Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2022

These audited consolidated financial statements are subject to approval of the Central Bank of U.A.E. and adoption by shareholders at the annual general meeting.

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2022

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Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2022.

Incorporation and registered offices

Mashreqbank PSC was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The address of the registered office is P.O. Box 1250, Dubai, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management. These activities are carried out through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2022 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors has proposed a cash dividend of 90% for the year ended 31 December 2022 at the meeting held on 30 January 2023.

Directors

The following are the Directors of the Bank as at 31 December 2022

Chairman:	H.E. Abdul Aziz Abdulla Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Directors:	Rashed Saif Saeed Al Jarwan Al Shamsi
	Rashed Saif Ahmed Al Ghurair
	John Gregory Iossifidis
	Iyad Mazher Saleh Malas
	Saeed Saif Ahmed Majid Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2022 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

H.E. Abdul Aziz Abdulla Al Ghurair
Chairman
30 January 2023

Independent auditor's report to the shareholders of Mashreqbank PSC Group

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together 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 International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.

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

Independence

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

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 5, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Jacques Fakhoury, Douglas O'Mahony, Murad Alnsour and Rami Sarhan are registered as practicing auditors with the UAE Ministry of Economy

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach

Overview

Key Audit Matters	• Measurement of Expected Credit Losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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.

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses The Group applies Expected Credit Losses (ECL) on all of its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2022: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal experts to assess the following areas: ● Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. ● ECL modelling methodology and calculations used to compute the Probability of Default (PD), Loss Given Default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. The appropriateness of the model methodology was assessed, giving specific consideration to the macro-economic environment. ● Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 3.14 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions which have significantly increased as a result of the macro-economic environment, affecting the staging criteria applied to the financial assets as well as in developing ECL models and assumptions for calculating its impairment provisions.	• For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➢ In addition, for the Stage 3 corporate portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit file. For the Stage 3 retail portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised. ➢ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of the macro-economic environment on ECL.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Other information

The Directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Chairman's Report, Corporate Governance Report and Financial Highlights, which are expected to be made available to us after that date.

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

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

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

When we read the Chairman's Report, Corporate Governance Report and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, and for such internal control as the Directors determine 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, the Directors are 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 the Directors either intend 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.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 the Directors.

- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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 auditor's 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:

(i) we have obtained all the information 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 Decree Law No. 32 of 2021;

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

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

(v) note 7 to the consolidated financial statements discloses the shares purchased by the Group during the year ended 31 December 2022;

(vi) note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Report on other legal and regulatory requirements (continued)

(vii) Note 32 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2022; and

(viii) 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 the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022.

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

PricewaterhouseCoopers
30 January 2023

Murad Alnsour
Registered Auditor Number: 1301
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Consolidated statement of financial position

	Notes	As at 31 December 2022 AED'000	2022 USD'000 Equivalent	2021 AED'000	2021 USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**31,435,930**	**8,558,652**	17,507,751	4,766,608
Deposits and balances due from banks	6	**28,846,448**	**7,853,648**	28,805,095	7,842,389
Other financial assets measured at fair value	7	**10,429,765**	**2,839,577**	16,441,123	4,476,211
Other financial assets measured at amortised cost	7	**16,422,947**	**4,471,262**	10,277,824	2,798,210
Loans and advances measured at amortised cost	8	**75,630,344**	**20,590,891**	66,432,570	18,086,733
Islamic financing and investment products measured at amortised cost	9	**14,672,897**	**3,994,799**	15,053,454	4,098,408
Acceptances		**9,310,974**	**2,534,978**	14,340,671	3,904,348
Other assets	10	**6,799,304**	**1,851,158**	3,290,085	895,749
Reinsurance contract assets	20	**3,128,009**	**851,622**	2,699,966	735,085
Investment in associate		**43,633**	**11,879**	34,809	9,477
Investment properties	11	**464,840**	**126,556**	462,829	126,008
Property and equipment	12	**1,395,485**	**379,930**	1,426,096	388,265
Intangible assets	13	**230,667**	**62,802**	281,336	76,596
Total assets		**198,811,243**	**54,127,754**	177,053,609	48,204,087
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	**28,399,456**	**7,731,951**	19,566,486	5,327,113
Repurchase agreements with banks	15	**1,926,182**	**524,417**	2,729,147	743,029
Customers' deposits	16	**98,827,322**	**26,906,431**	87,150,902	23,727,444
Islamic customers' deposits	17	**14,978,941**	**4,078,122**	14,332,087	3,902,011
Acceptances		**9,310,974**	**2,534,978**	14,340,671	3,904,348
Other liabilities	18	**8,253,044**	**2,246,949**	6,028,308	1,641,249
Medium-term loans	19	**5,223,565**	**1,422,152**	7,315,119	1,991,593
Subordinated debt	47	**1,831,027**	**498,510**	-	-
Insurance contract liabilities	20	**5,642,093**	**1,536,099**	4,566,602	1,243,290
Total liabilities		**174,392,604**	**47,479,609**	156,029,322	42,480,077
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	**2,006,098**	**546,174**	2,006,098	546,174
Tier 1 capital notes	46	**1,101,900**	**300,000**	-	-
Statutory and legal reserves	21(b)	**1,027,494**	**279,742**	1,012,320	275,611
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Currency translation reserve	21(d)	**(130,804)**	**(35,612)**	(116,116)	(31,613)
Investments revaluation reserve	21(e)	**(1,813,781)**	**(493,815)**	(547,489)	(149,058)
Retained earnings		**21,038,417**	**5,727,857**	17,561,412	4,781,218
Equity attributable to owners of the Parent including noteholders of the Group		**23,541,324**	**6,409,290**	20,228,225	5,507,276
Non-controlling interests	22	**877,315**	**238,855**	796,062	216,734
Total equity		**24,418,639**	**6,648,145**	21,024,287	5,724,010
Total liabilities and equity		**198,811,243**	**54,127,754**	177,053,609	48,204,087

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial condition, results of operation and cashflows of the Group as of, and for, the periods presented therein.

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

		For the year ended 31 December			
		2022		**2021**	
	Notes	**AED'000**	**USD'000 Equivalent**	**AED'000**	**USD'000 Equivalent**
Interest income	24	**6,414,941**	**1,746,513**	4,251,824	1,157,589
Income from Islamic financing and investment products	25	**671,640**	**182,859**	475,253	129,391
Total interest income and income from Islamic financing and investment products		**7,086,581**	**1,929,372**	4,727,077	1,286,980
Interest expense	26	**(2,254,895)**	**(613,911)**	(1,505,704)	(409,939)
Distribution to depositors – Islamic products	27	**(259,728)**	**(70,713)**	(175,884)	(47,886)
Net interest income and income from Islamic products net of distribution to depositors		**4,571,958**	**1,244,748**	3,045,489	829,155
Fee and commission income	28	**4,044,130**	**1,101,043**	3,418,086	930,598
Fee and commission expenses	28	**(2,302,954)**	**(626,995)**	(1,841,287)	(501,303)
Net fee and commission income		**1,741,176**	**474,048**	1,576,799	429,295
Net investment income	29	**91,894**	**25,018**	176,807	48,137
Other income, net	30	**1,090,991**	**297,030**	1,006,977	274,157
Operating income		**7,496,019**	**2,040,844**	5,806,072	1,580,744
General and administrative expenses	32	**(3,066,256)**	**(834,810)**	(2,622,957)	(714,119)
Operating profit before impairment		**4,429,763**	**1,206,034**	3,183,115	866,625
Allowances for impairment, net	31	**(497,478)**	**(135,442)**	(2,058,626)	(560,475)
Profit before tax		**3,932,285**	**1,070,592**	1,124,489	306,150
Tax expense	45	**(146,088)**	**(39,773)**	(48,778)	(13,280)
Profit for the year		**3,786,197**	**1,030,819**	1,075,711	292,870
Attributable to:					
Owners of the Parent		**3,706,293**	**1,009,064**	1,002,203	272,857
Non-controlling interests		**79,904**	**21,755**	73,508	20,013
		3,786,197	**1,030,819**	1,075,711	292,870
Earnings per share	33	**AED 18.48**	**USD 5.03**	AED 5.00	USD 1.36

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2022		2021	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	**3,786,197**	**1,030,819**	1,075,711	292,870
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments) [Note 7(k)]	**83,739**	**22,799**	58,631	15,963
Items that may be reclassified subsequently to profit or loss:				
Changes in currency translation reserve	**8,745**	**2,381**	(23,150)	(6,303)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments) [Note 7(k)]	**(1,352,755)**	**(368,297)**	(232,616)	(63,332)
Gain on hedging instruments designated as hedges of net investment in foreign operations	**3,282**	**894**	(1,586)	(432)
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	**-**	**-**	437	120
Total other comprehensive loss for the year	**(1,256,989)**	**(342,223)**	(198,284)	(53,984)
Total comprehensive income for the year	**2,529,208**	**688,596**	877,427	238,886
Attributable to:				
Owners of the Parent	**2,411,809**	**656,633**	791,895	215,599
Non-controlling interests	**117,399**	**31,963**	85,532	23,287
	2,529,208	**688,596**	877,427	238,886

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Tier 1 capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent including noteholders of the Group AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2021	1,775,308	-	912,099	312,000	(98,332)	(358,088)	(437)	16,888,178	19,430,728	757,680	20,188,408
Profit for the year ended 31 December 2021	-	-	-	-	-	-	-	1,002,203	1,002,203	73,508	1,075,711
Other comprehensive loss/(income) for the year	-	-	-	-	(17,784)	(192,962)	437	-	(210,309)	12,024	(198,285)
Total comprehensive income/(loss) for the year	-	-	-	-	(17,784)	(192,962)	437	1,002,203	791,894	85,532	877,426
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	-	3,561	-	(3,561)	-	-	-
Transfer to statutory and legal reserves	-		100,221	-	-	-	-	(100,221)	-	-	-
Bonus shares issued during the year	230,790	-	-	-	-	-	-	(230,790)	-	-	-
Transaction with common control entity	-	-	-	-	-	-	-	5,603	5,603		5,603
Transaction with non-controlling interest (NCI) (Note 22)	-	-	-	-	-	-	-	-	-	(14,325)	(14,325)
Payment of dividends (Note 22)	-	-	-	-	-	-	-	-	-	(32,825)	(32,825)
Balance at 31 December 2021	**2,006,098**	**-**	**1,012,320**	**312,000**	**(116,116)**	**(547,489)**	**-**	**17,561,412**	**20,228,225**	**796,062**	**21,024,287**
Profit for the year ended 31 December 2022	**-**	**-**	**-**	**-**			**-**	**3,706,293**	**3,706,293**	**79,904**	**3,786,197**
Other comprehensive (loss)/income for the year	-	-	-	-	**(14,688)**	**(1,279,796)**	-		**(1,294,484)**	**37,495**	**(1,256,989)**
Total comprehensive income for the year	-	-	-	-	**(14,688)**	**(1,279,796)**	-	**3,706,293**	**2,411,809**	**117,399**	**2,529,208**
Issuance of Tier 1 capital	-	**1,101,900**	-	-	-	-	-	-	**1,101,900**	-	**1,101,900**
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	-	**13,504**	-	**(13,504)**	-	-	-
Transfer to statutory and legal reserves	-	-	**15,174**	-	-	-	-	**(15,174)**	-	-	-
Payment of dividends (Note 22)	-	-	-	-	-	-	-	**(200,610)**	**(200,610)**	**(32,826)**	**(233,436)**
Transaction with NCI	-	-	-	-	-	-	-	-	-	**(3,320)**	**(3,320)**
Balance at 31 December 2022	**2,006,098**	**1,101,900**	**1,027,494**	**312,000**	**(130,804)**	**(1,813,781)**	**-**	**21,038,417**	**23,541,324**	**877,315**	**24,418,639**

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

Mashreqbank PSC Group

Consolidated statement of cash flows

	Notes	For the year ended 31 December 2022 AED'000	2022 USD'000 Equivalent	2021 AED'000	2021 USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		**3,932,285**	**1,070,592**	1,124,489	306,150
Adjustments for:					
Depreciation and amortisation	32	**329,649**	**89,749**	255,569	69,580
Allowances for impairment, net	31	**497,478**	**135,442**	2,058,626	560,475
(Gain)/loss on disposal of property and equipment	30	**(341)**	**(93)**	3,447	939
Unrealised loss/(gain) on other financial assets held at FVTPL	29	**36,119**	**9,834**	(8,521)	(2,320)
Fair value adjustments of investment properties	30	**(2,011)**	**(548)**	(13,114)	(3,571)
Net realized gain from sale of other financial assets measured at FVTPL	29	**(38,757)**	**(10,552)**	(28,305)	(7,706)
Dividend income from other financial assets measured at FVTOCI	29	**(34,615)**	**(9,424)**	(21,337)	(5,809)
Net realised gain from sale of other financial assets measured at amortised cost/FVTOCI	29	**(53,783)**	**(14,643)**	(117,603)	(32,018)
Share of loss/(gain) from associate		**1,280**	**348**	(7,090)	(1,930)
Unrealised gain on derivatives	30	**(58,612)**	**(15,958)**	(30,724)	(8,365)
Loss from sale of subsidiary	43	**25,960**	**7,068**		
Operating cash flows before tax paid and changes in operating assets and liabilities		**4,634,652**	**1,261,815**	3,215,437	875,425
Tax paid		**(146,088)**	**(39,773)**	(48,778)	(13,280)
Changes in operating assets and liabilities					
(Increase)/decrease in deposits with central banks		**(766,513)**	**(208,689)**	4,363,482	1,187,989
Decrease/(increase) in deposits and balances due from banks maturing after three months		**4,003,557**	**1,089,996**	(4,029,531)	(1,097,068)
Increase in loans and advances measured at amortised cost		**(9,424,717)**	**(2,565,945)**	(10,926,600)	(2,974,844)
Decrease/(increase) in Islamic financing and investment products measured at amortised cost		**453,921**	**123,583**	(984,092)	(267,926)
(Increase)/decrease in reinsurance assets		**(428,043)**	**(116,538)**	191,954	52,261
(Increase)/decrease in other assets		**(3,450,608)**	**(939,452)**	219,532	59,769
Increase in financial assets carried at FVTPL		**(376,172)**	**(102,415)**	(783,253)	(213,246)
(Decrease)/increase in repurchase agreements with banks		**(802,965)**	**(218,613)**	439,424	119,636
Increase in customers' deposits		**11,676,420**	**3,178,987**	10,774,929	2,933,550
Increase in Islamic customers' deposits		**646,854**	**176,110**	2,447,522	666,356
Increase in deposits and balances due to banks		**8,832,970**	**2,404,838**	4,722,106	1,285,626
Increase/(decrease) in insurance contract liabilities		**1,075,491**	**292,810**	(181,177)	(49,327)
Increase in other liabilities		**1,881,397**	**512,224**	120,435	32,789
Net cash generated from operating activities		**17,810,156**	**4,848,938**	9,541,390	2,597,710

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

		For the year ended 31 December			
		2022		2021	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	12	**(146,032)**	**(39,758)**	(129,216)	(35,180)
Purchase on intangible assets	13	**(130,282)**	**(35,470)**	(82,298)	(22,406)
Proceeds from sale of property and equipment		**27,384**	**7,456**	1,441	393
Purchase of other financial assets measured at fair value or amortised cost		**(47,397,026)**	**(12,904,173)**	(40,877,370)	(11,129,151)
Proceeds from sale of other financial assets measured at fair value or amortised cost		**46,343,690**	**12,617,395**	34,330,239	9,346,648
Dividend income from other financial assets measured at FVTOCI	29	**34,615**	**9,424**	21,337	5,809
Investment in associate		**(8,824)**	**(2,403)**	(13,813)	(3,761)
Disposal of subsidiary	43	**50,183**	**13,663**		
Net cash used in investing activities		**(1,226,292)**	**(333,866)**	(6,749,680)	(1,837,648)
Cash flows from financing activities					
Transaction with NCI		**(3,320)**	**(904)**	(14,325)	(3,900)
Dividend paid		**(233,436)**	**(63,555)**	(32,825)	(8,937)
Medium term notes issued		**139,155**	**37,886**	-	-
Medium term notes redeemed		**(2,230,710)**	**(607,326)**	(2,300,922)	(626,442)
Subordinated notes issued		**1,831,027**	**498,510**		
Issuance of Tier 1 capital notes		**1,101,900**	**300,000**		
Net cash generated from/(used in) financing activities		**604,616**	**164,611**	(2,348,072)	(639,279)
Net increase in cash and cash equivalents		**17,188,480**	**4,679,683**	443,638	120,783
Net foreign exchange difference		**14,688**	**3,999**	17,784	4,842
Cash and cash equivalents at 1 January		**21,302,038**	**5,799,629**	20,840,616	5,674,004
Cash and cash equivalents at 31 December	35	**38,505,206**	**10,483,311**	21,302,038	5,799,629

1 General information

Mashreqbank PSC (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Mashreqbank PSC Group" or "Group"), as listed in Note 36.

The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

2 Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

- **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16**

  Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

  Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

  Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

  Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.1 New and revised IFRS applied on the consolidated financial statements (continued)

IFRIC Agenda decision – Lessor forgiveness of lease payments (IFRS 9 and IFRS 16)

In October 2022, the IASB finalised the agenda decision approved by the IFRS Interpretation Committee (IFRS IC) on 'Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)'. The agenda decision addresses the accounting from the perspective of the lessor, and in particular:

- how the expected credit loss ('ECL') model in IFRS 9 should be applied to the operating lease receivable when the lessor expects to forgive payments due from the lessee under the lease contract before the rent concession is granted.
- whether to apply the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 when accounting for the rent concession.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. Management expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these consolidated financial statements in respect of its insurance contracts issued and reinsurance contracts held. Refer to note 43 for transition impact.	1 January 2023

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8** - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2023
• **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction -** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
• **Amendment to IFRS 16 – Leases on sale and leaseback-** These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	Annual periods beginning on or after 1 January 2024
• **Amendment to IAS 1 – Noncurrent liabilities with covenants-** These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	Annual periods beginning on or after 1 January 2024

There are no other relevant applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2023 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE").

