as applicable to its activities, which would have a material impact on the consolidated financial statements as at 31 December 2022:

i) its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022; and

ii) relevant provisions of the applicable laws, resolutions and circulars that have an impact on the Bank's consolidated financial statements.

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates
25 January 2023

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First Abu Dhabi Bank

Consolidated statement of financial position

As at

Assets	Note	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Cash and balances with central banks	4	**228,368,829**	258,732,776
Investments at fair value through profit or loss	5	**31,816,797**	45,572,252
Due from banks and financial institutions	6	**24,886,956**	19,318,847
Reverse repurchase agreements	7	**69,106,092**	46,260,645
Derivative financial instruments	39	**58,873,843**	24,273,766
Loans, advances and Islamic financing	8	**459,593,327**	409,589,936
Non-trading investments	9	**173,909,121**	145,487,491
Investment properties	10	**7,168,089**	6,962,576
Property and equipment	11	**5,795,207**	5,965,261
Intangibles	12	**20,332,179**	20,535,134
Other assets	13	**30,205,655**	18,397,419
Total assets		**1,110,056,095**	1,001,096,103
Liabilities			
Due to banks and financial institutions	14	**61,560,340**	56,985,180
Repurchase agreements	15	**39,004,515**	55,074,494
Commercial paper	16	**31,738,356**	39,664,252
Derivative financial instruments	39	**62,024,540**	28,395,085
Customer accounts and other deposits	17	**700,573,371**	614,669,890
Term borrowings	18	**62,635,133**	71,643,816
Subordinated notes	19	**420,620**	448,908
Other liabilities	20	**37,048,977**	21,567,047
Total liabilities		**995,005,852**	888,448,672
Equity			
Share capital	21	**11,047,612**	10,920,000
Share premium		**53,557,581**	53,557,581
Treasury shares		**(6,505)**	(6,430)
Statutory and special reserves		**13,084,313**	10,920,000
Other reserves	21	**(835,463)**	3,569,185
Tier 1 capital notes	22	**10,754,750**	10,754,750
Share based payment	23	**249,816**	249,816
Retained earnings		**27,185,679**	22,667,101
Total equity attributable to shareholders of the Bank		**115,037,783**	112,632,003
Non-controlling interest		**12,460**	15,428
Total Equity		**115,050,243**	112,647,431
Total liabilities and equity		**1,110,056,095**	1,001,096,103

To the best of our knowledge, the financial statements present fairly in all material respects the financial condition, financial performance, and cash flows of the Group as of, and for, the periods presented therein.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 25 January 2023 and signed on its behalf:

Chairman | Group Chief Executive Officer | Interim Group Chief Financial Officer

The notes 1 to 49 are an integral part of these consolidated financial statements.

The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 6.

Consolidated statement of profit or loss

For the year ended

	Note	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Interest income	24	**28,247,921**	16,240,568
Interest expense	25	**(14,788,139)**	(5,561,216)
Net interest income		**13,459,782**	10,679,352
Income from Islamic financing and investing products	26	**2,024,989**	1,843,179
Distribution on Islamic deposits	27	**(1,098,868)**	(864,399)
Net income from Islamic financing and investing products		**926,121**	978,780
Total net interest income and income from Islamic financing and investing products		**14,385,903**	11,658,132
Fee and commission income	28	**3,975,869**	4,894,369
Fee and commission expense	28	**(1,195,322)**	(1,859,821)
Net fee and commission income		**2,780,547**	3,034,548
Net foreign exchange gain	29	**1,776,676**	692,339
Net gain on investments and derivatives	30	**2,149,179**	6,484,786
Other operating income / (loss)	31	**(252,089)**	(188,550)
Operating income		**20,840,216**	21,681,255
Gain on disposal of stake in subsidiary and fair value gain on retained interest	32	**3,093,703**	-
Total income including gain on disposal of stake in subsidiary and fair value gain on retained interest		**23,933,919**	21,681,255
General, administration and other operating expenses	33	**(6,704,829)**	(5,836,474)
Profit before net impairment charge and taxation		**17,229,090**	15,844,781
Net impairment charge	34	**(2,839,358)**	(2,658,237)
Profit before taxation		**14,389,732**	13,186,544
Income tax expense	35	**(967,621)**	(644,272)
Profit for the year		**13,422,111**	12,542,272
Profit attributable to:			
Shareholders of the Bank		**13,411,198**	12,531,111
Non-controlling interests		**10,913**	11,161
		13,422,111	12,542,272
Basic earnings per share (AED)	41	**1.18**	1.10
Diluted earnings per share (AED)	41	**1.18**	1.10

The notes 1 to 49 are an integral part of these consolidated financial statements.
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Consolidated statement of other comprehensive income

For the year ended

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Profit for the year	**13,422,111**	12,542,272
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss		
Exchange difference on translation of foreign operations	**(1,647,757)**	(503,745)
Net change in fair value reserve during the year (including ECL)	**(3,625,620)**	85,685
Items that will not be reclassified to profit or loss		
Equity investments at fair value through other comprehensive income – net change in the fair value	**(7,500)**	118,863
Re-measurement of defined benefit obligations	**34,737**	17,229
Board of Directors' remuneration	**(48,000)**	(48,000)
Other adjustments	**5,750**	-
Other comprehensive loss for the year	**(5,288,390)**	(329,968)
Total comprehensive income for the year	**8,133,721**	12,212,304
Comprehensive income attributable to:		
Shareholders of the Bank	**8,129,893**	12,547,716
Non-controlling interest	**3,828**	(335,412)
Total comprehensive income for the year	**8,133,721**	12,212,304

The notes 1 to 49 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 6.

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First Abu Dhabi Bank

Consolidated statement of changes in equity

For the year ended

	Share capital AED'000	Share premium AED'000	Treasury shares AED'000	Statutory and special reserves AED'000	Other reserves AED'000	Tier 1 capital notes AED'000	Share based payment AED'000	Retained earnings AED'000	Equity attributable to shareholders of the Group AED'000	Non-controlling interest AED'000	Total AED'000
Balance at 1 January 2022	**10,920,000**	**53,557,581**	**(6,430)**	**10,920,000**	**3,569,185**	**10,754,750**	**249,816**	**22,667,101**	**112,632,003**	**15,428**	**112,647,431**
Profit for the year	-	-	-	-	-	-	-	**13,411,198**	**13,411,198**	**10,913**	**13,422,111**
Other comprehensive loss for the year	-	-	-	-	**(5,264,612)**	-	-	**(16,693)**	**(5,281,305)**	**(7,085)**	**(5,288,390)**
Transactions with owners of the Group											
Dividend for the year (net of treasury shares)	-	-	-	-	-	-	-	**(5,347,648)**	**(5,347,648)**	**(6,796)**	**(5,354,444)**
Scrip dividend for the year (note 21)	**127,612**	-	**(75)**	**2,164,313**	-	-	-	**(2,291,850)**	-	-	-
Payment on Tier 1 capital notes (note 22)	-	-	-	-	-	-	-	**(376,465)**	**(376,465)**	-	**(376,465)**
IFRS 9 reserve movement	-	-	-	-	**872,498**	-	-	**(872,498)**	-	-	-
Realised gain on sale of FVOCI investment	-	-	-	-	**(12,534)**	-	-	**12,534**	-	-	-
Balance at 31 December 2022	**11,047,612**	**53,557,581**	**(6,505)**	**13,084,313**	**(835,463)**	**10,754,750**	**249,816**	**27,185,679**	**115,037,783**	**12,460**	**115,050,243**
Balance at 1 January 2021	10,920,000	53,538,584	(8,980)	10,920,000	2,882,421	10,754,750	249,816	19,235,934	108,492,525	364,325	108,856,850
Profit for the year	-	-	-	-	-	-	-	12,531,111	12,531,111	11,161	12,542,272
Other comprehensive income / (loss) for the year	-	-	-	-	47,376	-	-	(30,771)	16,605	(346,573)	(329,968)
Transactions with owners of the Group											
Zakat	-	-	-	-	-	-	-	1,013	1,013	-	1,013
Treasury shares movement (note 23)	-	18,997	2,550	-	-	-	-	-	21,547	-	21,547
Dividend for the year (net of treasury shares)	-	-	-	-	-	-	-	(8,074,594)	(8,074,594)	(13,485)	(8,088,079)
Payment on Tier 1 capital notes (note 22)	-	-	-	-	-	-	-	(356,204)	(356,204)	-	(356,204)
IFRS 9 reserve movement	-	-	-	-	646,110	-	-	(646,110)	-	-	-
Realised gain on sale of FVOCI investment	-	-	-	-	(6,722)	-	-	6,722	-	-	-
Balance at 31 December 2021	10,920,000	53,557,581	(6,430)	10,920,000	3,569,185	10,754,750	249,816	22,667,101	112,632,003	15,428	112,647,431

The notes 1 to 49 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 6.

Consolidated statement of cash flows
For the year ended

	Note	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Cash flows from operating activities			
Profit before taxation		**14,389,732**	13,186,544
Adjustments for:			
Depreciation and amortization	33	**1,062,293**	934,564
Loss on revaluation of investment properties	10	**327,314**	750,000
Gain on sale of investment property		**-**	(6,130)
Gain on sale of fixed assets		**(4,335)**	(501,268)
Gain on sale of subsidiary	32	**(3,093,703)**	-
Net impairment charges	34	**3,118,645**	2,938,953
Accreted interest		**547,915**	120,683
Foreign currency translation adjustment		**(3,444,371)**	(887,910)
		12,903,490	16,535,436
Changes in:			
Investments at fair value through profit or loss		**13,809,297**	(24,355,369)
Due from central banks, banks and financial institutions		**3,387,152**	14,202,827
Reverse repurchase agreements		**(22,840,045)**	(1,708,406)
Loans, advances and Islamic financing		**(52,568,833)**	(19,026,222)
Other assets		**(9,994,816)**	(2,143,872)
Due to banks and financial institutions		**4,575,160**	(799,643)
Repurchase agreements		**(16,069,979)**	(934,175)
Customer accounts and other deposits		**86,197,999**	52,246,001
Derivative financial instruments		**(6,901,390)**	(3,984,476)
Other liabilities		**14,486,647**	(2,951,411)
		26,984,682	27,080,690
Income tax paid, net of recoveries	20	**(869,415)**	(589,806)
Directors' remuneration paid		**(45,000)**	(48,000)
Net cash from operating activities		**26,070,267**	26,442,884
Cash flows from investing activities			
Net purchase of non-trading investments		**(29,962,853)**	(7,095,553)
Cash and cash equivalents of subsidiary acquired		**-**	5,550,877
Cash paid for acquisition of subsidiary		**-**	(2,203,800)
Net movement in investment property		**(532,827)**	(103,216)
Purchase of property and equipment, net of disposals		**(558,993)**	(741,466)
Net cash used in investing activities		**(31,054,673)**	(4,593,158)
Cash flows from financing activities			
Proceeds from issue of shares under share based payment	23	**-**	21,547
Dividend paid to shareholders of the Bank	21	**(5,327,691)**	(7,687,738)
Dividend paid to minority shareholders		**(6,796)**	(13,845)
Net movement of commercial paper		**(7,925,896)**	8,490,124
Issue of term borrowings	18	**10,625,674**	17,148,833
Repayment of term borrowings	18	**(13,431,531)**	(5,827,560)
Payment on Tier 1 capital notes	22	**(376,465)**	(356,204)
Net cash (used in) / from financing activities		**(16,442,705)**	11,775,157
Net (decrease)/ increase in cash and cash equivalents		**(21,427,111)**	33,624,883
Cash and cash equivalents at 1 January		**272,814,120**	239,189,237
Cash and cash equivalents at 31 December	36	**251,387,009**	272,814,120

The notes 1 to 49 are an integral part of these consolidated financial statements.
The independent auditors' report on audit of consolidated financial statements is set out on pages 2 to 6.

Notes to the consolidated financial statements

1 Legal status and principal activities

First Abu Dhabi Bank PJSC (the "Bank") is a public joint stock company with a limited liability incorporated in the emirates of Abu Dhabi, United Arab Emirates (UAE) under the Commercial Companies Law (Federal Law Number 8 of 1984 as amended). The registered address of the Bank is P. O. Box 6316, FAB Building, Khalifa Business Park, Al Qurum, Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2022 comprises the Bank and its subsidiaries (together referred to as the "Group"). The Group is primarily engaged in corporate, consumer, private and investment banking activities, payment services, management services, Islamic banking activities, real estate activities; and carries out its operations through its local and overseas branches, subsidiaries and representative offices located in the United Arab Emirates, Bahrain, Brazil, Cayman Islands, China, Egypt, France, Hong Kong, India, Indonesia, Iraq, Jordan[1], Kingdom of Saudi Arabia, Kuwait, Lebanon[1], Libya, Malaysia, Oman, Qatar[2], Singapore, South Korea, Switzerland, the United Kingdom and the United States of America.

The Group's Islamic banking activities are conducted in accordance with Islamic Sharia'a laws issued by the Internal Shariah Supervision Committee ("ISSC").

The Group is listed on the Abu Dhabi Securities Exchange (Ticker: FAB).

The consolidated financial statements of the Group as at and for the year ended 31 December 2022 are available upon request from the Group's registered office or from the website at http://www.bankfab.com

[1] Under closure.
[2]The Bank has notified the Qatar Financial Centre Regulatory Authority ("QFCRA") that it will relinquish its Qatar Financial Centre ("QFC") branch license and permanently close its QFC branch.

2 Basis of Preparation

(a) Statement of Compliance

These consolidated financial statements have been prepared on going concern basis, as management is satisfied that the Group has adequate resources to continue as a going concern for the foreseeable future, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB") and comply with the requirements of applicable laws in the UAE. IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC")

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015 (as amended).The Bank is in compliance with applicable provisions of the UAE Federal Decree Law No. 32 of 2021 and the applicable provisions of Law No. (1) of 2017 (as amended) concerning the financial system of the Government of Abu Dhabi and instructions issued by the Department of Finance as at the date of these consolidated financial statements.

These consolidated financial statements were authorised for issue by the Board of Directors on 25 January 2023.

(b) Functional and presentation currency

These consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. Items included in the financial statements of each of the Bank's overseas subsidiaries and branches are measured using the currency of the primary economic environment in which they operate.

2 Basis of Preparation *(continued)*

(c) Basis of measurement

These consolidated financial statements are prepared under the historical cost basis except for the following material items, which are measured on the following basis:

Items	Measurement basis
Investments at fair value through profit or loss	Fair value
Derivative financial instruments	Fair value
Debt and equity instruments designated at fair value through other comprehensive income	Fair value
Investment properties	Fair value
Recognised assets and liabilities designated as hedged items in qualifying hedge relationships	Adjusted for changes in fair value attributable to the risk being hedged
Non-financial assets acquired in settlement of Loans, advances and Islamic financing	Lower of their fair value less costs to sell and the carrying amount of the loans, advances and Islamic financing

(d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experiences and other factors, including expectation of future events that may have a financial impact on the Group and considered to be reasonable under the circumstances. Revisions to accounting estimates are recognised prospectively.

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 these consolidated financial statements are described in note 45.

3 Significant accounting policies

(a) New and amended standards and interpretations adopted

The following amendments to existing standards and framework have been applied by the Group in preparation of these consolidated financial statements. The adoption of the below amended standards did not result in changes to previously reported net profit or equity of the Group.

Description	Effective from
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37).	1 January 2022
First-time Adoption of International Financial Reporting Standards: Subsidiary as a first-time adopter (Annual improvements to IFRS 1)	1 January 2022
Financial Instruments: Fees in the '10 per cent' test for derecognition of financial liabilities (Annual improvements to IFRS 9)	1 January 2022
COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	1 January 2022

3 Significant accounting policies *(continued)*

(b) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Group.

In determining whether a particular set of activities and assets is a business, the Group assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Acquisition-related costs are expensed as incurred and included in general, administration and other operating expenses, except if related to the issue of debt or equity securities.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss. It is then considered in the determination of goodwill.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred or in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(ii) Subsidiaries

IFRS 10 – "Consolidated financial statements" governs the basis for consolidation where it establishes a single control model that applies to all entities including special purpose entities or structured entities. The definition of control is such that an investor controls an investee when it is exposed to, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including:

(a) the investor has power over an investee;
(b) the investor has exposure to, or rights, to variable returns from its involvement with the investee; and
(c) the investor has the ability to use its power over the investee to affect the amount of the investor's returns.

Generally, it is presumed that a majority of voting rights results in control. However, in individual circumstances, the Group may still exercise control with a less than 50% shareholding or may not be able to exercise control even with ownership over 50% of an entity's shares. When assessing whether it has power over an investee and therefore controls the variability of its returns, the Group considers all relevant facts and circumstances, including:

(a) The purpose and design of the investee.
(b) The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders.
(c) potential voting rights held by the Group.
(d) The relevant facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made (including voting patterns at previous shareholders' meetings) and whether the Group can direct those activities.
(e) Contractual arrangements such as call rights, put rights and liquidation rights.
(f) Whether the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the power to affect the variability of such returns.

Subsidiaries are entities that are controlled by the Group. The Group controls the investee if it meets the control criteria set out above. The Group reassesses whether it has control if, there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Bank and to the non-controlling interests (NCI), even if this results in the NCI having a deficit balance.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(ii) Subsidiaries *(continued)*

The consolidated financial statements comprise the financial statements of the Group and those of its principal subsidiaries which are set out below:

Legal Name	Country of incorporation	Principal activities	Holding % 2022
First Abu Dhabi Bank USA N.V.	Curacao	Banking	100%
FAB Securities LLC	United Arab Emirates	Brokerage	100%
Abu Dhabi National Leasing LLC	United Arab Emirates	Leasing	100%
Abu Dhabi National Properties Pvt. JSC	United Arab Emirates	Property Management	100%
FAB Private Bank (Suisse) SA	Switzerland	Banking	100%
First Abu Dhabi Islamic Finance PJSC	United Arab Emirates	Islamic Finance	100%
Abu Dhabi Securities Brokerage Egypt[1]	Egypt	Brokerage	96%
NBAD Employee Share Options Limited	United Arab Emirates	Shares and Securities	100%
National Bank of Abu Dhabi Representações Ltda	Brazil	Representative office	100%
FAB Global Markets (Cayman) Limited	Cayman Islands	Financial Institution	100%
Nawat Management Services - One Man Company LLC	United Arab Emirates	Services	100%
Mismak Properties Co. LLC (Mismak)	United Arab Emirates	Real estate investments	100%
Moora Properties Co. LLC (Subsidiary of Mismak)	United Arab Emirates	Real estate investments	67%
First Merchant International LLC (FMI)	United Arab Emirates	Real estate investments	100%
FAB Employment Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
FAB Resourcing Services LLC (Subsidiary of FMI)	United Arab Emirates	Resourcing services	100%
Horizon Gulf Electromechanical Services L.L.C (Subsidiary of FMI)	United Arab Emirates	Real estate investments	100%
FAB Sukuk Company Limited	Cayman Islands	Special purpose vehicle	100%
First Gulf Libyan Bank[2]	Libya	Banking services	50%
FAB Properties LLC	United Arab Emirates	Management and brokerage of real estate properties	100%
First Gulf Information Technology LLC (FGIT)	United Arab Emirates	IT Services	100%
FAB Investment KSA (single Shareholder LLC)	Kingdom of Saudi Arabia	Financial Institution	100%
FAB Global Business Services Limited (Subsidiary of FGIT)	India	IT Services	100%
First Abu Dhabi Bank Misr S.A.E (FAB Misr)	Egypt	Banking	100%

[1] Under liquidation.
[2] Although the Bank owns 50% of the outstanding shares of First Gulf Libyan Bank, the investment has been classified as a subsidiary as the Bank exercises control over the investee because it casts the majority of the votes on the board of directors.

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(iii) Structured entities

A structured entity is established by the Group to perform a specific task. Structured entities are designed so that their activities are not governed by way of voting rights. In assessing whether the Group acts as a principal or has power over investees in which it has an interest, the Group considers factors such as the purpose and design of the investee, its practical ability to direct the relevant activities of the investee; the nature of its relationship with the investee; and the size of its exposure to the variability of returns of the investee.

The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund including the investors right to remove the fund manager. Whilst assessing control, the Group reviews all facts and circumstances to determine whether as a fund manager the Group is acting as agent or principal. If deemed to be a principal, the Group controls the fund and would consolidate them else as an agent the Group would account for them as investments in funds.

The Group's interest in investment funds in which it acts as an agent is set out below, these funds are included as part of investments.

Type of Structured Entity	Nature and purpose	Interest held by the Group
Investment funds managing assets	Generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund amounting to AED 3,259 thousand (2021: AED 4,642 thousand)

(iv) Joint Arrangements and Investments in Associates

An associate is an investee over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investment in associates is accounted under the equity method of accounting.

A joint arrangement is an arrangement between the Group and other parties where the Group along with one or more parties has joint control by virtue of a contractual agreement. Joint arrangement may be a joint operation or a joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to and record their respective share of the assets, and obligations for the liabilities, relating to the arrangement.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement, have rights to the net assets of the arrangement and, thus, are accounted under the equity method of accounting.

Under the equity method, the investment in an associate is initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment. The consolidated statement of income reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the consolidated statement profit or loss.

3 Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

(iv) Joint Arrangements and Investments in Associates *(continued)*

The list of associates are as follows:

Legal Name	Country of incorporation	Principal activities	Holding % 2022
Magnati Sole Proprietorship LLC	United Arab Emirates	Financial services	40%
Midmak Properties LLC	United Arab Emirates	Real estate Investments	16%
Emirates Digital Wallet LLC	United Arab Emirates	Financial services	23%

(v) Non-controlling interests

Non-controlling interests are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(vi) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, any related non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in consolidated statement of profit or loss.

(vii) Transactions eliminated on consolidation

The carrying amount of the Group's investment in each subsidiary and the equity of each subsidiary are eliminated on consolidation. All significant intra-group balances, transactions and unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(viii) Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Group and accordingly are not included in these consolidated financial statements.

(c) Financial assets and liabilities

(i) Recognition and initial measurement

The Group initially recognises loans, advances and Islamic financing, deposits, debt securities issued and subordinated liabilities on the date on which they are originated.

All other financial instruments (excluding regular way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Group becomes a party to the contractual provisions of the instrument. All regular way purchases and sales of financial assets are recognised on the settlement date, i.e. the date the asset is delivered to or received from the counterparty. Regular way purchases or sales of financial assets are those that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

(ii) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income ("FVOCI") or Fair Value through profit or loss ("FVTPL").

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are Solely Payment of Principal and Interest ("SPPI").

3 Significant accounting policies *(continued)*

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

(ii) Classification *(continued)*

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 SPPI.

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

All other financial assets are classified as measured at FVTPL.

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

Business model assessment

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual 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 Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and its strategy for how those risks are managed;
- how managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how much cash flows are realised.

Financial assets that are either held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Group's consumer and corporate banking business comprises primarily loans to customers that are held for collecting contractual cash flows. In the consumer business the loans comprise mortgages, overdrafts, unsecured personal lending and credit card facilities. Sales of loans from these portfolios are very rare.

Certain debt securities are held by the Group in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. Certain other debt securities are held by the Group in separate portfolios to meet everyday liquidity needs. The Group seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual cash flows as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that these financial assets are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

3 Significant accounting policies *(continued)*

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

(ii) Classification *(continued)*

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

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

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangement); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Group holds a portfolio of long-term fixed-rate loans for which the Group has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The borrowers have an option to either accept the revised rate or redeem the loan at par without penalty. The Group has determined that the contractual cash flows of these loans are SPPI because the option varies the interest rate in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Reclassifications

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

Financial liabilities are never reclassified.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire (note 3 (c)(iv)), 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 Group 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 or 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 Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

3 Significant accounting policies *(continued)*

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

(iii) Derecognition *(continued)*

Financial assets *(continued)*

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group 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.

In certain transactions, the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

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

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in 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.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

3 Significant accounting policies *(continued)*

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

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

Financial liabilities *(continued)*

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, 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 and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

Interest rate benchmark reform

In the context of IBOR reform, the Group's assessment of whether a change to a financial asset or liabilities is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate as described in note 3(s). Under the Phase 2 Interest Rate Benchmark Reform amendments to IFRS 9, changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform are treated as changes to a floating interest rate to that instrument, provided that change is necessary as a direct consequence of the reform and the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis and

Where the instrument is measured at amortized cost, this results in a change in the instrument's effective interest rate, with no change in the amortized cost value of the instrument. If the change to the instrument does not meet these criteria, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognized and a new financial instrument is recognized. If the changes are not substantial, the Group continues to carry the financial instrument at its current carrying value with the difference adjusted in revised effective interest rate on prospective basis. adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised effective interest rate.

(v) Offsetting

Financial assets and financial liabilities are generally reported gross in the consolidated statement of financial position except when IFRS netting criteria are met. Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intend 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, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) 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 market, or in its absence, the most advantageous market to which the Group has access at that date.

The fair value of a liability reflects its non-performance risk. When one is available, the Group 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 on-going basis. If there is no quoted price in an active market, then the Group uses the valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would consider 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. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the consolidated statement of profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

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

(vi) Fair value measurement *(continued)*

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group based on the net exposure to either market or credit risk, are measured based on 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. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement based on the net exposure – are allocated to the individual assets and liabilities based on the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of investments in mutual funds, private equity funds or similar investment vehicles are based on the last net asset value published by the fund manager. For other investments, a reasonable estimate of the fair value is determined by reference to the price of recent market transactions involving similar investments, are based on the expected discounted cash flows.

The fair value of a financial liability with a demand feature (demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

(vii) Impairment

The Group recognises loss allowances for Expected Credit Loss (ECL) on the following financial instruments that are not measured at FVTPL:

- Balances with central banks;
- Due from banks and financial institutions;
- Reverse repurchase agreements;
- Non trading investments at fair value through other comprehensive income;
- Loans, advances and Islamic financing;
- Other financial assets;
- Undrawn commitment to extend credit; and
- Financial guarantees.

No impairment loss is recognised on equity investments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition (note 46(a)).