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group is in the process of complying with the provisions of the UAE Federal Decree Law No 32 of 2021.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2021.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over an investee,
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and/or ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Parent.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in the consolidated statement of profit or loss.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 'Financial Instruments' or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Investment in joint venture

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 joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Investment in joint venture (continued)

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the joint venture or business is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognised in the statement of comprehensive income. The fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as a joint venture. In addition, any amounts previously recognised in other comprehensive income in respect of that entity or business are accounted for as if the related assets or liabilities have been directly disposed off. If the ownership in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the statement of profit or loss where appropriate.

3.4 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.3 above) less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent periods.

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

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate (refer Note 3.14.1) to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss.

(b) Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in Note 3.20 *(iii)*.

(c) Fee and commission income and expenses

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) Dividend income

Dividend income from investments is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

Premiums are recognised as revenue (earned premium) on time-proportion basis over the effective period of policy coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Insurance commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

(f) Gain or loss from redemption of medium-term loans

Gain or loss from redemption of medium-term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

(g) Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.6 Leasing

The group leases various branches, offices and premises for ATMs. Rental contracts are typically made for fixed periods of 12 months to 5 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

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

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

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

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

3.7 Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in UAE Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The presentation currency of the Group is the UAE Dirham (AED); however, for presentation purposes only, additional columns for US Dollar (USD) equivalent amounts have been presented in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a fixed conversion rate of USD 1.00 = AED 3.673.

In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised initially in the foreign currency translation reserve and recognised in consolidated statement of profit or loss on disposal of the net investment.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's Currency translation reserve. Such exchange differences are recognised in the consolidated statement of profit or loss in the period in which the foreign operation is disposed.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

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

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker’s quotes.

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Properties for own use	20 – 50
Furniture, fixtures, equipment and vehicles	4 - 15
Improvements to freehold properties and others	5 - 10

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

3.12 Intangible assets

Intangible assets consists of software which are stated at cost less amortisation and any accumulated impairment losses. Amortisation is charged on a straight lines over the estimated useful lives of 5 to 10 years. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated statement of profit or loss. Immediately after initial recognition, an expected credit loss (“ECL”) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, as described in note 43, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3.14.1 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Debt instruments:

Debt instruments are measured at amortised cost if both of the following conditions are met:

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii. the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 43.

- Fair value through other comprehensive income (FVTOCI): financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movements in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassification during the year.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVTOCI reserve is reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(ii) Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

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

Note 43 provides more detail of how the expected credit loss allowance is measured.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

3.14.2 Financial liabilities

Classification and subsequent measurement

Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customer deposits) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

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

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is "substantial" or whether the original debt has been replaced by another debt with "substantially" different terms.

3.14.3 Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 43).

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss;
- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.15 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.16 Derivative financial instruments

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 41 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidate statement of profit or loss from that date.

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of profit or loss, and is included in the other income line item.

Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecase transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated statement of profit or loss on the disposal of the foreign operation.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

Insurance contracts are those contracts when the Group (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. An insurance contract can also transfer financial risk.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:

  (i) the performance of a specified pool of contracts or a specified type of contract,
  (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
  (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4 *Insurance Contracts*, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as liabilities within insurance or investment contract liabilities.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.18.2 Recognition and measurement

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3.18.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premiums are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.18.5 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Group reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance and medical insurance are provided to cover portions of risks which have not expired. The reserves are calculated on a time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

(b) Additional reserve

The additional reserve comprises of the provisions made for:

- the estimated excess of potential claims over unearned premiums (premium deficiency),
- the claims incurred but not reported at the end of the reporting period (IBNR), and
- the potential shortfall in the estimated amounts of the unpaid reported claims.

The reserve represents management's best estimates of the potential liabilities at the end of the reporting period. The liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy by the Group's actuary and changes are made to the provision.

(c) Life assurance fund

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to consolidated statement of profit or loss.

(d) Unit-linked liabilities

For unit-linked policies, the liability is equal to the policy account values. The account value is the number of units times the bid price.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

Deferred Policy Acquisition Costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3.18.8 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss.

3 Summary of significant accounting policies (continued)

3.19 Taxation

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

3.20 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers a variety of non-interest based banking products, which are approved by its Internal Shari'ah Supervision Committee.

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

Murabaha is a sale of goods with an agreed upon profit mark-up on the cost.

The arrangement is referred to as a Murabaha to the Purchase Orderer where the company sells to a customer a commodity or an asset, which the company has purchased and acquired, based on a promise received from customer.

Ijarah

Ijarah is a contract, or part of contractual agreement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from lessor (the owner of underlying asset i.e. the company) to a lessee (the customer).

This may involve a hybrid Ijarah arrangement (known as Ijarah Muntahia Bittamleek) which, in addition to the Ijarah contract, includes a promise (by the company) resulting in transfer of the ownership of the underlying asset to the lessee (the customer) through a sale or gift – independent of Ijarah Contract.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

Istisna' is a contract of sale of specified items to be manufactured or constructed, with an obligation on part of the manufacturer or builder (contractor) to deliver them to the customer upon completion.

Under this arrangement, the Group provides funds to a customer for construction of a real estate and/or manufacturing of any other assets. Istisna' requires properly specifying the finished product. The customer is required to arrange/employ all the resources required to produce the specified asset(s).

Mudarabah

Mudarabah is a partnership in profit whereby one party provides capital (Rab al-Mal) and the other party provides labour (Mudarib). The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. In case of loss, the same is borne by Rab-al-Mal. The Mudarib is not liable for losses except in case of misconduct in respect to Mudarabah fund, negligence and breach of the terms of Mudarabah contract.

Wakalah

Wakalah is an act of one party (principal) delegating another party (the agent) to perform a permissible activity on his behalf. This may involve Al-Wakalah Bi Al-Istithmar, in which the Company appoints another person an agent to invest its funds with an intention to earn profit, in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakalah.

(ii) Accounting policy

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Mudarabah

Income or losses on Mudarabah financing are 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 income on their declaration by the Mudarib.

Wakalah

Estimated income from Wakalah is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(iv) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Internal Shari'ah Supervision Committee.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(v) Profit calculation, asset allocation, mechanics of equalization of returns investment account holders

- The Group has invested all the funds generated from Investment Account Holders in the Financing done by way of Murabaha & Ijarah Structures, and the returns are managed by the Bank in a central profit pool. Subsequently the profits are allocated to Investment Account Holders using the Internal Shariah Supervisory Committee approved profit allocation mechanism for Investment Account Holders
- Profit Equalization Reserve: The Bank maintains a Profit Equalization Reserve (PER) for the purpose of smoothening the returns to the Mudarabah account holders. The PER is deducted from Mudarabah income before deduction of the Bank's share.
- Investment Risk Reserve: The Bank maintains an Investment Risk Reserve (IRR) for the purpose of protecting the Mudarabah account holders from any investment losses in the future. The IRR is deducted from Mudarabah income after deduction of the Bank's share.

3.21 Provision for employees' end of service indemnity

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2022 is not materially different from the provision computed in accordance with the UAE Labour Law.

The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'other liabilities' (Note 18).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

3.22 Acceptances

Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3 Summary of significant accounting policies (continued)

3.23 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the UAE Central Bank (excluding statutory reserve) and money market placements which are maturing within three months from the value date of the deposit or placement. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

4.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in note 43.

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

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

4.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

4.3 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models, recognised market accepted pricing models and from counterparty statements. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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

4.4 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.5 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Additional Tier 1 (AT1) capital securities listed on the Luxembourg Stock Exchange, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

· no fixed date of maturity;
· payment of interest and/or capital is solely at the discretion of the Bank;
· the instruments are subordinated and rank just above the ordinary shareholders; and
· these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of CBUAE.

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed for the purpose of determining the debt vs equity classification and appropriate independent advice was obtained in forming judgement around this matter.

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2022 **AED'000**	2021 AED'000
Cash on hand	**1,249,478**	1,027,306
Balances with central banks:		
Current accounts and other balances	**24,413,114**	9,223,621
Statutory deposits	**5,223,338**	4,456,824
Certificates of deposit	**550,000**	2,800,000
	31,435,930	17,507,751

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2022 **AED'000**	2021 AED'000
Within the UAE	**13,859,877**	10,336,038
Outside the UAE	**17,576,053**	7,171,713
	31,435,930	17,507,751

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current account balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 4.5% (31 December 2021: 0.18%) per annum.

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2022 **AED'000**	2021 AED'000
Demand	**1,787,939**	1,256,536
Time	**27,179,445**	27,716,058
	28,967,384	28,972,594
Less: Allowance for impairment	**(120,936)**	(167,499)
	28,846,448	28,805,095

(b) The above represent deposits and balances due from:

	2022 **AED'000**	2021 AED'000
Banks within the UAE	**5,631,990**	4,391,518
Banks outside the UAE	**23,335,394**	24,581,076
	28,967,384	28,972,594
Less: Allowance for impairment	**(120,936)**	(167,499)
	28,846,448	28,805,095

(c) *Allowance for impairment movement:*

	2022 **AED'000**	2021 AED'000
At beginning of the year	**167,499**	166,122
Charge during the year (Note 31)	**(3,408)**	(4,404)
Interest in suspense	**1,878**	5,495
Exchange rate and other adjustments	**(451)**	286
Written off during the year	**(44,582)**	-
At end of the year	**120,936**	167,499

7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

	2022 **AED'000**	2021 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**1,348,137**	1,548,129
Equities		
Quoted	**16,667**	37,668
Unquoted	**707**	1,113
Funds	**1,286,743**	686,534
	2,652,254	2,273,444
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**6,934,735**	13,480,719
Equities		
Quoted	**699,587**	577,857
Unquoted	**63,117**	53,589
Funds	**80,072**	55,514
	7,777,511	14,167,679
Total other financial assets measured at fair value (A)	**10,429,765**	16,441,123
(iii) Other financial assets measured at amortised cost		
Debt securities	**16,451,362**	10,302,332
Less: Allowance for impairment	**(28,415)**	(24,508)
Total other financial assets measured at amortised cost (B)	**16,422,947**	10,277,824
Total other financial assets [(A) +(B)]	**26,852,712**	26,718,947

7 Other financial assets (continued)

(b) The geographic analysis of other financial assets is as follows:

	2022 AED'000	2021 AED'000
Within the UAE	**12,568,304**	10,908,883
Outside the UAE	**14,312,823**	15,834,572
	26,881,127	26,743,455
Less: Allowance for impairment	**(28,415)**	(24,508)
	26,852,712	26,718,947

(c) The analysis of other financial assets by industry sector is as follows:

	2022 AED'000	2021 AED'000
Government and public sector	**14,602,907**	15,988,557
Commercial and business	**1,194,980**	1,402,840
Financial institutions	**11,021,809**	9,284,617
Other	**33,016**	42,933
	26,852,712	26,718,947

(d) The movement of the allowance for impairment of other financial assets measured at amortised cost during the year was as follows:

	2022 AED'000	2021 AED'000
At the beginning of the year	**24,508**	21,229
Charge/(reversal) during the year (Note 31)	**3,946**	3,270
Exchange rate and other adjustments	**(39)**	9
At end of the year	**28,415**	24,508

(e) The fair value of other financial assets measured at amortised cost amounted to AED 16.05 billion as of 31 December 2022 (31 December 2021: AED 10.47 billion) (Note 43).

(f) At 31 December 2022, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 1,497 million (fair value of AED 1,472 million) [31 December 2021: carrying value of AED 2,890 million (fair value of AED 2,905 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 1,305 million (31 December 2021: AED 2,288 million).

7 Other financial assets (continued)

(g) During the year ended 31 December 2022, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a loss of AED 1.1 million (period ended 31 December 2021: gain of AED 51 million) on the sale.

(h) As of 31 December 2022, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the period from 1 January 2022 to 31 December 2022, dividends received from financial assets measured at FVTOCI amounting to AED 34.6 million (period ended 31 December 2021: AED 21 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(j) As of 31 December 2022, change in fair value of other financial assets measured at FVTPL resulted in loss of AED 36 million (31 December 2021: a gain of AED 9 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) As of 31 December 2022, change in fair value of other financial assets measured at FVTOCI resulted in a loss of AED 1,269 million (31 December 2021: a loss of AED 174 million) and was recognised in the consolidated statement of comprehensive income

(l) During the year ended 31 December 2022, the Group purchased and disposed equity shares amounting to AED 818 million (31 December 2021 : AED 1,526 million) and AED 778 million (31 December 2021 : AED 1,447 million) respectively.

8 Loans and advances measured at amortised cost

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2022	2021
	AED'000	AED'000
Loans	**72,164,096**	63,354,455
Overdrafts	**4,655,624**	6,465,665
Credit cards	**2,277,205**	1,915,726
Others	**845,785**	790,801
Total	**79,942,710**	72,526,647
Less: Allowance for impairment	**(4,312,366)**	(6,094,077)
	75,630,344	66,432,570

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

	2022	2021
	AED'000	AED'000
Manufacturing	**16,506,087**	10,789,962
Construction	**5,722,816**	7,023,284
Trade	**14,430,399**	13,921,413
Transport and communication	**3,517,480**	3,501,279
Services	**9,901,662**	7,633,645
Financial institutions	**3,092,482**	3,147,558
Personal	**8,462,730**	8,196,625
Residential mortgage	**8,805,210**	6,819,805
Government and related enterprises	**9,503,844**	11,493,076
	79,942,710	72,526,647
Less: Allowance for impairment	**(4,312,366)**	(6,094,077)
	75,630,344	66,432,570

8 Loans and advances measured at amortised cost (continued)

(c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2022 and 2021, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

(d) The movement during the year of the allowance for impairment and suspended interest of loans and advances measured at amortised cost was as follows:

	2022	2021
	AED'000	AED'000
At beginning of the year	**6,094,077**	5,403,626
Impairment allowance for the year (Note 31)	**298,051**	1,529,908
Interest in suspense	**211,319**	150,359
Exchange rate and other adjustments	**(49,525)**	39,720
Written off during the year	**(2,241,556)**	(1,029,536)
At end of the year	**4,312,366**	6,094,077

(e) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

(f) At 31 December 2022, certain loans and advances measured at amortised cost with an aggregate carrying value of AED 1,059 million (fair value of AED 1,048 million) [31 December 2021: carrying value of AED 1,332 million (fair value of AED 945 million)] were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 497 million (31 December 2021: AED 441 million).

9 Islamic financing and investment products measured at amortised cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

	2022 AED'000	2021 AED'000
Financing		
Murabaha	**12,970,564**	11,403,396
Ijarah	**4,380,730**	5,344,195
	17,351,294	16,747,591
Investment		
Wakalah	**372,294**	464,826
	372,294	464,826
Total	**17,723,588**	17,212,417
Less: Unearned income	**(2,581,225)**	(1,532,000)
Allowance for impairment	**(469,466)**	(626,963)
	14,672,897	15,053,454

(b) The analysis of Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	2022 AED'000	2021 AED'000
Manufacturing	**1,231,306**	1,878,933
Construction	**1,103,908**	1,875,799
Trade	**849,986**	1,001,147
Transport and communication	**121,458**	291,898
Services	**2,683,957**	2,692,387
Financial institutions	**957,899**	1,098,307
Personal	**6,840,636**	4,331,202
Residential mortgage	**1,386,627**	1,202,193
Government and related enterprises	**2,547,811**	2,840,551
Total	**17,723,588**	17,212,417
Less: Unearned income	**(2,581,225)**	(1,532,000)
Allowance for impairment	**(469,466)**	(626,963)
	14,672,897	15,053,454

9 Islamic financing and investment products measured at amortised cost (continued)

(c) Allowance for impairment movement:

	2022	2021
	AED'000	AED'000
At beginning of the year	**626,963**	407,330
Impairment allowance for the year (Note 31)	**(71,452)**	203,822
Profit in suspense	**23,102**	16,042
Exchange and other adjustment	**71,014**	-
Written off during the year	**(180,161)**	(231)
At end of the year	**469,466**	626,963

(d) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

10 Other assets

	2022	2021
	AED'000	AED'000
Interest receivable	**401,445**	296,794
Property acquired in settlement of debts*	**286,830**	86,055
Prepayments	**126,933**	111,284
Positive fair value of derivatives (Note 41)	**2,623,722**	1,028,186
Insurance related receivables (net) **	**698,638**	562,465
Insurance related deferred acquisition costs	**180,952**	150,381
Credit card related receivables	**526,003**	228,299
Taxes paid in advance	**102,345**	109,041
Commission / income receivable	**45,475**	36,155
Advances to suppliers / vendors	**158,179**	241,748
Others	**1,648,782**	437,677
	6,799,304	3,290,085

* As of 31 December 2022, property acquired in settlement of debts includes property with a book value of AED 287 million (31 December 2021: AED 202 million) against which a provision of AED 123 million is held (31 December 2021: AED 116 million). This includes some properties which are registered in the name of the Chairman on trust and for the benefit of the Group.

** As of 31 December 2022, the Group has recorded a provision of AED 434 million (31 December 2021: AED 439 million) against insurance related receivables.

11 Investment properties

	2022	2021
	AED'000	AED'000
At fair value		
At beginning of the year	**462,829**	449,715
Change in fair value during the year (Note 30)	**2,011**	13,114
At end of the year	**464,840**	462,829

All of the Group's investment properties are held under freehold interest and located in the UAE. As at 31 December 2022 and 31 December 2021 these were classified as level 3 in the fair value hierarchy.