The Group considers the above financial instruments to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

Credit loss allowances are measured using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – Where there has not been a significant increase in credit risk ("SICR") since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using a probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be impaired, it is included in Stage 2. This requires the computation of expected credit loss based on the probability of default over the remaining estimated life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

3 Significant accounting policies *(continued)*

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

(vii) Impairment *(continued)*

Measurement of ECL

The key inputs into the measurement of ECL are:

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

These parameters are generally derived from statistical models and other historical data. They are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust ECL for factors not available in the model.

Details of these statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, considering expected changes in the exposure after the reporting date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is usually expressed as a percentage of the EAD.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI, and finance lease receivables are credit-impaired (referred to as ‘Stage 3 financial assets’). A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. 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 Loans, advances and Islamic financing by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or another financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

3 Significant accounting policies *(continued)*

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

(vii) Impairment *(continued)*

Purchased or Originally Credit Impaired ("POCI") financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision reported under other liabilities; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Write-off

Financial assets are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'net impairment charge' in the statement of profit or loss. Financial assets that are written off could still be subject to enforcement activities to comply with the Group's procedures for recovery of amounts due.

Central Bank of UAE ("CBUAE") provision requirements

As per the CBUAE notice no. CBUAE/BSD/2018/458 dated 30 April 2018, clause 6.4, 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.

(d) Cash and cash equivalents

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of its acquisition.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the consolidated statement of financial position.

(e) Due from banks and financial institutions

These are non-derivative financial assets that are stated at amortised cost, less any allowance for impairment.

3 Significant accounting policies *(continued)*

(f) Investments at fair value through profit or loss

These are securities that the Group 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 consolidated statement of financial position. All changes in fair values are recognised as part of profit or loss.

(g) Reverse repurchase agreements

Assets purchased with a simultaneous commitment to resell at a fixed price on a specified future date are not recognised. The amount paid to the counterparty under these agreements is shown as reverse repurchase agreements in the consolidated statement of financial position. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(h) Loans, advances and Islamic financing

'Loans, advances and Islamic financing' captions in the consolidated 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;
- lease receivables;
- loans and advances measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised in profit or loss; and
- Islamic financing and investing contracts.

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

When the Group is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

In determining whether an arrangement is a lease, the Group ascertains the substance of the arrangement and assesses whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the assets.

These are derecognised when either the borrower repays its obligations or the loan are sold or written-off.

Islamic financing and investing contracts

The Group engages in Sharia'a compliant Islamic banking activities through various Islamic instruments such as Ijara, Murabaha, Mudaraba and Wakala.

Definitions

Ijara

Ijara consists of Ijara muntahia bitamleek.

Ijara financing is an agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee.

3 Significant accounting policies *(continued)*

(h) Loans, advances and Islamic financing *(continued)*

Islamic financing and investing contracts *(continued)*

Definitions *(continued)*

Murabaha

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

(i) Non-trading investments

The 'non-trading investments' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt securities measured at FVOCI;
- equity investment securities designated as at FVOCI; and
- investment in associate and joint venture

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

The Group elects to present changes in the fair value of certain investments in equity instruments that are not held for trading in OCI. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable. Fair value gains and losses on such 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 investment.

(j) Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value which reflects market conditions at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement under 'Other operating income/(loss)' in the year in which they arise.

3 Significant accounting policies *(continued)*

(j) Investment properties *(continued)*

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated income statement in the year of retirement or disposal.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any, capital projects in progress are initially recorded at cost and regularly tested for impairment and upon completion are transferred to the appropriate category of property and equipment and thereafter depreciated.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within 'Other operating income/(loss)' in the consolidated statement of profit or loss.

(ii) Subsequent costs

Subsequent expenditures are only capitalised when it is probable that the future economic benefits of such expenditures will flow to the Group. On-going expenses are charged to consolidated statement of profit or loss as incurred.

If significant parts of an item of property and equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment.

(iii) Depreciation

Depreciation is calculated to reduce the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in profit or loss. Freehold Land and Capital work in progress is not depreciated.

The estimated useful lives of assets for the current and comparative period are as follows:

Buildings and villas	20 to 50 years
Office furniture and equipment	5 to 10 years
Fit-out leased premises	3-10 years
Safes	10 years
Computer systems and equipment	3 to 7 years
Vehicles	3 years

Depreciation methods, useful lives and residual values are reviewed at every reporting date at each reporting date and adjusted if appropriate.

3 Significant accounting policies *(continued)*

(k) Property and equipment *(continued)*

(iv) Capital work in progress

Capital work in progress assets are assets in the course of construction for production, supply or administrative purposes, are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property capitalised in accordance with Group's accounting policies. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

(v) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than investment properties and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

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

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

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one CGU. Corporate assets are allocated to CGUs on a reasonable and consistent basis and tested for impairment as part of the testing of the CGUs to which the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of any other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, 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 or amortization, if no impairment loss had been recognised.

(l) Intangible assets

Goodwill arises on the acquisition represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired in case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill and license acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill and license impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3 Significant accounting policies *(continued)*

(l) Intangible assets *(continued)*

The Group's intangible assets other than goodwill include intangible assets arising out of business combinations. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other intangible assets, 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 or amortisation, if no impairment loss had been recognised.

The estimated useful lives of the intangible assets for the calculation of amortisation are as follows:

Customer relationships	7.5 – 15 years
Core deposits	2.5 years – 15 years
Brand	20 years

(m) Collateral pending sale

Real estate and other collateral may be acquired as the result of settlement of certain loans, advances and Islamic financing and are recorded as assets held for sale and 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 loans, advances and Islamic financing (net of impairment allowance) at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss. The Group's collateral disposal policy is in line with the respective regulatory requirement of the regions in which the Group operates.

(n) Due to banks and financial institutions, customer accounts and other deposits and commercial paper

Due to banks and financial institutions, customer accounts and other deposits and commercial paper are financial liabilities and are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method.

(o) Repurchase agreements

Assets sold with a simultaneous commitment to repurchase at a fixed price on a specified future date are not derecognised. The liability to the counterparty for amounts received under these agreements is shown as repurchase agreements in the consolidated statement of financial position. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement and charged to the consolidated statement of profit or loss using the effective interest rate method.

(p) Term borrowings and subordinated notes

Term borrowings and subordinated notes include convertible notes that can be converted into share capital at the option of the holder, where the number of shares issued do not vary with changes in their fair value, are accounted for as compound financial instruments. The equity component of the convertible notes is calculated as the excess of issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option.

3 Significant accounting policies *(continued)*

(p) Term borrowings and subordinated notes *(continued)*

Term borrowing which are designated at FVTPL, the amount of change in the fair value of the liability that is attributable to changes in its credit risk is presented in OCI as a liability credit reserve. On initial recognition of the financial liability, the Group assesses whether presenting the amount of change in the fair value of the liability that is attributable to credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. This assessment is made by using a regression analysis to compare:

- the expected changes in the fair value of the liability related to changes in the credit risk; and
- the impact on profit or loss of expected changes in fair value of the related instruments.

Amounts presented in the liability credit reserve are not subsequently transferred to profit or loss. When these instruments are derecognised, the related cumulative amount in the liability credit reserve is transferred to retained earnings.

Term borrowings and subordinated notes without conversion option and that are not at fair value through profit or loss are financial liabilities which are initially recognised at their fair value minus the transaction costs and subsequently measured at their amortised cost using the effective interest rate method and adjusted to the extent of fair value changes for the risks being hedged.

(q) Treasury shares

Own equity instruments which are acquired (treasury shares) are deducted from the equity and accounted for at weighted average cost. No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancelation of the Bank's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in share premium. If treasury shares are distributed as part of a bonus share issue, the cost of the shares is charged against retained earnings. Voting rights relating to treasury shares are nullified for the Group and no dividends are allocated to them respectively.

(r) Share based payment

On the grant date fair value of options granted to staff is estimated and the cost is recognised as staff cost, with a corresponding increase in equity, over the period required for the staff to become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the number of share options for which the related service conditions are expected to be met; as such the amount ultimately recognised as an expense is based on the number of share options that do meet the related service and non-market performance conditions at the vesting date. These shares may contribute to the calculation of dilutive EPS once they are deemed as potential ordinary shares.

(s) 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.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL.

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

3 Significant accounting policies *(continued)*

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

Effective interest rate *(continued)*

IBOR reform Phase 2 allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis.

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.

Calculation of interest income and expense

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

For information on when financial assets are credit-impaired, note 3(c)(vii).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- negative interest on financial liabilities measured at amortised cost.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- negative interest on financial assets measured at amortised cost.
- Interest expense on lease liabilities.

Interest income and expense on financial assets and financial liabilities at FVTPL are presented as in interest income or interest expense from financial instruments at FVTPL.

3 Significant accounting policies *(continued)*

(t) Income from Islamic financing activities

Ijara income is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Murabaha income is recognised on a declining-value basis, until such time a reasonable doubt exists with regard to its collectability.

Mudaraba income is recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to the consolidated statement of profit or loss on their declaration by the Mudarib. Whereas the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

Wakala income is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

(u) Depositors' share of profit

Depositors' share of profit is amount accrued as expense on the funds accepted from banks and customers in the form of wakala and mudaraba deposits and recognised as expenses in the consolidated 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

The Group earns fee and commission income from a diverse range of services provided to its customers. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised as revenue as the services are provided;
- income earned on the execution of a significant act is recognised as revenue when the act is completed; and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

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

Fee and commission expense relates mainly to transaction and service fees which are expensed as the services are received.

Customer loyalty programme

The Group operates loyalty programs, which allow customers to accumulate points when they use the Bank's products and services that can then be redeemed for free or discounted products or services, subject to certain conditions. The loyalty programs give rise to separate performance obligations under the separate schemes. The fair value of issued points is generally estimated based on equivalent standalone prices for the mix of awards expected and is recognized in other liabilities until the points get redeemed or lapsed. Management judgment is involved in determining the redemption rate to be used in the estimate of points to be redeemed as evidenced by the Group's historical experience.

(w) Zakat

Zakat is only paid on behalf of shareholders in jurisdictions where zakat payment is made mandatory by the regulations of the jurisdictions. Such payment is made in accordance with the regulations of the jurisdictions.

(x) Net gain/loss on investments and derivatives

Net gain/(loss) on investments and derivatives comprises realised and unrealised gains and losses on investments at fair value through profit or loss and derivatives, realised gains and losses on non-trading investments and dividend income. Net gain/(loss) on investment at fair value through profit or loss includes changes in the fair value of financial assets and financial liabilities designated at fair value.

3 Significant accounting policies *(continued)*

(x) Net gain/loss on investments and derivatives *(continued)*

Gains and losses arising from changes in fair value of FVOCI assets are recognised in the statement of other comprehensive income and recorded in fair value reserve with the exception of ECL, interest calculated using the effective interest rate method and foreign exchange gains and losses on monetary assets which are recognised directly in the consolidated statement of profit or loss. Where the investment is sold or realised, the cumulative gain or loss previously recognised in equity under fair value reserve is reclassified to the consolidated statement of profit or loss in case of debt instruments.

Non-trading investment includes FVOCI and amortised cost instruments.

The Group also holds investments in assets issued in countries with negative interest rates. The Group discloses interest paid on these assets in the line where its economic substance of transaction is reflected (note 29).

Amortised cost investments, which are not close to their maturity are not ordinarily sold. However when they are sold or realised, the gain or loss is recognised in the consolidated statement of profit or loss.

Dividend income is recognised when the right to receive payment is established.

(y) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of the Group entities at spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the spot exchange rates at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on transaction are generally recognised in profit or loss. However, foreign currency differences arising from the transaction arising from the translation of the following item are recognised in OCI.

- equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- qualifying cash flow hedges to the extent that the hedge is effective.

(ii) Foreign operations

The activities of subsidiaries and branches based outside the UAE are not deemed an integral part of the head office operations. The assets and liabilities of the foreign operations are translated into UAE Dirhams at rates of exchange at the reporting date. The income and expense of foreign operations are translated at average rates, as appropriate. Exchange differences (including those on transactions which hedge such investments) arising from retranslating the opening net assets, are taken directly to foreign currency translation adjustment account in other comprehensive income accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

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

If the settlement of a monetary receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and recognised in OCI and accumulated in the translation reserve in the equity.

3 Significant accounting policies *(continued)*

(z) Income tax expense

Income tax expense comprises of current and deferred tax. It is recognised in profit or loss except to the extent it relates to items recognised directly in equity or OCI.

Current tax is provided for in accordance with fiscal regulations of the respective countries in which the Group operates and is recognised in the consolidated statement of profit or loss. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for the

- temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- temporary differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow for all or part of the deferred tax asset to be utilised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest maybe due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(aa) Derivative financial instruments and hedging

Derivatives are initially recognised, and subsequently measured at fair value with transaction costs taken directly to the consolidated statement of profit or loss. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative or using valuation techniques, mainly discounted cash flow models.

The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument and, if so, the nature of the risk being hedged. All gains and losses from changes in fair value of derivatives held for trading are recognised in the consolidated statement of profit or loss. When derivatives are designated as hedges, the Group classifies them as either: (i) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; (ii) cash flow hedges which hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction; (iii) hedge of net investment which are accounted similarly to a cash flow hedge. Hedge accounting is applied to derivatives designated as hedging instruments in a fair value or cash flow, provided the criteria are met.

3 Significant accounting policies *(continued)*

(aa) Derivative financial instruments and hedging *(continued)*

Embedded derivatives

Derivatives may be embedded in another contractual arrangement (a host contract). The Group accounts for an embedded derivative separately from the host contract when:

- the host contract is not an asset in the scope of IFRS 9;
- the host contract is not itself carried at FVTPL;
- the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract; and
- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.

Separated embedded derivatives are measured at fair value, with all changes in fair value recognised in profit or loss unless they form part of a qualifying cash flow or net investment hedging relationship. Separated embedded derivatives are presented in the consolidated statement of financial position together with the host contract.

Hedge accounting

It is the Group's policy to document, at the inception of a hedge, the relationship between hedging instruments and hedged items, as well as risk management objective and strategy. The policy also requires documentation of the assessment, at inception and on an on-going basis, of the effectiveness of the hedge.

The Group makes an assessment, both at the inception of the hedge relationship as well as on an on-going basis, as to whether the hedging instrument(s) is (are) expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item(s) during the period for which the hedge is designated. The Group makes an assessment for a cash flow hedge of a forecast transaction, as to whether the forecasted transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

The Group normally designates a portion of the cash flows of a financial instrument for cash flow or fair value changes attributable to a benchmark interest rate risk, if the portion is separately identifiable and reliably measurable.

The Group considers that a hedging relationship is directly affected by IBOR reform if it is subject to the following uncertainty arising from the reform:

- an interest rate benchmark subject to the reform is designated as the hedged risk, regardless of whether the rate is contractually specified; and/or
- the timing or amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument is uncertain

IBOR reform Phase 1 requires that for hedging relationships affected by IBOR reform, the Group assumes that for the purpose of assessing expected future hedge effectiveness, the interest rate is not altered as a result of IBOR reform. Also, the Group doesn't discontinue the hedging relationship if the economic relationship between the hedged item and the hedging instrument fails to exist, although any hedge ineffectiveness is recognized in profit or loss, as normal.

When the uncertainty arising from IBOR reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging instrument or when the hedging relationship is discontinued, the Group ceases to apply the respective Phase 1 amendments.

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. Under The reliefs, the Group amends the hedge designations and hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. These amendments in the formal hedge documentation do not constitute the discontinuation of the hedging relationship or the designation of a new hedging relationship.

If the changes are made in addition to those economically equivalent changes required by IBOR reform described above, the Group considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for the changes required by IBOR reform as mentioned above.

3 Significant accounting policies *(continued)*

(aa) Derivative financial instruments and hedging *(continued)*

Fair value hedge

When a derivative is designated as the hedging instrument in a hedge relationship, changes in the fair value of the derivative are recognised immediately in profit or loss. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a clearing counterparty ("CCP") by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered expired or terminated.

Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to profit or loss by adjusting the effective interest rate of the hedged item from the date on which amortization begins. If the hedged item is derecognised, then the adjustment is recognised immediately in profit or loss when the item is derecognised.

Cash flow hedge

When a derivative is designated as the hedging instrument in a hedge relationship, the effective portion of changes in the fair value of the derivatives is recognised in OCI and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the profit or loss. The amount recognised in OCI is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows which affect profit or loss and in the same line in the statement of profit or loss and OCI.

If the hedging derivative expires is sold, terminated or exercised or the hedge, no longer meets the criteria for cash flow hedge accounting the hedge accounting is discounted prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated. If the hedged cash flows are no longer expected to occur, then the Group immediately reclassifies the amount in the hedging reserve from OCI to profit or loss. For terminated hedging relationships, if the hedged cash flows are still expected to occur, then the amount accumulated in the hedging reserve is not reclassified until the hedged cash flows affect profit or loss; if the hedged cash flows are expected to affect profit or loss in multiple reporting periods, then the Group reclassifies the amount in the hedging reserve from OCI to profit or loss on a straight-line basis.

For interest rate benchmarks deemed in scope of IBOR reform, the Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges even though there is uncertainty arising from these reforms with respect to the timing and amount of the cash flows of the hedged items. If the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than IBOR reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

Net investments hedges

When a derivative instrument or a non-derivative financial liability is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of the changes in the fair value of the hedging instrument is recognised in other comprehensive income in the translation reserve. The effective portion of the change in fair value of the hedging instrument is computed with reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured. Any ineffective portion of the changes in the fair value of the derivative or foreign exchange gains and losses on the non-derivative is recognised immediately in the consolidated statement of profit or loss. The amount recognised under other comprehensive income is fully or partially reclassified to statement of profit or loss on disposal of the foreign operation or partial disposal of the foreign operation, respectively.

Other derivatives

Other non-trading derivatives are recognised on balance sheet at fair value. If a derivative is not held for trading, and is not designated in a qualifying hedging relationship, then all changes in its fair value are recognised immediately in profit or loss as a component of net gain on investments and derivatives or net foreign exchange gain.

3 Significant accounting policies *(continued)*

(ab) Provisions

A provision is recognised if, as a result of a past event, the Group 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. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows, at a pre-tax rate, that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(ac) Employees' end of service benefit

The Group provides end of service benefits for its employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. With respect to its UAE national employees, the Group makes contributions to the relevant government pension scheme calculated as a percentage of the employees' salaries. The Group's obligations are limited to these contributions, which are expensed when due.

Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity or to a government organisation and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated statement of profit or loss in the periods during which services are rendered by employees.

Pension and national insurance contributions for eligible employees are made by the Group to Pensions and Benefits Fund in accordance with the applicable laws of country where such contributions are made.

Defined benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the consolidated statement of financial position in respect of defined benefit gratuity plans is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. 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 pension obligation.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit plans are recognised in Staff cost in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(ad) Directors' remuneration

Pursuant to Article 171 of Federal Decree-Law no. (32) of 2021 and in accordance with the Bank's Articles of Association, Directors' shall be entitled for remuneration which shall not exceed 10% of the net profits after deducting depreciation and reserves.

(ae) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise of convertible notes and share options granted to staff.

3 Significant accounting policies *(continued)*

(af) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Executive, being the chief operating decision maker, to make decisions about resources to be allocated to the segment and to assess its performance for which discrete financial information is available. Segment results that are reported to the Group Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(ag) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

(i) Group acting as a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative standalone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3 Significant accounting policies *(continued)*

(ag) Leases *(continued)*

(i) Group acting as a lessee *(continued)*

Where the basis for determining future lease payments changes as required by interest rate benchmark reform the Group remeasures the lease liability by discounting the revised lease payments using the revised discount rate that reflects the change to an alternative benchmark interest rate.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component based on their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for a major part of the economic life of the asset.

At the commencement date of a finance lease, as a lessor, the Group recognises assets held under a finance lease in its consolidated statement of financial position and presents them as a receivable at an amount equal to the net investment in the lease.

At the commencement of an operating lease, as a lessor, the Group recognises lease payments from operating leases as income on either a straight-line basis or another systematic basis. The Group applies another systematic basis if that basis is more representative of the pattern in which the benefit from the use of the underlying asset is diminished.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(ah) Settlement date accounting

Purchases and sales of financial assets are recognised on the settlement date, i.e. the date that the Group settles the purchase or sale of an asset.

(ai) Taxes

Current income tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Group operates and generates taxable income. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Notes to the consolidated financial statements *(continued)*

3 Significant accounting policies *(continued)*

(aj) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Certain financial guarantee contracts in the nature of credit default guarantees are not held for proprietary trading purposes and are treated as insurance contracts and accounted for under IFRS 4.

For other financial guarantee contracts, these are initially recognised at their fair value (which is the premium received on issuance). The received premium is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

Financial guarantees are reviewed periodically to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on loans, advances and Islamic financing. If a specific provision is required for financial guarantees, the related unearned commissions recognised under other liabilities in the consolidated balance sheet are reclassified to the appropriate provision.

(ak) Standards issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted them in preparing these consolidated financial statements.

The following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2).
- Definition of Accounting Estimates (Amendments to IAS 8).
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12).
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).

4 Cash and balances with central banks

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Cash on hand	**1,816,546**	1,903,157
Central Bank of the UAE		
cash reserve deposits	**8,413,183**	19,278,099
other balances	**20,000,000**	21,000,000
Balances with other central banks	**198,319,480**	216,753,723
	228,549,209	258,934,979
Less: expected credit losses	**(180,380)**	(202,203)
	228,368,829	258,732,776

As per the CBUAE regulations, the Bank is allowed to draw their balances held in the UAE reserve account, while ensuring that they meet the reserve requirements over 14 days period. Balances with other central banks includes mandatory reserves which are available for day-to-day operations only under certain specified conditions.

5 Investments at fair value through profit or loss

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Investments in managed funds	**8,734**	12,480
Investment in private equities	**2,240,442**	2,165,377
Investments in equities	**1,613,279**	6,744,044
Debt securities	**27,954,342**	36,650,351
	31,816,797	45,572,252

6 Due from banks and financial institutions

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Current, call and notice deposits	**3,596,825**	9,082,272
Margin deposits	**12,858,042**	5,595,337
Fixed deposits	**8,499,946**	4,705,697
	24,954,813	19,383,306
Less: expected credit losses	**(67,857)**	(64,459)
	24,886,956	19,318,847

7 Reverse repurchase agreements

The Group enters into reverse repurchase agreements in the normal course of business in which the third-party transfers financial assets to the Group for short term financing.

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Reverse repurchase with banks and others	**66,001,324**	42,609,120
Reverse repurchase with central banks	**3,126,726**	3,678,885
	69,128,050	46,288,005
Less: expected credit losses	**(21,958)**	(27,360)
	69,106,092	46,260,645

At 31 December 2022, the fair value of financial assets accepted as collateral that the Group is permitted to sell re-pledge in the absence of default was AED 73,791 million (31 December 2021: AED 47,413 million).

At 31 December 2022, the fair value of financial assets accepted as collateral that have been sold or re-pledged was AED 11,320 million (31 December 2021: AED 24,907 million). The Group is obliged to return equivalent securities.

These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

8 Loans, advances and Islamic financing

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Gross loans, advances and Islamic financing	**479,724,466**	428,840,162
Less: interest suspended	**(6,251,152)**	(5,400,613)
Less: expected credit loss	**(13,879,987)**	(13,849,613)
Net loans, advances and Islamic financing	**459,593,327**	409,589,936

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
By counterparty:		
Government sector	**55,910,901**	41,254,574
Public sector	**90,035,562**	96,109,500
Banking sector	**7,920,375**	11,700,842
Corporate / private sector	**249,032,048**	201,771,579
Personal / retail sector	**76,825,580**	78,003,667
Gross loans, advances and Islamic financing	**479,724,466**	428,840,162

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
By product:		
Overdrafts	**21,322,013**	27,806,101
Term loans	**390,621,312**	332,883,970
Trade related loans	**31,456,653**	29,252,435
Personal loans	**28,750,920**	31,127,570
Credit cards	**4,960,609**	5,458,971
Vehicle financing loans	**2,612,959**	2,311,115
Gross loans, advances and Islamic financing	**479,724,466**	428,840,162

The Group provides lending against investment in equity securities and funds. The Group is authorised to liquidate these instruments if their coverage falls below the certain agreed threshold. The carrying value of such lending is AED 55,460 million (31 December 2021: AED 20,802 million) and the fair value of instruments held as collateral against such loans is AED 178,348 million (31 December 2021: AED 43,460 million). During the year, the Group has liquidated insignificant amount of collateral due to fall in the coverage ratio.

8 Loans, advances & Islamic financing *(continued)*

Islamic financing

Included in the above loans, advances and Islamic financing are the following Islamic financing receivables:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Ijara	**12,276,718**	11,553,264
Murabaha	**25,637,275**	24,864,303
Others	**676,607**	485,158
Total Islamic financing contracts	**38,590,600**	36,902,725
Less: expected credit loss	**(1,135,335)**	(1,053,769)
Less: suspended profit	**(175,050)**	(154,038)
	37,280,215	35,694,918

9 Non-trading investments

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Fair value through other comprehensive income:		
- with recycle to profit or loss (Debt Investments)	**166,591,291**	139,980,556
- without recycle to profit or loss (Equity Investments)	**1,070,888**	927,584
Amortised cost	**4,688,298**	4,504,205
Investment in associates and joint venture[1]	**1,559,303**	75,745
	173,909,780	145,488,090
Less: expected credit losses	**(659)**	(599)
	173,909,121	145,487,491

[1]Includes 40 % of retained interest in Magnati Sole Proprietorship LLC.

An analysis of non-trading investments by type at the reporting date is shown below:

	31 Dec 2022 AED'000			31 Dec 2021 AED'000		
	Quoted	**Unquoted**	**Total**	Quoted	Unquoted	Total
Equity investments	**866,742**	**1,763,449**	**2,630,191**	722,426	280,903	1,003,329
Debt investments	**167,117,450**	**4,162,139**	**171,279,589**	143,500,790	983,971	144,484,761
	167,984,192	**5,925,588**	**173,909,780**	144,223,216	1,264,874	145,488,090
Less: expected credit losses	**(659)**	**-**	**(659)**	(597)	(2)	(599)
	167,983,533	**5,925,588**	**173,909,121**	144,222,619	1,264,872	145,487,491

Debt instruments under repurchase agreements included in non-trading investments at 31 December 2022 amounted to AED 26,896 million (31 December 2021: AED 30,956 million).