11 Investment properties (continued)

Valuation processes

The fair value of investment properties as at 31 December 2022 has been arrived at on the basis of valuations carried out by third party valuers and also are in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards. The valuers performing the valuation have necessary qualifications, skills, understanding and knowledge to undertake the valuation competently and possess recent market experience in the valuation of properties in the United Arab Emirates. The valuers are not related to the Group. The fair value of the Group's investment properties is based on unobservable market inputs, i.e. Level 3. Management has assessed the fair value of investment properties and the carrying value approximates the fair value as at 31 December 2022.

Valuation techniques underlying management's estimation of fair value

Valuation of the Group's investment properties was determined using either of Discounted Cash Flow ("DCF"), Residual valuation, or sales comparison methods based on the available inputs.

DCF method of valuation considers expected net cash flow discounted using discount rates which reflect current market conditions. Residual method considers construction costs for development, capitalization rates based on the location, size, quality of the properties and market data, operational cost estimates to maintain the property for its useful life and estimated vacancy rates. Income capitalization method considers contracted rental income and capitalization rate. Sales comparison approach consider value of comparable properties in close proximity adjusted for differences in key attributes such as property size and quality of interior fittings.

Sensitivity on the fair value of Investment properties based on each methodology was as follows:

For the sales comparison method, if the prices of the comparable properties were to increase / decrease by 1% and considering all other assumptions to remain constant, the fair value would increase / decrease by +1%/-1% (31 December 2021: the fair value would increase / decrease by +1%/-1%). For the DCF method, if the discount rates were to increase / decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase / decrease by 2.6% / 2.4% respectively (31 December 2021: the fair value would increase / decrease by +3%/-3%). As at 31 December 2022, for the residual method, if the capitalization rates were to increase / decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase / decrease by +4%/-4%.

12 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in-progress AED'000	Total AED'000
Cost						
At 1 January 2021	1,156,507	443,886	226,231	195,076	44,828	2,066,528
Additions during the year	-	30,304	21,123	26,222	51,567	129,216
Transfers	32,525	8,502	2,100	-	(43,127)	-
Disposals/write-offs/elimination	-	(64,720)	(17,118)	(52,798)	(318)	(134,954)
At 31 December 2021	**1,189,032**	**417,972**	**232,336**	**168,500**	**52,950**	**2,060,790**
Additions during the year	**177**	**31,707**	**40,135**	**42,089**	**31,924**	**146,032**
Transfers	**3,945**	**1,512**	**(818)**	**-**	**(4,639)**	**-**
Disposals/write-offs/elimination	**(2,730)**	**(36,936)**	**(23,266)**	**(60,212)**	**-**	**(123,144)**
At 31 December 2022	**1,190,424**	**414,255**	**248,387**	**150,377**	**80,235**	**2,083,678**
Accumulated depreciation and impairment						
At 1 January 2021	223,224	227,928	44,016	104,591	-	599,759
Charge for the year (Note 32)	30,018	50,761	32,171	47,765	-	160,715
Disposals/write-offs/elimination	-	(58,948)	(12,667)	(54,165)	-	(125,780)
At 31 December 2021	**253,242**	**219,741**	**63,520**	**98,191**	**-**	**634,694**
Charge for the year (Note 32)	**29,906**	**47,779**	**33,441**	**38,160**	**-**	**149,286**
Disposals/write-offs/elimination	**(1,826)**	**(30,127)**	**(17,068)**	**(46,766)**	**-**	**(95,787)**
At 31 December 2022	**281,322**	**237,393**	**79,893**	**89,585**	**-**	**688,193**
Carrying amount						
At 31 December 2022	**909,102**	**176,862**	**168,494**	**60,792**	**80,235**	**1,395,485**
At 31 December 2021	935,790	198,231	168,816	70,309	52,950	1,426,096

13 Intangible assets

	Software AED'000
Cost	
At 1 January 2021	600,900
Additions during the year	82,298
Disposals/write-offs/elimination	(13,544)
At 31 December 2021	**669,654**
Additions during the year	**130,282**
Disposals/write-offs/elimination	**(312,289)**
At 31 December 2022	**487,647**
Accumulated depreciation and impairment	
At 1 January 2021	306,458
Charge for the year (Note 32)	94,854
Disposals/write-offs/elimination	(12,994)
At 31 December 2021	**388,318**
Charge for the year (Note 32)	**124,202**
Disposals/write-offs/elimination	**(255,540)**
At 31 December 2022	**256,980**
Carrying amount	
At 31 December 2022	**230,667**
At 31 December 2021	281,336

14 Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

	2022 AED'000	2021 AED'000
Time	**16,559,285**	13,947,840
Demand	**8,805,301**	3,192,445
Overnight	**3,034,870**	2,426,201
	28,399,456	19,566,486

(b) The above represent deposits and balances due to banks from:

	2022 AED'000	2021 AED'000
Banks within the UAE	**4,443,908**	1,761,073
Banks outside the UAE	**23,955,548**	17,805,413
	28,399,456	19,566,486

15 Repurchase agreements with banks

	2022 AED'000	2021 AED'000
Repurchase agreements	**1,926,182**	2,729,147

The above repurchase agreements with banks are at an average interest rate of 3.87% (31 December 2021: 1.14%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f) and 8(f) to the consolidated financial statements.

16 Customers' deposits

(a) The analysis of customers' deposits is as follows:

	2022 AED'000	2021 AED'000
Current and other accounts	**62,482,606**	50,248,066
Saving accounts	**5,786,550**	6,109,303
Time deposits	**30,558,166**	30,793,533
	98,827,322	87,150,902

16 Customers' deposits (continued)

(b) Analysis by industry sector:

	2022 AED'000	2021 AED'000
Government and public sector	**7,528,997**	6,105,551
Commercial and business	**62,473,668**	56,772,841
Personal	**25,463,727**	19,846,620
Financial institutions	**3,104,591**	3,842,613
Other	**256,339**	583,277
	98,827,322	87,150,902

17 Islamic customers' deposits

(a) The analysis of Islamic customers' deposits is as follows:

	2022 AED'000	2021 AED'000
Current and other accounts	**3,876,915**	3,586,227
Saving accounts	**232,925**	191,227
Time deposits	**10,869,101**	10,554,633
	14,978,941	14,332,087

The amount under time deposits include AED 11 million relating to profit equalization reserve.

(b) Analysis by industry sector:

	2022 AED'000	2021 AED'000
Government and public sector	**2,588,271**	812,773
Commercial and business	**7,859,337**	3,899,289
Personal	**2,497,201**	1,082,002
Financial institutions	**2,034,132**	8,538,023
	14,978,941	14,332,087

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

18 Other liabilities

	2022 **AED'000**	2021 AED'000
Interest payable	**473,596**	425,204
Negative fair value of derivatives (Note 41)	**1,699,015**	970,260
Insurance related payables	**842,335**	572,859
Accrued expenses	**955,209**	861,278
Income received in advance	**612,987**	538,702
Pay orders issued	**641,711**	533,625
Provision for employees' end of service indemnity*	**253,599**	234,980
Provision for taxation	**120,567**	104,531
Lease liability	**48,983**	62,280
Others	**1,733,795**	1,185,817
Allowance for impairment – off balance sheet	**871,247**	538,772
	8,253,044	6,028,308

* Provision for employees' end of service indemnity included AED 231 million (31 December 2021: AED 212 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside UAE and is computed based on the local laws and regulations of respective jurisdictions.

19 Medium-term loans

	2022 AED'000	2021 AED'000
Medium term notes	**5,223,565**	7,315,119

(a) The maturities of the medium-term notes (MTNs) issued under the Euro Medium Term Note (EMTN) programme are as follows:

Year	**2022 AED'000**	2021 AED'000
2022	**-**	2,095,531
2023	**424,148**	389,753
2024	**3,944,001**	3,989,012
2025	**752,951**	799,917
2027	**64,800**	-
2029	**37,665**	40,906
	5,223,565	7,315,119

Medium term notes are denominated in following currencies:

	2022 AED'000	2021 AED'000
U.S. Dollars	**3,637,992**	5,254,006
Japanese Yen	**409,822**	593,340
Australian Dollars	**50,004**	53,376
Chinese Yuan	**1,091,235**	1,170,251
Euro	**-**	83,223
South African Rand	**34,512**	36,941
Great Britain Pound	**-**	123,982
	5,223,565	7,315,119

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the year ended 31 December 2022, AED 2 billion of medium-term notes were redeemed.

20 Insurance contract liabilities and reinsurance contract assets

	2022	2021
	AED'000	AED'000
Insurance contract liabilities		
Outstanding claims	**2,166,743**	2,188,676
Incurred but not reported claims reserve	**522,641**	484,339
Life assurance fund	**106,182**	113,442
Unearned premium	**1,791,107**	1,346,425
Unit linked liabilities	**1,047,652**	426,321
Unallocated loss adjustment expenses reserve	**7,768**	7,399
	5,642,093	4,566,602

	2022	2021
	AED'000	AED'000
Reinsurance contract assets		
Outstanding claims	**1,658,999**	1,734,884
Incurred but not reported claims reserve	**322,448**	227,102
Life assurance fund	**23,892**	21,502
Unearned premium	**1,122,670**	716,478
	3,128,009	2,699,966

	2022	2021
	AED'000	AED'000
Insurance contract liabilities-net		
Outstanding claims	**507,744**	453,792
Incurred but not reported claims reserve	**200,193**	257,237
Life assurance fund	**82,290**	91,940
Unearned premium	**668,437**	629,948
Unit linked liabilities	**1,047,652**	426,321
Unallocated loss adjustment expenses reserve	**7,768**	7,398
	2,514,084	1,866,636

20 Insurance contract liabilities and reinsurance contract assets (continued)

20.1 Movement in the provision for outstanding claims, IBNR and unallocated loss adjustment expenses and the related reinsurers' share

	2022			2021		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	**2,680,414**	**(1,961,987)**	**718,427**	2,927,079	(2,183,195)	743,884
Derecognition on sale of subsidiary (Note 43)	**(95,310)**	**72,688**	**(22,622)**	-	-	-
Claims incurred during the year	**2,346,680**	**(1,374,149)**	**972,531**	2,394,478	(1,295,860)	1,098,618
Claims settled during the year	**(2,234,632)**	**1,282,001**	**(952,631)**	(2,641,143)	1,517,068	(1,124,075)
At 31 December	**2,697,152**	**(1,981,447)**	**715,705**	2,680,414	(1,961,987)	718,427

20.2 Movement in life assurance fund

	AED'000
At 1 January 2021	108,774
Net movement during the year	(16,834)
At 31 December 2021	**91,940**
Net movement during the year	**(9,650)**
At 31 December 2022	**82,290**

20. 3 Movement in unit linked liabilities

	AED'000
At 1 January 2021	391,701
Net movement during the year	34,620
At 31 December 2021	**426,321**
Transfer of unit linked life insurance portfolio (Note 43)	**688,737**
Net movement during the year	**(67,406)**
At 31 December 2022	**1,047,652**

20 Insurance contract liabilities and reinsurance contract assets (continued)

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2022 or 2021, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of further deterioration in the variable.

	Change in assumptions	**Increase /(decrease) in net liability**	
		2022	2021
		AED'000	AED'000
Morality/morbidity	**+10%**	**533**	518
Discount rate	**+75bps**	**(2,021)**	(2,541)
Morality/morbidity	**-10%**	**(537)**	(522)
Discount rate	**-75bps**	**2,169**	2,735

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

At the general meeting held on 9 November 2021, the shareholders approved increase in the share capital of the Bank to AED 2,006,098,300 by issuing 23,079,007 bonus shares based on the existing face value of AED 10 per share, which is a non cash transaction.

As at 31 December 2022, 200,609,830 ordinary shares of AED 10 each (31 December 2021: 200,609,830 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

In accordance with UAE Federal Law No. 32 of 2021, 10% of net profit for the year is to be transferred to the statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE, this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the Currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the Currency translation reserve. Exchange differences previously accumulated in the Currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 1,269 million (31 December 2021: loss of AED 174 million) and was reflected in the consolidated statement of comprehensive income [note 7(k)].

(f) Cash flow hedge reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of cross currency swap hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value for cross currency swap of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group’s accounting policy.

(g) Dividends on equity instruments

At the Annual General Meeting of the shareholders held on 20 April 2022, the shareholders approved a cash dividend of 10% for the year ended 31 December 2021 (31 December 2020: cash dividend of nil) of the issued and paid up capital amounting to AED 201 million.

22 Non-controlling interests

	2022 AED'000	2021 AED'000
At beginning of the year	**796,062**	757,680
Share of profit for the year (Note 36)	**79,904**	73,508
Share of other comprehensive income for the year	**37,495**	12,024
Dividend paid	**(32,826)**	(32,825)
Transaction with NCI	**(3,320)**	(14,325)
At end of the year	**877,315**	796,062

23 Contingent liabilities and commitments

(a) The analysis of the Group's contingent liabilities and commitments is as follows:

	2022 AED'000	2021 AED'000
Guarantees	**31,075,131**	33,706,515
Letters of credit	**15,698,423**	15,785,785
Commitments for capital expenditure	**183,940**	290,668
	46,957,494	49,782,968

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2022 amounted to AED 10.59 billion (31 December 2021: AED 7.95 billion).

The analysis of contingent liabilities and commitments by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

24 Interest income

	2022 AED'000	2021 AED'000
Loans and advances	**3,856,803**	2,647,739
Banks	**1,248,546**	689,138
Central banks	**351,223**	73,641
Other financial assets measured at amortised cost	**534,711**	469,375
Other financial assets measured at fair value	**423,658**	371,931
	6,414,941	4,251,824

25 Income from Islamic financing and investment products

	2022 AED'000	2021 AED'000
Financing		
Murabaha	**461,820**	302,081
Ijarah	**184,550**	154,190
Other	**1,327**	4,512
	647,697	460,783
Investment		
Wakalah	**23,943**	14,470
	23,943	14,470
Total	**671,640**	475,253

26 Interest expense

	2022 AED'000	2021 AED'000
Customers' deposits	**1,379,559**	927,886
Deposits and balances due to banks	**571,838**	301,234
Medium-term loans	**287,867**	276,584
Subordinated debt	**15,631**	-
	2,254,895	1,505,704

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Internal Shari'ah Supervision Committee.

28 Net fee and commission income

	2022 **AED'000**	2021 AED'000
Fee and commission income		
Commission income	**619,618**	588,614
Insurance commission	**217,983**	228,609
Fees and charges on banking services	**826,134**	667,576
Credit card related fees	**2,168,032**	1,720,244
Others	**212,363**	213,043
Total	**4,044,130**	3,418,086
Fee and commission expenses		
Commission expense	**(72,625)**	(34,553)
Insurance commission	**(335,992)**	(327,286)
Credit card related expenses	**(1,749,568)**	(1,356,517)
Others	**(144,769)**	(122,931)
Total	**(2,302,954)**	(1,841,287)
Net fee and commission income	**1,741,176**	1,576,799

29 Net investment income

	2022 **AED'000**	2021 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**38,757**	28,305
Unrealised (loss)/gain on other financial assets measured at FVTPL [Note 7(j)]	**(36,119)**	8,521
Dividend income from other financial assets measured at FVTPL	**858**	1,041
Net realised gain from sale of other financial assets measured at amortised cost / FVTOCI	**53,783**	117,603
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	**34,615**	21,337
	91,894	176,807

30 Other income, net

	2022 AED'000	2021 AED'000
Foreign exchange gains	**417,959**	472,228
Insurance related income (Note 36)	**538,479**	454,995
Gain/(loss) on disposal of property and equipment	**341**	(3,447)
Unrealised gain on derivatives	**58,612**	30,724
Unrealised gain on investment properties (Note 11)	**2,011**	13,114
Others	**73,589**	39,363
	1,090,991	1,006,977

31 Allowances for impairment, net

	2022 AED'000	2021 AED'000
Deposits and balances due from banks [Note 6(c)]	**(3,408)**	(4,404)
Other financial assets measured at amortised cost [Note 7(d)]	**3,946**	3,270
Other financial assets measured at FVTOCI	**21**	3,372
Loans and advances measured at amortised cost [Note 8(d)]	**298,051**	1,529,908
Islamic financing and investment products measured at amortised cost [Note 9(c)]	**(71,452)**	203,822
Other assets	**10,964**	23,905
Change in impairment allowance on off-balance sheet items	**332,374**	75,058
Loans and advances including Islamic financing and investment products measured at amortized cost written off	**275,215**	408,412
Recovery of loans and advances including Islamic financing and investment products measured at amortised cost previously written off	**(348,233)**	(184,717)
	497,478	2,058,626

32 General and administrative expenses

	2022 AED'000	2021 AED'000
Salaries and employees related expenses	**1,765,340**	1,466,741
Depreciation on property and equipment (Note 12)	**149,286**	160,715
Amortisation on intangible assets (Note 13)	**124,202**	94,854
Social contribution	**941**	1,785
Others	**1,026,487**	898,862
	3,066,256	2,622,957

33 Earnings per share

The basic and diluted earnings per share is calculated by dividing the net (loss) / profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

	2022	2021
Profit for the year (AED'000) (Attributed to owners of the Parent)	**3,706,293**	1,002,203
Number of ordinary shares outstanding [Note 21(a)]	**200,609,830**	200,609,830
Basic and diluted earnings per share (AED)	**18.48**	5.00

In accordance with IAS 33 "Earnings Per Share", the impact of bonus shares issued have been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

34 Proposed dividends

The board of Directors has proposed a 90% cash dividend for the year ended 31 December 2022 at their meeting held on 30 January 2023.

35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank, certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as below.