10 Investment properties

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
As at the beginning of year	**6,962,576**	7,603,230
Additions	**532,827**	134,081
Disposals	**-**	(24,735)
Fair value adjustment	**(327,314)**	(750,000)
As at the year end	**7,168,089**	6,962,576

Amounts recognised in the consolidated statement of income in respect of net rental income of investment properties are as follows:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Rental income derived from investment properties	**156,785**	131,888
Operating expenses	**(58,515)**	(79,195)
Net rental income from investment properties	**98,270**	52,693

Investment properties are stated at fair value which represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under prevailing market conditions at the measurement date.

The Group's investment properties consist of land, buildings and properties under development in Abu Dhabi and Dubai. Management determined that these investment properties consist of two classes of commercial and retail assets, based on the nature, characteristics and risks of each property.

As at 31 December 2022 and 2021, fair value of the properties is based on the valuations performed by third party valuers and all are level 3 under fair value hierarchy. The valuers are accredited with recognised and relevant professional qualifications and with recent experience in the location and category of investment properties being valued. The fair values have been determined based on varying valuation models depending on the intended use of the investment properties; in accordance with the Royal Institution of Chartered Surveyors ("RICS") Valuation Standards.

10 Investment properties *(continued)*

Description of valuation techniques used and key inputs to valuation on investment properties as at 31 December 2022 and 2021:

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs
Buildings	Comparable and residual method Sales comparison method	Comparable transactions Current market price of similar assets	NA
Properties under development	Discounted cash flow method	Discount rate Cash inflows Cash outflows	Void periods were shorter (longer); the occupancy rate were higher (lower); Rent-free periods were shorter (longer); or The risk-adjusted discount rate were lower (higher). The estimated fair value would increase (decrease) if: Expected market rental growth were higher (lower);
Land	Comparable and residual method	Cost of construction Developer's profit Financing cost	NA

Notes to the consolidated financial statements *(continued)*

11 Property and equipment

	Land, buildings and alterations AED'000	Computer systems and equipment AED'000	Furniture, equipment, safes and vehicles AED'000	Capital work -in-progress AED'000	Total AED'000
Cost					
As at 1 January 2021	2,304,310	3,267,902	577,233	1,319,974	7,469,419
Acquisitions through business combinations	351,637	51,999	84,199	230,865	718,700
Additions	120,474	719,579	96,321	1,320,221	2,256,595
Disposals, transfers and write offs[1]	(307,681)	(157,948)	(132,790)	(661,254)	(1,259,673)
At 31 December 2021	2,468,740	3,881,532	624,963	2,209,806	9,185,041
As at 1 January 2022	**2,468,740**	**3,881,532**	**624,963**	**2,209,806**	**9,185,041**
Additions	**104,871**	**107,870**	**13,533**	**1,238,207**	**1,464,481**
Allocations from CWIP	**18,924**	**1,113,459**	**7,710**	**(1,140,093)**	**-**
Disposals, transfers and write offs[1]	**(231,572)**	**(372,492)**	**(83,914)**	**(416,222)**	**(1,104,200)**
At 31 December 2022	**2,360,963**	**4,730,369**	**562,292**	**1,891,698**	**9,545,322**
Accumulated depreciation and impairment losses					
As at 1 January 2021	691,549	1,518,417	392,327	-	2,602,293
Acquisitions through business combinations	35,733	33,490	58,549	-	127,772
Charge for the year	169,254	515,273	51,178	-	735,705
Disposals, transfers and write offs[1]	(114,595)	(72,238)	(59,157)	-	(245,990)
At 31 December 2021	781,941	1,994,942	442,897	-	3,219,780
As at 1 January 2022	**781,941**	**1,994,942**	**442,897**	**-**	**3,219,780**
Charge for the year	**167,568**	**651,160**	**40,610**	**-**	**859,338**
Disposals, transfers and write offs[1]	**(143,984)**	**(160,205)**	**(24,814)**	**-**	**(329,003)**
At 31 December 2022	**805,525**	**2,485,897**	**458,693**	**-**	**3,750,115**
Carrying amounts					
At 31 December 2021	1,686,799	1,886,590	182,066	2,209,806	5,965,261
At 31 December 2022	**1,555,438**	**2,244,472**	**103,599**	**1,891,698**	**5,795,207**

[1] adjusted for foreign exchange translation impact.

Notes to the consolidated financial statements *(continued)*

12 Intangibles

	Goodwill AED'000	Customer relationship AED'000	Core deposit AED'000	License AED'000	Brand AED'000	Total AED'000
Cost						
At 1 January 2021	17,370,249	1,774,716	593,335	368,700	22,000	20,129,000
Acquisitions through business combinations	1,322,789	3,339	111,001	-		1,437,129
At 31 December 2021	18,693,038	1,778,055	704,336	368,700	22,000	21,566,129
At 1 January 2022	**18,693,038**	**1,778,055**	**704,336**	**368,700**	**22,000**	**21,566,129**
Additions	-	-	-	-	-	-
At 31 December 2022	**18,693,038**	**1,778,055**	**704,336**	**368,700**	**22,000**	**21,566,129**
Accumulated amortisation and impairment losses						
At 1 January 2021	-	634,086	188,960	-	9,090	832,136
Charge for the year	-	148,806	49,047	-	1,006	198,859
At 31 December 2021	-	782,892	238,007	-	10,096	1,030,995
At 1 January 2022	**-**	**782,892**	**238,007**	**-**	**10,096**	**1,030,995**
Charge for the year	**-**	**138,981**	**62,968**	**-**	**1,006**	**202,955**
At 31 December 2022	**-**	**921,873**	**300,975**	**-**	**11,102**	**1,233,950**
Carrying amounts						
At 31 December 2021	18,693,038	995,163	466,329	368,700	11,904	20,535,134
At 31 December 2022	**18,693,038**	**856,182**	**403,361**	**368,700**	**10,898**	**20,332,179**

Testing goodwill for impairment involves a significant amount of judgment. This includes the identification of independent CGU's and the allocation of goodwill to these units based on which units are expected to benefit from the acquisition.

For the purposes of impairment testing, goodwill is allocated to the Group's independent CGU's which are Corporate & Investment Banking, Consumer Banking and FAB Egypt operation (FAB Misr). The recoverable amount for the CGUs have been calculated based on their value in use, determined by discounting the future cash flows expected to be generated from the continuing use of the CGUs, assets and their ultimate disposal a discount rate of 9% and a terminal growth rate ranging from 5 to 7% based on the CGU earning growth were used to estimate the recoverable amount.

No impairment losses were recognized during the year ended 31 December 2022 (31 December 2021: nil) because the recoverable amounts of the CGU's were determined to be higher than their carrying amounts.

The key assumptions described above may change as economic and market conditions change. The Group estimates that reasonably possible changes in these assumptions would not cause the recoverable amount of above CGUs to decline below the carrying amount.

13 Other assets

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Interest receivable	**18,333,696**	7,166,389
Acceptances	**6,378,274**	7,133,061
Sundry debtors and other receivables	**5,766,200**	4,193,429
Deferred tax asset	**134,767**	99,056
	30,612,937	18,591,935
Less: expected credit losses	**(407,282)**	(194,516)
	30,205,655	18,397,419

The Group does not perceive any significant credit risk on interest receivable and acceptances.

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. After acceptance, the instrument becomes an unconditional liability of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position. However, every acceptance has a corresponding contractual right of reimbursement from the customer which is recognised as a financial asset.

14 Due to banks and financial institutions

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Banks and financial institutions		
Current, call and notice deposits	**928,251**	1,097,344
Margin	**10,832,470**	4,401,542
Fixed deposits	**33,414,136**	16,136,321
	45,174,857	21,635,207
Central banks		
Current and call deposits	**540,087**	402,001
Margin deposits	**498,391**	2,413
Fixed and certificate of deposits	**15,347,005**	34,945,559
	16,385,483	35,349,973
	61,560,340	56,985,180

Due to banks and financial institutions are denominated in various currencies and carry a rate of interest in the range of -1% to 5.23 % (31 December 2021: -1% to 1.75%).

15 Repurchase agreements

The Group enters into repurchase agreements in the normal course of business by which it transfers recognised financial assets directly to third parties.

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Repurchase agreements with banks / financial institutions	**39,004,515**	55,072,110
Repurchase agreements with central banks	**-**	2,384
	39,004,515	55,074,494

15 Repurchase agreements *(continued)*

The carrying value that is also the fair value of financial assets collateralised at the reporting date amounted to AED 26,896 million (31 December 2021: AED 31,004 million) and their associated financial liabilities amounted to AED 39,005 million (31 December 2021: AED 55,074 million). The net difference between the fair value of the financial assets collateralised and the carrying value of the repurchase agreement is a shortage AED 12,109 million (31 December 2021: shortage AED 24,070 million). The shortage is covered by re-pledging financial assets received as collateral against reverse repurchase agreements or through security borrowing arrangement from custodian.

16 Commercial Paper

The Bank has a Euro Commercial Paper programme with a limit of USD 3.5 billion and a US Dollar Commercial Paper programme with a limit of USD 10 billion.

The notes outstanding as at the end of the reporting date amounted to AED 31,738 million (31 December 2021: AED 39,664 million) and have maturity period of less than 12 months.

The Group did not have any defaults of principal, interests or other breaches with respect to its Commercial paper programmes during the years ended 31 December 2022 and 31 December 2021.

17 Customer accounts and other deposits

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
By account:		
Current accounts	**281,958,476**	273,830,659
Savings accounts	**15,110,748**	14,026,161
Margin accounts	**2,418,348**	2,926,361
Notice and time deposits	**363,848,794**	275,304,837
	663,336,366	566,088,018
Certificates of deposit	**37,237,005**	48,581,872
	700,573,371	614,669,890

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
By counterparty:		
Government sector	**224,394,105**	171,768,336
Public sector	**86,309,756**	93,421,723
Corporate / private sector	**253,762,539**	198,830,708
Personal / retail sector	**98,869,966**	102,067,251
	663,336,366	566,088,018
Certificates of deposit	**37,237,005**	48,581,872
	700,573,371	614,669,890

17 Customer accounts and other deposits *(continued)*

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
By location:		
UAE	**506,874,227**	419,243,333
Europe	**50,737,901**	49,749,480
Arab countries	**49,187,336**	48,190,482
Americas	**38,908,437**	29,302,184
Asia	**15,010,897**	19,355,325
Others	**2,617,568**	247,214
	663,336,366	566,088,018
Certificates of deposit	**37,237,005**	48,581,872
	700,573,371	614,669,890

Concentration by location is based on the residential status of the depositors.

Islamic customer deposits

Included in the above Customer accounts and other deposits are the following Islamic deposits:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Current account deposits	**2,092,064**	2,433,099
Margin deposits	**72,445**	69,629
Mudaraba saving deposits	**3,904,046**	2,730,993
Mudaraba term deposits	**98,944**	160,907
Wakala deposits	**6,172,361**	2,337,779
	12,339,860	7,732,407

18 Term borrowings

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
At amortised cost	**62,084,301**	71,023,959
At fair value through profit or loss	**550,832**	619,857
	62,635,133	71,643,816

During the year, the Group has issued various fixed and floating rate notes. The values of the notes issued during the year are stated below:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
As at the beginning of year	**71,643,816**	62,437,103
New issuances	**10,625,674**	17,148,833
Redemptions	**(13,431,531)**	(5,827,560)
Fair valuation, exchange and other adjustments	**(6,202,826)**	(2,114,560)
As at the end of year	**62,635,133**	71,643,816

Notes to the consolidated financial statements *(continued)*

18 Term Borrowings *(continued)*

		31 Dec 2022						31 Dec 2021					
Currency	Interest	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	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	Total AED'000
AED	Fixed rate of 4.00% to 4.20% p.a.	-	-	3,647	93,132	-	96,779	-	-	3,798	97,646	-	101,444
AUD	Fixed rate of 1.87% to 3.17% p.a.	-	-	950,672	377,789	74,837	1,403,298	-	-	-	168,699	-	168,699
AUD	3 month AUD BBSW + upto 3.25% p.a.	-	-	-	145,321	-	145,321	66,561	-	-	1,415,981	79,806	1,562,348
CHF	Fixed rate of 0.07% to 1.062% p.a.	-	783,273	1,897,599	2,957,012	-	5,637,884	-	806,370	2,209,207	1,400,629	1,604,442	6,020,648
CNH	Fixed rate of 3% to 4.1% p.a.	-	185,450	4,938,747	991,592	-	6,115,789	40,493	-	1,736,149	4,397,100	-	6,173,742
EUR	Fixed rate of 0.125% to 3.00% p.a.	-	-	462,422	4,392,666	140,537	4,995,625	-	-	102,075	3,469,870	228,214	3,800,159
GBP	Fixed rate of 0.138% to 2.205% p.a.	1,989,293	-	1,667,869	961,069	74,409	4,692,640	-	-	2,221,519	3,213,053	99,746	5,534,318
GBP	GBP SONIA CMP-5BD + 0.197 % p.a.	-	-	-	-	-	-	99,854	-	-	-	-	99,854
HKD	Fixed rate of 0.475% to 4.18% p.a.	74,577	464,253	903,980	408,258	-	1,851,068	223,593	300,386	697,116	940,310	194,157	2,355,562
JPY	Fixed rate of 0.235% to 2.60% p.a.	-	-	55,716	277,261	-	332,977	-	-	63,798	323,565	-	387,363
MXN	Fixed rate of 0.50% p.a.	-	-	-	-	8,727	8,727	-	-	-	-	7,434	7,434
PHP	Fixed rate of 3.80% p.a.	-	-	139,941	-	-	139,941	-	-	159,026	-	-	159,026
USD	Fixed rate of till 10.25% p.a.	183,650	1,803,350	4,830,334	1,247,648	183,650	8,248,632	6,993,272	498,150	11,964,749	6,507,704	6,280,335	32,244,210
USD	3 Month LIBOR + till 4.765% p.a.	4,922,051	566,937	8,925,560	6,508,779	4,935,790	25,859,117	495,855	4,109,023	5,860,341	1,983,468	183,650	12,632,337
USD	USD SOFR QRT OB SHIFT -5BD + 0.049 % to 4.495%	-	-	183,638	2,923,697	-	3,107,335	-	-	183,638	213,034	-	396,672
		7,169,571	3,803,263	24,960,125	21,284,224	5,417,950	62,635,133	7,919,628	5,713,929	25,201,416	24,131,059	8,677,784	71,643,816

18 Term borrowings *(continued)*

During the year, the Group has issued various fixed and floating rate notes. The Group hedges its currency and interest rate exposure on these notes. The nominal values of the notes issued during the year are stated below:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Fixed rate		
AUD	**-**	173,018
CHF	**763,485**	1,849,358
CNH	**475,075**	1,186,708
EUR	**1,773,193**	3,104,703
USD	**4,407,106**	4,747,037
GBP	**-**	3,194,350
HKD	**136,402**	550,525
JPY	**-**	63,798
PHP	**-**	159,884
Floating rate		
AUD	**-**	404,597
USD	**2,710,663**	1,718,964
	10,265,924	17,152,942

The Group has hedged the interest rate and foreign currency exposure on term borrowings. The nominal value hedged are AED 57 billion (31 December 2021: AED 57 billion) and the risks being hedged have a net positive fair value of AED 6,168 million (31 December 2021: net negative fair value of AED 896 million). The Group has not had any defaults of principal, interests, or other breaches with respect to its term borrowings during 2022 and 2021.

19 Subordinated notes

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
10 December 2012 issue (4.75 percent fixed rate maturing on 9 December 2027)	**420,620**	448,908

The Group has hedged the interest rate and foreign currency exposure on the subordinated notes. The Group did not have any defaults of principal, interests, or other breaches with respect to its subordinated notes during the years ended 31 December 2022 and 31 December 2021.

20 Other liabilities

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Interest payable	**15,955,534**	5,013,652
Acceptances- net of discounting (note 13)	**4,867,808**	3,298,916
Provision employees' end of service benefits	**380,489**	429,976
Accounts payable, sundry creditors and other liabilities	**15,267,422**	12,437,263
Income tax	**577,724**	387,240
	37,048,977	21,567,047

Employees end of service benefits

Defined benefit obligations

The Group provides for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2022 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The following key assumptions (weighted average rates) were used to value the liabilities:

	31 Dec 2022	31 Dec 2021
Discount rate	**2.46% per annum**	2.30 % per annum
Salary increase rate	**2.47% per annum**	2.37 % per annum

Demographic assumptions for mortality, withdrawal and retirement were used in valuing the liabilities and benefits under the plan. Because of the nature of the benefit, which is a lump sum payable on exit due to any cause, a combined single decrement rate has been used.

A shift in the in the discount rate assumption by +/- 50 basis points would impact the liability by AED 11,633 thousand (31 December 21: AED 9,771 thousand) and AED 3,273 thousand (31 December 21: AED 10,295 thousand) respectively. Similarly, a shift in the salary increment assumption by +/- 50 basis points would impact the liability by AED 2,842 thousand (31 December 21: AED 10,278 thousand) and AED 11,254 thousand (31 December 21: AED 9,850 thousand) respectively.

The movement in the employees' end of service obligation was as follows:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Balance at the beginning of year	**429,976**	464,604
Net charge during the year	**58,432**	58,425
Remeasurement losses in OCI	**(34,737)**	(17,229)
Paid during the year and other adjustments	**(73,182)**	(75,824)
Balance at the end of year	**380,489**	429,976

Defined contribution plan

The Group pays contributions for its eligible employees which are treated as defined contribution plans. The charge for the year in respect of these contributions is AED 116,285 thousand (31 December 2021: AED 108,715 thousand). As at the reporting date, pension payable of AED 11,355 thousand (31 December 2021: AED 10,515 thousand) has been classified under other liabilities.

20 Other liabilities *(continued)*

Income tax

The Group has provided for income tax in accordance with management's estimate of the total amount payable based on tax rates enacted or substantially enacted as at the reporting date. Where appropriate the Group has made payments of tax on account in respect of these estimated liabilities.

The income tax charge for the year is calculated based upon the adjusted net profit for the year. The movement in the provision was as follows:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Balance at the beginning of year	**387,240**	297,005
Charge for the year	**967,621**	644,272
Income tax paid, net of recoveries	**(869,415)**	(589,806)
Deferred tax movements	**92,278**	35,769
Balance at the end of year	**577,724**	387,240

On 9 December 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

A rate of 9% will apply to taxable income exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance), a rate of 0% will apply to taxable income not exceeding this threshold. In addition, there are several other decisions that are yet to be finalized by way of a Cabinet Decision that are significant in order for entities to determine their tax status and taxable income. Therefore, pending such important decisions, the Group has considered that the Law, as it currently stands, is not substantively enacted as at 31 December 2022 from the perspective of IAS 12 – Income Taxes. The Group shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine their tax status and the application of IAS 12 – Income Taxes.

The Group is currently in the process of assessing the possible impact on the consolidated financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

Notes to the consolidated financial statements *(continued)*

21 Capital and reserves

Share Capital

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Authorised share capital	**11,047,612**	10,920,000
Ordinary shares of AED 1 each	**11,047,612**	10,920,000
Treasury shares of AED 1 each	**6,505**	6,430

At the Annual General Meeting (AGM) held on 28 February 2022, the shareholders of the Bank approved a cash dividend of AED 0.49 per ordinary share amounting to AED 5,351 million and a scrip dividend of AED 0.21 per ordinary share amounting to AED 2,293 million (31 December 2021: cash dividend of AED 0.74 per ordinary share amounting to AED 8,080 million).

Statutory and special reserves

In accordance with the Bank's Articles of Association and the requirements of the Union Law No. (10) of 1980, a minimum of 10% of the annual net profit should be transferred to both statutory and special reserve until each of these reserves equal to 50% of the paid-up share capital. The statutory and special reserve are not available for distribution to the shareholders. No transfers were made during the year because statutory and special reserve are equal to 50% of the paid-up share capital.

Dividends

The following dividends were paid by the Group during the year ended 31 December:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Dividend on ordinary shares paid during the year	**5,327,691**	7,687,738

Other reserves

Other reserves include the following:

	Fair value reserve AED'000	General reserve AED'000	Foreign currency translation reserve AED'000	IFRS 9 reserve - specific AED'000	IFRS 9 reserve – collective AED'000	Total AED'000
As at 1 January 2022	**1,366,215**	**228,265**	**(535,023)**	**1,221,969**	**1,287,759**	**3,569,185**
Other comprehensive income / (loss) for the year	**(3,623,940)**	-	**(1,640,672)**	-	-	**(5,264,612)**
IFRS 9 reserve movement	-	-	-	-	**872,498**	**872,498**
Realised gain/ (loss) on sale of FVOCI investment	**(12,534)**	-	-	-	-	**(12,534)**
As at 31 December 2022	**(2,270,259)**	**228,265**	**(2,175,695)**	**1,221,969**	**2,160,257**	**(835,463)**

Notes to the consolidated financial statements *(continued)*

21 Capital and reserves *(continued)*

Other reserves *(continued)*

	Fair value reserve AED'000	General reserve AED'000	Foreign currency translation reserve AED'000	IFRS 9 reserve – specific AED'000	IFRS 9 reserve – collective AED'000	Total AED'000
As at 1 January 2021	1,168,389	228,265	(377,851)	1,220,996	642,622	2,882,421
Other comprehensive income / (loss) for the year	204,548	-	(157,172)	-	-	47,376
IFRS 9 reserve movement	-	-	-	973	645,137	646,110
Realised loss on sale of FVOCI Investment	(6,722)	-	-	-	-	(6,722)
As at 31 December 2021	1,366,215	228,265	(535,023)	1,221,969	1,287,759	3,569,185

(i) Fair value reserve

The fair value reserve comprises:

- the cumulative net change in the fair value of equity securities measured at FVOCI;
- the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified. This amount is increased by the amount of loss allowance; and
- cash flow hedge reserves.

	Revaluation reserve – instruments at FVOCI AED'000	**Hedging reserve – cash flow hedge** AED'000	**Total** AED'000
As at 1 January 2022	**1,474,560**	**(108,345)**	**1,366,215**
Net unrealised fair value changes	**(2,927,853)**	**(650,341)**	**(3,578,194)**
Realised gain/ (loss) on sale of FVOCI instruments recycled through Profit or Loss	**(43,280)**	-	**(43,280)**
Realised gain/ (loss) on sale of FVOCI instruments recycled through equity	**(12,534)**	-	**(12,534)**
Impact of ECL	**(2,466)**	-	**(2,466)**
As at 31 December 2022	**(1,511,573)**	**(758,686)**	**(2,270,259)**
As at 1 January 2021	1,168,324	65	1,168,389
Net unrealised fair value changes	1,152,419	(108,410)	1,044,009
Realised gain/ (loss) on sale of FVOCI instruments recycled through Profit or Loss	(815,332)	-	(815,332)
Realised gain/ (loss) on sale of FVOCI instruments recycled through equity	(6,722)	-	(6,722)
Impact of ECL	(24,129)	-	(24,129)
As at 31 December 2021	1,474,560	(108,345)	1,366,215

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions. During the year, there has been no significant transfer from cash flow hedge reserve to profit or loss.

Notes to the consolidated financial statements *(continued)*

21 Capital and reserves *(continued)*

Other reserves *(continued)*

(ii) General reserve

The general reserve is available for distribution to the shareholders at the recommendation of the Board of Directors.

(iii) Foreign currency translation reserve

Foreign currency translation reserve represents the exchange differences arising from translation of the net investment in foreign operations. During the year, there has been no significant transfers from foreign currency translation reserve to profit or loss.

(iv) IFRS 9 reserve

In accordance with CBUAE circular 28/2010 of CBUAE, during any period if provision under CBUAE guidance exceed provision calculated under IFRS 9, such excess is required to be apportioned from retained earnings to IFRS 9 reserve and this reserve shall not be adjusted for future excess provision. The details of the same as below:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Impairment reserve – Specific as at the year end		
Specific provisions under Circular 28/2010 of CBUAE	**9,683,615**	9,372,000
Less: Stage 3 provisions under IFRS 9	**(10,299,264)**	(8,620,212)
(Excess) / shortfall	**(615,649)**	751,788
Balance carried forward from prior year	**1,221,969**	1,220,996
Specific provision transferred to the impairment reserve	**-**	973
Closing balance	**1,221,969**	1,221,969

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Impairment reserve – Collective as at the year end		
Collective provisions under Circular 28/2010 of CBUAE	**7,440,529**	7,159,746
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(5,322,815)**	(5,871,987)
Shortfall	**2,117,714**	1,287,759
Collective provision transferred to the impairment reserve	**872,498**	645,137
Balance carried forward from prior year	**1,287,759**	642,622
Closing balance	**2,160,257**	1,287,759

22 Tier 1 capital notes

	Currency	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Government of Abu Dhabi Notes (6 month EIBOR plus 2.3 percent per annum)	AED	**8,000,000**	8,000,000
USD 750 million Notes (4.50 percent fixed rate per annum, thereafter reset on the first date and every sixth anniversary thereafter on the basis of the aggregate of the margin and the relevant six-year reset on the relevant U.S. Securities determination date)	USD	**2,754,750**	2,754,750
		10,754,750	10,754,750

Notes to the consolidated financial statements *(continued)*

22 Tier 1 capital notes *(continued)*

Tier 1 capital notes are perpetual, subordinated, unsecured and carry coupons to be paid semi-annually in arrears. The Bank may elect not to pay a coupon at its own discretion. The note holder does not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Group ranking pari passu with or junior to the notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

During the year, tier 1 notes coupon payment election was made by the Bank in the amount of AED 376,465 thousand (31 December 2021: AED 356,204 thousand).

23 Share based payment

The Group had introduced in 2008 a share based payment scheme (the “Scheme”) for selected employees which would vest over three years and can be exercised within the next three years after the vesting period. The key vesting condition is that the option holder is in continued employment with the Group until the end of the vesting period. The options lapse six years after their date of grant irrespective of whether they are exercised or not.

The Group established a subsidiary to issue shares when the vested option is exercised by the employee. These shares are treated as treasury shares until exercised by the option holders.