	2022 **AED'000**	2021 AED'000
Cash on hand	**1,249,478**	1,027,306
Current accounts and other balances with central banks	**24,413,114**	9,223,621
Certificates of deposit maturing within 3 months	**550,000**	2,800,000
Deposits and balances due from banks maturing within 3 months	**12,292,614**	8,251,111
	38,505,206	21,302,038

36 Investment in subsidiaries and associates

(a) At 31 December 2022, Mashreqbank PSC Group (the "Group") comprises the Bank and the following direct subsidiaries, associates and joint venture:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Principal activity
Subsidiary			
Oman Insurance Company (PSC)	United Arab Emirates	64.46	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	100.00	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	Service provider
Invictus Limited	Cayman Islands	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Mashreq for Business Process Support (Sole Person Company)	Egypt	100.00	Employment Services
Mashreq Global Services (SMC private) Limited	Pakistan	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	Payment service provider
Osool – A Finance Company (PJSC) *	United Arab Emirates	100.00	Finance
Associate			
Emirates Digital Wallet LLC	United Arab Emirates	23.61	Digital wallet service
Joint venture			
Noon Digital Pay LLC	United Arab Emirates	51.00	Digital wallet service

* Under liquidation

36 Investment in subsidiaries and associates (continued)

(b) Financial details of non-wholly owned subsidiaries of the Bank are as follows:

Name of subsidiary	Profit allocated to non-controlling interest		Accumulated non-controlling interests	
	2022	2021	**2022**	2021
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC)	**79,459**	73,077	**874,377**	789,970
Individually immaterial subsidiaries with non - controlling interests	**445**	431	**2,938**	6,092
	79,904	73,508	**877,315**	796,062

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 1,064 million (31 December 2021: AED 447 million).

(d) During the year ended 31 December 2022, the Group sold investments held at fair value through other comprehensive income amounting to AED 259 million at the time of sale (31 December 2021: AED 154 million). The Group realised a loss of AED 4 million (31 December 2021: loss of AED 6 million) which was transferred to retained earnings.

36 Investment in subsidiaries and associates (continued)

(e) Below is the summarised financial information of Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interest. The financial information represents balances before intra-group eliminations.

	2022 AED'000	2021 AED'000
Statement of financial position		
Total assets	**9,203,878**	7,555,814
Total liabilities	**6,743,363**	5,332,820
Net equity	**2,460,515**	2,222,994

	2022 AED'000	2021 AED'000
Statement of comprehensive income		
Gross insurance premium	**4,389,864**	3,538,930
Less: Insurance premium ceded to reinsurers	**(2,818,929)**	(1,953,527)
Net retained premium	**1,570,935**	1,585,403
Net change in unearned premium and mathematical reserve	**(59,925)**	(31,791)
Net earned insurance premium	**1,511,010**	1,553,612
Gross claims settled	**(2,234,632)**	(2,641,143)
Insurance claims recovered from reinsurers	**1,282,001**	1,517,068
Net claims settled	**(952,631)**	(1,124,075)
Net change in outstanding claims and additional reserve	**(19,900)**	25,457
Net claims incurred	**(972,531)**	(1,098,618)
Insurance related income (Note 30)	**538,479**	454,994
Net commission and other loss	**(69,687)**	(55,976)
Net investment income	**126,042**	138,323
Net expenses	**(371,233)**	(331,216)
Profit for the year	**223,601**	206,125
Other comprehensive income	**100,430**	38,056
Total comprehensive income	**324,031**	244,181
Statement of cash flows		
Net cash generated from operating activities	**314,819**	53,562
Net cash generated from investing activities	**(187,089)**	17,184
Net cash used in financing activities	**(98,166)**	(97,940)
Net increase/(decrease) in cash and cash equivalents	**29,564**	(27,194)

37 Related party transactions

(a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

(b) Related party balances included in the consolidated statement of financial position are as follows:

	2022 **AED'000**	2021 AED'000
Balances with major shareholders		
Loans and advances	**3,216,692**	2,810,150
Deposits / financial instruments under lien	**1,198,230**	1,029,236
Letter of credit and guarantees	**1,449,059**	1,854,305
Balances with directors and key management personnel		
Loans and advances	**135,248**	125,107
Deposits / financial instruments under lien	**364,835**	230,884
Letter of credit and guarantees	**251**	5,369
Balances with associates and joint venture		
Deposits / financial instruments under lien	**99,372**	-
Letter of credit and guarantees	**25,000**	-

(c) Profit/(loss) for the year includes related party transactions as follows:

Transactions with major shareholders		
Interest income	**104,007**	79,407
Interest expense	**962**	891
Other income	**33,427**	33,984
Transactions with directors and key management personnel		
Interest income	**3,419**	2,011
Interest expense	**601**	71
Other income	**302**	341
Transactions with associates and joint venture		
Other income	**2**	-

(d) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 55 million (31 December 2021: AED 50 million).

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2022			31 December 2021		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
UAE.	**98,626,565**	**99,469,999**	**31,705,164**	89,063,593	74,602,940	26,291,091
Other Middle East Countries	**41,399,887**	**30,429,015**	**4,139,766**	37,079,026	31,949,362	8,772,586
O.E.C.D.	**32,031,472**	**24,415,318**	**5,016,388**	19,846,199	29,787,617	6,264,462
Others	**26,753,319**	**20,078,272**	**5,912,236**	31,064,791	19,689,404	8,164,161
	198,811,243	**174,392,604**	**46,773,554**	177,053,609	156,029,323	49,492,300

(b) Industry Sectors

	31 December 2022			31 December 2021		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Government and public sector	**26,129,153**	**10,508,040**	**63,269**	29,948,837	7,194,809	44,682
Commercial & business	**61,754,577**	**79,056,754**	**31,833,750**	58,533,228	74,139,651	34,386,637
Personal	**23,397,222**	**28,716,545**	**214,634**	19,243,040	21,504,238	480,376
Financial institutions	**85,167,327**	**54,627,754**	**14,614,287**	67,234,890	51,993,297	14,374,179
Others	**2,362,964**	**1,483,511**	**47,614**	2,093,614	1,197,328	206,426
	198,811,243	**174,392,604**	**46,773,554**	177,053,609	156,029,323	49,492,300

39 Segmental information

Reportable segments

IFRS 8 – *Operating Segments* – requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Reportable segments

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 *Operating Segments* are therefore as follows:

(i) Wholesale segment comprises of corporate and commercial banking. It also includes global Financial Institution and corporate business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking and Islamic products.

(ii) The Retail segment includes products and services offered to individuals or small businesses within U.A.E. and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking, wealth management services and Islamic products.

(iii) The Treasury & Capital Markets segment consists of customer flow business and proprietary business and funding centre management. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

(iv) The Insurance subsidiary, Oman Insurance Company (PSC) Group – comprises the Insurance segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

(v) Other consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2022					
	Wholesale AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**2,226,099**	**1,658,328**	**355,392**	**85,507**	**246,632**	**4,571,958**
Non-interest income, net	**947,539**	**1,178,426**	**262,685**	**478,421**	**56,990**	**2,924,061**
Operating income	**3,173,638**	**2,836,754**	**618,077**	**563,928**	**303,622**	**7,496,019**
General and administrative expenses	**(1,025,628)**	**(1,494,899)**	**(145,398)**	**(323,829)**	**(76,502)**	**(3,066,256)**
Operating profit before impairment						**4,429,763**
Allowances for impairment, net						**(497,478)**
Profit before tax						**3,932,285**
Tax expense						**(146,088)**
Profit for the year						**3,786,197**
Attributable to:						
Owners of the Parent						**3,706,293**
Non-controlling interests						**79,904**
						3,786,197
Segment Assets	**95,593,672**	**25,718,464**	**48,696,901**	**9,161,326**	**19,640,880**	**198,811,243**
Segment Liabilities	**84,194,570**	**52,527,388**	**18,153,742**	**6,719,595**	**12,797,309**	**174,392,604**

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022(continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2021					
	Wholesale AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	1,562,122	1,086,880	201,661	81,381	113,445	3,045,489
Non-interest income, net	953,494	940,995	416,704	453,230	(3,840)	2,760,583
Operating income	2,515,616	2,027,875	618,365	534,611	109,604	5,806,072
General and administrative expenses	(920,900)	(1,194,874)	(119,458)	(301,825)	(85,900)	(2,622,957)
Operating profit before impairment						3,183,115
Allowances for impairment, net						(2,058,626)
Profit before tax						1,124,489
Tax expense						(48,778)
Profit for the year						1,075,711
Attributable to:						
Owners of the Parent						1,002,203
Non-controlling interests						73,508
						1,075,711
Segment Assets	91,161,891	20,196,817	36,960,425	7,466,493	21,267,983	177,053,609
Segment Liabilities	73,409,026	40,687,894	21,157,080	5,305,995	15,469,327	156,029,322

39 Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas – UAE. (country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income from external customers *		Non-current assets **	
	2022	2021	**2022**	2021
	AED'000	AED'000	**AED'000**	AED'000
UAE	**6,107,859**	4,711,137	**2,005,865**	2,062,938
Other Middle East countrie	**921,280**	810,728	**57,079**	76,036
O.E.C.D.	**324,746**	173,383	**20,045**	22,250
Other countries	**142,134**	110,824	**8,003**	9,037
	7,496,019	5,806,072	**2,090,992**	2,170,261

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets include property & equipment, intangible assets and investment properties. The additions to non-current assets during the year relate to property & equipment and intangible assets which has been disclosed in note 12 and 13. Refer to note 12 and 13 for depreciation and amortisation.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2022 and 2021.

40 Classification of financial assets and liabilities

(a) 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:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	31,435,930	31,435,930
Deposits and balances due from banks	-	-	28,846,448	28,846,448
Other financial assets measured at fair value	2,652,254	7,777,511	-	10,429,765
Other financial assets measured at amortised cost	-	-	16,422,947	16,422,947
Loans and advances measured at amortised cost	-	-	75,630,344	75,630,344
Islamic financing and investment products measured at amortised cost	-	-	14,672,897	14,672,897
Acceptances			9,310,974	9,310,974
Other assets	2,623,722	-	3,765,352	6,389,074
Total	5,275,976	7,777,511	180,084,892	193,138,379
Financial liabilities:				
Deposits and balances due to banks	-	-	28,399,456	28,399,456
Repurchase agreements with banks	-	-	1,926,182	1,926,182
Customers' deposits	-	-	98,827,322	98,827,322
Islamic customers' deposits	-	-	14,978,941	14,978,941
Acceptances	-	-	9,310,974	9,310,974
Other liabilities	1,699,015	-	4,724,540	6,423,555
Medium-term loans	-	-	5,223,565	5,223,565
Subordinated debt	-	-	1,831,027	1,831,027
Total	1,699,015	-	165,222,007	166,921,022

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

40 Classification of financial assets and liabilities (continued)

(b) 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:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	17,507,751	17,507,751
Deposits and balances due from bank	-	-	28,805,095	28,805,095
Other financial assets measured at fair value	2,273,444	14,167,679	-	16,441,123
Other financial assets measured at amortised cost	-	-	10,277,824	10,277,824
Loans and advances measured at amortised cost	-	-	66,432,570	66,432,570
Islamic financing and investment products measured at amortised cost	-	-	15,053,454	15,053,454
Acceptances			14,340,671	14,340,671
Other assets	1,028,186	-	1,887,183	2,915,369
Total	3,301,630	14,167,679	154,304,548	171,773,857
Financial liabilities:				
Deposits and balances due to banks	-	-	19,566,486	19,566,486
Repurchase agreements with banks	-	-	2,729,147	2,729,147
Customers' deposits	-	-	87,150,902	87,150,902
Islamic customers' deposits	-	-	14,332,087	14,332,087
Acceptances			14,340,671	14,340,671
Other liabilities	970,260	-	3,606,976	4,577,236
Medium-term loans	-	-	7,315,119	7,315,119
Total	970,260	-	149,041,388	150,011,648

41 Derivatives

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes. These derivative financial instruments are based on observable market inputs i.e. Level 2.

(a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

(b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.

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

(d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

(e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

The Group measures a net Credit Value Adjustment (CVA) on outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is computed on all OTC derivatives asset classes including Foreign Exchange, Interest Rates, Equities and Commodities etc. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses in the derivatives portfolios. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. Internally the Group manages and monitor the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA).

41 Derivatives (continued)

31 December 2022

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity: Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	560,057	380,540	73,311,757	59,363,324	6,767,806	4,060,475	3,045,147	75,005
Foreign exchange options (bought)	9,713	9,703	448,587	115,515	333,072	-	-	-
Foreign exchange options (sold)	-	-	210,948	47,908	163,040	-	-	-
Interest rate swaps	1,933,379	1,148,720	28,167,946	534,870	43,384	2,052,489	12,185,314	13,351,889
Credit default swaps	-	-	-	-	-	-	-	-
Futures contracts purchased (Customer)	75,556	369	818,767	733,023	85,744	-	-	-
Futures contracts sold (Customer)	909	3,143	192,811	192,811	-	-	-	-
Futures contracts purchased (Bank)	369	75,556	818,767	733,023	85,744	-	-	-
Futures contracts sold (Bank)	3,143	909	192,811	192,811	-	-	-	-
Total	2,583,126	1,618,940	104,162,394	61,913,285	7,478,790	6,112,964	15,230,461	13,426,894
Held as fair value / cash flow hedge:								
Cross-currency swap	40,596	80,075	1,822,469	-	31,220	16,528	1,696,574	78,147
Total	2,623,722	1,699,015	105,984,863	61,913,285	7,510,010	6,129,492	16,927,035	13,505,041

41 Derivatives (continued)

31 December 2021

	Positive fair value	Negative fair value	Notional amount	Notional amount by term to maturity: Up to 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 Years
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Derivatives held for trading:								
Forward foreign exchange contract	249,452	194,982	56,973,978	30,699,732	12,574,299	10,090,188	3,532,013	77,923
Foreign exchange options (bought)	-	336	1,880,243	1,566,326	31,640	282,276	-	-
Foreign exchange options (sold)	513	-	1,622,613	1,565,979	31,640	24,994	-	-
Interest rate swaps	606,997	662,173	34,035,738	907,988	377,668	5,252,582	13,526,998	13,970,503
Credit default swaps	237	271	55,095	-	-	-	55,095	-
Futures contracts purchased (Customer)	47,450	23,481	1,208,485	802,997	1,659	403,828	-	-
Futures contracts sold (Customer)	142	1,301	47,595	28,634	18,961	-	-	-
Futures contracts purchased (Bank)	1,301	142	47,595	28,634	18,961	-	-	-
Futures contracts sold (Bank)	23,481	47,451	1,217,320	811,833	1,659	403,828	-	-
Total	929,573	930,137	97,088,662	36,412,123	13,056,487	16,457,696	17,114,106	14,048,426
Held as fair value / cash flow hedge:								
Cross-currency swap	98,613	40,123	1,960,813	22,620	-	-	1,795,204	150,359
Total	1,028,186	970,260	99,049,475	36,434,743	13,056,487	16,457,696	18,909,310	14,198,785

42 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

On June 26, 2012, the BCBS issued the Basel III rules on the information banks must publicly disclose when detailing the composition of their capital, which set out a framework to ensure that the components of banks capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III.

Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banks to hold capital in excess of regulatory minimums.

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

The Group's regulatory capital is analysed into two tiers, in line with the Central Bank regulation:

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

- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.

42 Capital management (continued)

Regulatory capital (continued)

- Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2022 is 13% inclusive of capital conservation buffer.

The Bank is required to comply with the following minimum requirement:

(i) CET1 must be at least 7% of risk weighted assets (RWA);
(ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
(iv) In addition, banks are required to maintain a capital conservation buffer (CCB) of 2.5% of risk weighted assets (RWA) in the form of CET 1

The Group's assets are risk-weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

42 Capital management (continued)

Regulatory capital (continued)

As part of its Capital Management, the Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate to the Central Bank of the UAE that the Bank has implemented methods and procedures to ensure adequate capital resources and action plans in stress conditions, with due attention to all material risks. The Central Bank of the UAE conducts a Supervisory Review and Evaluation Process (SREP) to assess the soundness of the Bank's ICAAP.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group has issued medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

42 Capital management (continued)

Regulatory capital (continued)

(a) The Group's regulatory capital positions as at 31 December 2022 and 31 December 2021 were as follows:

	2022	2021
	AED'000	AED'000
Common equity Tier 1 capital		
Issued and paid up capital	**2,006,098**	2,006,098
Statutory and legal reserve	**1,027,494**	1,012,320
General reserve	**312,000**	312,000
Currency translation reserve	**(130,804)**	(116,116)
Investments revaluation reserve	**(1,813,781)**	(547,489)
Retained earnings	**19,232,928**	17,360,802
Less: Regulatory deductions	**(214,364)**	(241,729)
Total (A)	**20,419,571**	19,785,886
Additional Tier 1 capital	**1,101,900**	-
Total Tier 1 capital (B)	**21,521,471**	19,785,886
Tier 2 capital		
Subordinated debt	**1,831,027**	-
General provision	**1,800,412**	1,693,975
Total	**3,631,439**	1,693,975
Total capital base (C)	**25,152,910**	21,479,861
Credit risk	**144,032,961**	135,518,028
Market risk	**2,655,216**	3,206,199
Operational risk	**10,319,049**	9,444,817
Total risk-weighted assets (D)	**157,007,226**	148,169,044
Capital adequacy ratio [(C)/(D) x 100]	**16.02%**	14.50%

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

43 Risk management

The Risk Management Group ("RMG") is responsible for identifying, analysing, measuring, and managing risk to ensure that the Group (i) remains within its risk appetite; and (ii) generates sustainable risk-adjusted returns as mandated by the shareholders.

The Group is exposed to the following material risks:

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

The Group's ability to consistently foster a robust risk management culture and framework is an important factor in its financial strength and stability.

Risk Management Framework

The Board of Directors (the "Board") through the Board Risk Committee ("BRC") has overall responsibility for establishment and oversight of the Group's risk management framework. They are assisted by various management committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC"). These committees are appointed by the Board and assist the Board in management of risk in the Group including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Group including recommending the Group's overall Risk Appetite.

The ERC has overall responsibility for oversight of risk management framework and risk appetite of the Group. The Enterprise Risk Committee is also responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Enterprise Risk Committee also approves policy exceptions, establishes, and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

43 Risk management (continued)

Risk Management Framework (continued)

The Risk Management Group ("RMG") is independent of business groups and is led by a Chief Risk Officer ("CRO") with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the Group. The RMG is primarily responsible for defining the framework for management of all material risks within the Group.

The Internal Audit Group ("IAG") acts as the third line of defence function within the Group, independent from both the business units ("first line of defence") and Group Operational risk team ("second line of defence"). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Group and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the Bank, in addition to Risk Management.

Capital Management

The Group's capital management approach is designed to ensure that regulatory requirements are met at all times and that the Group's operating activities, including its branches and subsidiaries, are capitalized in line with the Group's risk appetite, target ratios and in accordance with local regulatory requirements.

The Bank's capital management approach further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the Group's annual Internal Capital Adequacy Assessment Process ICAAP. The capital management approach is set and governed primarily by the ALCO.

43 Risk management (continued)

Risk Appetite & Stress Testing

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and strategy.

Risk Appetite for the Group is set and approved by the Group's Board. The Group's risk appetite is disseminated down to business groups in alignment with business strategies for these groups.

Stress testing is a key management tool within the Group used to evaluate the sensitivity of current and forward risk profiles to shocks of varying nature and severity. Stress testing within the Group is governed by the Group's stress testing policy which sets out the approaches for stress testing and associated roles and responsibilities. The primary governance committee overseeing risk appetite and stress testing is the ERC.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the bank's aggregated Capital and the monitoring of the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less required risk capital) and recommending actions, as warranted. The risk assessment is approved by the Board as part of the ICAAP submission.

Risks that are explicitly assessed through ICAAP are credit risk, market risk, operational risk, concentration risk, funding cost risk, business risk and interest rate risk in the banking book. Preserving the capital position remains a priority from both a regulatory and management viewpoint.

Credit risk management

Credit risk is the risk of suffering financial loss as a result of any of the Group's customers failing or unwilling to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Group is also exposed to other credit risks arising from investments in debts instruments, derivatives as well as settlement balances with market counterparties.

The Chief Credit Officer ("CCO") of the Group is responsible for overseeing all aspects of credit risk management supported by a team of experienced and trained credit risk managers. The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

43 Risk management (continued)

Credit risk management (continued)

Credit risk is the single largest risk from the Group's business of extending Loans and Advances (including loan commitments, LCs and LGs) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. Credit risk management and controls are centralized under the CCO function with regular governance and monitoring exercised by the Board Risk Committee ("BRC"), Board Credit Committee ("BCC") and Enterprise Risk Committee ("ERC").

Specifically, BCC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BRC and BCC monitors key elements of the Bank's credit risk profile relative to the Bank's risk appetite. The Board Committees are supported by ERC through detailed review and monitoring of credit portfolio, including exposure concentrations.

An Early Alert Committee ("EAC") is also in place to review and proactively identify potential problematic exposures within CIBG and IBG business groups and determine appropriate strategies. The EAC, along with the IFRS 9 Forum (a forum in place to oversee all aspects of Mashreq's IFRS 9 framework), plays an important role in ensuring that credit fundamentals are linked to determination of Significant Increase in Credit Risk (SICR) and staging for IFRS 9 purposes.

Loans and advances (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures:

-Probability of Default (PD)
-Loss Given Default (LGD)
-Exposure at Default (EAD)

Under IFRS 9, expected loss is replaced by Expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults. Over the course of 2022, IFRS 9 PD models were refreshed for SMEs within UAE and FI borrowers. In addition, a model for IFRS 9 LGD was also introduced.

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading

The Group uses specific internal rating models tailored to various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model. The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a PD. Non-performing borrowers are rated 50, 60, 70 and 80, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 99 for Write-off.

Borrower risk ratings are mapped into the following 5 Grades:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	High Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80	Impaired

The Group uses a bespoke Financial Institutions (“FI”) internal rating model to support the lending process. The FI Rating model consists of two major components: (i) the Financial – Macro Profile Analysis Assessment; and (ii) Business Analysis Assessment. Apart from the Financial and Business analysis factors, the model incorporates sovereign caps and consideration of group and government support, where applicable.

The FI rating model is utilized to rate all FI borrowers including those that are not externally rated. This rating is used to compute ECL staging for FI borrowers.

43 Risk management (continued)

Credit risk management (continued)

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, then the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Amongst other factors, the identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run. Other factors include restructuring and account irregularities.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime basis.
- Financial assets in Stage 3 are measured at an amount equal to lifetime expected credit losses or specific provision.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced SICR when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date. In addition, a range of qualitative criteria are also considered.

Quantitative criteria

Corporate loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating performance
- Operating efficiency
- Debt service / covenant breaches
- Distressed restructure
- Account performance / irregularities
- Liquidity assessment
- Capital structure

43 Risk management (continued)

Credit risk management (continued)

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account / borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:
- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

Qualitative criteria:

Corporate Loans
For corporate loans, the following is also considered in determining a significant increase in probability of default:

- Net worth erosion
- Fraudulent activity
- Significant operations disruption
- Departure of key members of management
- Industry outlook
- Income stability Unavailable/inadequate financial information/financial statements
- Qualified report by external auditors
- Pending significant litigation
- Increase in operational risk
- Continued delay and non-cooperation by the borrower in providing key relevant documentation

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2022 and 31 December 2021.

Backstop:

A borrower that is more than 30 days past due on its contractual obligations is presumed to have a significantly increased credit risk as a backstop unless this presumption can be reasonably rebutted based on supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets

The Group defines a financial corporate, retail and investment instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Banking Group.
- The obligor is past due more than 90 days on any material credit obligation to the Banking Group.

The criteria above have been applied to all financial instruments held by the Group and is consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions, and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The bank has opted for a monthly granular computation of PD, EAD and LGD.

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

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

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

During economically challenging periods, the Group may choose to increase the scenario weightage of the pessimistic scenario under guidance from respective regulatory authorities in order to maintain higher level of ECL provisions & lower the scenario weightage of pessimistic scenario once a favourable trend is noticed in the macro-economic climate. Such a change was effectuated in 2020 to reflect the impact of COVID-19, where the scenario weightage of the pessimistic scenario was increased to 80%.

The Group continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The group is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs is typically updated every 6 months. The update was last made in September 2022.

With respect to the Russia and Ukraine conflict, the Group's exposure to Russia and Ukraine is to Financial Institution in these countries. The Group continues to monitor the day-to-day situation with respective counterparties and is actively managing any direct exposure.

In addition, in anticipation of credit softness in other regional countries subject to economic turmoil, such as Sri Lanka and Pakistan, the Group has either significantly wound down the exposure or has tightened it's position and is focused on dealing with carefully selected counterparties only.

The Group has implemented risk rating models since 2005 which has enabled the Bank to rate borrowers based on their financial and qualitative information. The segmentation of these models was revisited in 2021 to introduce a new corporate model to rate large corporates. Ratings from rating models are used as an input into IFRS 9 macroeconomic models to derive a PD term structure for each rating grade in the IFRS 9 ECL computation.

In 2022, the Group has revised the IFRS 9 macroeconomic models for LGD, UAE SME and FI portfolios to include recent loss data. Remaining models have been reviewed within an acceptable period in the past and continue to be adequate.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving committed products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.
- For contingent products like LC & LG, the exposure at default is predicted using a Credit conversion factor in line with the Basel regulatory guidelines.

The Group has adopted a workout methodology for LGD computation. For the Corporate segment, the Bank has developed the LGD framework using more than 21 years of data.

The LGDs are determined based on the factors which impact recoveries made following default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set by different borrower segments (e.g. Corporates, Financial Institutions etc.) in order to reflect differences in asset structures, collection strategies and historical recovery experience.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The Group has revised the Wholesale LGD framework during 2020 in order to reflect recent recovery experience and additional admissible security types. Forward-looking economic information is also included in determining the 12-month and lifetime PD.

Forward looking information incorporated in the ECL models

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

These economic variables and their associated impact on the ECL parameters vary by geographies and borrower types. Impact of these economic variables on historical default rates is determined by performing statistical regression analysis to understand the relationship between these variables. Once the relationship has been established, the bank utilizes macroeconomic data for these variables from Moody's (Economy.com) and other recognized external sources (e.g. IMF) to obtain historical information and forecasts under base, optimistic and pessimistic scenarios. Expert judgement is applied in the process where the economic relationship between variables is weak or the forecast is deemed imprudent.

For unbiased and probability-weighted ECL calculation, the Group uses probabilities of 60%, 20% and 20% for baseline, optimistic and pessimistic macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and an even weight to the rest.

Following are the macroeconomic variables used in the IFRS 9 PD models across different geographies:

1. Current Account to GDP
2. Equity Index (Abu Dhabi)
3. Budget Expenditure to GDP
4. Oil Price
5. GDP
6. Industrial Production

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

The Group has calculated ECL for wholesale borrowers at an individual financial instrument level and portfolio level for retail borrowers.

The most significant macroeconomic variables affecting the ECL allowance in respect of retail and wholesale credit portfolios are as follows:

- Current Account to GDP (Change)
- Abu Dhabi Equity Index (Change)
- Oil price

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Abu Dhabi Equity Index, Oil Price and Current Account to GDP (three key macro-factors used within IFRS 9 PD Models) by +10% / -10% in each scenario would result in an ECL reduction by AED 66 million and an ECL increase by AED 80 million respectively. These variations are applied simultaneously to each probability weighted scenarios used to compute the expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

	2022				2021			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Cash and balances with Central Bank	**31,435,930**	-	-	**31,435,930**	17,507,751	-	-	17,507,751
Loss allowance	**-**	-	-	**-**	-	-	-	-
Carrying amount	**31,435,930**	-	-	**31,435,930**	17,507,751	-	-	17,507,751
Deposits and balances due from banks								
Investment-grade	**4,365,051**	**121,999**	**-**	**4,487,050**	5,765,434	72,762	-	5,838,196
BB+ & below	**9,199,596**	**2,597,768**	**-**	**11,797,364**	12,103,401	1,360,385	-	13,463,786
Unrated	**11,546,038**	**1,111,737**	**25,195**	**12,682,970**	8,114,789	1,476,877	78,946	9,670,612
	25,110,685	**3,831,504**	**25,195**	**28,967,384**	25,983,624	2,910,024	78,946	28,972,594
Loss allowance	**(71,219)**	**(31,496)**	**(18,221)**	**(120,936)**	(92,130)	(14,417)	(60,952)	(167,499)
Carrying amount	**25,039,466**	**3,800,008**	**6,974**	**28,846,448**	25,891,494	2,895,607	17,994	28,805,095

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2022			
	Stage 1	**Stage 2**	**Stage 3**	
Loans and advances -At amortised cost	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Grading 1	**17,984,218**	**26,895**	**-**	**18,011,113**
Grading 2	**51,797,008**	**2,047,580**	**-**	**53,844,588**
Grading 3	**2,760,209**	**2,264,071**	**-**	**5,024,280**
Grading 4	**34,242**	**704,854**	**-**	**739,096**
Grading 5	**-**	**-**	**2,323,633**	**2,323,633**
	72,575,677	**5,043,400**	**2,323,633**	**79,942,710**
Loss allowance	**(560,263)**	**(1,488,855)**	**(2,263,248)**	**(4,312,366)**
Carrying amount	**72,015,414**	**3,554,545**	**60,385**	**75,630,344**
Islamic financing and investment products measured at amortised cost				
Grading 1	**2,774,119**	**-**	**-**	**2,774,119**
Grading 2	**6,223,093**	**61,713**	**-**	**6,284,806**
Grading 3	**5,359,168**	**166,352**	**-**	**5,525,520**
Grading 4	**-**	**19,063**	**-**	**19,063**
Grading 5	**-**	**-**	**538,855**	**538,855**
	14,356,380	**247,128**	**538,855**	**15,142,363**
Loss allowance	**(20,796)**	**(9,787)**	**(438,883)**	**(469,466)**
Carrying amount	**14,335,584**	**237,341**	**99,972**	**14,672,897**

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021			
Loans and advances -At amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	10,011,576	231,304	-	10,242,880
Grading 2	47,466,433	2,077,526	-	49,543,959
Grading 3	4,831,904	2,197,590	-	7,029,494
Grading 4	111,610	1,140,026	-	1,251,636
Grading 5	-	-	4,458,678	4,458,678
	62,421,523	5,646,446	4,458,678	72,526,647
Loss allowance	(511,719)	(1,235,239)	(4,347,119)	(6,094,077)
Carrying amount	61,909,804	4,411,207	111,559	66,432,570
Islamic financing and investment products measured at amortised cost				
Grading 1	2,006,394	400	-	2,006,794
Grading 2	7,865,902	366,490	-	8,232,392
Grading 3	4,216,831	222,215	-	4,439,046
Grading 4	838	25,927	-	26,765
Grading 5	-	-	975,420	975,420
	14,089,965	615,032	975,420	15,680,417
Loss allowance	(51,011)	(12,106)	(563,846)	(626,963)
Carrying amount	14,038,954	602,926	411,574	15,053,454

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2022			
	Stage 1	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	**12,472,587**	**-**	**-**	**12,472,587**
BB+ & below	**3,976,570**	**-**	**-**	**3,976,570**
Unrated	**-**	**-**	**2,205**	**2,205**
	16,449,157	**-**	**2,205**	**16,451,362**
Loss allowance	**(26,210)**	**-**	**(2,205)**	**(28,415)**
Carrying amount	**16,422,947**	**-**	**-**	**16,422,947**
Other financial assets measured at FVTOCI (debt securities)				
Investment-grade	**6,238,239**	**-**	**-**	**6,238,239**
BB+ & below	**701,496**	**-**	**-**	**701,496**
Unrated	**19**	**-**	**-**	**19**
	6,939,754	**-**	**-**	**6,939,754**
Loss allowance	**(5,019)**	**-**	**-**	**(5,019)**
Carrying amount	**6,934,735**	**-**	**-**	**6,934,735**

Equity securities at FVTOCI don't carry credit risk and hence have not been disclosed here. Investments at fair value through profit or loss are neither past due nor impaired.

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021			
	Stage 1	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	6,378,347	-	-	6,378,347
BB+ & below	3,556,040	-	-	3,556,040
Unrated	365,740	-	2,205	367,945
	10,300,127	-	2,205	10,302,332
Loss allowance	(22,303)	-	(2,205)	(24,508)
Carrying amount	10,277,824	-	-	10,277,824
Other financial assets measured at FVTOCI (debt securities)				
Investment-grade	7,750,595	-	-	7,750,595
BB+ & below	644,747	-	-	644,747
Unrated	5,090,331	-	-	5,090,331
	13,485,673	-	-	13,485,673
Loss allowance	(4,954)	-	-	(4,954)
Carrying amount	13,480,719	-	-	13,480,719

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2022				2021			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other assets	**-**	**705,915**	**426,900**	**1,132,815**	-	566,636	435,185	1,001,821
Loss allowance	**-**	**(18,436)**	**(415,741)**	**(434,177)**	-	(19,743)	(419,613)	(439,356)
Carrying amount	**-**	**687,479**	**11,159**	**698,638**	-	546,893	15,572	562,465
Acceptances	**9,073,184**	**237,790**	**-**	**9,310,974**	14,137,040	203,631	-	14,340,671
Loss allowance	**(10,511)**	**(955)**	**-**	**(11,466)**	(25,618)	(3,787)	-	(29,405)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2022				2021			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Credit risk exposures relating to off-balance sheet items are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Letters of credit	**14,238,949**	**1,455,195**	**4,279**	**15,698,423**	13,957,351	1,767,518	60,916	15,785,785
Guarantees	**27,070,775**	**2,893,923**	**1,110,433**	**31,075,131**	28,330,800	4,195,544	1,180,171	33,706,515
Undrawn credit commitments - Irrevocable	**10,587,495**	**-**	**-**	**10,587,495**	7,832,021	118,026	-	7,950,047
	51,897,219	**4,349,118**	**1,114,712**	**57,361,049**	50,120,172	6,081,088	1,241,087	57,442,347
Loss allowance	**(73,900)**	**(75,660)**	**(710,221)**	**(859,781)**	(62,093)	(38,680)	(408,594)	(509,367)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

The table below shows the maximum exposure to credit risk for financial assets that are not subject to impairment.

	2022	2021
	AED'000	AED'000
Trading assets		
- Debt securities	**1,348,137**	1,548,129
- Derivatives	**2,583,126**	929,573
Hedging derivatives	**40,596**	98,613
	3,971,859	2,576,315

Risk management in the current economic scenario

The Group continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The group is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs is typically updated every 6 months. The last update was made in September 2022.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk.