During the year, no shares (31 December 2021: 2,550 thousand) had been awarded, therefore reallocated from treasury shares held to share capital by nil (31 December 2021: AED 2,550 thousand) and share premium has been adjusted by nil (31 December 2021: AED 18,997 thousand) accordingly relating to this.

24 Interest income

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Interest from:		
Central banks	**4,673,109**	512,261
Banks and financial institutions	**1,501,489**	1,472,703
Reverse repurchase agreements	**1,203,085**	354,637
Investments at fair value through profit or loss	**161,463**	274,954
Non-trading investments	**4,660,793**	3,156,647
Loans and advances (excluding Islamic financing)	**16,047,982**	10,469,366
	28,247,921	16,240,568

25 Interest expense

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Interest to:		
Banks and financial institutions	**2,097,112**	1,442,790
Repurchase agreements	**850,870**	225,801
Commercial paper	**436,672**	70,294
Customer accounts and other deposits (excluding Islamic customers' deposits)	**10,376,617**	2,312,073
Term borrowings	**1,007,163**	1,489,083
Subordinated notes	**19,705**	21,175
	14,788,139	5,561,216

Notes to the consolidated financial statements *(continued)*

26 Income from Islamic financing and investing products

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Murabaha	**993,785**	667,873
Ijara	**517,629**	420,157
Sukuk investments	**500,785**	711,741
Others	**12,790**	43,408
	2,024,989	1,843,179

27 Distribution on Islamic customers' deposits

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Wakala deposits	**518,515**	397,557
Mudaraba saving and term deposits	**98,718**	49,900
Islamic sukuk notes	**464,298**	409,979
Others	**17,337**	6,963
	1,098,868	864,399

The Group maintains an investment risk reserve which represents a portion of the depositors' share of profits set aside as a reserve for AED 12,205 thousand (2021: AED 5,124 thousand).

28 Net fee and commission income

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Fee and commission income		
Trade finance	**836,909**	879,286
Collection services	**26,315**	19,885
Brokerage income	**119,399**	132,978
Asset management and investment services	**79,282**	75,063
Consumer and corporate lending	**1,847,026**	1,704,228
Cards and e-services	**671,052**	1,731,185
Accounts related services	**69,354**	46,285
Commission on transfers	**124,848**	107,810
Others	**201,684**	197,649
Total fee and commission income	**3,975,869**	4,894,369
Fee and commission expense		
Trade finance	**22,774**	7,023
Brokerage commission	**64,134**	51,310
Credit card charges	**665,710**	1,451,005
Consumer and corporate lending	**301,360**	320,176
Other commission	**139,862**	28,366
Others	**1,482**	1,941
Total fee and commission expense	**1,195,322**	1,859,821
Net fee and commission income	**2,780,547**	3,034,548

29 Net foreign exchange gain

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Trading and retranslation gain/(loss) on foreign exchange and related derivatives[1,2]	**703,922**	(72,144)
Dealings with customers	**1,072,754**	764,483
	1,776,676	692,339

[1] Due to effective hedging strategies, the offsetting impact of hedging instruments is reflected in the net gains from sale of non-trading investments (note 30).
[2]Includes negative interest income of AED 90 million (2021: AED 479 million) arising from placement with ECB.

30 Net gain on investments and derivatives

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Net realised and unrealised gain on investments at fair value through profit or loss and derivatives	**2,019,432**	5,653,584
Net gain from sale of non-trading investments	**43,280**	815,332
Dividend & other investment income	**86,467**	15,870
	2,149,179	6,484,786

31 Other operating income/(loss)

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Investment property (loss) / income	**(326,852)**	(743,360)
Leasing related income	**156,250**	111,773
Gain on sale of property and equipment	**4,335**	501,268
Other (loss) / income	**(85,822)**	(58,231)
	(252,089)	(188,550)

32 Gain on disposal of stake in subsidiary and fair value gain on retained interest

On 25 February 2022, the Group entered into a sale and purchase agreement (SPA) with BCP V Growth Aggregator LP ("Purchaser") whereby the Bank has agreed to sell its controlling stake of 60% of its wholly owned subsidiary, Magnati Sole Proprietorship LLC "Magnati" to the Purchaser. The Bank has recorded a gain of AED 3.1 billion within the results for the year ended as of 31 December 2022 based on this sale.

33 General, administration and other operating expenses

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Staff costs	**3,173,075**	3,004,906
Other general and administration expenses	**2,423,159**	1,836,611
Depreciation (note 11)	**859,338**	735,705
Amortisation of intangibles (note 12)	**202,955**	198,859
Sponsorships and donations	**46,302**	60,393
	6,704,829	5,836,474

34 Net impairment charge

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Impairment charge on		
loans, advances and Islamic financing	**2,734,892**	2,595,358
other financial assets	**32,733**	4,852
unfunded exposure	**129,918**	94,172
other non-financial instruments	**6,891**	-
Recoveries	**(279,287)**	(280,716)
Write-off of impaired financial assets	**214,211**	244,571
	2,839,358	2,658,237

35 Income tax expense

In addition to adjustments relating to deferred taxation, the charge for the year is calculated based upon the adjusted net profit for the year at rates of tax applicable in respective overseas locations.

The charge to the consolidated statement of profit or loss for the year is as follows:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Charge for the year	**967,621**	644,272

Reconciliation of Group's tax on profit based on accounting and profit as per the tax laws is as follows:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Profit before taxation	**14,389,732**	13,186,544
Effect of higher tax rates in overseas jurisdictions	**521,529**	520,220
Tax effects of:		
- Expenses not deductible for tax purpose	**20,481**	(1,738)
- Utilisation of previously unrecognised deferred tax	**12,945**	9,079
- Prior year adjustments – Corporation Tax	**5,488**	3,815
- Prior year adjustments – Deferred Tax	**3,869**	4,889
- Withholding tax deducted at source	**391,309**	84,007
- Mandatory remittance tax	**12,000**	24,000
	967,621	644,272

36 Cash and cash equivalents

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Cash and balances with central banks	**228,549,209**	258,934,979
Due from banks and financial institutions	**24,954,813**	19,383,306
	253,504,022	278,318,285
Less: Balances with central banks maturing after three months of placement	**(1,721,036)**	(5,384,239)
Less: Due from banks and financial institutions maturing after three months of placement	**(395,977)**	(119,926)
	251,387,009	272,814,120

37 Leases

The Group leases a number of branch and office premises. The leases typically run for a period of 10 years, with an option to renew the lease after that date. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below:

Leases as lessee

Right-of-use assets

The movement during the year of right-of-use is as follows:

	31 Dec 2022 AED '000	31 Dec 2021 AED '000
Balance as at the beginning of year	**229,685**	240,571
Increase during the year	**11,432**	59,117
Depreciation and other adjustments	**(43,943)**	(70,003)
Balance as at the end of year	**197,174**	229,685

Lease liabilities

	31 Dec 2022 AED '000	31 Dec 2021 AED '000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	**137,443**	140,591
One to five years	**231,645**	337,843
More than five years	**9,012**	13,828
Total undiscounted lease liabilities at the end of year	**378,100**	492,262

37 Leases *(continued)*

Amounts recognised in profit or loss

	31 Dec 2022 AED '000	31 Dec 2021 AED '000
Interest on lease liabilities	**19,709**	17,057
Depreciation charge for the year	**81,925**	86,566
Expenses relating to short-term leases and low-value assets	**50,989**	58,441
	152,623	162,064

38 Commitments and contingencies

The Group, in the ordinary course of business, enters into various types of transactions that involve undertaking certain commitments such as letters of credit, guarantees and undrawn loan commitments.

There were no other significant changes in contingent liabilities and commitments during the year other than those arising out of normal course of business.

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Letters of credit	**54,459,311**	63,589,462
Letters of guarantees	**99,310,954**	101,353,201
Financial guarantees	**824,739**	293,459
Trade contingencies	**154,595,004**	165,236,122

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Undrawn commitment to extend credit	**77,335,909**	51,407,472
Commitments for future capital expenditure	**1,095,254**	946,604
Commitments for future private equity investments	**1,567,471**	1,291,544
	79,998,634	53,645,620
Total commitments and contingencies	**234,593,638**	218,881,742

Credit risk characteristics of these unfunded facilities closely resemble the funded facilities as described in note 46(a).

Letters of credit and guarantee ("Trade contingencies") commit the Group 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, advances and Islamic financing and revolving credits. Commitments 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.

Financial guarantee contracts mainly pertain to the banks and financial institutions.

Notes to the consolidated financial statements *(continued)*

38 Commitments and contingencies *(continued)*

Concentration by location:

	Undrawn loan commitments		Trade contingencies	
	31 Dec 2022 AED'000	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000
UAE	**48,941,650**	32,127,167	**106,056,582**	107,329,071
Europe	**11,244,710**	6,701,190	**16,157,918**	17,579,937
Arab countries	**9,269,282**	8,580,025	**12,949,928**	11,103,438
Americas	**4,013,400**	2,354,620	**9,266,851**	10,405,696
Asia	**3,866,867**	1,277,170	**10,030,910**	17,102,422
Others	**-**	367,300	**132,815**	1,715,558
	77,335,909	51,407,472	**154,595,004**	165,236,122

Concentration by location is based on the residential status of the customers.

39 Derivative financial instruments

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. Derivative financial instruments include forwards, futures, swaps and options. These transactions are primarily entered with banks and financial institutions.

Forwards and futures

Currency forwards represent commitments to purchase foreign and/or domestic currencies, including non-deliverable spot transactions (i.e. the transaction is net settled). Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk for futures contracts is negligible, as they are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of cashflows arising out of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options

Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter (OTC).

Derivatives are measured at fair value by reference to published price quotations in an active market. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models like counterparty prices or valuation techniques such as discounted cash flows, market prices, yield curves and other reference market data.

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

39 Derivative financial instruments *(continued)*

31 December 2022

	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity: Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
Interest rate derivatives								
Swaps	44,416,976	45,049,825	1,391,430,712	133,460,604	194,365,404	416,059,274	229,649,117	417,896,313
Forwards & Futures	44,216	12,248	49,064,627	23,330,850	20,445,828	5,287,949	-	-
Options & Swaptions	462,099	638,125	78,377,825	925,943	4,410,941	39,318,072	15,256,243	18,466,626
Foreign exchange derivatives								
Forwards	3,926,153	4,467,739	327,260,288	217,773,233	85,244,571	19,145,328	5,097,156	-
Options	220,467	189,446	39,507,992	20,554,782	16,942,221	2,010,989	-	-
Other derivatives contracts	2,092,531	1,206,982	68,259,953	5,465,276	12,730,541	25,869,223	22,446,673	1,748,240
	51,162,442	51,564,365	1,953,901,397	401,510,688	334,139,506	507,690,835	272,449,189	438,111,179
Held as fair value hedges:								
Interest rate derivatives								
Swaps	7,649,543	9,745,587	460,856,499	155,433,259	136,163,364	55,594,766	64,201,509	49,463,601
	7,649,543	9,745,587	460,856,499	155,433,259	136,163,364	55,594,766	64,201,509	49,463,601
Held as cash flow hedges								
Interest rate derivatives								
Swaps	19,002	705,997	8,323,490	-	-	3,856,650	550,950	3,915,890
Foreign exchange derivatives								
Forwards	42,856	8,591	3,290,258	3,290,258	-	-	-	-
	61,858	714,588	11,613,748	3,290,258	-	3,856,650	550,950	3,915,890
Total	58,873,843	62,024,540	2,426,371,644	560,234,205	470,302,870	567,142,251	337,201,648	491,490,670

Notes to the consolidated financial statements *(continued)*

39 Derivative financial instruments *(continued)*

31 December 2021	Positive market value	Negative market value	Notional amount	Notional amounts by term to maturity: Less than three months	From three months to one year	From one year to three years	From three years to five years	Over five years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Held for trading:								
Interest rate derivatives								
Swaps	17,145,820	18,081,118	1,487,616,721	149,683,975	218,911,217	414,748,177	265,151,917	439,121,435
Forwards & Futures	10,797	7,259	53,971,707	18,414,126	26,487,199	8,996,922	73,460	-
Options & Swaptions	61,219	122,336	1,381,555,808	344,265,157	894,234,822	129,852,936	5,645,190	7,557,703
Foreign exchange derivatives								
Forwards	3,277,262	1,848,698	337,153,079	202,324,818	102,866,699	28,956,060	2,962,293	43,209
Options	337,157	244,222	56,380,928	35,859,138	14,291,461	6,230,329	-	-
Other derivatives contracts	1,473,721	1,412,905	52,509,341	2,163,817	7,451,597	12,600,024	28,608,514	1,685,389
	22,305,976	21,716,538	3,369,187,584	752,711,031	1,264,242,995	601,384,448	302,441,374	448,407,736
Held as fair value hedges:								
Interest rate derivatives								
Swaps	1,955,276	6,588,341	158,522,703	9,121,007	10,263,304	39,197,714	42,100,283	57,840,395
	1,955,276	6,588,341	158,522,703	9,121,007	10,263,304	39,197,714	42,100,283	57,840,395
Held as cash flow hedges								
Interest rate derivatives								
Swaps	12,514	90,109	5,466,840	-	1,000,000	-	-	4,466,840
Foreign exchange derivatives								
Forwards	-	97	91,735	91,735	-	-	-	-
	12,514	90,206	5,558,575	91,735	1,000,000	-	-	4,466,840
Total	24,273,766	28,395,085	3,533,268,862	761,923,773	1,275,506,299	640,582,162	344,541,657	510,714,971

39 Derivative financial instruments *(continued)*

The positive / negative fair value in respect of derivatives represents the gain/loss respectively, arising on fair valuation of the trading and hedging instrument. These amounts are not indicative of any current or future losses, as a similar positive / negative amount has been adjusted to the carrying value of the hedged loans, advances and Islamic financing, non-trading investments, term borrowings and subordinated notes.

As at 31 December 2022, the Group received cash collateral of AED 18,368 million (31 December 2021: AED 6,482 million) against positive fair value of derivative assets from certain counterparties. Correspondingly, the Group placed cash collateral of AED 16,289 million (31 December 2021: AED 13,802 million) against the negative fair value of derivative liabilities.

Derivative related credit risk

This is limited to the positive fair value of instruments that are favourable to the Group. These transactions are primarily entered with banks and financial institutions.

Derivatives held for trading

The Group uses derivatives, not designated in a qualifying hedge relationship, to manage its exposure to foreign currency, interest rate and credit risks or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices. The instruments used mainly include interest rate and currency swaps and forward contracts. The fair values of those derivatives are shown in the table above.

Derivatives held as fair value hedge

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management strategy by taking offsetting positions in order to reduce its own exposure to fluctuations in exchange and interest rates. The Group uses interest rate swaps to hedge against the changes in fair value arising from specifically identified interest bearing assets such as loans, advances and Islamic financing, non-trading investments, term borrowings and subordinate notes. The Group uses forward foreign exchange contracts and currency swaps to hedge against specifically identified currency risks.

Derivatives held as cash flow hedge

The Group uses forward contracts to hedge the foreign currency risk arising from its financial instruments. The Group has substantially matched the critical terms of the derivatives to have an effective hedge relationship.

40 Segmental information

The operating structure consists of four key Business segments across Geographic segments that are driving the business strategy, customer value propositions, products and channel development and customer relationships in addition to supporting the delivery of the Group's financial performance.

During the prior year, the Group has reorganized its business model so that Corporate & Investment Banking and Personal Banking groups have been re-segmented into four distinct business lines: Investment Banking, Corporate & Commercial Banking, Consumer Banking and Private Banking. This will reposition the Group's businesses to be more customer centric and enable specialist product and service propositions aligned to the respective customer bases the Group services to drive competitive advantage and enhance revenue generation capabilities.

Business segments

Investment Banking ("IB")
IB offers banking and financing solutions, including corporate & Islamic finance, capital markets, transaction banking, trade, liquidity and cash management services along with a broad range of risk management solutions across credit, rates, FX and money market products. Focused on Institutional clients, IB team enhances product delivery and specialization across various customer sectors which includes Government, Sovereign & Public Sector, Sovereign Wealth Fund & Financial Sponsors, Natural Resources, Global Diversified Industrials, Financial Institutions Group & Global Subsidiaries.

Corporate & Commercial ("CCB")
CCB focuses on large corporates, medium and small entities with diversified products offering across sub segments which includes Corporate Banking, Contracting, Commercial Banking and Privileged Client Group.

Consumer Banking ("CB")
The business targets consumer & elite segment across conventional and Islamic sector. The products' ranges offered include everyday banking products such as current accounts, deposits, credit cards, loans, wealth products etc. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches, direct sales agents and through its banking subsidiaries namely and First Abu Dhabi Islamic Finance.

Global Private Banking ("GPB")
The business targets affluent and high net-worth customers across conventional and Islamic sector. The products' ranges offered include everyday banking products plus sophisticated investment solutions, brokerage and securities services. The business furnishes variety of distribution and sales channels, including mobile and internet banking, branches, relationship managers and through its banking subsidiaries including mainly FAB Securities.

Head office
The Group provides centralized human resources, information technology, operations, finance, strategy, investor relations, risk management, credit management, corporate communications, legal & compliance, internal audit, procurement, treasury operations and administrative support to all of its business units.

As part of the Group's diversified business model, HO also includes certain subsidiaries partially or fully owned by the Group, providing banking services and other complementary offerings across real estate and property management services. These include FAB Properties, Abu Dhabi National Properties, Mismak and First Gulf Libya. FAB Misr has been included in HO, on an interim basis, whilst product and business segmentation is aligned to the Group norms.

Geographic segments

The Group is managing its various business segments through a network of branches, subsidiaries and representative offices within the two defined geographic segments which are UAE and International.

Notes to the consolidated financial statements *(continued)*

40 Segmental information *(continued)*

	Business Segment						Geographic Segment		
	Investment Banking AED'000	Corporate and commercial Banking Group AED'000	Consumer Banking AED'000	Global Private Banking AED'000	Head Office AED'000	Total AED'000	UAE AED'000	International AED'000	Total AED'000
For the year ended 31 December 2022									
Net interest income and income from Islamic financing and investing products	4,926,581	3,617,718	3,523,841	779,897	1,537,866	14,385,903	11,313,547	3,072,356	14,385,903
Net non-interest income	3,921,412	1,373,843	603,990	255,044	300,024	6,454,313	4,504,238	1,950,075	6,454,313
Operating income	8,847,993	4,991,561	4,127,831	1,034,941	1,837,890	20,840,216	15,817,785	5,022,431	20,840,216
Gain on disposal of stake in subsidiary and fair value gain on retained interest	-	-	3,093,703	-	-	3,093,703	3,093,703	-	3,093,703
Total Income including gain on disposal of stake in subsidiary and fair value gain on retained interest	8,847,993	4,991,561	7,221,534	1,034,941	1,837,890	23,933,919	18,911,488	5,022,431	23,933,919
General administration and other operating expenses	1,606,489	1,065,077	2,146,157	395,595	1,491,511	6,704,829	4,989,442	1,715,387	6,704,829
Net impairment charge	429,776	1,814,653	294,022	(291)	301,198	2,839,358	1,669,547	1,169,811	2,839,358
Profit before taxation	6,811,728	2,111,831	4,781,355	639,637	45,181	14,389,732	12,252,499	2,137,233	14,389,732
Income tax expense	345,527	49,152	(687)	46,402	527,227	967,621	192,266	775,355	967,621
Profit for the year	6,466,201	2,062,679	4,782,042	593,235	(482,046)	13,422,111	12,060,233	1,361,878	13,422,111
As at 31 December 2022									
Segment total assets	774,393,713	158,420,836	68,877,986	29,586,897	119,233,615	1,150,513,047	912,859,441	368,517,284	1,281,376,725
Inter segment balances						(40,456,952)			(171,320,630)
Total assets						1,110,056,095			1,110,056,095
Segment total liabilities	664,339,672	155,379,818	75,962,631	30,148,114	109,632,569	1,035,462,804	820,187,779	346,138,703	1,166,326,482
Inter segment balances						(40,456,952)			(171,320,630)
Total liabilities						995,005,852			995,005,852

Notes to the consolidated financial statements *(continued)*

40 Segmental information *(continued)*

	Business Segment						Geographic Segment		
	Investment Banking	Corporate and commercial Banking Group	Consumer Banking	Global Private Banking	Head Office	Total	UAE	International	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
For the year ended 31 December 2021									
Net interest income and income from Islamic financing and investing products	4,175,220	2,189,595	3,950,443	727,418	615,456	11,658,132	8,672,753	2,985,379	11,658,132
Net non-interest income	7,860,505	1,202,636	847,567	223,332	(110,917)	10,023,123	9,205,521	817,602	10,023,123
Operating income	12,035,725	3,392,231	4,798,010	950,750	504,539	21,681,255	17,878,274	3,802,981	21,681,255
General administration and other operating expenses	1,421,012	953,732	2,165,854	340,320	955,556	5,836,474	4,369,988	1,466,486	5,836,474
Net impairment charge	179,233	1,463,407	822,664	47,277	145,656	2,658,237	2,266,466	391,771	2,658,237
Profit before taxation	10,435,480	975,092	1,809,492	563,153	(596,673)	13,186,544	11,241,820	1,944,724	13,186,544
Income tax expense	299,163	46,416	3,092	42,884	252,717	644,272	97,663	546,609	644,272
Profit for the year	10,136,317	928,676	1,806,400	520,269	(849,390)	12,542,272	11,144,157	1,398,115	12,542,272
As at 31 December 2021									
Segment total assets	676,669,939	109,881,860	75,737,783	31,986,009	126,085,379	1,020,360,970	769,959,027	377,131,450	1,147,090,477
Inter segment balances						(19,264,867)			(145,994,374)
Total assets						1,001,096,103			1,001,096,103
Segment total liabilities	579,702,541	136,067,738	60,945,124	24,933,050	106,065,086	907,713,539	678,525,762	355,917,284	1,034,443,046
Inter segment balances						(19,264,867)			(145,994,374)
Total liabilities						888,448,672			888,448,672

41 Earnings per share

Earnings per share is calculated by dividing the net profit for the year after deduction of Tier 1 capital notes payment by the weighted average number of ordinary shares in issue during the year as set out below:

	31 Dec 2022	31 Dec 2021
Basic earnings per share:		
Net profit for the year (AED'000)	**13,411,198**	12,531,111
Less: payment on Tier 1 capital notes (AED'000)	**(376,465)**	(356,204)
Net profit after payment of Tier 1 capital notes (AED'000)	**13,034,733**	12,174,907
Weighted average number of ordinary shares:		
Number of shares issued / deemed to be outstanding from the beginning of the year ('000)	**10,913,570**	10,911,020
Effect due to Scrip Dividend issued during the period ('000)	**127,537**	127,537
Weighted average number of shares exercised under the share options scheme ('000)	**-**	1,256
Weighted average number of ordinary shares ('000)	**11,041,107**	11,039,813
Basic earnings per share (AED)	**1.18**	1.10
Diluted earnings per share:		
Net profit for the year for calculating diluted earnings per share (AED'000)	**13,034,733**	12,174,907
Weighted average number of ordinary shares ('000)	**11,041,107**	11,039,813
Weighted average number of dilutive shares under share options scheme ('000)	**-**	650
Weighted average number of ordinary shares in issue for diluted earnings per share ('000)	**11,041,107**	11,040,463
Diluted earnings per share (AED)	**1.18**	1.10

Notes to the consolidated financial statements *(continued)*

42 Related parties

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

The Group operates in a market dominated by entities directly or indirectly controlled by the Government of Abu Dhabi through its government authorities, agencies, affiliations and other organizations, collectively referred to as government-related entities. The Group has transactions with other government-related entities and these transactions are conducted in the ordinary course of its business on terms agreed by the Board.

	31 December 2022					31 Dec 2021
	Board of directors AED'000	Major shareholders AED'000	Senior Management AED'000	Associates AED'000	Total AED'000	Total AED'000
Balances with related parties at the reporting date are shown below:						
Financial assets	**11,552,967**	**36,004,061**	**62,536**	**970,387**	**48,589,951**	34,282,642
Financial liabilities	**13,927,523**	**36,481,734**	**25,285**	**417,982**	**50,852,524**	57,779,565
Contingent liabilities	**328,725**	**8,698,101**	**-**	**184**	**9,027,010**	21,702,546
Transactions carried out during the year ended with related parties are shown below:						
						31 Dec 2021
Interest & other income	**387,169**	**876,773**	**1,638**	**80,237**	**1,345,817**	793,581
Interest expense & other expenses	**199,718**	**330,321**	**412**	**100,577**	**631,028**	315,934

The details of the BOD remuneration are as below:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
BOD remuneration paid during the year	**45,000**	48,000

The details of the key management personnel remuneration are as below:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Long term benefits	**46,624**	51,051
Short term benefits	**2,752**	2,538

The balances with related parties are allocated to stage 1 of the ECL model. As at 31st December 2022, the ECL allowance held against related party balances amounted to AED 3,911 thousand.

Notes to the consolidated financial statements *(continued)*

43 Fiduciary activities

The Group held assets under management in trust or in a fiduciary capacity for its customers at 31 December 2022 amounting to AED 12,413 million (31 December 2021: AED 8,453 million). Furthermore, the Group provides custodian services for some of its customers.

The underlying assets held in a custodial or fiduciary capacity are excluded from these consolidated financial statements of the Group.

44 Special Purpose Entity

The Group has created a Special Purpose Entity (SPE) with defined objectives to carry on fund management and investment activities on behalf of customers. The equity and investments managed by the SPE are not controlled by the Group and the Group does not obtain benefits from the SPE operations, apart from commissions and fee income. In addition, the Group does not provide any guarantees or assume any liabilities of these entities. Consequently, the SPE assets, liabilities and results of operations are not included in these consolidated financial statements of the Group. The SPE is as follows:

Legal name	Activities	Country of incorporation	Holding 2022
One share PLC	Investment Company	Republic of Ireland	100%

45 Use of estimates and judgements

In the process of applying the Group's accounting policies, IFRS require the management to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent and would result in relevant and reliable information. The management, based on guidance in IFRS and the IASB's Framework for the Preparation and Presentation of Financial Statements has made these estimates and judgements. Listed below are those estimates and judgement which could have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. In making this assessment, management has considered a wide range of information including projections of profitability, regulatory capital requirements and funding needs. The assessment also includes consideration of reasonably possible downside economic scenarios and their potential impacts on the profitability, capital and liquidity of the Group. In making this assessment, the Group has considered the impact of climate-related matters on their going concern assessment.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(b) Impairment charge on financial assets

Impairment losses are evaluated as described in accounting policy 3(k)(v).