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group maintains substantial real estate and cash collateral, which also forms majority of the collateral base. The benefit of such collateral gets reflected in ECL through the LGD estimates. Allocation of both general and specific collateral is done at a facility level to estimate LGD. Financial instruments such as Repo transactions, embedded leverage note programs, etc. receive no ECL allocation on account of them being fully collateralized after application of relevant haircuts.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to offset potential credit losses. Financial assets that are credit impaired and related collateral held in order to offset potential losses are shown below. The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		**Due from banks**	
	31 December 2022 AED'000	31 December 2021 AED'000	**31 December 2022 AED'000**	31 December 2021 AED'000
Against individually impaired:				
Properties	**496,374**	784,532	**-**	-
Cash	**58,283**	45,332	**-**	-
Others	**167,527**	241,030	**-**	-
	722,184	1,070,894	**-**	-
Against not impaired:				
Properties	**22,530,951**	21,929,281	**-**	-
Debt securities	**2,909,034**	-	**-**	-
Equities	**1,464,618**	928,144	**-**	-
Cash	**8,758,311**	17,068,995	**1,747,955**	1,291,248
Others	**1,190,352**	4,831,537	**-**	-
	36,853,266	44,757,957	**1,747,955**	1,291,248
Total	**37,575,450**	45,828,851	**1,747,955**	1,291,248

43 Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2022 and 31 December 2021:

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Deposits and balances due from banks								
Loss allowance as at 1 January	**92,130**	**14,417**	**60,952**	**167,499**	69,256	41,409	55,457	166,122
Transfers								
Transfer from Stage 1 to Stage 2	**(31,173)**	**31,173**	**-**	**-**	(13,022)	13,022	-	-
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	(1)	1	-
Transfer from Stage 2 to Stage 1	**-**	**-**	**-**	**-**	37	(37)	-	-
New financial assets originated	**87,387**	**-**	**-**	**87,387**	96,237	-	-	96,237
Changes in PDs/LGDs/EADs	**(77,125)**	**(14,094)**	**1,851**	**(89,368)**	(60,378)	(39,976)	5,494	(94,860)
Write-offs	**-**	**-**	**(44,582)**	**(44,582)**	-	-	-	-
Loss allowance as at 31 December	**71,219**	**31,496**	**18,221**	**120,936**	92,130	14,417	60,952	167,499

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Loans and advances measured at amortised cost								
Loss allowance as at 1 January	**511,719**	**1,235,239**	**4,347,119**	**6,094,077**	556,764	2,274,612	2,572,250	5,403,626
Transfers								
Transfer from Stage 1 to Stage 2	**(116,013)**	**116,013**	**-**	**-**	(149,949)	149,949	-	-
Transfer from Stage 1 to Stage 3	**(34,044)**	**-**	**34,044**	**-**	(15,085)	-	15,085	-
Transfer from Stage 2 to Stage 1	**20,858**	**(20,858)**	**-**	**-**	1,240	(1,240)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(30,491)**	**30,491**	**-**	-	(747,341)	747,341	-
Transfer from Stage 3 to Stage 2	**-**	**97,250**	**(97,250)**	**-**	-	-	-	-
New financial assets originated	**368,034**	**-**	**-**	**368,034**	297,592	-	-	297,592
Changes in PDs/LGDs/EADs	**(190,291)**	**91,702**	**190,400**	**91,811**	(178,843)	(440,741)	2,041,979	1,422,395
Write-offs	**-**	**-**	**(2,241,556)**	**(2,241,556)**	-	-	(1,029,536)	(1,029,536)
Loss allowance as at 31 December	**560,263**	**1,488,855**	**2,263,248**	**4,312,366**	511,719	1,235,239	4,347,119	6,094,077

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Islamic financing and investment products measured at amortised cost								
Loss allowance as at 1 January	**51,011**	**12,106**	**563,846**	**626,963**	58,112	12,530	336,688	407,330
Transfers								
Transfer from Stage 1 to Stage 2	**(1,311)**	**1,311**	**-**	**-**	(2,602)	2,602	-	-
Transfer from Stage 1 to Stage 3	**(341)**	**-**	**341**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 1	**501**	**(501)**	**-**	**-**	2	(2)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(1,046)**	**1,046**	**-**	-	(419)	419	-
Transfer from Stage 3 to Stage 2	**-**	**3,388**	**(3,388)**	**-**	-	-	-	-
New financial assets originated	**13,191**	**-**	**-**	**13,191**	30,371	-	-	30,371
Changes in PDs/LGDs/EADs	**(42,255)**	**(5,471)**	**57,199**	**9,473**	(34,872)	(2,605)	226,970	189,493
Write-offs	**-**	**-**	**(180,161)**	**(180,161)**	-	-	(231)	(231)
Loss allowance as at 31 December	**20,796**	**9,787**	**438,883**	**469,466**	51,011	12,106	563,846	626,963

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other financial assets measured at amortised cost								
Loss allowance as at 1 January	**22,303**	**-**	**2,205**	**24,508**	19,024	-	2,205	21,229
Transfers								
New financial assets originated	**17,479**	**-**	**-**	**17,479**	12,780	-	-	12,780
Changes in PDs/LGDs/EADs	**(13,572)**	**-**	**-**	**(13,572)**	(9,501)	-	-	(9,501)
Loss allowance as at 31 December	**26,210**	**-**	**2,205**	**28,415**	22,303	-	2,205	24,508

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Other assets								
Loss allowance as at 1 January	**-**	**19,743**	**419,613**	**439,356**	-	17,789	413,188	430,977
Transfers								
Changes in PDs/LGDs/EADs	**-**	**(1,313)**	**12,277**	**10,964**	-	2,212	21,693	23,905
FX and other movements	**-**	**-**	**(5,462)**	**(5,462)**	-	-	(2,875)	(2,875)
Write-offs	**-**	**6**	**(10,687)**	**(10,681)**	-	(258)	(12,393)	(12,651)
Loss allowance as at 31 December	**-**	**18,436**	**415,741**	**434,177**	-	19,743	419,613	439,356

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
LCs, LGs, irrevocable undrawn commitments and acceptances								
Loss allowance as at 1 January	**87,711**	**42,467**	**408,594**	**538,772**	91,757	51,984	325,000	468,741
Transfers								
Transfer from Stage 1 to Stage 2	**(49,497)**	**49,497**	**-**	**-**	(14,239)	14,239	-	-
Transfer from Stage 2 to Stage 1	**4,006**	**(4,006)**	**-**	**-**	3,071	(3,071)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(2,963)**	**2,963**	**-**	-	(86)	86	-
Transfer from Stage 3 to Stage 2	**-**	**1,825**	**(1,825)**	**-**	-	-	-	-
New financial assets originated	**100,455**	**-**	**-**	**100,455**	69,292	-	-	69,292
Changes in PDs/LGDs/EADs	**(58,264)**	**(10,205)**	**300,489**	**232,020**	(62,170)	(20,599)	83,508	739
Loss allowance as at 31 December	**84,411**	**76,615**	**710,221**	**871,247**	87,711	42,467	408,594	538,772

43 Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2022 and 31 December 2021:

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and balances with central banks								
Gross carrying amount as at 1 January	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941
New financial assets originated	**550,000**	**-**	**-**	**550,000**	2,800,000	-	-	2,800,000
Repayments and other movements	**13,378,179**	**-**	**-**	**13,378,179**	(3,234,190)	-	-	(3,234,190)
Gross carrying amount as at 31 December	**31,435,930**	**-**	**-**	**31,435,930**	17,507,751	-	-	17,507,751

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Deposits and balances due from banks								
Gross carrying amount as at 1 January	**25,983,624**	**2,910,024**	**78,946**	**28,972,594**	22,795,110	5,525,019	85,023	28,405,152
Transfers								
Transfer from Stage 1 to Stage 2	**(4,020,902)**	**4,020,902**	**-**	**-**	(2,849,582)	2,849,582	-	-
Transfer from Stage 2 to Stage 1	**-**	**-**	**-**	**-**	1,987	(1,987)	-	-
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	(14)	14	-
New financial assets originated	**26,254,853**	**-**	**-**	**26,254,853**	25,953,680	-	-	25,953,680
Repayments and other movements	**(23,106,891)**	**(3,099,421)**	**(9,169)**	**(26,215,481)**	(19,917,571)	(5,462,576)	(6,091)	(25,386,238)
Write-offs	**-**	**-**	**(44,582)**	**(44,582)**	-	-	-	-
Gross carrying amount as at 31 December	**25,110,684**	**3,831,505**	**25,195**	**28,967,384**	25,983,624	2,910,024	78,946	28,972,594

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost and FVTOCI (debt securities)								
Gross carrying amount as at 1 January	**23,785,800**	**-**	**2,205**	**23,788,005**	17,492,244	-	2,205	17,494,449
New financial assets originated	**13,811,750**	**-**	**-**	**13,811,750**	11,787,603	-	-	11,787,603
Repayments and other movements	**(14,204,461)**	**-**	**-**	**(14,204,461)**	(5,494,047)	-	-	(5,494,047)
Write-offs	**(4,178)**			**(4,178)**				
Gross carrying amount as at 31 December	**23,388,911**	**-**	**2,205**	**23,391,116**	23,785,800	-	2,205	23,788,005

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Loans and advances measured at amortised cost								
Gross carrying amount as at 1 January	**62,421,522**	**5,646,447**	**4,458,678**	**72,526,647**	53,807,604	5,305,950	3,576,483	62,690,037
Transfers								
Transfer from Stage 1 to Stage 2	**(3,458,173)**	**3,458,173**	**-**	**-**	(3,655,063)	3,655,063	-	-
Transfer from Stage 1 to Stage 3	**(83,719)**	**-**	**83,719**	**-**	(222,739)	-	222,739	-
Transfer from Stage 2 to Stage 3	**-**	**(229,563)**	**229,563**	**-**	-	(969,760)	969,760	-
Transfer from Stage 3 to Stage 2	**-**	**447,342**	**(447,342)**	**-**	-	14	(14)	-
Transfer from Stage 2 to Stage 1	**1,120,386**	**(1,120,386)**	**-**	**-**	80,278	(80,278)	-	-
New financial assets originated	**52,279,308**	**-**	**-**	**52,279,308**	38,703,246	-	-	38,703,246
Repayments and other movements	**(39,703,647)**	**(3,158,612)**	**240,570**	**(42,621,689)**	(26,291,804)	(2,264,542)	719,246	(27,837,100)
Write-offs	**-**	**-**	**(2,241,556)**	**(2,241,556)**	-	-	(1,029,536)	(1,029,536)
Gross carrying amount as at 31 December	**72,575,677**	**5,043,401**	**2,323,632**	**79,942,710**	62,421,522	5,646,447	4,458,678	72,526,647

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Islamic financing and other investments measured at amortised cost								
Gross carrying amount as at 1 January	**14,089,965**	**615,032**	**975,420**	**15,680,417**	13,301,319	291,424	1,060,930	14,653,673
Transfers								
Transfer from Stage 1 to Stage 2	**(106,746)**	**106,746**	**-**	**-**	(319,103)	319,103	-	-
Transfer from Stage 1 to Stage 3	**(1,602)**	**-**	**1,602**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 3	**-**	**(5,010)**	**5,010**	**-**	-	(5,396)	5,396	-
Transfer from Stage 2 to Stage 1	**-**	**22,167**	**(22,167)**	**-**	1,931	(1,931)	-	-
Transfer from Stage 3 to Stage 2	**65,888**	**(65,888)**	**-**	**-**				
New financial assets originated	**6,763,818**	**-**	**-**	**6,763,818**	7,985,879	-	-	7,985,879
Repayments and other movements	**(6,454,942)**	**(425,920)**	**(240,848)**	**(7,121,710)**	(6,880,061)	11,832	(90,675)	(6,958,904)
Write-offs	**-**	**-**	**(180,162)**	**(180,162)**	-	-	(231)	(231)
Gross carrying amount as at 31 December	**14,356,381**	**247,127**	**538,855**	**15,142,363**	14,089,965	615,032	975,420	15,680,417

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other assets								
Gross carrying amount as at 1 January	**-**	**566,635**	**435,185**	**1,001,820**	-	585,565	428,432	1,013,997
Repayments and other movements	**-**	**139,274**	**(1,721)**	**137,553**	-	(18,671)	19,146	475
Write-offs	**-**	**6**	**(6,564)**	**(6,558)**	-	(258)	(12,393)	(12,651)
Gross carrying amount as at 31 December	**-**	**705,915**	**426,900**	**1,132,815**	-	566,636	435,185	1,001,821
Acceptances								
Gross carrying amount as at 1 January	**14,137,040**	**203,631**	**-**	**14,340,671**	12,680,894	86,567	-	12,767,461
Transfers								
Transfer from Stage 1 to Stage 2	**(123,461)**	**123,461**	**-**	**-**	(182,817)	182,817	-	-
New financial assets originated	**4,686,361**	**-**	**-**	**4,686,361**	16,073,629	-	-	16,073,629
Repayments and other movements	**(9,626,756)**	**(89,302)**	**-**	**(9,716,058)**	(14,434,666)	(65,753)	-	(14,500,419)
Gross carrying amount as at 31 December	**9,073,184**	**237,790**	**-**	**9,310,974**	14,137,040	203,631	-	14,340,671

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
Off-balance sheet items								
At 1 January	**50,120,172**	**6,081,088**	**1,241,087**	**57,442,347**	49,113,388	4,258,429	2,381,713	55,753,530
Transfers								
Transfer from Stage 1 to Stage 2	**(3,874,507)**	**3,874,507**	**-**	**-**	(3,809,733)	3,809,733	-	-
Transfer from Stage 1 to Stage 3	**(203)**	**-**	**203**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 3	**-**	**(59,846)**	**59,846**	**-**	-	(16,140)	16,140	-
Transfer from Stage 3 to Stage 2	**-**	**15,932**	**(15,932)**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 1	**591,762**	**(591,762)**	**-**	**-**	182,400	(182,400)	-	-
New financial assets originated	**41,738,183**	**-**	**-**	**41,738,183**	20,878,779	-	-	20,878,779
Repayment and other movements	**(36,678,189)**	**(4,970,801)**	**(170,491)**	**(41,819,481)**	(16,244,662)	(1,788,534)	(1,156,766)	(19,189,962)
At 31 December	**51,897,218**	**4,349,118**	**1,114,713**	**57,361,049**	50,120,172	6,081,088	1,241,087	57,442,347

43 Risk management (continued)

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may write-off financial assets but they are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

Modification of financial assets

The Group modifies terms of loans provided to customers from time-to-time primarily due to ongoing client needs, commercial renegotiations or for managing distressed loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more. The gross carrying amounts of modified financial assets held at 31 December 2022 (31 December 2021: gross carrying amount of AED 2.9 billion with a modification loss of AED 43 million) was not material.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes strategic and reputational risk.

43 Risk management (continued)

Operational Risk Governance

Whilst the Group cannot eliminate all operational risks, it has developed a comprehensive framework of identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk and consists of the following:

- Ownership of the risk & controls by businesses and functional units;
- Monitoring and validation by business;
- Oversight by Operational risk management team; and
- Independent review by Internal Audit

Operational risk management follows three lines of defence model;

The first line of defence is the Business Line Management. The operational risk governance will recognize that Business Units (BUs) are the owners of risk and hence responsible for identifying and managing the risks, inherent in the products, services and activities, within their BUs.

The second line of defence is the Operational Risk Management function, the Chief Risk Officer, the Operational Risk Committee (ORC) and the Enterprise Risk Committee. They are collectively responsible for designing, implementing, coordinating, reporting and facilitating effective Operational Risk Management on Group-wide basis.

The third line of defence is the Internal Audit who are responsible to independently assess the effectiveness and efficiency of the internal control, and for independently validate and provide an independent assurance to the Board Audit Committee (BAC) on the adequacy and effectiveness of the Operational Risk Management Framework.

The Board, through the Board Risk Committee, has the overall responsibility for managing operational risk at the Bank and ensure that the three line of defence approach is implemented and operated in an appropriate and acceptable manner.

The Group has adopted The Standardized Approach (TSA) to determine its operational risk capital requirements.

Operational Risk Appetite

The Group’s operational risk appetite articulates the boundaries for quantitative and qualitative operational risks that the Bank is willing to take (or not take), with respect to pursuit of its strategic objectives. It helps in setting the risk culture across the Bank and facilitates an effective implementation of the Bank’s Operational Risk Management Framework. The operational risk appetite is applied for decision-making and comprehending operational risk exposures across the Bank through implementation of policies, controls and operational risk tolerances.

43 Risk management (continued)

Operational Risk Management Framework

The Group's Operational Risk Management Framework ("ORMF") is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Group's most material operational risks. ORMF components include the setup of the three lines of defence as well as roles and responsibilities for the Operational Risk management process and appropriate independent challenge, the Group's approach to setting Operational Risk appetite and adhering to it, the Operational Risk type and control taxonomies, the minimum standards for Operational Risk management processes including tools, independent governance, and the Bank's Operational Risk capital model. Tools implemented for the identification and assessment of Operational risk include and is not limited to:

a) Risk and Control Self-Assessment
b) Operational Risk Event Management
c) Key Risk Indicator Management
d) New Business Systems & Process Approval (NPPA); and
e) Issues and Action Management

43 Risk management (continued)

Incident management

The reporting of Operational risk incidents is a critical component of the Group's Operational risk management framework. This ensures greater risk transparency across the organisation and helps to identify gaps and facilitate timely remedial action for potential risk exposures.

The Central Bank of U.A.E. published final guidelines on operational risk management in October 2018. These guidelines lay out detailed supervisory expectations relating to operational risk governance, identification and assessment, systems and reporting.

The Group is in the process of assessing the Group's operational risk management framework in light of publication of operational risk management regulation by the Central Bank of U.A.E.

Market Risk Management

Market risk is the risk that fair value or cash flows of financial instruments held by the Group or its income may be adversely affected by movement in market factors, such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market risk at the Group is governed by a comprehensive control framework as defined by the approved Market Risk Framework. This function is independent of any risk taking businesses. The Market Risk function folds under Risk Management Group and reports to the Chief Risk Officer of the Group.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily manages risks arising from its proprietary trading activities. Risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are primarily concentrated in Treasury and Capital Markets ("TCM") and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Appropriate limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities depending on the size and complexity of trading strategies involved. A comprehensive risk reporting framework is in place whereby, positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Framework or the concerned trading desk's limits mandate.

Each trading desk has a 'permitted product list' comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from Head of TCM, Head of Market Risk and Chief Risk Officer who assess the risks associated with the product and verify that they can be controlled effectively prior to approving the product.

43 Risk management (continued)

Market risk management (continued)

The bank uses Value at Risk ("VaR") methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval mainly using Monte Carlo Simulations approach across its trading portfolio and open FX position. VaR results are highly dependent on assumptions around input variables used in the model and also VaR does not provide the 'worst case' possible loss.

Being a statistical technique, VaR is known to have limitations and therefore its interpretation needs to be further supplemented by other limits, sensitivity triggers or stress tests. Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

In 2022, VaR was being calculated regularly and as of 31 December 2022, the 99% 1-day VaR was estimated at USD 1.29 million (31 December 2021: USD 1.62 million) for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The Bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

There has been no significant change to the Group's exposure to market risks or the way these risks are managed and measured.

a. Counterparty Credit Risk

Counterparty Credit Risk is one of the most significant risks in OTC derivatives trading and securities financing transaction (SFTs) related activities. These risks are further sub categorized into two forms:

i. Pre-Settlement Risk

Counterparty credit risk is defined as the risk attributable to the downgrading and/or insolvency of a counterparty on its obligations prior to the final settlement of the transaction's cash flow. Internally the Group manages and monitors the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). PFE is an estimate of the amount, at a 95 % confidence level, a counterparty may owe over the life of a derivative transaction (or portfolio of transactions).

43 Risk management (continued)

Market risk management (continued)

a. Counterparty Credit Risk (continued)

The Group further measures a net Credit Value Adjustment (“CVA”) on all outstanding OTC derivative contracts to account for market value of ‘credit risk’ due to any failure to perform on contractual agreements by a counterparty. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses.

ii. Settlement Risk

Settlement Risk arises when a bank, exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange until after it has paid or delivered its side of the transaction. The bank manages this exposure by dealing preferentially on a DvP/PvP basis or by defining control mechanism around settlement limits at a counterparty level.

Climate risk

The Group recognizes Climate risk as an emerging risk to the Group’s assets, business, and operations. Climate risk is the risk of loss emanating from Climate change – the long-term shifts in temperatures and weather patterns. These changes occur naturally and in the recent years, have mainly been driven by human activities such as burning of fossil fuels. Climate risk is likely to have an impact on the principal risk categories discussed above (ie., credit, market, operational and liquidity risks), however, due to its pervasive nature has been identified and monitored by the Group on an overall basis.

The Group is actively working towards establishing the approach for managing Climate risk including defining a set of Sustainability Performance Indicators (SPIs), Climate risk governance, financial disclosures, and guidelines for identifying relevant risk factors. The Group is also working towards meeting stipulated regulatory reporting requirements in the relevant jurisdictions.

43 Risk management (continued)

Market risk management (continued)

Libor transition

The Group has been actively progressing the transition away from LIBOR to Alternative Reference Rates (ARR) under the supervision of a cross-functional working committee which includes representatives from Risk, Finance, Technology, Legal, Marketing and relevant business units. The transition of LIBOR increases the execution and operational risk of the Group and the approach implemented by the Group for the transition incorporates the risks associated. The Group has partnered with an external consultancy and is following the recommended practices from ARR Working Groups in USA and UK.

Over 2021, the Group conducted an impact assessment across operational, financial, and legal dimensions before establishing the transition mechanism for all LIBOR-linked assets and liabilities including necessary changes to systems and processes, inclusion of appropriate fallback provisions in LIBOR-linked contracts and introduction of internal and external LIBOR transition awareness programs. These steps enabled to Group to adhere to the first milestone of 31 December 2021 relating to the cessation of UK, Euro, JPY, CHF LIBOR Rates and certain USD LIBOR rates. At this point, the Group also discontinued issuance of new positions linked to USD LIBOR.

Over the course of 2022, the Group has commenced the process of negotiating impacted contracts with clients as well as continuing to engage in awareness programs. These activities are expected to conclude in-line with the final global transition milestone related to cessation of USD-LIBOR rates, currently scheduled for 30 June 2023.

43 Risk management (continued)

Libor transition (continued)

The Group has commenced use of the following ARR for its floating rate assets and liabilities denominated in currencies impacted by LIBOR transition:

LIBOR	Tenor	Alternative Reference Rate	Effective date	
			Existing contracts	New contracts
USD LIBOR	ON, 1M, 3M, 6M, 12M	SOFR	1 July 2023	1 January 2022
USD LIBOR	1W, 2M	SOFR	1 January 2022	1 January 2022
EUR LIBOR	All	ESTR	1 January 2022	1 January 2022
GBP LIBOR	All	SONIA	1 January 2022	1 January 2022
CHF LIBOR	All	SARON	1 January 2022	1 January 2022
JPY LIBOR	All	TONA	1 January 2022	1 January 2022

Necessary systems and process changes have been implemented to facilitate the use of Alternative Reference Rates in client offerings, including the use of simple rate, compounded rate with various options of payment notice conventions (lookback, lockout and payment delay) and credit adjustment spread.

External communication program is in place and impacted clients/counterparties are being contacted for negotiation of the changes to existing contracts as these become due. The external communication program has commenced and will be running until the final publication date of LIBOR on 30 June 2023.

Financial instruments impacted by IBOR reform

The financial crisis of 2008-2009, followed by the reduced activity in LIBOR, indicated that the future of LIBOR was no longer sustainable. In March 2021, the cessation of most LIBOR tenors was confirmed by the FCA (Financial Conduct Authority).

43 Risk management (continued)

Libor transition (continued)

Exposures impacted by the LIBOR Transition as at 31 December 2022 are summarized in the table below:

	31 December 2022
	AED'000
Non-derivative financial assets	**15,192,773**
Deposits and balances due from banks	2,129,479
Loans and advances measured at amortized cost	13,063,294
Non-derivative financial liabilities	**783,965**
Medium term loans	783,965
Derivatives[1]	**25,177,639**
Cross currency swap	1,247,248
Interest rate swap	23,930,391

As at 31 December 2022, the Group did not hold any off-balance sheet commitments and financial guarantees linked to LIBOR. In addition, as at 31 December 2022 the Group did not have any exposure to non-USD LIBOR-linked financial instruments.

Hedge accounting

As at 31 December 2022 and 2021, the Group did not hold any LIBOR-linked hedging instruments.

[1] Represents 'Notional' value of derivative contracts

43 Risk management (continued)

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial assets and liabilities to different extents. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities repricing at different times.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee ("ALCO"). Since majority of the Group's assets are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk. The Group also has a significant current and savings account balances in deposits which are largely interest free.

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2022 would be a decrease in net interest income by 4% (in case of decrease of interest rates) and would have been an increase in net interest income by 4.1% (in case of increase of interest rates) [31 December 2021: -3.5% and +6.6%] respectively.

During the year ended 31 December 2022, the effective interest rate on due from banks and certificates of deposits with central banks was 2.6% (31 December 2021: 1.2%), on loans and advances measured at amortised cost 4.6% (31 December 2021: 3.6%), on customers' deposits 1.1% (31 December 2021: 1.0%) and on due to banks (including repurchase agreements) 2.0% (31 December 2021: 0.6%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2022							
Assets							
Cash and balances with central banks	24,010,142	-	29,267	-	-	7,396,521	31,435,930
Deposits and balances due from banks	18,478,328	5,515,453	2,074,250	721,303	384	2,056,730	28,846,448
Other financial assets measured at fair value	1,833,704	94,958	140,560	812,769	5,888,202	1,659,572	10,429,765
Other financial assets measured at amortised cost	6,893,955	908,233	1,596,865	4,120,392	2,903,502	-	16,422,947
Loans and advances measured at amortised cost	60,324,877	3,226,788	1,604,933	6,624,244	1,608,671	2,240,831	75,630,344
Islamic financing and investment products measured at amortised cost	7,975,415	247,638	323,651	1,384,820	2,445,607	2,295,766	14,672,897
Acceptances	-	-	-	-	-	9,310,974	9,310,974
Other assets	-	-	-	-	-	6,799,304	6,799,304
Reinsurance contract assets	-	-	-	-	-	3,128,009	3,128,009
Investment in associate	-	-	-	-	-	43,633	43,633
Investment properties	-	-	-	-	-	464,840	464,840
Property and equipment	-	-	-	-	-	1,395,485	1,395,485
Intangible assets	-	-	-	-	-	230,667	230,667
Total assets	119,516,421	9,993,070	5,769,526	13,663,528	12,846,366	37,022,332	198,811,243

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2022	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	18,172,317	795,035	670,140	-	-	8,761,964	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	-	1,926,182
Customers' deposits	34,129,897	3,415,872	4,910,109	1,852,514	261,770	54,257,160	98,827,322
Islamic customers' deposits	5,941,328	1,237,186	4,400,590	43,800	-	3,356,037	14,978,941
Acceptances	-	-	-	-	-	9,310,974	9,310,974
Other liabilities	-	-	-	-	-	8,253,044	8,253,044
Medium-term loans	311,623	-	112,525	4,761,752	37,665	-	5,223,565
Subordinated debt	-	-	-	-	1,831,027	-	1,831,027
Insurance contract liabilities	-	-	-	-	-	5,642,093	5,642,093
Equity attributable to shareholders of the Parent	-	-	-	-	-	23,541,324	23,541,324
Non-controlling interest	-	-	-	-	-	877,315	877,315
Total liabilities and equity	60,008,124	5,921,316	10,093,364	6,658,066	2,130,462	113,999,911	198,811,243
On balance sheet gap	59,508,297	4,071,754	(4,323,838)	7,005,462	10,715,904	(76,977,579)	-
Off balance sheet gap	(1,160,414)	289,293	870,474	647	-	-	-
Cumulative interest rate sensitivity gap	58,347,883	62,708,930	59,255,566	66,261,675	76,977,579	-	-

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2021							
Assets							
Cash and balances with central banks	7,831,318	-	-	-	-	9,676,433	17,507,751
Deposits and balances due from banks	15,576,629	6,116,818	3,778,812	621,417	-	2,711,419	28,805,095
Other financial assets measured at fair value	3,636,168	1,327,272	4,578,534	653,687	4,722,342	1,523,120	16,441,123
Other financial assets measured at amortised cost	1,820,947	538,198	1,114,614	3,409,710	3,394,355	-	10,277,824
Loans and advances measured at amortised cost	51,737,556	4,031,722	1,780,863	5,891,022	1,880,860	1,110,547	66,432,570
Islamic financing and investment products measured at amortised cost	9,716,335	697,368	220,761	1,193,551	1,658,015	1,567,424	15,053,454
Acceptances	-	-	-	-	-	14,340,671	14,340,671
Other assets	-	-	-	-	-	3,290,085	3,290,085
Reinsurance contract assets	-	-	-	-	-	2,699,966	2,699,966
Investment in associate	-	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	-	281,336	281,336
Total assets	90,318,953	12,711,378	11,473,584	11,769,387	11,655,572	39,124,735	177,053,609

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2021							
Liabilities and equity							
Deposits and balances due to banks	6,488,833	1,502,705	2,143,798	3,000	-	9,428,150	19,566,486
Repurchase agreements with banks	1,418,214	26,510	782,459	501,964	-	-	2,729,147
Customers' deposits	23,646,224	7,181,847	8,953,601	2,109,895	278,037	44,981,298	87,150,902
Islamic customers' deposits	2,328,279	4,474,283	4,264,002	27,402	-	3,238,121	14,332,087
Acceptances						14,340,671	14,340,671
Other liabilities	-	-	-	-	-	6,028,308	6,028,308
Medium-term loans	472,660	80,806	1,054,812	5,140,175	40,906	525,760	7,315,119
Insurance contract liabilities	-	-	-	-	-	4,566,602	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	-	796,062	796,062
Total liabilities and equity	34,354,210	13,266,151	17,198,672	7,782,436	318,943	104,133,197	177,053,609
On balance sheet gap	55,964,743	(554,773)	(5,725,088)	3,986,951	11,336,629	(65,008,462)	-
Off balance sheet gap	(26,180)	-	26,180	-	-	-	-
Cumulative interest rate sensitivity gap	55,938,563	55,383,790	49,684,882	53,671,833	65,008,462	-	-

43 Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored on a regular basis. The Group's exposures on 31 December are as follows:

	31 December 2022			31 December 2021		
	Net spot position	**Net Forward position**	**Net Position**	Net spot position	Net Forward position	Net Position
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
U.S. Dollars	**15,947,133**	**(4,954,483)**	**10,992,650**	8,387,427	(11,162,514)	(2,775,087)
Qatari Riyals	**105,137**	**(279,698)**	**(174,561)**	50,218	(210,715)	(160,497)
Pound Sterling	**(907,395)**	**907,756**	**361**	(782,678)	793,643	10,965
Euro	**(5,104,078)**	**5,094,078**	**(10,000)**	(1,393,027)	1,418,931	25,904
Bahrain Dinar	**1,746,687**	**(1,621,653)**	**125,034**	507,291	(630,199)	(122,908)
Saudi Riyal	**(1,001,668)**	**1,006,271**	**4,603**	(6,342,158)	6,293,524	(48,634)
Japanese Yen	**(631,151)**	**642,576**	**11,425**	(1,081,437)	1,090,335	8,898
Swiss Francs	**6,366**	**46**	**6,412**	533	2	535
Kuwaiti Dinar	**(49,999)**	**(132,514)**	**(182,513)**	(2,533)	(180,679)	(183,212)
Chinese Yuan	**(2,191,059)**	**2,360,431**	**169,372**	(1,363,960)	1,427,630	63,670
Other	**48,553**	**(601,296)**	**(552,743)**	319,272	118,028	437,300
Total	**7,968,526**	**2,421,514**	**10,390,040**	(1,701,052)	(1,042,014)	(2,743,066)

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

43 Risk management (continued)

Liquidity risk management (continued)

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III guidelines, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency funding plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that funding can be readily raised from a variety of sources.

In compliance with Basel Committee on Banking Supervision ("BCBS") document titled "Principles for Sound Liquidity Management" and CBUAE "Regulations re Liquidity at Banks" (Circular Number 33/2015) and accompanying Guidance Manual, the Group has established a robust liquidity management framework that is well integrated into the bank-wide risk management process. A primary objective of the liquidity management framework is to ensure with a high degree of confidence that the Bank is in a position to address both its daily liquidity obligations as well as withstand a period of liquidity stress. In addition to maintaining sound liquidity governance and management practices, the Bank also holds an adequate liquidity cushion comprised of High Quality Liquid Assets ("HQLA") to be in a position to survive such periods of liquidity stress. The Bank's Liquidity Management Framework has two tiers:

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits

2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity.

The Group's Board of Directors (the "Board") bears the ultimate responsibility for liquidity risk management within the Bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk.

Mashreqbank's Head Office ("HO") and International Banking Group ("IBG") Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. In this regard, the following policies, procedures and systems have been implemented:

43 Risk management (continued)

Liquidity risk management (continued)

a) Robust ALCO oversight through timely, pertinent information and analysis

ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCOs meet on a regular basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations. The Asset Liability Management ("ALM") function in the Group is then responsible for implementing the ALCO policies.

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, Chief Risk Officer, Chief Credit Officer, Head of Retail Banking Group, Head of Corporate Banking Group, Head of International Banking Group and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Chief Risk Officer, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

b) Maintenance of Adequate High Quality Liquid Assets ("HQLA") cushion

The Bank holds a portfolio of HQLA aligned with the established liquidity risk tolerance of the bank, which means at a minimum it is sufficient to meet all regulatory and internal ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by Stress tests.

c) Gap limits

The minimum size of net placements in highly liquid money market instruments and HQLA bond portfolio is based on stress testing exercise, which takes into account the stability of deposits from different sources as well as contingent funding requirements of overseas branches. The Money Book and HQLA deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet short term and intraday liquidity needs.

d) Liquidity risk management over different time horizons and currencies

The time horizons and activities over which the Bank manages liquidity risk range from intraday basis, day-to-day cashflow movements, fund raising capacity over short and medium-term (up to one year) as well as vulnerabilities to events, activities and strategies beyond one year that can put a significant strain on the Bank's cash generation capability.

43 Risk management (continued)

Liquidity risk management (continued)

e) Forward looking Funding Plan ensuring effective diversification in the sources and tenor of funding

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places emphasis on diversifying the funding sources and maintaining market access to different sources of funding.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2022 has an outstanding balance of AED 5.2 billion (31 December 2021: AED 7.32 billion) [Note 19] in medium-term loans. The Bank also established Certificate of Deposit (CD) programmes through its London branch in 2014 and its Hong Kong Branch in 2018.

f) Stress Testing for a variety of short-term and protracted Group-specific and market-wide stress scenarios

Stress tests enable the Bank to analyze the impact of stress scenarios on its consolidated group wise liquidity position as well as on the liquidity position of individual entities. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the Bank is exposed. ALCO and the Board reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

g) Contingency Funding Plan outlining the Bank's step by step response to Liquidity contingency situations of different magnitudes

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO and the Board on an annual basis. The CFP provides a list of liquidity generation tools which would be used to counter liquidity stress at different stages of the contingency.

h) FTP Framework for allocating liquidity costs, benefits and risks to all business activities

Mashreqbank has a well-developed FTP policy and system that aims to create transparency in profitability and insulate Business Units from interest rate risk.

43 Risk management (continued)

Liquidity risk management (continued)

i) Regular Internal as well as CBUAE audits focused on HQLA cushion and Liquidity management policies and procedures

Mashreqbank's liquidity policies, procedures and systems are subject to end to end review by internal audit as well as by the CBUAE.