The measurement of impairment losses both 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 Group's ECL calculations are outputs of multiple 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 Group's internal credit grading model, which assigns PDs to the individual grades.
- The Group'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.

45 Use of estimates and judgements *(continued)*

(b) Impairment charge on financial assets *(continued)*

- 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 impacts between economic inputs, such as oil prices, gross domestic product and collateral values etc. on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models. The Group is currently in process for assessing the impact of climate risk in the Group's risk models.

It is the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

(c) Impairment charge on property and equipment

Impairment losses are evaluated as described in accounting policy note 3(c)(vii).

In determining the net realisable value, the Group uses the selling prices determined by external independent valuer companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued. The selling prices are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction.

(d) Contingent liability arising from litigations

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case, no provision is made where the probability of outflow is considered to be remote, or probable, or a reliable estimate cannot be made. Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates

(e) Share based payment

The fair value of the share based payment scheme is determined using the Black-Scholes model. The model inputs comprise of share price, exercise price, share price volatility, contractual life of the option, dividend yield and risk-free interest rate.

(f) Valuation of financial instruments

The valuation techniques of financial instruments may require certain unobservable inputs to be estimated by the management. These are discussed in detail in note 3 c(vi) & note 47.

Further, as a result of IBOR Reform, when financial instruments transition to RFRs, any change to the referenced interest rate affects the cash flows of the financial instrument and therefore its fair value. The transition may also result in a change to the interest rate used for the purpose of discounting the cash flows, which also affects the fair value of the financial instrument. Therefore, for measuring fair values of financial instruments using net present value and discounted cash flow models, the Group applies judgement to select the discount rate which is most appropriate for the financial instrument as IBOR reform affects the different possible interest rate benchmarks that could be selected.

(g) Defined benefit plan

The present value of the defined benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for obligations include the discount rate. Any changes in these assumptions would impact the carrying amount of the defined benefit obligation.

45 Use of estimates and judgements *(continued)*

(g) Defined benefit plan *(continued)*

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of the estimated future cash flows expected to be required to settle the future obligations. In determining the appropriate discount rate, the Group considers interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have the terms to maturity approximating the terms of related benefit obligation.

Other key assumptions for defined benefit obligations are based in part on current market conditions. Additional information on these assumptions is disclosed in note 20.

Critical accounting judgements in applying the Group's accounting policies include:

(h) Financial asset and liability classification

The Group's accounting policies provide scope for the classification and assessment of the business model for financial assets and liabilities to be designated on inception into different accounting categories. The classification criteria are mentioned in policy note 3(c) (ii).

(i) Structured entities

The Group's accounting policies provide scope for the classification and consolidation of structured entities in policy note 3 (b)(iii).

For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager, and the Group's aggregate economic interest in each fund is not material. As a result, the Group has concluded that it acts as an agent for the investors in these funds, and therefore has not consolidated these funds.

(j) Operating segments

In preparation of the segment information disclosure, management has made certain assumptions to arrive at the segment reporting. These assumptions would be reassessed by the management on a periodic basis. Operating segments are detailed in note 40.

(k) Effective Interest Rate (EIR) method

The Group's EIR method, as explained in note 3 (s), recognises interest income using a 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 along with recognising the impact of transaction costs and fees and points paid or received that are an integral part of the effective interest rate. This estimation, by nature, requires an element of judgement regarding the expected behaviour and life cycle of the instruments, as well expected changes to the base rate and other fee income/expense that are integral parts of the instrument.

The IBOR reform Phase 2 requires as a practical expedient for changes to the basis for determining contractual cash flows that are necessary as a direct consequence of IBOR reform, to be treated as a change to a floating rate of interest provided the transition from IBOR to RFR takes place on a basis that is economically equivalent. For changes that are not required by IBOR reform, the Group applied judgment to determine whether they result in the financial instrument being derecognised or adjust it carrying value as described below in 44 (I).

Therefore, as financial instruments transition from IBOR to RFRs, the Group applies judgment to assess whether the transition has taken place on an economically equivalent basis. In making this assessment, the Group considers the extent of any changes to the contractual cash flows as a result of the transition and the factors that have given rise to the changes, with consideration of both quantitative and qualitative factors.

Notes to the consolidated financial statements *(continued)*

45 Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Group's accounting policies include *(continued)***:**

(l) Derecognition of financial instruments

As explained in note 3(c) (iii & iv), the Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, many financial instruments have already been amended during 2021 as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition. For financial instruments measured at amortized cost and FVOCI, the Group first applies the practical expedient as described in note 45 (k) above, to reflect the change in the referenced interest rate from an IBOR to an RFR. Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

(m) Hedge accounting

The Group has designated hedge relationships as both fair value and cash flow hedges. The Group's hedge accounting policies include an element of judgement and estimation in note 3 (aa).

The Group's hedged items and hedging instruments (that have not transitioned) continue to be indexed to IBOR benchmark rates, for US Dollar LIBOR. This IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual. The Group's cash flow hedging relationships of US dollar LIBOR risks extend beyond the anticipated cessation dates for the LIBOR. The Group expects that US dollar LIBOR will be replaced by SOFR, but there is uncertainty over the transition of and timing of transitioning the Group's hedged items and hedging instruments and over the amount of replacement rate cash flows. Such uncertainty may impact the hedging relationship – e.g. its effectiveness assessment and highly probable assessment.

The Group applies the temporary reliefs provided by the IBOR reform Phase 1 amendments, which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require it to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform. The reliefs end when the Group judges that the uncertainty arising from IBOR reform is no longer present for the hedging relationships referenced to IBORs. This applies when the hedged item has already transitioned from IBOR to an RFR and also to exposures that will transition via fallback to an RFR when certain LIBORs cease on 1 January 2022.

The IBOR reform Phase 2 amendments provide temporary reliefs to enable the Group's hedge accounting to continue upon the replacement of an IBOR with an RFR. Under one of the reliefs, the Group may elect for individual RFRs to be deemed as meeting the IFRS 9 requirement to be separately identifiable components of the hedged item. For each RFR to which the relief has been applied, the Group judges that both the volume and market liquidity of financial instruments, that reference the RFR and are priced using the RFR, are already sufficient and will increase during the 24- month period with the result that, the hedged RFR risk component is separately identifiable in the change in fair value or cash flows of the hedged item.

(n) Goodwill Impairment:

The Group estimates that reasonably possible changes in the assumptions used for the impairment would not cause the recoverable amount of either CGU to decline below the carrying amount.

(o) Effect of Climate risk on accounting judgments and estimates

The Group makes use of reasonable and supportable information to make accounting judgments and estimates, this includes information about the observable effects of the physical and transition risks of climate change. Many of the effects arising from climate change will be longer term in nature, with an inherent level of uncertainty, and have limited effect on accounting judgments and estimates.

46 Financial risk management

Risk management framework

Introduction and overview

The primary objective of the Group is to manage risk and provide risk adjusted returns to the shareholders in line with the accepted risk profile. In the course of doing its regular business activities, the Group gets exposed to multiple risks notably credit risk, market risk, liquidity and funding risk, interest rate risk, operational risk and other risks like compliance risk, strategic risk, reputation risk, environment social governance (ESG) risk, information security risk and business continuity. A well-established risk governance and ownership structure ensures oversight and accountability of the effective management of risk at the Group. The Risk management tone is set right at the top from the Board of Directors ("BOD") and gets implemented through a well-defined risk management structure and framework.

Composition of Board

The Board of Directors ("BOD") is responsible for the overall direction, supervision and control of the Group. The BOD has delegated authority to specialist committees who support the Board in execution of its responsibilities. The day-to-day management of the Group is conducted by the Group Chief Executive Officer ("GCEO") and the Group Executive Committee as delegated by the Board. The BOD has overall responsibility for the Group including approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values within the agreed framework in accordance with relevant statutory and regulatory structures. In accordance with the Group Articles of Association, the BOD comprises eleven members. Each Director holds the position for three years, which may then be renewed for a further three year term. The Board of Directors of the Bank's subsidiaries has the same fiduciary responsibilities towards their respective entities as the Group's Directors have towards the Group.

Corporate Governance Framework

The Group has a comprehensive Corporate Governance Framework that puts in place rules, processes and policies through which BOD and Senior Management manages the Group. The BOD drives the implementation of the corporate governance standards and in accordance with its charter, has oversight responsibility for the Group's corporate governance framework. The Group corporate governance standards sets the highest standards of professionalism and requires subsidiaries and international locations to setup individual specific governance frameworks, in alignment with the Group governance framework, to govern them. The Head of Corporate Governance is the custodian of the Corporate Governance Framework document.

Risk Management Structure

The BOD approves risk management plans for the Bank, its subsidiaries, its associates and international offices including representative offices and overseas branches. Under authority delegated by the BOD, the Board Risk and ESG Committee ("BRESGC") through its separately convened risk management meetings formulates high-level enterprise risk management policy, exercises delegated risk authorities and oversees the implementation of risk management framework and controls. The GCRO functionally reports to this Committee.

Board Level Committees within the Group

<u>Board Management Committee ("BMC")</u>

The BMC approves and oversees execution of the Group's business plan per the strategy approved by the Board and oversees and reviews material aspects of the business of the Group. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BMC charter.

<u>Board Risk and ESG Committee ("BRESG")</u>

The BRESGC provides oversight and advice to the Group Board in relation to current and potential future risk and compliance exposures of the Group. It also considers and helps direct future risk strategy, including determination of risk appetite and tolerance as well as promote a risk and compliance awareness culture among the Group. The committee also oversees and provides guidance to the Board of Directors on key ESG matters. The Committee meets quarterly or more frequently as deemed necessary. The Group's risk management function has a direct reporting line to the BRESGC through the Group Chief Risk Officer. Compliance has a direct reporting line on compliance related matters to Head of Compliance, who attends BRESGC. The composition, guiding principles and detailed roles and responsibilities are covered in the BRESGC charter.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

Risk management framework *(continued)*

Board Level Committees within the Group *(continued)*

Board Audit Committee ("BAC")

BAC ensures oversight of the effectiveness of the internal control systems and the quality and integrity of financial statements and financial reporting. In addition, it reviews, approves and oversees the internal and external audit programs and ensures coordination between internal and external auditors. The committee also oversees the Group's compliance with applicable laws and regulations; The Group Chief Audit Officer ("GCAO") provides reports to the Committee on internal controls and the Head of Compliance reports direct to the BAC on compliance related matters. The Committee meets quarterly or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in the BAC charter.

Remuneration and Nomination Committee ("REMCO")

The REMCO recommends and oversees the appointment and termination of Group Board Directors and succession planning for the Group Executive Committee members. This includes an assessment of the skills, knowledge and expertise needed to ensure they are positioned to discharge their responsibilities in the interests of the shareholders and the Group. The Committee also reviews and recommends to the Board, Group's reward policy framework, approves and oversees reward design and ensures it is appropriate and consistent with the Group's culture, values, business performance and risk strategy. The Committee meets at least twice a year or more frequently as deemed necessary. The composition, guiding principles and detailed roles and responsibilities are covered in REMCO charter.

Management Level Committees within the Group

There are ten management level committees. The major functions of the ten management committees are listed below:

Group Executive Committee ("EXCO")

The Group Executive Committee ("Group EXCO") is Group's senior most management level committee and it operates under a delegated authority from the Board. It is responsible for identifying matters required or appropriate for escalation to the Group Board or Board Committees. The Group EXCO also supports the Group CEO to determine and implement the Group's strategy as approved by the Board.

The key responsibilities of the Committee include decisions on the Group's strategy, annual budgets, capital management, risk management and Group's more material policies and procedures. The Group EXCO may delegate certain authorities and powers to management committees and individuals, but the Group EXCO reserves the authority to deal with strategy, annual budget and structure; financial reporting and controls; capital management; risk and internal control; contracts; corporate governance matters; executive remuneration and human resources policies and group policies generally and any other matters in its discretion other than matters reserved to the Board. EXCO consists of the executive management team and is chaired by the GCEO. The composition, guiding principles and detailed roles and responsibilities of EXCO are covered in the EXCO charter.

Group Credit Committee ("GCC")

GCC assists in the development and implementation of the Group's credit, investment strategy and the related policies and procedures. The aim of GCC is to have an overall credit oversight of the Group and decide on credit policy and governance related matters. The composition, guiding principles and detailed roles and responsibilities of GCC are covered in the GCC Charter.

Group Risk Committee ("GRC")

GRC assists BRESGC and EXCO in overseeing the Group-wide risk strategy and exposures to enable integrated risk management in an effective manner. The primary objective of GRC is to define, develop and periodically monitor the Group's risk appetite along with its related methodology, parameters, targets and tolerances taking into account the Group's strategy and business planning. GRC reports relevant matters to the EXCO and BRESGC as appropriate, advising and informing them on the Group's risk appetite and framework. The composition, guiding principles and detailed roles and responsibilities of GRC are covered in the GRC charter.

46 Financial risk management *(continued)*

Risk management framework *(continued)*

Management Level Committees within the Group *(continued)*

Group Compliance Committee (“Compliance committee”)

Group Compliance Committee assists the BAC in fulfilling its objective of overseeing the Group’s regulatory responsibilities as well as ensuring the Group’s compliance with the applicable laws and regulations issued by various regulatory authorities across the Group. The Committee also oversees that the relevant policies and procedures, including, but not limited to the Group Code of Ethics are complied with across the Group. The composition, guiding principles and detailed roles and responsibilities of Group Compliance Committee are covered in the Group Compliance Committee charter.

Group Asset & Liability Committee (“GALCO”)

The G-ALCO is the driving force and key decision maker behind the structure and quality of the balance sheet. It is directly accountable to the BRESGC for ensuring that the risks within the Group’s asset and liability position are prudently managed. The composition, guiding principles and detailed roles and responsibilities of G-ALCO are covered in the G-ALCO charter.

Human Resources Steering Committee (“HRSC”)

HRSC assists the Group EXCO and the REMCO to implement strategic and operational HR initiatives to deliver the Group’s long-term shareholder value. The Committee will be the formal sponsor of all material HR initiatives across the Group in line with the Group’s Employee Value Proposition (“EVP”). The composition, guiding principles and detailed roles and responsibilities of HRSC are covered in the HRSC charter.

Group Operational & Fraud Risk Committee (“GO&FRC”)

GO&FRC assists the Group EXCO and the Board Risk and ESG Committee (“BRESGC”) in fulfilling the Group’s Operational and Fraud Risk Management related matters. The key responsibilities of this committee are to define guidelines to identify and manage Operational & Fraud risks in all new products, processes, and activities, defining scope, policy, objectives, assumptions, and roles / responsibilities of the Group’s Operational & Fraud Risk Management Policies. The composition, guiding principles and detailed roles and responsibilities of GO&FRC are covered in the GO&FRC charter.

Group Technology Risk and Information Security Committee (“GTRISC”)

GTRISC assists the Group EXCO and the BRESGC in fulfilling their objectives of overseeing, reviewing and taking decisions on Technology, Information Security, Data Privacy and Business Continuity Management related risk management status and health, including its alignment to the risk appetite of the Group. The composition, guiding principles and detailed roles and responsibilities of GTRISC are covered in the GTRISC charter.

Group ESG Committee (“G-ESGC”)

G-ESGC assists the Group EXCO and BRESGC in all ESG related matters of the Group. The primary objective of the G-ESGC is to promote and oversee the ESG strategy, culture, and awareness across the Group. The composition, guiding principles and detailed roles and responsibilities of G-ESGC are covered in the G-ESGC charter.

Group Technology Steering Committee (“GTSC”)

GTSC assists in fulfilling EXCO’s governance and oversight responsibilities of all technology and information systems across the Group and supports the work of the Board Management Committee (“BMC”) in its oversight of the Group IT governance framework. The composition, guiding principles and detailed roles and responsibilities of GTSC are covered in the GTSC charter.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

Risk management framework *(continued)*

Group Risk Management

The Group has a centralized Risk Management functions led by the GCRO. The Risk Management function comprises Enterprise Risk, ESG Risk, Credit Risk, Operational Risk, Fraud Risk and Investigations, Market and Liquidity Risk Management Unit, Information Security and Business Continuity Management unit and Corporate Governance function.

Enterprise Risk Management Policy Framework

The Group's Enterprise Risk Management Policy ("ERMP") framework aims to accomplish its core values and purpose of being a world class organization maximizing its risk adjusted returns for all stakeholders by establishing an enterprise wide risk management framework across the Group including local and international branches, subsidiaries, associates and foreign representative offices. Core objective of ERMP is to provide a reasonable degree of assurance to the BOD that the risks threatening Group's achievement of its core purpose are being identified, measured, monitored and controlled through an effective integrated risk management system. The ERMP framework consists of specific policy documents covering all material risks across the Group; which include ERM policy, Risk Appetite Policy, Corporate and Investment Banking Group Credit Policy, Personal Banking Group Credit Policy, Consumer Banking Mortgage Credit Policy, Private Banking Credit Policy, IFRS 9 Impairment Policy, ESG Risk Policy and framework, Market and Liquidity Risk related policies, Operational Risk Management Policy, Fraud Risk and Investigation Policy, Compliance Risk related policies, Information Security risk related policies, BCM Policy, Internal Capital Adequacy Assessment Process ("ICAAP") Policy, New Products Approval policy, Outsourcing Policy, Sharia'h Governance Framework, Model Risk Management Policy, Strategic Risk Management Policy, Reputational Risk Management Policy, Corporate Governance Framework and Policy etc. In addition to these risk management policies, the Group has also put in place detailed operational policies, procedures and programs wherever needed.

The Group manages risks using three lines of defence comprising of business units and enabling functions, control units and Internal Audit. Business units and enabling functions, as the first line of defence, identify and manage risk in their day-to-day activities by ensuring that activities are within the Group's risk appetite and follow all relevant internal policies and processes. Group Credit, Group Risk, Legal and Group Compliance, as the second line of defence, establishes risk controls comprising of policies and processes while also providing oversight and independent challenge to the first line of defence. The Group Chief Risk Officer ("GCRO") has a direct reporting line to the BRESGC to ensure the independence of Group Risk from business. Internal audit, as the third line of defence, provides assurance to management and the Board of the effectiveness of risk management practices employed by the first two lines of defence. The Group Chief Audit Officer has a direct reporting line to the Board Audit Committee.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk

Credit risk is the risk that the customer or counterparty to a financial asset fails to meet its contractual obligations and cause the Group to incur a financial loss. It arises principally from the financial assets such as loans, advances and Islamic financing, due from banks and financial institutions, reverse repurchase agreements and non-trading debt investments, derivative financial instruments and certain other assets.

Management of credit risk

Credit risk identification and assessment at the Group is carried out through a comprehensive mechanism comprising three levels of defense. The first level of defense lies with the business units and is responsible for maintaining a sound credit quality of assets in line with the approved business strategy and credit risk appetite. The second level of defense is with the Group Credit Unit that assesses the risk at the customer and facility level, ensures proper documentation of customer, facility and security documents along with Group Risk management unit that assesses credit risk on a portfolio basis and maintains credit risk policies and credit risk rating models up to date. Internal Audit acts as a third level of defense with regular reviews of credit analysis and the risk functions to check the compliance with policies and procedures of the Group. The unit also reviews the policy documents on a regular basis.

As part of credit risk monitoring and control framework, regular risk monitoring at both customer and portfolio levels is carried out along several parameters which include credit quality, provisioning levels, exposure limits across several dimensions, financial and operating performance, account conduct, end use of funds, adequacy of credit risk mitigants, adherence to financial and non-financial covenants, recovery performance, rating system performance among others.

Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost, and FVOCI debt investments without considering collateral or other credit enhancement. 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.

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

As of 31 December 2022	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired[4]		Total	
	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000
Balances with central banks	225,702,432	62,314	1,030,231	118,066	-	-	-	-	226,732,663	180,380
Due from banks and financial institutions	23,985,995	26,607	968,818	41,250	-	-	-	-	24,954,813	67,857
Reverse repurchase agreements	69,128,050	21,958	-	-	-	-	-	-	69,128,050	21,958
Loans, advances and Islamic financing[1]	441,557,544	1,467,682	13,261,515	2,577,553	20,898,190	9,088,489	4,007,217	746,263	479,724,466	13,879,987
Non-trading investments										
Amortised cost	4,688,298	659	-	-	-	-	-	-	4,688,298	659
FVOCI Debt[2]	166,550,713	102,509	40,578	3,936	-	-	-	-	166,591,291	106,445
Other assets[3]	15,899,857	406,525	5,338	330	668	427	-	-	15,905,863	407,282
Unfunded exposure	225,880,558	206,377	4,698,776	246,468	1,340,630	495,462	10,949	9,205	231,930,913	957,512
	1,173,393,447	2,294,631	20,005,256	2,987,603	22,239,488	9,584,378	4,018,166	755,468	1,219,656,357	15,622,080

[1]The exposure represents gross loans, advances and Islamic financing.
[2]The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.
[3]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.
[4]The Group, from an internal credit quality point of view, considers AED 3,870 million as par to non-performing loans, advances and Islamic financing.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

As of 31 December 2021	Stage 1		Stage 2		Stage 3		Purchased or originally credit impaired[4]		Total	
	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000	Exposure AED'000	Provision AED'000
Balances with central Banks	255,536,059	84,139	1,495,763	118,064	-	-	-	-	257,031,822	202,203
Due from banks and financial institutions	18,508,590	23,822	874,716	40,637	-	-	-	-	19,383,306	64,459
Reverse repurchase Agreements	46,288,005	27,360	-	-	-	-	-	-	46,288,005	27,360
Loans, advances and Islamic financing[1]	388,015,124	1,800,998	18,324,871	3,488,808	16,807,188	7,531,428	5,692,979	1,028,379	428,840,162	13,849,613
Non-trading investments										
Amortised cost	4,504,205	599	-	-	-	-	-	-	4,504,205	599
FVOCI Debt[2]	139,907,615	101,389	72,941	7,522	-	-	-	-	139,980,556	108,911
Other assets[3]	13,205,066	192,895	344,746	1,222	667	399	-	-	13,550,479	194,516
Unfunded exposure	210,751,733	156,080	4,687,188	255,848	1,188,949	421,352	15,724	10,512	216,643,594	843,792
	1,076,716,397	2,387,282	25,800,225	3,912,101	17,996,804	7,953,179	5,708,703	1,038,891	1,126,222,129	15,291,453

[1]The exposure represents gross loans, advances and Islamic financing[1].
[2]The provision against financial instruments classified as FVOCI is netted off against the fair value reserve.
[3]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.
[4]The Group, from an internal credit quality point of view, considers AED 5,563 million as par to non-performing loans, advances and Islamic financing.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

The movement of gross exposure is as follows:

Loans, advances and Islamic financing	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**POCI AED'000**	**Total AED'000**
Balance as at 1 January 2022	**388,015,124**	**18,324,871**	**16,807,188**	**5,692,979**	**428,840,162**
Transfers:					
Transfer from Stage 1 to Stage 2	**(3,464,539)**	**3,464,539**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(1,354,932)**	**-**	**1,354,932**	**-**	**-**
Transfer from Stage 2 to Stage 1	**2,075,805**	**(2,075,805)**	**-**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(5,213,887)**	**5,213,887**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**611,917**	**(611,917)**	**-**	**-**
Transfer from Stage 3 to Stage 1	**282,362**	**-**	**(282,362)**	**-**	**-**
	(2,461,304)	**(3,213,236)**	**5,674,540**	**-**	**-**
Net non-stage movements	**56,038,576**	**(1,823,426)**	**822,758**	**(1,509,131)**	**53,528,777**
Net amounts written-off	**(34,852)**	**(26,694)**	**(2,406,296)**	**(176,631)**	**(2,644,473)**
Balance as at 31 December 2022	**441,557,544**	**13,261,515**	**20,898,190**	**4,007,217**	**479,724,466**
Unfunded exposure					
Balance as at 1 January 2022	**210,751,733**	**4,687,188**	**1,188,949**	**15,724**	**216,643,594**
Transfers:					
Transfer from Stage 1 to Stage 2	**(1,285,235)**	**1,285,235**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(89,763)**	**-**	**89,763**	**-**	**-**
Transfer from Stage 2 to Stage 1	**189,652**	**(189,652)**	**-**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(302,849)**	**302,849**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**3,291**	**(3,291)**	**-**	**-**
	(1,185,346)	**796,025**	**389,321**	**-**	**-**
Net non-stage movements	**16,314,171**	**(784,437)**	**(237,640)**	**(4,775)**	**15,287,319**
Balance as at 31 December 2022	**225,880,558**	**4,698,776**	**1,340,630**	**10,949**	**231,930,913**

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

The movement of gross exposure is as follows:

Loans, advances and Islamic financing	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 January 2021	362,778,965	20,275,910	15,166,539	5,067,332	403,288,746
Increase due to acquisition	5,831,168	1,221,716	-	432,786	7,485,670
Transfers:					
Transfer from Stage 1 to Stage 2	(3,994,898)	3,994,898	-	-	-
Transfer from Stage 1 to Stage 3	(1,852,162)	-	1,852,162	-	-
Transfer from Stage 2 to Stage 1	4,829,791	(4,829,791)	-	-	-
Transfer from Stage 2 to Stage 3	-	(3,031,690)	3,031,690	-	-
Transfer from Stage 3 to Stage 2	-	872,279	(872,279)	-	-
Transfer from Stage 3 to Stage 1	75,247	-	(75,247)	-	-
	(942,022)	(2,994,304)	3,936,326	-	-
Net non-stage movements	20,368,101	(139,181)	8,409	340,121	20,577,450
Net amounts written-off	(21,088)	(39,270)	(2,304,086)	(147,260)	(2,511,704)
Balance as at 31 December 2021	388,015,124	18,324,871	16,807,188	5,692,979	428,840,162
Unfunded exposure					
Balance as at 1 Jan 2021	234,823,309	5,379,356	1,132,552	-	241,335,217
Increase due to acquisition	842,918	105,823	-	15,724	964,465
Transfers:					
Transfer from Stage 1 to Stage 2	(2,082,209)	2,082,209	-	-	-
Transfer from Stage 1 to Stage 3	(17,761)	-	17,761	-	-
Transfer from Stage 2 to Stage 1	630,618	(630,618)	-	-	-
Transfer from Stage 2 to Stage 3	-	(266,546)	266,546	-	-
Transfer from Stage 3 to Stage 2	-	56,791	(56,791)	-	-
Transfer from Stage 3 to Stage 1	12	-	(12)	-	-
	(1,469,340)	1,241,836	227,504	-	-
Net non-stage movements	(23,445,154)	(2,039,827)	(171,107)	-	(25,656,088)
Balance as at 31 December 2021	210,751,733	4,687,188	1,188,949	15,724	216,643,594

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Credit quality analysis *(continued)*

The external ratings for trading securities and non-trading investments are disclosed below:

	Non-trading investments		Investments at fair value through profit or loss	
	31 Dec 2022 AED'000	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000
AAA	**48,671,797**	30,281,925	**367**	722,673
AA to A	**85,179,548**	79,096,748	**15,221,548**	17,189,979
BBB to B	**34,775,195**	32,414,292	**12,648,673**	17,725,908
CCC and below	**145,062**	142,508	**39**	82,479
Unrated	**5,138,178**	3,552,617	**3,946,170**	9,851,213
	173,909,780	145,488,090	**31,816,797**	45,572,252
Less: expected credit losses	**(659)**	(599)	**-**	-
	173,909,121	145,487,491	**31,816,797**	45,572,252

Unrated investments primarily consist of investments in private equities and investments in equities which don't carry credit risk. Investments at fair value through profit or loss are neither past due nor impaired.

Collateral held and other credit enhancements

The Group has set up a framework for credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including approved third-party guarantees/ insurance. The types of Credit Risk Mitigation ("CRM") include netting agreements, collaterals, guarantees, credit derivatives and standby Letters of Credits ("SBLC"). The Group ensures that all documentation used in collateralized transactions and for documenting on and off-balance sheet netting, guarantees, credit derivatives and collateral is binding on all parties and is legally enforceable in all relevant jurisdictions. The Group also ensures that all the documents are reviewed by the appropriate authority and have appropriate legal opinions to verify and ensure its enforceability.

The Group holds collateral and other credit enhancements against certain of its credit exposures. An estimate of the collateral coverage (after the application of haircuts) against net credit-impaired loans, advances and Islamic financing is shown below:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Collateral value cover		
0 – 50%	**12,372,115**	11,205,953
51 – 100%	**4,457,912**	3,999,618
Above 100%	**1,686,910**	1,763,711
Net credit impaired loans, advances and Islamic financing	**18,516,937**	16,969,282

The Group's policy is to pursue timely realisation of the collateral in an orderly manner. The Group does not generally use the non-cash collateral for its own operations.

While the Group might not have repossessed significant amount of collateral in 2022 and 2021, maintaining repossession rights assist the Group in the restructuring and settlement of credit-impaired loans, advances and Islamic financing.

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Derivatives, reverse sale-and-repurchase agreements and securities borrowing

The Group mitigates the credit risk of derivatives, reverse sale-and-repurchase agreements and securities lending by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

Derivative transactions are transacted on exchanges, with clearing counterparties ("CCPs") or entered into under International Swaps and Derivatives Association (ISDA) master agreements. In general, under these agreements, in certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement with the counterparty are terminated, the termination value is assessed as per the jurisdiction netting rules and the amount (due or payable) in settlement with the counterparty. The Group usually executes a credit support annex in conjunction with the ISDA agreement, which requires the Group and its counterparties to post collateral to mitigate counterparty credit risk. Collateral is also posted daily in respect of derivatives transacted on exchanges and with CCPs.

The Group's sale-and-repurchase, and reverse sale-and-repurchase, transactions and securities borrowing and lending are covered by master agreements with netting terms similar to those of ISDA master netting agreements.

Loans, advances and Islamic financing to customers

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

Because of the Group's focus on corporate customers' creditworthiness, valuation of property collateral is conducted once in two years and more frequently for credit-impaired assets.

Off-balance sheet

The Group applies the same risk management policies for off- balance sheet risks as it does for its on- balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans, advances and Islamic financing. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Refer accounting policy note 3(c)(vii).

Significant increase in credit risk

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

For non-consumer exposure, objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- Probability of default at origination adjusted for the loan maturity; and
- Probability of default at current reporting date adjusted for the remaining life of the loan

Similarly, for consumer portfolio, the current and historical performance of the account is used estimate whether a significant increase in credit risk has occurred.

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Significant increase in credit risk *(continued)*

The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Group's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. These assessments usually reflect in placement of such exposures under certain categories, for example watch list. In these cases, PD gets calculated on lifetime basis.

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 return to being measured based on 12-month PD. 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 Group determines a probation period during which the financial asset is required to demonstrate good behavior to provide evidence that its credit risk has declined sufficiently. The Group is also complying with all probation period requirements in relevant jurisdictions stipulated by local central banks.

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

Credit risk rating

The Group allocates each non consumer exposure a credit risk rating based on variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk ratings 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 ratings are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates down the curve.

Each exposure is allocated to a credit risk rating on initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk rating.

Definition of default

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

- For non-consumer segment, a default shall be considered to have occurred with regard to a particular obligor when the Group considers that the obligor is unlikely to pay its credit obligations to itself in full, without recourse by it to actions such as realizing security (if held).

  Some off-balance sheet exposures such as bank guarantees, letters of credit etc. should be treated as impaired if the Group believes it is likely they will be called upon and the customer will not be able to meet these commitments. Where the off-balance sheet exposure is in the form of a Global Market contracts and there is doubt that all contractual future cash flows will be received from the counterparty, the Group should assess the net marked to market exposure to the counterparty taking into account any enforceable netting arrangements in place. The net position (if due from) thus arrived will be considered impaired.

- For consumer, a facility or any material credit obligation to the Group is more than 90 days past due.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes (note 46(e)).

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Incorporation of forward-looking information

The Group 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 Group 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. External information considered includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Group operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The economic scenarios used as at 31 December 2022 included the following key indicators for the years ending 31 December 2023 to 2027.

Region	Macro Variable[1,2]	Scenario	2023	2024	2025	2026	2027
MENA	**Oil Price**	Base	-17.94%	-20.03%	1.26%	2.29%	1.39%
		Upside	-11.69%	-18.47%	1.09%	2.07%	1.39%
		Downside	-53.38%	31.64%	4.93%	2.29%	2.11%
	UAE GDP	Base	3.27%	2.10%	2.52%	2.39%	2.39%
		Upside	5.56%	2.58%	2.52%	2.39%	2.39%
		Downside	-2.32%	0.22%	4.20%	3.55%	2.50%
	UAE Housing Price Index	Base	2.15%	1.56%	1.43%	2.22%	2.92%
		Upside	4.48%	2.25%	1.08%	2.06%	2.87%
		Downside	-3.34%	-0.95%	3.94%	4.08%	3.20%
	Egypt GDP	Base	6.35%	4.60%	4.21%	4.02%	4.22%
		Upside	8.83%	4.66%	4.21%	4.02%	4.22%
		Downside	-0.07%	4.66%	5.12%	4.93%	4.71%
	Egypt Equity Index	Base	8.13%	5.61%	5.53%	2.87%	3.05%
		Upside	21.17%	-0.62%	4.05%	2.87%	3.05%
		Downside	-30.41%	35.77%	17.68%	3.88%	3.05%
UK	**UK GDP**	Base	0.03%	1.41%	1.46%	1.11%	1.25%
		Upside	2.77%	1.40%	1.18%	1.11%	1.46%
		Downside	-6.09%	1.58%	2.55%	1.11%	1.16%
	UK Equity Index	Base	4.01%	2.54%	4.38%	4.69%	4.55%
		Upside	14.56%	-0.12%	1.64%	2.88%	4.85%
		Downside	-16.20%	11.47%	10.68%	6.60%	3.81%

(1) Represents the average annualized increase / decrease over the period.
(2) There are additional macro variables factors used for other regions which are relevant to their market.

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 accounting policy set out in note 3(c)(iv).

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.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Modified financial assets *(continued)*

The Group renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Group's forbearance policy, loan forbearance 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.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both consumer and non-consumer loans are subject to the forbearance policy. The Group Credit Committee regularly reviews reports on forbearance activities.

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired (note 3(c)(vii)). A customer needs to demonstrate consistently good payment behavior over a period of time before the exposure is no longer considered to be credit-impaired/in default.

Loans with renegotiated terms

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

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Loans with renegotiated terms		
Gross carrying amount	**10,644,491**	11,221,153
Impaired amount	**5,818,785**	3,277,389
Allowance for impairment	**3,007,972**	2,612,235

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Measurement of ECL

The key inputs into the measurement of ECL are:

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

The lifetime PDs are determined based on maturity profile. The maturity profile looks at how defaults develop on a portfolio throughout the remaining life of the loans.

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

LGD is the magnitude of the likely loss if there is a default. The Group estimates LGD term structure based on current collateral, counterparty industry, country of risk and recovery costs that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios incorporating the impact of change in oil prices, housing prices and other parameters.

EAD represents the expected exposure at the time of default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contractual obligations. For undrawn commitments and unfunded facilities such as letter of credit and letter of guarantees, EAD represents the amount of exposure when the facility becomes payable and the funded conversion is based on factors provided by Basel.

However, for credit card facilities that include both a loan and an undrawn commitment component, the Group measures ECL over contractual period and EAD is computed using internal model. Though the Group can cancel the limits with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Group becomes aware of an increase in credit risk at the facility level.

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

- instrument type;
- historical performance;
- 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.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. The basis for determining transfers due to changes in credit risk is set out in the Group's accounting policy; refer note 3(c)(vii).

	Stage 1[1] AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 January 2022	**2,387,282**	**3,912,101**	**7,953,179**	**1,038,891**	**15,291,453**
Transfers:					
Transfer from Stage 1 to Stage 2	**(55,302)**	**55,302**	**-**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(65,455)**	**-**	**65,455**	**-**	**-**
Transfer from Stage 2 to Stage 1	**151,013**	**(151,013)**	**-**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(1,508,638)**	**1,508,638**	**-**	**-**
Transfer from Stage 3 to Stage 2	**-**	**106,377**	**(106,377)**	**-**	**-**
Transfer from Stage 3 to Stage 1	**61,618**	**-**	**(61,618)**	**-**	**-**
	91,874	**(1,497,972)**	**1,406,098**	**-**	**-**
Impact of change in provision	**(244,121)**	**664,764**	**2,498,585**	**(21,685)**	**2,897,543**
Write-offs and other adjustments	**59,596**	**(91,290)**	**(2,273,484)**	**(261,738)**	**(2,566,916)**
Balance as at 31 December 2022	**2,294,631**	**2,987,603**	**9,584,378**	**755,468**	**15,622,080**

[1]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Amounts arising from ECL *(continued)*

Loss allowance *(continued)*

	Stage 1[1] AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balance as at 1 January 2021	3,150,926	3,446,374	6,308,890	695,474	13,601,664
Increase due to acquisition	387,162	230,433	176,789	472,095	1,266,479
Transfers:					
Transfer from Stage 1 to Stage 2	(109,271)	109,271	-	-	-
Transfer from Stage 1 to Stage 3	(71,619)	-	71,619	-	-
Transfer from Stage 2 to Stage 1	141,390	(141,390)	-	-	-
Transfer from Stage 2 to Stage 3	-	(445,836)	445,836	-	-
Transfer from Stage 3 to Stage 2	-	185,139	(185,139)	-	-
Transfer from Stage 3 to Stage 1	13,647	-	(13,647)	-	-
	(25,853)	(292,816)	318,669	-	-
Impact of change in provision	(1,123,060)	553,062	3,246,413	17,967	2,694,382
Write-offs and other adjustments	(1,893)	(24,952)	(2,097,582)	(146,645)	(2,271,072)
Balance as at 31 December 2021	2,387,282	3,912,101	7,953,179	1,038,891	15,291,453

[1]On certain assets included as part of other assets, ECL is computed based on simplified approach and reported as part of stage 1.

Notes to the consolidated financial statements *(continued)*

46 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 balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

	Note	Gross maximum exposure 31 Dec 2022 AED'000	Gross maximum exposure 31 Dec 2021 AED'000
Balances with Central Bank	4	**226,732,663**	257,031,822
Investments at fair value through profit or loss	5	**27,954,342**	36,650,351
Due from banks and financial institutions	6	**24,954,813**	19,383,306
Reverse repurchase agreements	7	**69,128,050**	46,288,005
Loans, advances and Islamic financing	8	**479,724,466**	428,840,162
Non-trading investments	9	**171,279,589**	144,484,761
Other assets excluding prepayments		**30,216,153**	18,277,278
Total		**1,029,990,076**	950,955,685
Derivatives held for trading	39	**51,162,442**	22,305,976
Derivatives held for hedging	39	**7,711,401**	1,967,790
Total		**58,873,843**	24,273,766
Contingent liabilities	38	**154,595,004**	165,236,122
Commitment	38	**77,335,909**	51,407,472
Total		**231,930,913**	216,643,594
Total credit risk exposure		**1,320,794,832**	1,191,873,045

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.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

The Group monitors concentrations of credit risk by industry sector, counterparty and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Concentrations by industry sector

	Loans, advances and Islamic financing		Investments		Reverse repurchase agreements		Undrawn loan Commitments	
	31 Dec 2022 AED'000	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000
Agriculture	**2,679,359**	1,533,714	**-**	-	**-**	-	**153,426**	63
Energy	**32,056,358**	37,916,788	**5,903,063**	7,696,822	**-**	-	**17,986,173**	17,905,281
Manufacturing	**22,808,173**	23,584,325	**899,410**	1,066,722	**-**	-	**3,961,004**	3,216,565
Construction	**11,332,923**	11,992,473	**995,513**	376,120	**-**	-	**838,086**	1,415,292
Real estate	**89,696,672**	93,387,686	**1,360,627**	1,576,742	**-**	-	**7,211,121**	7,224,316
Trading	**25,606,349**	25,374,643	**117,764**	120,681	**-**	-	**4,677,329**	1,229,184
Transport and communication	**42,895,098**	37,330,136	**4,518,113**	4,514,107	**-**	-	**17,876,434**	4,706,375
Banks	**7,920,375**	11,700,842	**28,947,199**	32,524,247	**55,656,317**	37,678,291	**-**	-
Other financial institutions	**77,283,322**	40,076,241	**14,405,411**	11,418,091	**10,345,007**	2,970,536	**15,756,617**	8,396,129
Services	**34,709,356**	26,685,073	**1,629,837**	6,276,410	**-**	-	**4,873,501**	2,856,405
Government	**55,910,901**	41,254,574	**146,949,640**	125,490,400	**3,126,726**	5,639,178	**3,976,650**	4,391,362
Personal loans and credit cards	**49,891,748**	52,740,445	**-**	-	**-**	-	**25,568**	66,500
Personal - retail mortgage	**26,933,832**	25,263,222	**-**	-	**-**	-	**-**	-
	479,724,466	428,840,162	**205,726,577**	191,060,342	**69,128,050**	46,288,005	**77,335,909**	51,407,472

The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any.
Included within investments are equity instruments where the credit risk is not applicable.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Concentration by location:

	UAE AED'000	Europe AED'000	Arab countries AED'000	Americas AED'000	Asia AED'000	Others AED'000	Total AED'000
As at 31 December 2022							
Cash and balances with central banks	**30,079,524**	**1,378,373**	**14,482,802**	**182,469,183**	**139,327**	**-**	**228,549,209**
Investments at fair value through profit or loss	**13,216,587**	**1,806,724**	**12,865,134**	**1,629,911**	**2,282,333**	**16,108**	**31,816,797**
Due from banks and financial institutions	**1,054,462**	**12,870,427**	**6,475,368**	**650,202**	**3,743,931**	**160,423**	**24,954,813**
Reverse repurchase agreements	**5,555,751**	**25,845,595**	**29,534,900**	**23,244**	**5,582,610**	**2,585,950**	**69,128,050**
Derivative financial instruments	**3,310,700**	**52,620,274**	**1,477,805**	**76,299**	**1,286,409**	**102,356**	**58,873,843**
Loans, advances and Islamic financing	**351,085,949**	**36,274,357**	**45,418,453**	**25,819,384**	**16,593,039**	**4,533,284**	**479,724,466**
Non trading investments	**38,197,730**	**25,361,564**	**30,823,478**	**33,911,226**	**43,877,003**	**1,738,779**	**173,909,780**
	442,500,703	**156,157,314**	**141,077,940**	**244,579,449**	**73,504,652**	**9,136,900**	**1,066,956,958**
As at 31 December 2021							
Cash and balances with central banks	41,960,159	76,500,164	23,080,192	117,307,999	86,465	-	258,934,979
Investments at fair value through profit or loss	16,989,613	3,061,200	16,220,924	2,467,166	6,120,215	713,134	45,572,252
Due from banks and financial institutions	360,164	15,595,686	1,973,668	550,678	724,995	178,115	19,383,306
Reverse repurchase agreements	2,571,436	11,772,481	21,792,403	48,350	6,906,115	3,197,220	46,288,005
Derivative financial instruments	3,439,468	17,806,558	1,764,170	159,507	932,912	171,151	24,273,766
Loans, advances and Islamic financing	298,881,132	40,962,981	47,158,094	20,208,219	18,238,829	3,390,907	428,840,162
Non trading investments	42,706,022	24,043,688	30,602,192	18,045,215	28,060,049	2,030,924	145,488,090
	406,907,994	189,742,758	142,591,643	158,787,134	61,069,580	9,681,451	968,780,560

Concentration by location for investments is measured based on the location of the issuer of the security. Concentration by location for all others is measured based on the residential status of the borrower. The above numbers are presented on a gross basis and are not adjusted for provisions or interest in suspense if any. Concentration by location for undrawn commitments is stated in note 38 of these consolidated financial statements.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(a) Credit risk *(continued)*

Classification of investments as per their counterparties:

	Non-trading investments		Investments at fair value through profit or loss	
	31 Dec 2022 AED'000	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000
Government sector	**119,907,304**	93,954,390	**25,726,513**	28,835,932
Supranational	**536,497**	634,136	**779,326**	2,065,942
Public sector	**15,529,732**	15,337,453	**786,919**	737,753
Banking sector	**27,916,727**	28,062,492	**1,030,472**	4,461,755
Corporate / private sector	**10,019,520**	7,499,619	**3,493,567**	9,470,870
	173,909,780	145,488,090	**31,816,797**	45,572,252
Less: allowance for impairment (expected credit loss) on amortised cost securities	**(659)**	(599)	**-**	-
	173,909,121	145,487,491	**31,816,797**	45,572,252

Settlement risk

The Group'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 counterparty to honor its obligations to deliver cash, securities or other assets as contractually agreed. Any delay in settlement is rare and monitored.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group. The positive market value is also referred to as the "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a counterparty defaults. The majority of the Group's derivative contracts are entered into with other banks and financial institutions.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(b) Liquidity risk

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations as and when they fall due or that it can only do so at an excessive cost.

Liquidity risk arises from cash flows generated by assets and liabilities, including derivatives and other off-balance sheet commitments, not being matched in currency, size, and term. The Group ensures that all liabilities can be met as they fall due under both businesses as usual and stress conditions without incurring undue cost.

Management of liquidity risk

The Group has defined the liquidity risk appetite at a level so as to ensure that the Group has a controlled liquidity risk position with adequate cash or cash-equivalents to be able to meet its financial obligations, in all foreseeable circumstances and without incurring substantial additional costs, for a rolling period of three months. The risk appetite is supported by a comprehensive risk management framework that includes Group ALCO approved limits for key funding and liquidity metrics, stress testing and a contingency funding plan.

The liquidity risk appetite is also defined at a level to ensure continued compliance with current and proposed liquidity regulation from both domestic and international regulators and aligned to support the Group's external credit rating objectives.

One of the critical means to measure adequacy of liquidity as per extant global regulation is through Liquidity Coverage Ratio ("LCR"). The Group has been complying with UAE regulation on Basel III LCR and has been reporting the same for a considerable period of time. Accordingly, the Group has invested heavily in ensuring systems and controls framework is in place to comply with all the qualitative and quantitative aspects of Basel III. The Group also continues to measure and report Eligible Liquid Assets ratio (ELAR) in line with CBUAE stipulation on banking returns.

Liquidity limits are defined at the Group level and are cascaded down throughout the organisation to ensure that the Group complies with the defined Group Liquidity Risk appetite. Similarly International limits are cascaded to ensure compliance with any additional local regulatory requirements on liquidity management.

All liquidity policies and procedures are subject to review and approval by G-ALCO.

Exposure to liquidity risk

The contractual asset and liability maturity mismatch report without considering the Group's retention history is detailed below.

46 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities as at 31 December 2022.

	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	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	228,368,829	228,368,829	-	-	-	-	-
Investments at fair value through profit or loss	31,816,797	16,644,294	9,405,184	829,273	680,340	395,251	3,862,455
Due from banks and financial institutions	24,886,956	24,886,956	-	-	-	-	-
Reverse repurchase agreements	69,106,092	28,904,283	25,635,985	9,056,324	5,509,500	-	-
Derivative financial instruments[1]	58,873,843	3,057,711	4,368,204	12,222,893	12,039,210	27,185,825	-
Loans, advances and Islamic financing	459,593,327	67,208,857	57,307,559	116,723,716	91,926,009	126,427,186	-
Non-trading investments	173,909,121	36,480,423	21,502,193	35,702,399	36,448,860	41,145,055	2,630,191
Investment properties	7,168,089	-	-	-	-	-	7,168,089
Property and equipment	5,795,207	-	-	-	-	-	5,795,207
Intangibles	20,332,179	-	-	-	-	-	20,332,179
Other assets	30,205,655	22,654,241	7,551,414	-	-	-	-
	1,110,056,095	428,205,594	125,770,539	174,534,605	146,603,919	195,153,317	39,788,121
Liabilities and equity							
Due to banks and financial institutions	61,560,340	54,854,969	3,032,371	3,673,000	-	-	-
Repurchase agreements	39,004,515	14,164,027	8,516,896	16,323,592	-	-	-
Commercial Paper	31,738,356	30,961,721	776,635	-	-	-	-
Derivative financial instruments[1]	62,024,540	3,940,128	4,687,064	11,824,864	11,681,781	29,890,703	-
Customer accounts and other deposits	700,573,371	531,533,489	157,829,862	5,118,485	710,687	5,380,848	-
Term borrowings	62,635,133	7,588,148	3,486,363	23,812,000	20,435,359	7,313,263	-
Subordinated notes	420,620	-	-	-	420,620	-	-
Other liabilities	37,048,977	27,786,733	9,262,244	-	-	-	-
Equity	115,050,243	-	-	-	-	-	115,050,243
	1,110,056,095	670,829,215	187,591,435	60,751,941	33,248,447	42,584,814	115,050,243
Undrawn commitments to extend credit	77,335,909	39,560,238	36,581,724	871,410	407	322,130	-
Trade contingencies	154,595,004	80,159,980	20,528,575	16,879,437	23,064,804	13,962,208	-

[1]The Group has the option to liquidate the derivatives at any point of time.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The maturity profile of the assets and liabilities as at 31 December 2021:

	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	Unspecified maturity AED'000
Assets							
Cash and balances with central banks	258,732,776	255,510,344	3,222,432	-	-	-	-
Investments at fair value through profit or loss	45,572,252	17,872,472	16,644,493	708,418	569,670	855,298	8,921,901
Due from banks and financial institutions	19,318,847	19,318,847	-	-	-	-	
Reverse repurchase agreements	46,260,645	26,767,419	12,391,846	7,101,380	-	-	-
Derivative financial instruments[1]	24,273,766	2,771,235	2,189,976	4,636,977	4,311,473	10,364,105	-
Loans, advances and Islamic financing	409,589,936	81,954,575	68,757,723	98,885,465	69,208,966	90,783,207	-
Non-trading investments	145,487,491	25,159,316	14,398,777	32,004,532	27,405,793	45,515,744	1,003,329
Investment properties	6,962,576	-		-	-	-	6,962,576
Property and equipment	5,965,261	-		-	-	-	5,965,261
Intangibles	20,535,134	-	-	-	-	-	20,535,134
Other assets	18,397,419	13,798,068	4,599,351	-	-	-	-
	1,001,096,103	443,152,276	122,204,598	143,336,772	101,495,902	147,518,354	43,388,201
Liabilities and equity							
Due to banks and financial institutions	56,985,180	52,205,866	4,772,923	6,391	-	-	-
Repurchase agreements	55,074,494	46,317,898	284,728	8,471,868	-	-	-
Commercial Paper	39,664,252	21,479,026	18,185,226	-	-	-	-
Derivative financial instruments[1]	28,395,085	1,691,560	1,710,320	4,696,275	5,171,017	15,125,913	-
Customer accounts and other deposits	614,669,890	531,721,221	73,129,309	8,472,464	909,736	437,160	-
Term borrowings	71,643,816	7,919,628	5,713,929	25,201,416	24,131,059	8,677,784	-
Subordinated notes	448,908	-	-	-	-	448,908	
Other liabilities	21,567,047	16,175,285	5,391,762	-	-	-	-
Equity	112,647,431	-	-	-	-	-	112,647,431
	1,001,096,103	677,510,484	109,188,197	46,848,414	30,211,812	24,689,765	112,647,431
Undrawn commitments to extend credit	51,407,472	10,937,310	38,176,095	2,101,434	59,415	133,218	-
Trade contingencies	165,236,122	81,281,035	33,185,536	17,935,163	16,586,906	16,247,482	-

[1]The Group has the option to liquidate the derivatives at any point of time.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(b) Liquidity risk *(continued)*

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted repayment obligations.

Liabilities	Total AED'000	Gross nominal cash flows 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
As at 31 December 2022							
Due to banks and financial institutions	**61,560,340**	**62,348,623**	**55,146,704**	**3,267,480**	**3,934,439**	**-**	**-**
Repurchase agreements	**39,004,515**	**41,084,160**	**14,230,036**	**8,824,918**	**18,029,206**	**-**	**-**
Commercial Paper	**31,738,356**	**31,867,385**	**31,075,899**	**791,486**	**-**	**-**	**-**
Customer accounts and other deposits	**700,573,371**	**711,563,649**	**536,176,208**	**163,390,447**	**5,805,192**	**766,679**	**5,425,123**
Term borrowings[1]	**62,635,133**	**87,013,220**	**8,495,932**	**5,328,795**	**29,373,376**	**23,470,465**	**20,344,652**
Subordinated notes	**420,620**	**515,821**	**-**	**19,749**	**39,607**	**456,465**	**-**
	895,932,335	**934,392,858**	**645,124,779**	**181,622,875**	**57,181,820**	**24,693,609**	**25,769,775**
Undrawn commitments to extend credit[2]	**77,335,909**	**77,335,909**	**39,560,238**	**36,581,724**	**871,410**	**407**	**322,130**
Trade contingencies	**154,595,004**	**154,595,004**	**80,159,980**	**20,528,575**	**16,879,437**	**23,064,804**	**13,962,208**
As at 31 December 2021							
Due to banks and financial institutions	56,985,180	57,002,596	52,214,756	4,781,266	6,574	-	-
Repurchase agreements	55,074,494	55,214,952	46,349,403	287,733	8,577,816	-	-
Commercial Paper	39,664,252	39,818,327	21,682,683	18,135,644	-	-	-
Customer accounts and other deposits	614,669,890	618,540,280	539,867,723	71,718,355	5,474,224	964,402	515,576
Term borrowings[1]	71,643,816	90,841,451	9,007,797	6,403,681	27,685,532	25,862,568	21,881,873
Subordinated notes	448,908	566,468	-	21,054	41,822	41,879	461,713
	838,486,540	861,984,074	669,122,362	101,347,733	41,785,968	26,868,849	22,859,162
Undrawn commitments to extend credit[2]	51,407,472	51,407,472	10,937,310	38,176,095	2,101,434	59,415	133,218
Trade contingencies	165,236,122	165,236,122	81,281,035	33,185,536	17,935,163	16,586,906	16,247,482

[1]Includes borrowings with callable feature for which the undiscounted contractual cash flows based on final contractual maturity are presented above without consideration of the call option.
[2]Calculated as per the contractual maturity profile.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk

Market risk is the risk that the Group's income or capital will fluctuate on account of changes in the value of a financial instrument because of movements in market factors such as interest rates, credit spreads, foreign exchange rates and market prices of equity and commodity.

Management of market risk

The Group separates its exposure to market risk between trading, investment and non-trading portfolios. Trading and investment portfolios are managed on a fair value basis.

Investment Management Committee ("IMCO") is responsible for oversight and guidance to Global Markets' trading and investment activities. It ensures effective management of market risks in accordance with the principles laid down in the market risk management policy. IMCO acts as a sub-committee of Group Asset and Liabilities ("G-ALCO") which has the overall authority and responsibility to manage market risks.

Market Risk Group is responsible for the development and implementation of detailed market risk appetite, risk management methodologies and policies including the control framework that is reviewed by IMCO and submitted to G-ALCO and BRCC for approval.

Exposure to market risks – trading portfolios

The principal analytical tool used to measure and control market risk exposure within the Group's trading portfolios which comprise of investments at fair value through profit or loss and trading derivatives is Value at Risk ("VaR"). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model uses historical simulation based on a 99% confidence level and assumes a 1-day holding period. Using market data from the previous twelve months, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. The historical market rates and prices cover the risk factors associated with the following asset classes: foreign exchange, interest rates, credit, commodities and public equity.

The Group has established VaR limits covering all trading desks. The overall structure of Trading VaR limits is subject to review and approval by the IMCO and then ratified at G-ALCO. VaR limits are then cascaded down to trading desks.

VaR is driven by actual historical observations and hence, it is not an estimate of the maximum loss that the Group could experience from an extreme market event. As a result of this limitation, the VaR is further supplemented with other sensitivity limit structures and risk measures including stressed VaR (sVaR) and Expected Shortfall (ES) to address potential concentration risks within each trading portfolio. Moreover the trading activity at Group and desk level is subject to Management Action Triggers ("MAT") that are limits on maximum losses that trigger actions from management. The VaR is as follows:

	31 Dec 2022			
	AED'000	AED'000	AED'000	AED'000
	As at	Average	Max	Min
VaR – Trading Book				
All	49,405	44,646	62,720	22,194
Interest rate	48,667	24,674	49,953	8,746
Credit	13,471	19,908	42,549	8,248
Foreign exchange	6,704	17,996	47,008	4,735
Equity	3,297	2,445	5,834	242
Commodity	793	1,168	8,202	19
Diversification benefit	(23,527)	(21,545)	(90,826)	204

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

	31 Dec 2021			
	AED'000	AED'000	AED'000	AED'000
	As at	Average	Max	Min
VaR – Trading Book				
All	71,793	67,540	102,425	50,797
Interest rate	66,738	60,682	93,610	39,666
Credit	49,273	37,759	100,567	21,455
Foreign exchange	25,429	19,517	27,530	11,357
Equity	558	1,589	5,699	268
Commodity	13	1,010	7,405	13
Diversification benefit	(70,218)	(53,017)	(132,386)	(21,962)

Exposure to market risk – banking portfolios

Exposure to Market Risk in the banking portfolios which comprise of non-trading investments, reverse repurchase agreements and certain derivative instruments which are designated as hedging instruments arise primarily from the investment portfolios, interest rate gaps in the banking book, and the Group's overall FX positions.

The principal analytical tool used to measure and control the investment risk exposure within the Group is Value at Risk ("VaR"). The VaR model is the same as the one used for the trading portfolios. The Group uses VaR limits for controlling the overall investment risk, including foreign exchange, interest rate, equities and credit spreads. The overall structure of banking VaR limits is subject to review and approval by IMCO and then ratified by G-ALCO. VaR limits are then cascaded to different Investment desks. The investment risk VaR is as follows:

	31 Dec 2022			
	AED'000	**AED'000**	**AED'000**	**AED'000**
	As at	**Average**	**Max**	**Min**
VaR – Banking Book				
All	**316,418**	**228,550**	**317,105**	**156,074**
Interest rate	**156,276**	**142,034**	**237,113**	**103,304**
Credit	**299,477**	**243,445**	**302,574**	**135,816**
Foreign exchange	**15,404**	**10,243**	**27,641**	**4,108**
Equity	**17,940**	**17,164**	**22,566**	**8,794**
Diversification benefit	**(172,679)**	**(184,336)**	**(272,789)**	**(95,948)**

	31 Dec 2021			
	AED'000	**AED'000**	**AED'000**	**AED'000**
VaR – Banking Book	**As at**	**As at**	**As at**	**As at**
All	521,783	517,181	607,180	430,650
Interest rate	123,169	74,282	130,899	26,325
Credit	543,064	485,521	549,289	429,835
Foreign exchange	7,944	8,921	16,675	7,326
Equity	20,331	17,923	20,704	15,472
Diversification benefit	(172,725)	(69,466)	(110,387)	(48,308)

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

Foreign exchange risk

Foreign exchange 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 Group's functional currency is the UAE Dirham. The Board of Directors has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. The Group had the following significant net exposures denominated in foreign currencies:

As at 31 December 2022	Net spot position (short)/long AED'000	Forward position (short)/long AED'000	Total (short)/long AED'000
Currency			
US Dollar	**36,418,533**	**14,166,986**	**50,585,519**
UK Sterling Pound	**(6,087,696)**	**5,987,604**	**(100,092)**
Euro	**6,494,186**	**(5,268,504)**	**1,225,682**
Kuwaiti Dinar	**(261,244)**	**338,652**	**77,408**
Saudi Riyal	**1,497,762**	**(44,272)**	**1,453,490**
Japanese Yen	**4,659,046**	**(4,671,459)**	**(12,413)**
Swiss Franc	**(5,286,379)**	**5,245,329**	**(41,050)**
Bahraini Dinar	**9,071,533**	**(3,972,014)**	**5,099,519**
Egyptian Pound	**9,419,923**	**(9,720,529)**	**(300,606)**
Indian Rupees	**1,166,757**	**(108,076)**	**1,058,681**
Libyan Dinar	**157,243**	**-**	**157,243**
Others	**3,873,670**	**(5,168,276)**	**(1,294,606)**
As at 31 December 2021			
Currency			
US Dollar	(8,096,034)	44,131,826	36,035,792
UK Sterling Pound	(2,936,366)	2,763,058	(173,308)
Euro	29,681,838	(28,504,576)	1,177,262
Kuwaiti Dinar	(922,720)	738,262	(184,458)
Saudi Riyal	7,821,997	(6,216,212)	1,605,785
Japanese Yen	5,156,323	(4,979,452)	176,871
Swiss Franc	(5,778,987)	5,755,665	(23,322)
Bahraini Dinar	5,659,444	(2,709,651)	2,949,793
Egyptian Pound	11,263,576	(11,534,347)	(270,771)
Indian Rupees	2,105,547	(340,838)	1,764,709
Libyan Dinar	146,099	-	146,099
Others	(721,458)	1,157,682	436,224

As AED, SAR and BHD are pegged against US Dollar, the Group's risk exposure to these currencies is limited to that extent. Exposure to other foreign currencies is insignificant.

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

The tables below indicate the currencies to which the Group had significant exposure at 31 December 2022 and 2021 on its monetary assets, liabilities and net derivatives forward position. The analysis estimates the effect of a reasonably possible movement of AED against other currencies, with all other variables held constant on the consolidated income statement.

Currency	EGP	EUR	GBP	JPY	INR
Assumed change in exchange rates	**1%**	**1%**	**1%**	**1%**	**1%**
Impact on net income in exchange rate:					
31 Dec 2022 (AED'000)	**± 3,006**	**± 12,257**	**± 1,001**	**± 124**	**± 10,587**
31 Dec 2021 (AED'000)	± 2,708	± 11,773	± 1,733	± 1,769	± 17,649

At 31 December 2022 and 2021, the effect of the assumed changes in exchange rates on equity is insignificant.

Equity price risk

The Group is exposed to equity price risk on equity investments, either through holding of equities of another entity or through equity derivatives such as forward contracts, options or swaps. The fair value of these instruments will fluctuate due changes in the market price of the underlying equity instruments. The Group manages this risk through setting Equity Delta, Vega and Gamma limits. The Group also enforces diversification of investments in terms of geographical distribution and industry concentration.

The following table estimates the sensitivity to a possible change in equity markets on the Group's income statement. The sensitivity of the income statement is the effect of the assumed change in the reference equity benchmark on the fair value of investments carried at fair value through the income statement.

	Assumed level of change %	**Impact on net income 31 Dec 2022 AED'000**	Impact on net income 31 Dec 2021 AED'000
Investments at fair value through profit or loss			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**60,228**	340,222
Dubai Financial Market Index	5%	**1,575**	2,053
Net asset value of managed funds and private equities	5%	**112,459**	108,893
Other equity exchanges	5%	**18,860**	1,219
		193,122	452,387

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

The effect on equity as a result of a change in the fair value of equity instruments held as available for sale at 31 December 2022 and 2021, due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	Impact on net Income 31 Dec 2022 AED'000	Impact on net Income 31 Dec 2021 AED'000
Non-trading investments (excluding investment in associates and joint ventures)			
Reference equity benchmarks:			
Abu Dhabi Securities Exchange Index	5%	**16,456**	14,787
Other equity exchanges	5%	**26,881**	21,335
Unquoted	5%	**10,207**	10,258
		53,544	46,380

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 Group manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities. Overall interest rate risk positions are managed by using derivative instruments to manage overall position arising from the Group's interest-bearing financial instruments. The use of derivatives to manage interest rate risk is described in note 39.

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 50 basis points (31 December 2021: 50 basis points) and uses its internal models / management view to estimates the following impact on the net profit for the year and equity at that date:

	Net profit for the year		Equity	
	31 Dec 2022 AED'000	31 Dec 2021 AED'000	**31 Dec 2022 AED'000**	31 Dec 2021 AED'000
50 bps up move	**685,219**	582,784	**659,590**	1,091,348
50 bps down move	**(724,449)**	(469,517)	**(603,224)**	-868,039

The interest rate sensitivities set out above are based on AED 730,469 million (31 December 2021: AED 694,852 million) interest bearing assets and AED 639,419 million (31 December 2021: AED 530,220 million) interest bearing liabilities with interest re-pricing less than one year, for assessing the impact on net profit. The impact on equity as given in the table above is based on the sensitivity of interest-bearing assets and liabilities for the banking book. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

Interest rate risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2022 was as follows:

	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 central banks	228,368,829	204,494,879	138,020	-	-	239	23,735,691
Investments at fair value through profit or loss	31,816,797	18,311,815	9,393,433	822,248	680,340	395,251	2,213,710
Due from banks and financial institutions	24,886,956	21,456,922	37,545	-	113,719	-	3,278,770
Reverse repurchase agreements	69,106,092	28,926,241	25,635,985	9,056,324	5,487,542	-	-
Derivative financial instruments	58,873,843	-	-	-	-	-	58,873,843
Loans, advances and Islamic financing	459,593,327	314,333,511	72,446,033	35,604,724	31,176,979	6,032,080	-
Non-trading investments	173,909,121	41,313,933	21,686,320	32,437,867	35,473,128	40,269,817	2,728,056
Investment properties	7,168,089	-	-	-	-	-	7,168,089
Property and equipment	5,795,207	-	-	-	-	-	5,795,207
Intangible assets	20,332,179	-	-	-	-	-	20,332,179
Other assets	30,205,655	-	-	-	-	-	30,205,655
	1,110,056,095	628,837,301	129,337,336	77,921,163	72,931,708	46,697,387	154,331,200
Liabilities and equity							
Due to banks and financial institutions	61,560,340	48,279,949	3,110,268	-	3,911,329	-	6,258,794
Repurchase agreements	39,004,515	13,768,730	8,516,896	16,718,889	-	-	-
Commercial Paper	31,738,356	30,962,208	776,148	-	-	-	-
Derivative financial instruments	62,024,540	-	-	-	-	-	62,024,540
Customer accounts and other deposits	700,573,371	360,350,394	157,465,046	7,279,965	175,439,565	38,401	-
Term borrowings	62,635,133	13,969,224	2,219,929	20,484,853	18,096,432	7,864,695	-
Subordinated notes	420,620	-	-	-	420,620	-	-
Other liabilities	37,048,977	-	-	-	-	-	37,048,977
Equity	115,050,243	-	-	-	-	-	115,050,243
	1,110,056,095	467,330,505	172,088,287	44,483,707	197,867,946	7,903,096	220,382,554
On statement of financial position gap		161,506,796	(42,750,951)	33,437,456	(124,936,238)	38,794,291	(66,051,354)
Off statement of financial position gap		6,800,753	40,111,769	(17,696,737)	(19,383,796)	(9,831,989)	-
Total interest rate sensitivity gap		168,307,549	(2,639,182)	15,740,719	(144,320,034)	28,962,302	(66,051,354)
Cumulative interest rate sensitivity		168,307,549	165,668,367	181,409,086	37,089,052	66,051,354	-

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

Interest rate risk *(continued)*

The Group's interest rate gap and sensitivity position based on contractual cash flow arrangements at 31 December 2021 was as follows:

	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 central banks	258,732,776	232,205,744	51,935	-	-	-	26,475,097
Investments at fair value through profit or loss	45,572,252	25,467,500	15,872,160	637,619	569,670	855,298	2,170,005
Due from banks and financial institutions	19,318,847	15,700,209	-	-	-	-	3,618,638
Reverse repurchase agreements	46,260,645	26,771,159	12,388,106	7,101,380	-	-	-
Derivative financial instruments	24,273,766	-	-	-	-	-	24,273,766
Loans, advances and Islamic financing	409,589,936	304,851,616	59,568,350	23,587,659	16,642,502	4,939,809	-
Non-trading investments	145,487,491	29,120,470	14,194,777	30,531,426	27,227,146	44,022,340	391,332
Investment properties	6,962,576	-	-	-	-	-	6,962,576
Intangibles	20,535,134	-	-	-	-	-	20,535,134
Property and equipment	5,965,261	-	-	-	-	-	5,965,261
Other assets	18,397,419	-	-	-	-	-	18,397,419
	1,001,096,103	634,116,698	102,075,328	61,858,084	44,439,318	49,817,447	108,789,228
Liabilities and equity							
Due to banks and financial institutions	56,985,180	47,991,035	4,772,924	6,391	-	-	4,214,830
Repurchase agreements	55,074,494	46,317,898	284,728	8,471,868	-	-	-
Commercial Paper	39,664,252	21,479,026	18,185,226	-	-	-	-
Derivative financial instruments	28,395,085	-	-	-	-	-	28,395,085
Customer accounts and other deposits	614,669,890	297,455,801	71,320,668	7,472,014	238,102,643	318,764	-
Term borrowings	71,643,816	20,811,593	1,600,825	18,980,943	20,916,204	9,334,251	-
Subordinated notes	448,908	-	-	-	-	448,908	-
Other liabilities	21,567,047	-	-	-	-	-	21,567,047
Equity	112,647,431	-	-	-	-	-	112,647,431
	1,001,096,103	434,055,353	96,164,371	34,931,216	259,018,847	10,101,923	166,824,393
On statement of financial position gap		200,061,345	5,910,957	26,926,868	(214,579,529)	39,715,524	(58,035,165)
Off statement of financial position gap		31,844,732	(2,603,095)	(1,205,064)	(14,763,453)	(13,273,120)	-
Total interest rate sensitivity gap		231,906,077	3,307,862	25,721,804	(229,342,982)	26,442,404	(58,035,165)
Cumulative interest rate sensitivity		231,906,077	235,213,939	260,935,743	31,592,761	58,035,165	-

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

Interest rate risk *(continued)*

Interest Rate Benchmark Reform

A fundamental reform of major interest rate benchmarks is being undertaken globally, replacing some Interbank offered rates (IBORs) with alternative nearly risk-free rates (ARRS). The Group has significant exposure to certain IBORs on its financial instruments that are being reformed as part of these market-wide initiatives. IBORs, such as the London Interbank Offered Rate ("LIBOR"), plays a critical role in global financial markets, serving as reference rates for derivatives, Loans, advances and Islamic financing, and as parameters in the valuation of financial instruments.

The transition process away from IBORs, including the transition of legacy contracts that reference IBORs, exposes the Group to material execution risks, and increases some financial and non-financial risks which the project team is managing and monitoring closely. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses. Further, financial risks resulting from the discontinuation of IBORs and the development of market liquidity in RFRs will also affect the Group throughout transition. The differences in IBOR and RFR interest rates will create a basis risk that will be managed actively through appropriate financial hedging. Basis risk in the trading book and in the banking book may arise out of the asymmetric adoption of RFRs across assets and liabilities and across currencies and products. In addition, this may limit the ability to hedge effectively.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available; and
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.

Group's approach towards IBOR Transition

The Group initiated its IBOR transition project in 2019. The Project is sponsored by the Group CFO and is being led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology. The Group has maintained its momentum in tracking its exposure to IBORs, preparing its IT systems to accommodate the incoming Risk-Free Rates, amending, or preparing contractual templates and communicating its progress with both the Regulators and its clients.

In 2021, the Group has successfully completed the transition of a significant portion of its IBOR exposure to RFRs indexed to Sterling Overnight Index Average (SONIA), Secured Overnight Financing Rate (SOFR) and Euro Short-Term Rate (€STR). As of 31 December 2022, the Group has in place detailed plans, processes, and procedures to support the transition of remaining IBOR exposure which is indexed to US dollar Libor with overnight, one month, three-month, six month and twelve-month LIBOR settings before 30 June 2023. These settings will either cease to be provided or no longer be representative after 30 June 2023 as announced by the Financial Conduct Authority (FCA) and the alternative reference rate for US dollar LIBOR is the SOFR.

As at 31 December 2022, the IBOR reform in respect of currencies to which the Group has exposure has been largely completed. The table below sets out the IBOR rates that the Group had exposure to, the new benchmark rates to which these exposures have or are being transitioned, and the status of the transition.

Currency	Benchmark before Reform	Benchmark after Reform	31 Dec 2022	31 Dec 2021
USD	USD LIBOR	SOFR	In progress	In progress
GBP	GBP LIBOR	SONIA	Completed	Completed
EURO	EONIA	€STR	Completed	Completed
EURO	EURIBOR	EURIBOR reformed	Completed	Completed
JPY	JPY LIBOR	TONAR / TORF	Completed	Completed
CHF	CHF LIBOR	SARON	Completed	Completed

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

Interest rate risk *(continued)*

Interest Rate Benchmark Reform *(continued)*

Group's approach towards IBOR Transition *(continued)*

In line with the regulatory guidance, the Group will continue to actively transition LIBOR products to suitable alternatives where possible. However, if this is not achieved, those products will use synthetic LIBOR where applicable and until they are transitioned.

For contracts indexed to an IBOR that mature after the expected cessation of the IBOR rate, the Group has established policies to amend the contractual terms. These amendments include the addition of fallback clauses or replacement of the IBOR rate with an alternative benchmark rate.

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

Non derivative financial assets

As of 31 December 2021, non-derivative financial assets and loan commitments indexed mainly to sterling LIBOR, Euribor and certain US dollar LIBOR settings, were amended to incorporate new benchmark rates. For the remaining contracts indexed to US dollar LIBOR, the Group has inserted the fallback provisions.

The table below represents the exposures to interest rate benchmark reform by balance sheet account, which have yet to transition as of 31 December 2022. The exposure disclosed is for positions with contractual maturities referencing USD LIBOR (other than USD LIBOR 1W and 2M tenors) that will transition after 30 June 2023

Balances reported at amortized cost are disclosed at their gross carrying value and do not include any expected credit losses that may be held against them. Balances reported at fair value are disclosed at their fair value on the balance sheet date.

	2022 AED'000	2021 AED'000
Non-derivative financial assets		
Cash and balances with central banks	**322,714**	117,059
Investments at fair value through profit or loss	**389,095**	3,230,307
Due from banks and financial institutions	**4,726,354**	2,010,402
Reverse repurchase agreements	**29,901,779**	26,119,831
Loans, advances and Islamic financing	**91,894,639**	141,475,944
Non-trading investments	**8,380,834**	4,189,569
Non-derivative financial assets	**135,615,415**	177,143,112
Non-derivative financial liabilities		
Due to banks and financial institutions	**27,218,069**	33,140,344
Repurchase agreements	**32,857,465**	52,805,507
Commercial paper	**30,930,714**	17,645,838
Customer accounts and other deposits	**258,404,465**	249,823,025
Term borrowings	**16,647,997**	19,830,020
Non-derivative financial liabilities	**366,058,710**	373,244,734

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(c) Market risk *(continued)*

Interest rate risk *(continued)*

Interest Rate Benchmark Reform *(continued)*

Derivatives and hedge accounting

The Group holds derivatives for trading and risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate and cross-currency swaps have floating legs that are indexed to various IBORs.

For the derivatives exposures, Group have adhered to the adoption of the International Swaps and Derivatives Association ('ISDA') protocol as a fallback provision, which came into effect in January 2021, and the successful changes made by clearing houses to discount derivatives using the euro short-term rate ('€STR') and SOFR, to reduce the risk of a disorderly transition of the derivatives market.

The table below represents the derivative exposures to interest rate benchmark reform, which have yet to transition as of 31 December 2022. The exposure disclosed is for positions with contractual maturities after the respective LIBOR cessation dates. Derivatives are reported by using the notional contract amount and where derivatives have both pay and receive legs with exposure to benchmark reform such as cross currency swaps, the notional contract amount is disclosed for both legs. The exposure disclosed is for positions with contractual maturities referencing USD LIBOR (other than USD LIBOR 1W and 2M tenors) that will transition after 30 June 2023.

	2022 AED'000	2021 AED'000
Exchange traded interest rate options and swaptions	**2,471,929**	835,618,519
OTC interest rate swaps	**748,469,269**	1,102,682,144
OTC interest rate options and swaptions	**1,443,489**	2,846,575
OTC other derivative contracts	**158,509,522**	13,315,853
Derivative notional contract amount	**910,894,209**	1,954,463,091

Further, the Group evaluated the extent to which its fair value and cash flow hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. As of 31 December 2022, the Group's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, which are mainly US Dollar LIBOR. Theses IBOR benchmark rates are quoted each day and IBOR cash flows are exchanged with its counterparties as usual.

The table below represents the notional amounts of interest rate derivatives designated in hedge accounting relationships represent the extent of the risk exposure managed by the Group that is expected to be directly affected by market wide IBOR reform.

Hedging instrument impacted by IBOR reform	**USD LIBOR AED'000**
Fair value hedges	**91,823,852**
Cash flow hedges	**3,599,540**
At 31 December 2022	**95,423,392**
Fair value hedges	122,004,778
Cash flow hedges	3,599,540
At 31 December 2021	125,604,318

46 Financial risk management *(continued)*

(d) Operational risk

Operational risk is defined as the risk of losses resulting from inadequate or failed processes, people and systems or from external events.

Operational risks arise across all businesses in the Group. The primary responsibility to ensure these risks are managed and monitored, resides with the businesses within the Group. Group's businesses are supported by embedded risk resources and Group Operational Risk Management as 'second line of defense' to ensure robust risk management.

Group Operational Risk Management (GORM) reports to CRO who has an independent line to Board Risk Committee which is being apprised of the management of operational risk through periodic reporting. GORM provides tools, trainings and template to all business function to effectively identify, assess, manage, monitor and control operational risk.

Further, there are reviews conducted by Group Internal Audit as the 'third line of defense'. The results of internal audit reviews are discussed with the management of the respective divisions and summaries are submitted to the Board Audit Committee.

The Group has an established Operational Risk framework consisting of policies and procedures to identify, assess, monitor, control, and report and to manage risks and to notify, identify and resolve incidents. The Operational Risk framework also provides the interrelation with other risk categories. Where appropriate, risk transfer in the form of insurance.

The Group has adopted BASEL event categories to classify its operational risk events, which are:

- Internal fraud: Risk of unauthorized activity and fraud perpetrated by employees
- External fraud: Risk of fraud or breach of system security by an external party
- Employee practices and workplace safety: Risk of failures in employee relations, diversity and discrimination, and health and safety risks across the group
- Damage to physical assets: Risk of impact to the group due to natural disasters
- Clients, products and business practices: Risk of failing in assessing client suitability, fiduciary responsibilities, improper business practices, flawed products and advisory activities.
- Business disruption and system failures: Risk of not planning and testing business continuity and disaster recovery for systems
- Execution delivery and process management: Risk of failed transaction execution, customer intake and documentation, vendor management and monitoring and reporting.

The Board has oversight responsibilities for operational risk management across the Group. These responsibilities are delegated and exercised through the Group Operational Risk Committee, which is the senior management forum responsible for the oversight and management of Operational Risk.

Key responsibilities of Group Operational Risk Committee with regards to Operational risk include to ensure:

- Approval of the Group Operational Risk Management Framework and oversight over its implementation
- Approve the strategy and direction for Operational Risk across the Group.
- Establish an effective Governance structure across the Group.

46 Financial risk management *(continued)*

(e) Capital management

CBUAE regulations govern regulatory capital requirements for the Group; in addition, the overseas branches and subsidiaries may be directly supervised by their local regulators. The capital management process for the Group is linked to the overall business strategy to ensure that capital is adequate to the level of inherent risk in the business and within the firm’s capital risk appetite The Group conducts capital planning in conjunction with the financial budgeting exercise.

The Board and top management define the long-term strategic direction for the Group. This provides the framework for the development of a bottom-up plan based on the projections from individual business units. The bottom-up plan is an input to the annual budgeting process and is conducted at a business unit and country level. These are consolidated for each business division and finally, for the entire Group. Business units, within each division, develop forecasted balance sheet and income statements for the next year, by considering the following key parameters:

- the short term (one year) goals
- risk appetite and strategy
- target growth rates
- target returns

The Group’s capital management policies aim to ensure that it has sufficient capital to cover the risks associated with its activities and the allocation of capital across the Group. The assessment of the various risks across the Group and their likely impact is carried out in conjunction with the ICAAP undertaken annually. As part of the ICAAP process, Group Risk function identifies the various risks the Group is exposed to as part of its day-to-day operations. Next, the Group assesses these risks against the existing policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Finally, the Group determines the capital requirements for the material risk exposures.

The key objectives of the Group’s capital management process are:
- Maintain sufficient capital to meet minimum capital requirement set by CBUAE.
- Maintain sufficient capital to support Group’s Risk Appetite and strategic objectives as per long-term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Group’s credit rating.

The Group conducts regular stress test exercises to assess the resilience of the group to adverse market developments under stress scenarios. The risk factors are shocked using the assumptions made under the respective scenarios and the corresponding impact on the capital adequacy is determined. The Group uses various macroeconomic and idiosyncratic stress tests in order to project capital need and capital levels under various stress scenarios. The stress testing is perceived as an important tool in internal capital planning. The stress test result during 2022 shows that the Group has adequate capital even under adverse scenarios.

During the year, the Bank completed the Basel III implementation in accordance with CBUAE Capital adequacy Standards issued vide notice no CBUAE/BSD/N/2020/4980 when the CVA standards were implemented in June 2022. Basel III Standards have been implemented in a phased manner from June 2021 to June 2022 as prescribed by the CBUAE. The TESS relief for capital adequacy buffers provided by CBUAE till 31 December 2021 was also removed this year though the Bank never used the capital relief and maintained the capital levels in excess of full buffer requirements throughout the TESS relief period.

As per the CBUAE standards regarding the capital definition, the expected / proposed dividends are to be deducted from CET1. Consequently, the Capital Adequacy ratio as computed below takes into account the impact of proposed dividend.

Notes to the consolidated financial statements *(continued)*

46 Financial risk management *(continued)*

(e) Capital management *(continued)*

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Tier 1 capital		
Ordinary share capital	**11,047,612**	10,920,000
Proposed scrip dividend[1]	**-**	2,293,200
Share premium	**53,557,581**	53,557,581
Retained earnings	**27,078,852**	22,638,219
Statutory and special reserve	**13,084,313**	10,920,000
General reserve and share option scheme	**478,081**	478,081
Fair value reserve	**(2,270,259)**	614,796
Non-controlling Interests	**12,460**	15,428
Foreign currency translation reserve	**(2,175,695)**	(535,023)
IFRS transitional arrangement: Partial addback of ECL	**-**	163,320
Less: Proposed dividend[1]	**(5,744,758)**	(7,644,000)
Eligible Tier 1 capital (a)	**95,068,187**	93,421,602
Deductions:		
Treasury shares	**(6,505)**	(6,430)
Deferred tax assets	**(134,767)**	(99,056)
Goodwill and Intangible assets	**(22,543,127)**	(21,120,888)
Other deductions	**(281,789)**	(199,911)
Total deductions	**(22,966,188)**	(21,426,285)
	72,101,999	71,995,317
Additional Tier 1		
Tier 1 capital notes	**10,754,750**	10,754,750
	82,856,749	82,750,067
Tier 2 capital		
Qualifying subordinated liabilities	**210,310**	269,345
Allowance for collective impairment	**6,200,441**	5,963,217
	6,410,751	6,232,562
Total regulatory capital base	**89,267,500**	88,982,629
Risk weighted assets:		
Credit risk	**496,035,297**	477,057,405
Market risk	**42,880,507**	69,423,094
Operational risk	**32,974,585**	32,514,765
Risk weighted assets	**571,890,389**	578,995,264
Ratios with transition impact:		
CET 1 ratio	**12.6%**	12.4%
Tier 1 capital ratio	**14.5%**	14.3%
Capital adequacy ratio	**15.6%**	15.4%

The Group and its overseas branches and subsidiaries have complied with all externally imposed capital requirements for all periods presented.

[1]The above capital adequacy ratios have been calculated in line with Basel guidelines and proposed dividends are subject to share holders' approval at the Annual General Meeting.

46 Financial risk management *(continued)*

(f) Country risk

Country risk is the likelihood of economic, social and political events in a foreign country negatively influencing the willingness or ability of state owned and/or privately owned customers in that country to pay their debts on time.

The Group undertakes a detailed qualitative analysis pertaining to country risk as a part of the business decision process. These factors include economic, social and political stability in each country, the monetary policy, the foreign exchange control measure, the transparency of information, the financial and market structure, banking regulations and supervision, the legal system and the accounting standards among others. Country risks are monitored and controlled using country limits set by the Group; these limits are in accordance with overall business strategy, capital adequacy and provisions for potential risks, risk rating of each country, acceptable level of risk and business opportunities in each country.

(g) Strategic risk

Strategic risk refers to the risk of current or prospective impact on the Group's earnings, capital, reputation or standing arising from changes in the environment the Group operates in and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technological changes. It is a function of compatibility of Group's strategic goals, strategies developed to achieve those goals, resources deployed to meet those goals and the quality of implementation.

The Group uses several factors to identify and assess impact of strategic risk on its books, including level of integration of risk management policies and practices in the strategic planning process, aggressiveness of strategic goals and compatibility with developed business strategies, capital support for the strategic initiatives to take care of earnings volatility, effectiveness of communication and consistency of application of strategic goals, objectives, corporate culture, and behaviour throughout the Group.

Strategic risks are monitored and controlled as part of the strategic planning process wherein the Group reviews the progress on strategic initiatives vis-à-vis the plan and considers whether the progress is in line with the plan and the external business environment. The strategic plan is periodically reviewed and updated subject to an approval process which is also a part of the strategic planning process.

(h) Compliance risk

Compliance risk refers to the risk to earnings or capital or reputation or continued business existence arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, or ethical standards.

The Group, on a continuous basis, identifies and assesses such risks inherent in all new and existing "material" products, activities, processes and systems. This includes risk assessments on non-conformance with laws, rules, regulations, prescribed practices, or ethical standards. The Group Compliance function has a group-wide compliance unit that develops internal policies under which such risks are managed, and it is supported by the Risk Management, Internal Audit and Legal functions.

In order to monitor compliance and financial crime risks, the Group has developed and implemented due diligence processes, reviews of policies and procedures across the Group, implementation of integrated compliance and financial crime systems which manage name clearance, transaction monitoring, payment monitoring activities, assessment through compliance checklists etc.

Compliance risk is largely mitigated by way of focused policies and procedures, extensive checklist based and on-spot due diligence, annual risk assessments, monitoring and assurance, communications, and regular training sessions.

46 Financial risk management *(continued)*

(i) Reputational risk

Reputational risk is the risk to earnings or capital arising from negative public opinion. This can be due to external or internal events.

The Group identifies and assesses reputational risk by clearly defining types of risks to be captured, establishing key sources of reputational risk it may be exposed to, based on individual circumstances, describing the risks identified in terms of the nature of risk and the potential consequences that the risks may bring to its reputation. The Group also refers to other relevant information for risk identification purposes. Such information may be sourced from media reports, stakeholder analysis reports, internal audit and compliance reports, management exception reports or other early warning indicators.

For reputational risks, apart from the regular monitoring of external and internal events that can result in possible reputational risks, the Group also has processes to track risks that may affect its reputation. These processes allow the BOD and senior management to take prompt corrective actions to address any anticipated reputational event in advance.

In order to manage reputational risks, the Group has set in place a mechanism that entails drawing up action plans to identify reputational risk events and facilitate subsequent monitoring of the progress made; for those risks that may be very difficult or too costly to eliminate entirely the mechanism requires development of contingency plans as response actions.

(j) Environmental, Social and Governance (ESG) risk

The Group and its customers may face significant climate-related risks in the future. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic and environmental responses to climate change. The key sources of climate risks have been identified as physical and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels and risks. Transition risks may arise from the adjustments to a net-zero economy, e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand. These risks are receiving increasing regulatory, political and societal scrutiny, both within the country and internationally. While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains.

The Group’s ESG risk appetite is aligned with the enterprise-wide risk appetite framework. An ESG key risk metric has been integrated within the bank’s Risk Appetite Framework (for example: credit concentration to counterparties in high ESG risk sectors) and is monitored on a quarterly basis.

The Group has developed an ESG risk framework for:

- identifying risk factors and assessing their potential impact on the Group's financial statements; and
- allocating responsibilities for managing each identified risk factor.

47 Financial assets and liabilities

(a) Valuation framework

The Group has an established control framework for the measurement of fair values. Several control functions support this framework (Valuation Control within Finance and Market Risk Analytics within Risk functions) that are independent of Front Office. Significant valuation issues are reported to the Group Valuation Committee operating under the Board Risk and ESG Committee.

Specific controls include:

- Independent verification of market data used in the valuation process and valuation adjustments when significant deviations are observed;
- Review of significant unobservable and stale inputs and significant changes to the fair value measurement of Level 3 instruments;
- Validation and approval process for new models and frequent review of existing models or when changes are performed;
- Profit and loss variance analysis process for changes in fair value.

When third party information, such as broker quotes or pricing services is used to measure fair value, Valuation Control assesses and documents the evidence obtained from the third parties to support the conclusion that the valuations meet the requirements of IFRS Standards. This includes:

- Verifying that the broker or pricing service is approved by the Group for use in pricing the relevant type of financial instrument;
- Understanding how the fair value has been arrived at, the extent to which it represents actual market transactions and whether it represents a quoted price in an active market for an identical instrument;
- When prices for similar instruments are used to measure fair value, understanding how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement; and
- If a number of quotes for the same financial instrument have been obtained, then understanding how fair value has been determined using those quotes.

Significant valuation issues are reported to the Group Valuation and Audit Committees.

(b) Fair value adjustments

Exit risk adjustments:

These reflect the bid-offer costs that would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of or unwinding the position. Bid-offer levels are generally derived from market quotes such as broker data. Less liquid instruments may not have a directly observable bid-offer level. In such instances, an exit price adjustment may be derived from an observable bid-offer level for a comparable liquid instrument, or determined by calibrating to derivative prices, or by scenario or historical analysis.

Credit risk adjustments

The credit valuation adjustment ('CVA') is an adjustment to the valuation of over the counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and that the Group may not receive the full market value of the transactions. The debt valuation adjustment ('DVA') is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the Group may default, and that it may not pay the full market value of the transactions.

These adjustments are calculated for both uncollateralised and collateralised derivatives across all asset classes. CVA and DVA are calculated using estimates of expected positive and negative exposures respectively, probability of default and recovery rates, at a counterparty level. Counterparties include (but are not limited to) financial institutions, corporates, sovereigns and sovereign agencies and supranationals. Expected exposure is generally estimated through the simulation of underlying risk factors through Monte Carlo simulation techniques.

Probability of default and recovery rate information is generally sourced from the CDS markets. Where this information is not available, or considered unreliable, alternative approaches are taken based on mapping the counterparty to a sector curve based on the rating, the region and the industry sector. At the year end, CVA and DVA adjustments aggregated to AED 6 million (31 December 2021: AED 84 million).

47 Financial assets and liabilities *(continued)*

(b) Fair value adjustments *(continued)*

Model related adjustments

These applied when either model inputs are overly simplified, the model has limitations deriving the fair value of a position or there is no market wide consensus on the choice of a model. These adjustments are required to correct existing model weaknesses or deficiencies that were highlighted during the model validation process.

(c) Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: Inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

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

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

Model inputs and parameters are based on and calibrated to market observable prices, including broker quotes, current or recent transaction prices and market consensus, where available. In absence of market observable prices, empirical data and/or judgement may be required in model calibration process, which is inherently subjective and can yield range of possible inputs and estimates of fair value. Management uses prudent judgement to select the most appropriate point in the range.

(d) Valuation techniques

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

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models to determine the fair value of common and simple financial instruments, such as interest rate and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives, and simple OTC derivatives such as interest rate swaps. The availability of observable market prices and model inputs reduces the need for management judgement and estimation and reduces the uncertainty associated with determining fair values. The 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.

For more complex instruments, the Group uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all the significant inputs into these models may not be observable in the market and may be derived from market prices or rates or estimated based on assumptions. Examples of instruments involving significant unobservable inputs include certain OTC structured derivatives, certain loans, securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments, determination of expected volatilities and correlations and selection

47 Financial assets and liabilities *(continued)*

(c) Valuation techniques *(continued)*

of appropriate discount rates. In cases where inputs are deemed unobservable, additional provision may be required to cater for the higher valuation uncertainty

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and the counterparty where appropriate. For measuring derivatives that might change classification from being an asset to a liability or vice versa – e.g. interest rate swaps – fair values take into account both credit valuation adjustment (CVA) and debit valuation adjustment (DVA) when market participants would take this into consideration in pricing the derivatives.

Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources.

Private equity

Investments in private equity funds are valued using net asset values ('NAV') received by the external fund manager. Adjustments may be required to the NAV of funds to obtain valuations that considers exit costs observable on the secondary market and to reflect the uncertainty inherent to the nature of the investments held.

Securities

Fair value is determined using quoted prices in active markets when available. When not available, quoted prices in less active markets are used. In the absence of position's specific quoted prices, fair value may be determined through benchmarking from comparable instruments.

Structured notes

These comprise principally credit-linked notes issued by the Bank, which provide the counterparty with a return linked to the creditworthiness of specific underlying. Examples of the unobservable parameters include correlations between underlying.

Notes to the consolidated financial statements *(continued)*

47 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments

The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2022:

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	228,368,829	228,368,829
Investments at fair value through profit or loss	-	31,816,797	-	-	-	31,816,797
Due from banks and financial institutions	-	-	-	-	24,886,956	24,886,956
Reverse repurchase agreements	-	-	-	-	69,106,092	69,106,092
Derivative financial instruments	7,711,401	51,162,442	-	-	-	58,873,843
Loans, advances and Islamic financing	-	-	-	-	459,593,327	459,593,327
Non-trading investments	-	-	166,590,632	1,070,888	4,688,298	172,349,818
Other assets	-	-	-	-	29,808,871	29,808,871
	7,711,401	82,979,239	166,590,632	1,070,888	816,452,373	1,074,804,533
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	61,560,340	61,560,340
Repurchase agreements	-	-	-	-	39,004,515	39,004,515
Commercial Paper	-	-	-	-	31,738,356	31,738,356
Derivative financial instruments	10,460,175	51,564,365	-	-	-	62,024,540
Customer accounts and other deposits	-	-	-	-	700,573,371	700,573,371
Term borrowings	550,832	-	-	-	62,084,301	62,635,133
Other liabilities[1]	-	377,344	-	-	34,985,589	35,362,933
Subordinated notes	-	-	-	-	420,620	420,620
	11,011,007	51,941,709	-	-	930,367,092	993,319,808

[1] Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.
Management considers that the carrying amounts of Group's financial assets and liabilities do not materially differ from their fair values as at the year-end.

Notes to the consolidated financial statements *(continued)*

47 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

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

	Designated at fair value through profit or loss AED'000	Fair value through profit or loss AED'000	FVOCI – with recycle to profit or loss AED'000	FVOCI – without recycle to profit or loss AED'000	Amortised cost AED'000	Carrying amount AED'000
Financial Assets						
Cash and balances with central banks	-	-	-	-	258,732,776	258,732,776
Investments at fair value through profit or loss	-	45,572,252	-	-	-	45,572,252
Due from banks and financial institutions	-	-	-	-	19,318,847	19,318,847
Reverse repurchase agreements	-	-	-	-	46,260,645	46,260,645
Derivative financial instruments	1,967,790	22,305,976	-	-	-	24,273,766
Loans, advances and Islamic financing	-	-	-	-	409,589,936	409,589,936
Non-trading investments	-	-	139,979,957	927,584	4,504,205	145,411,746
Other assets	-	-	-	-	18,082,762	18,082,762
	1,967,790	67,878,228	139,979,957	927,584	756,489,171	967,242,730
Financial Liabilities						
Due to banks and financial institutions	-	-	-	-	56,985,180	56,985,180
Repurchase agreements	-	-	-	-	55,074,494	55,074,494
Commercial Paper	-	-	-	-	39,664,252	39,664,252
Derivative financial instruments	6,678,547	21,716,538	-	-	-	28,395,085
Customer accounts and other deposits	-	-	-	-	614,669,890	614,669,890
Term borrowings	619,857	-	-	-	71,023,959	71,643,816
Other liabilities[1]	-	412,618	-	-	19,580,787	19,993,405
Subordinated notes	-	-	-	-	448,908	448,908
	7,298,404	22,129,156	-	-	857,447,470	886,875,030

[1] Other liabilities that are held for trading are classified as level 1 in the fair value hierarchy.

Management considers that the carrying amounts of Group's financial assets and liabilities do not materially differ from their fair values as at the year-end.

47 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

Financial instruments measured at fair value - hierarchy

The table below analyses financial instruments 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
As at 31 December 2022				
Investment at fair value through profit or loss	**3,544,623**	**23,020,053**	**5,252,121**	**31,816,797**
FVOCI - with recycle to profit or loss	**123,004,285**	**38,978,992**	**4,608,014**	**166,591,291**
FVOCI - without recycle to profit or loss	**792,992**	**73,750**	**204,146**	**1,070,888**
Derivative financial instruments (Assets)	**273,080**	**58,600,024**	**739**	**58,873,843**
	127,614,980	**120,672,819**	**10,065,020**	**258,352,819**
Term borrowings	**-**	**550,832**	**-**	**550,832**
Derivative financial instruments (Liabilities)	**643,082**	**61,381,458**	**-**	**62,024,540**
	643,082	**61,932,290**	**-**	**62,575,372**
As at 31 December 2021				
Investment at fair value through profit or loss	9,022,529	27,921,612	8,628,111	45,572,252
FVOCI - with recycle to profit or loss	107,011,926	30,680,916	2,287,714	139,980,556
FVOCI - without recycle to profit or loss	722,426	-	205,158	927,584
Derivative financial instruments (Assets)	73,286	24,200,104	376	24,273,766
	116,830,167	82,802,632	11,121,359	210,754,158
Term borrowings	-	619,857	-	619,857
Derivative financial instruments (Liabilities)	103,193	28,267,427	24,465	28,395,085
	103,193	28,887,284	24,465	29,014,942

47 Financial assets and liabilities *(continued)*

(e) Fair value of financial instruments *(continued)*

The following table shows the transfer between the hierarchies:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
As at 31 December 2022				
Investment at fair value through profit or loss				
Transfer from 1 to 2	**-**	**56,023**	**-**	**56,023**
Transfer from 1 to 3	**-**	**-**	**571**	**571**
Transfer from 2 to 1	**6,302**	**-**	**-**	**6,302**
Non-trading investments				
Transfer from 1 to 2	**-**	**8,010,451**	**-**	**8,010,451**
Transfer from 2 to 1	**2,568,018**	**-**	**-**	**2,568,018**
Transfer from 2 to 3	**-**	**-**	**228,529**	**228,529**
Transfer from 3 to 2	**-**	**486,375**	**-**	**486,375**
	2,574,320	**8,552,849**	**229,100**	**11,356,269**
As at 31 December 2021				
Investment at fair value through profit or loss				
Transfer from 1 to 2	-	90,262	-	90,262
Transfer from 2 to 1	17,795	-	-	17,795
Transfer from 3 to 1	4,736	-	-	4,736
Transfer from 3 to 2	-	534	-	534
Non-trading investments				
Transfer from 1 to 2	-	4,907,176	-	4,907,176
Transfer from 2 to 1	774,414	-	-	774,414
Transfer from 3 to 1	37,820	-	-	37,820
Transfer from 3 to 2	-	707,758	-	707,758
	834,765	5,705,730	-	6,540,495

The following table shows a reconciliation of instruments measured at fair value (assets) and classified as Level 3:

	31 Dec 2022 AED'000	31 Dec 2021 AED'000
Balance as at the beginning of year	**11,121,359**	9,218,666
Additions / Transfers	**3,967,096**	4,315,518
Settlements and other adjustments	**(5,023,435)**	(2,412,825)
Balance as at the end of year	**10,065,020**	11,121,359

The Level 3 financial instruments includes private equity investments, and their valuations are based on the last net asset published by the fund manager. The effect of changes in its valuation is covered as part of equity price risk included in note 46(c). The remaining mainly comprise of debt instruments which are priced using last available prices.

48 Business Combination

On 28 April 2021, the Bank acquired 100% of the share capital of Bank Audi SAE (Egypt), Bank Audi's subsidiary in Egypt. The acquisition was effected through transfer of cash from the acquiror to the acquiree. The acquisition was effected to accelerate the Group's expansion in high-potential market. It will significantly increase the size, scale and experience of the Group's Egypt operation, adding greater depth and reach to customers both locally and globally.

a. Purchase consideration

The purchase consideration paid for the acquisition of 100% shares is USD 600 million (equivalent to AED 2,203 million).

b. Integration related costs

The Group incurred integration related costs of AED 119 million till 31 December 2022 (31 December 2021: AED 117 million), including consultant and external legal fees and due diligence costs. These costs have been included in 'General, administrative and other operating expenses' in the consolidated financial statements of profit or loss.

c. Valuation approach and methodologies:

Customer relationship

The income approach has been used in estimating the fair value of Bank Audi SAE (Egypt)'s customer relationships as an intangible asset as at the transaction date. The income approach values the customer relationship as the present value of the future earnings that it is expected to generate over its remaining useful economic life. Under the income approach, the multi-period excess earnings method ("MEEM") has been utilized which is a commonly accepted method for valuing customer relationships.

Core deposits

The income approach, favourable source of funds method has been used to arrive at the value for core deposits. This is calculated based on the present value of the difference between the cost of existing core deposits and cost of obtaining most favourable market alternative funds which represents the marginal funding that the Bank has access to, over the determined useful life of the core deposit base.

Loan Portfolio

In determining the valuation of loans, expected cash flow approach, present value approach and recovery rate approach have been used.

Real estate assets

Real estate assets have been valued using the Market approach and the Income approach. The valuation analysis was conducted in accordance with RICS Valuation – Professional Standards published by the Royal Institute of Chartered Surveyors (the "Red Book") and complies with International Valuation Standards (IVS).

Customer deposits

Customer deposits were valued using the income approach where origination rates on deposits were used to discount future cash flows associated with them based on the weighted average interest rate.

48 Business Combination *(continued)*

d. Identifiable assets acquired and liabilities assumed

The following table summarises the fair value of assets acquired and liabilities assumed on the date of acquisition.

	28 Apr 2021 AED'000
Assets	
Cash and balances with central banks	5,550,876
Due from banks and financial institutions	3,244,467
Investment at fair value through profit or loss	7,398
Reverse repurchase agreement	490,843
Derivative financial instruments	30
Loans, advances and Islamic financing	6,435,801
Non-trading investments	6,718,486
Other assets	364,712
Intangible assets	114,340
Property and equipment	590,928
Total assets	23,517,881
Liabilities	
Due to banks and financial institutions	79,567
Derivative financial instruments	3
Repurchase agreement	3,355
Customer accounts and other deposits	21,375,961
Other liabilities	1,177,984
	22,636,870
Net assets as at acquisition date attributable to its common equity holders	881,011

As a result of the purchase price allocation (PPA) exercise, the 2021 comparative information has been restated to reflect the adjustments to the assumed carrying amounts, as stated above.

48 Business Combination *(continued)*

e. Goodwill and Intangibles

During the year, the purchase price allocation exercise was completed and, consequently, carrying value of assets acquired and liabilities assumed as at acquisition date have been adjusted from the provisional amounts to the fair value. As a result, there was an increase in goodwill by AED 980 million over the provisional amount. The impact arising as a result of PPA exercise was adjusted to the amount of goodwill as below:

	AED'000
Total consideration	**2,203,800**
Bank Audi SAE (Egypt) net assets value	**(881,011)**
Goodwill	**1,322,789**

The Group has completed a comprehensive purchase price allocation within twelve months from the acquisition date and following items are covered:

- valuation of intangible assets;
- valuation of properties and equipment;
- valuation adjustments on other recognized financial and non-financial assets and liabilities; and
- initial adjustments to fair value of loans, advances and Islamic financing have been made, which will be completed in due course.

The goodwill is attributable mainly to the synergies expected to be achieved from acquisition in high potential market.

f. Impact on Group's results

From the date of acquisition until 31 December 2021, Bank Audi SAE (Egypt) contributed revenue and operating income of AED 597 million and a profit of AED 189 million to the Group's results. If the acquisition had occurred on 1 January 2021, management estimate that consolidated operating income and profit for the year would be AED 910 million and AED 244 million respectively. In determining these amounts, the Group has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2021.

49 Comparative figures

Certain comparative figures have been reclassified or adjusted where appropriate to conform to the presentation adopted in these consolidated financial statements.