The recovery in the oil prices along with renewed access to the international capital markets by GCC sovereigns and financial institutions however, have eased the concerns regarding GCC Governments' finances and banking sector's liquidity. In this environment, Mashreqbank has taken measures to manage its liquidity carefully. The Bank's ALCO meets regularly with primary focus on monitoring cash flows and forecasts across all jurisdictions in which the Bank operates. The Bank has strengthened its liquidity buffer significantly through raising deposits.

Prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption. Recently, while high inflation readings as well as the Russia Ukraine crisis have negatively impacted the US and European capital markets, they have not had a discernable impact on liquidity in the UAE due to the accompanying rise in oil prices and the resultant increase in Government and Related Enterprises ("GRE") cash balances.

43 Risk management (continued)

Liquidity risk management (continued)

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2022 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	31,435,930	-	-	-	-	31,435,930
Deposits and balances due from banks	16,472,142	6,215,754	3,160,179	2,998,373	-	28,846,448
Other financial assets measured at fair value	2,897,768	94,958	140,560	812,769	6,483,710	10,429,765
Other financial assets measured at amortised cost	6,891,548	907,931	1,596,417	4,119,237	2,907,814	16,422,947
Loans and advances measured at amortised cost	23,749,242	5,878,467	3,897,573	19,542,951	22,562,111	75,630,344
Islamic financing and investment products measured at amortised cost	5,794,521	600,367	337,571	2,615,141	5,325,297	14,672,897
Acceptances	6,746,930	1,533,632	790,045	240,145	222	9,310,974
Other assets	4,729,576	1,452,740	161,436	118,758	336,794	6,799,304
Reinsurance contract assets	953,991	621,913	714,101	812,311	25,693	3,128,009
Investment in associate	-	-	-	-	43,633	43,633
Investment properties	-	-	-	-	464,840	464,840
Property and equipment	-	-	-	-	1,395,485	1,395,485
Intangible assets	-	-	-	-	230,667	230,667
Total assets	99,671,648	17,305,762	10,797,882	31,259,685	39,776,266	198,811,243

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	26,934,282	795,035	670,139	-	-	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	1,926,182
Customers' deposits	87,938,308	3,791,476	4,959,200	1,872,480	265,858	98,827,322
Islamic customers' deposits	9,297,345	1,237,206	4,400,590	43,800	-	14,978,941
Acceptances	6,746,930	1,533,632	790,046	240,145	221	9,310,974
Other liabilities	7,134,352	347,442	385,466	166,891	218,893	8,253,044
Medium-term loans	311,623	-	112,525	4,761,752	37,665	5,223,565
Subordinated debt	-	-	-	-	1,831,027	1,831,027
Insurance contract liabilities	1,746,174	906,027	955,395	1,522,449	512,048	5,642,093
Equity attributable to shareholders of the Parent	-	-	-	-	23,541,324	23,541,324
Non-controlling interest	-	-	-	-	877,315	877,315
Total liabilities and equity	141,561,973	9,084,041	12,273,361	8,607,517	27,284,351	198,811,243
Guarantees	7,624,106	3,092,458	4,918,972	4,796,054	10,643,541	31,075,131
Letters of credit	11,824,239	2,821,602	871,747	180,835	-	15,698,423
Total	19,448,345	5,914,060	5,790,719	4,976,889	10,643,541	46,773,554

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2021 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	17,507,751	-	-	-	-	17,507,751
Deposits and balances due from banks	15,439,040	5,434,342	5,104,844	2,826,869	-	28,805,095
Other financial assets measured at fair value	4,240,414	1,367,214	4,607,737	653,687	5,572,071	16,441,123
Other financial assets measured at amortised cost	1,839,475	538,146	1,114,300	3,408,507	3,377,396	10,277,824
Loans and advances measured at amortised cost	19,994,724	5,047,357	3,746,344	18,142,111	19,502,034	66,432,570
Islamic financing and investment products measured at amortised cost	7,086,840	663,087	463,508	2,025,467	4,814,552	15,053,454
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other assets	2,525,122	194,799	359,255	78,028	132,881	3,290,085
Reinsurance contract assets	781,827	517,302	595,935	784,907	19,995	2,699,966
Investment in associate	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	281,336	281,336
Total assets	73,262,286	18,291,196	21,823,063	28,053,065	35,623,999	177,053,609

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	15,978,784	1,440,904	2,143,798	3,000	-	19,566,486
Repurchase agreements with banks	1,418,213	26,510	782,459	501,965	-	2,729,147
Customers' deposits	69,069,399	6,962,385	8,839,799	2,003,605	275,714	87,150,902
Islamic customers' deposits	5,566,381	4,474,303	4,264,002	27,401	-	14,332,087
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other liabilities	4,831,789	236,957	576,549	268,974	114,039	6,028,308
Medium-term loans	457,792	80,806	1,542,065	5,193,550	40,906	7,315,119
Insurance contract liabilities	1,405,261	804,938	870,607	1,081,089	404,707	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	796,062	796,062
Total liabilities and equity	102,574,712	18,555,752	24,850,419	9,213,073	21,859,653	177,053,609
Guarantees	9,102,914	2,854,797	4,966,230	6,368,103	10,414,471	33,706,515
Letters of credit	10,322,318	1,196,716	3,659,300	607,451	-	15,785,785
Total	19,425,232	4,051,513	8,625,530	6,975,554	10,414,471	49,492,300

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2022.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	26,934,283	795,035	670,138	-	-	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	1,926,182
Customers' deposits	87,999,074	3,836,664	5,109,008	2,148,095	274,660	99,367,501
Islamic customers' deposits	9,347,729	1,271,425	4,578,610	46,464	-	15,244,228
Acceptances	6,746,930	1,533,632	790,045	240,145	222	9,310,974
Other liabilities	7,134,352	347,442	385,466	166,891	218,893	8,253,044
Medium-term loans	316,872	-	114,248	4,826,812	38,351	5,296,283
Subordinated debt	-	-	-	-	1,831,027	1,831,027
Insurance contract liabilities	1,746,174	906,027	955,395	1,522,449	512,048	5,642,093
Equity attributable to shareholders of the Parent	-	-	-	-	23,541,324	23,541,324
Non-controlling interest	-	-	-	-	877,315	877,315
Total liabilities and equity	141,678,373	9,163,448	12,602,910	8,950,856	27,293,840	199,689,427

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2021.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	15,978,784	1,440,904	2,143,798	3,000	-	19,566,486
Repurchase agreements with banks	1,418,213	26,510	782,459	501,965	-	2,729,147
Customers' deposits	69,087,463	7,001,277	8,942,058	2,416,153	290,812	87,737,763
Islamic customers' deposits	5,573,160	4,532,835	4,490,105	28,042	-	14,624,142
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other liabilities	4,831,789	236,957	576,549	268,975	114,038	6,028,308
Medium-term loans	459,999	80,838	1,550,939	5,262,919	41,606	7,396,301
Insurance contract liabilities	1,405,261	804,938	870,607	1,081,089	404,707	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	796,062	796,062
Total liabilities and equity	102,601,762	18,653,208	25,187,655	9,695,632	21,875,450	178,013,707

43 Risk management (continued)

Insurance Risk

The Group has a robust process for managing risks in accordance with the groupwide risk appetite. Enterprise Risk Management (ERM) department supervises the Executive Risk Committee and the Risk Management Framework. The Executive Risk Committee is deliberately designed to be a second line of defense body but composed of members who are also in a position to take immediate executive actions to address risk issues. The Executive Risk Committee convenes at least on a quarterly basis. The Group has an ongoing commitment to maintain an effective risk culture, as it is critical to the Group's success in maintaining and developing an effective risk management system. Accountabilities for the implementation and oversight of particular risk are aligned with individual executives. The risk owners are responsible for ensuring that the proper level of review and confirmation of the risk and control ratings/evaluations have been undertaken. The Group assess the exposure to climate changes risk by implementing scenario analysis and stress testing based on outcome of the modeling of natural catastrophic events exposure and by reviewing an impact on group's profitability and solvency. The scenarios analysis covers different lines of businesses, countries, perils and return data. Overall, the outcome shows that the Group is well capitalized to reasonably absorb most of the shocks from the various scenarios included into the stress test.

The Executive Committee oversees the management of insurance risks through its Risk Committee, Reinsurance Committee, Reserve Committee, Large and strategic accounts Forum and Audit Committee. Each of these committees has a distinct role to play within the risk governance framework.

Insurance risk is the risk arising from the uncertainty around the actual experience and/or policyholder behavior being materially different than expected at the inception of an insurance contract. These uncertainties include the amount and timing of cash flows from premiums, commissions, expenses, claims and claim settlement expenses paid or received under a contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

43 Risk management (continued)

Insurance Risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2022 and 31 December 2021 is as follows:

	2022 **AED'000**	2021 AED'000
Insurance contract liabilities		
UAE	**5,429,242**	4,210,037
Other GCC and Middle East countries	**212,851**	356,565
	5,642,093	4,566,602
Reinsurance contract assets		
UAE	**2,995,022**	2,438,103
Other GCC and Middle East countries	**132,987**	261,863
	3,128,009	2,699,966

Frequency and Severity of Claims

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims' exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The amount of insurance claims is in certain cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase / decrease in net claims incurred by AED 15.1 million (2021: AED 15.5 million).

Developments during the year

Lloyd's syndicate

Syndicate 2880 was launched under the Syndicate-in-a-box initiative ("SIAB"). On 10 February 2022, OIC's Syndicate 2880 received Lloyd's approval to commence underwriting and has started operations under interim operating model where underwriting is carried out from London, United Kingdom. OIC has incorporated Oman Insurance Management Services Limited (the "Service company") in Dubai International Financial Centre ("DIFC") as a fully owned subsidiary of Oman Insurance Company P.S.C. The Service company will exclusively underwrite the business on behalf of OIC's Syndicate 2880 as per the delegated authority from the Syndicate 2880 upon approval from Lloyd's of London. The Service company received its license from the Dubai Financial Service Authority ("DFSA") on 18 October 2022 to commence its operations and subsequently, effective 1 January 2023, the Service company received Lloyd's approval to commence its underwriting on behalf of the Syndicate 2880. As part of SIAB arrangement, OIC has also incorporated "OIC Corporate Member Limited", a private limited company in England and Wales, United Kingdom as a fully owned subsidiary of Oman Insurance Company P.S.C.

As part of SIAB arrangement, OIC on behalf of 'OIC Corporate Member Limited' has pledged certain bonds having nominal value of USD 31.88 million (equivalent to AED 117.08 million) to be held at Lloyd's deposit with the beneficial ownership remains with OIC. The net book value of these bonds is AED 129.03 million as at 30 September 2022.

43 Risk management (continued)

Insurance Risk (continued)

Portfolio acquisition

On 23 February 2022, Sukoon and Assicurazioni Generali S.P.A acting through its branch office in the UAE ("Generali UAE") signed an agreement to transfer the unit linked life insurance portfolio of Generali UAE to Sukoon. The migration of the portfolio was completed on 21 November 2022 (portfolio transfer date) after obtaining necessary approvals from the regulators (the CBUAE and The Institute for the Supervision of Insurance (IVASS) in Italy). On the portfolio transfer date, the Group recognised unit linked assets and unit linked liabilities amounting to AED 688,737 thousand each in the consolidated statement of financial position.

Sale of subsidiary

On 4 March 2022, a share sale and purchase agreement was signed between Oman Insurance Company P.S.C. (OIC) and VHV Reasürans A.Ş. – Istanbul, Turkey (a company of VHV Group – Hannover, Germany) for OIC to fully sell 100% shareholding in the Group's subsidiary Dubai Sigorta A.Ş., Turkey. The Company completed the transaction for the sale of its subsidiary, Dubai Sigorta A. Ş. After obtaining regulatory approval and subsequently shares were transferred on 14 June 2022 for a cash consideration of USD 26.64 million (AED 97.84 million).

The details of the sale of the subsidiary is as follows:

	As at 14 June 2022 AED'000
Cash consideration received	**97,835**
Carrying amount of net assets sold	**(32,041)**
Carrying amount of goodwill	**(2,751)**
Gain on sale before reclassification of foreign currency translation reserve	**63,043**
Reclassification of foreign currency translation reserve	**(89,003)**
Loss on sale of a subsidiary recognized in condensed consolidated income statement	**(25,960)**

Acquisition of ASCANA

On 19 December 2022, Sukoon has signed a sale and purchase agreement to acquire a majority stake (in excess of 93%) in Arabian Scandinavian Insurance Company (P.S.C.) – Takaful – Ascana Insurance (ASCANA) from the key shareholders of ASCANA who represent this stake. The transaction is expected to be completed by Q1 2023 subject to regulatory approvals from SCA, CBUAE and DFM. This transaction and its financial effect will be reflected in the consolidated financial statements once the transaction is completed.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact

IFRS 17, 'Insurance contracts' is applicable for annual reporting periods commencing on 1 January 2023 and the Group expects to first apply IFRS 17 on that date. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features ("DPF"). The key objectives of IFRS 17 are comparable recognition and measurement of contracts in the scope of the standard, the recognition of insurance service results based on the services provided to the policyholder and provision of disclosures that will enable the users of the financial statements to assess the impact of these contracts on the financial position, financial results and cash flows of the entity. The standard distinguishes between the sources of profit and quality of earnings between insurance service results and insurance finance income and expense (reflecting the time value of money and financial risk).

IFRS 17 also allows entities, in limited circumstances, that have applied IFRS 9 'Financial instruments' to annual reporting period before the initial application of IFRS 17, to redesignate their financial assets associated with insurance. The Group is in the process of assessing whether any financial assets will be redesignated.

Both the Group's audit committee and the IFRS 17 steering committee provide oversight and governance over the implementation of the IFRS 17 project. The steering committee is comprised of executive management as well as senior management from various functions including finance, actuarial, risk, information technology and reinsurance. Accounting policy papers, actuarial methodologies and disclosure requirements have been defined and are being implemented throughout the Group. The IFRS 17 project team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments. Where applicable, the policy and methodology papers are updated to reflect any changes in requirements.

The Group has made significant progress in the implementation of IFRS 17 and working on following areas to complete the transition to IFRS 17;

- Configuring remaining system integration, including policy choices and enhance key controls required to implement IFRS 17.
- Produce and request business and external auditor sign-off of transition balances.
- Finalise the layout and disclosure of the IFRS 17 compliant annual financial statements.
- Finalise the management reporting and key performance measures.
- Continue engaging with the executive committee and business through various training initiatives.
- Finalise and implement future financial and data governance processes and accountabilities.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

As the Group will be impacted by the application of IFRS 17. Below is an assessment of the expected impact. The assessment is preliminary because not all the transition work has been finalised.

Measurement model

Measurement is implemented on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks and that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts. IFRS 17 consists of 3 measurement models:

- The general measurement model, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin.
- The variable fee approach is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate insurance contracts with direct participating features.
- The premium allocation approach is an optional simplified approach for the measurement of the liability for remaining coverage. An entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting. An explicit risk adjustment for non-financial risk is estimated separately from the other estimates for the liability for incurred claims. This risk adjustment represents compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment forms part of the fulfilment cash flows for a group of insurance contracts.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

The Group applies the premium allocation approach (PAA) to groups of insurance contracts that it issues and groups of reinsurance contracts that it holds where the coverage period is 12 months or less. The Group performed PAA eligibility assessment for the groups of contracts where the coverage period is more than 12 months. Based on the assessment performed, the Group expects all of its contracts to be eligible for PAA measurement model, except for long term individual life business which will be measured under the GMM. The Group plans to apply the GMM for long term individual life insurance policies and the VFA for unit linked insurance policies.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard requires losses to be recognised immediately on contracts that are expected to be onerous. For insurance contracts measured under the PAA, it is assumed that contracts are not onerous at initial recognition, unless facts and circumstances indicate otherwise. The Group's focus is to grow a profitable and sustainable business and does not anticipate the recognition of onerous contracts except where the following have been identified:

- Relevant pricing decisions.
- Initial stages of a new business acquired where the underlying contracts are onerous.
- Any other strategic decisions the board considers appropriate.

Accounting policy choices adopted by the Group

Insurance acquisition cash flows:
The Group capitalises insurance acquisition cash flows for all contracts. The Group allocates the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis. The Group assesses the recoverability of the asset for insurance acquisition cash flows at each reporting period, if facts and circumstances indicate the asset may be impaired.

Liability for Remaining Coverage ("LRC") adjusted for financial risk and time value of money
The Group makes an allowance for time value of money on the LRC.

Liability for Incurred Claims ("LIC") adjusted for time value of money
The LIC will be discounted and adjusted for the time value of money.

Insurance finance income and expenses
The Group intends to include changes in discount rates and other financial changes within OCI.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Disaggregation of risk adjustment
The Group will not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and will include the entire change within the insurance service result.

Areas of significant judgements

The following are key judgements and estimates which the Group expects to apply as a result of IFRS 17.

Discount rates

The Group will use the bottom-up approach for groups of contracts other than long term individual life and top-down approach of long-term individual life contracts to derive the discount rates.

Under the bottom-up approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an ‘illiquidity premium’). The primary difficulty is deriving the illiquidity premium which is required to adjust the risk-free yield curve. The risk-free curve itself will either be derived by the Group from risk free assets in the market, or the Group may choose to apply a published risk-free curve.

Top-down approach starts with the determination of a reference portfolio. The reference portfolio yield will be taken as the yield on the underlying items to which the liability cashflows are linked.

Risk adjustment
The Group will estimate the risk adjustment using a confidence level (probability of sufficiency) approach. The Group will use stochastic techniques to estimate the probability distribution of the future cash flows which forms the basis for determining the risk adjustment.

Unit of account
Based on the contract review, the Group did not identify any contracts or arrangements that require combination, separation and aggregation which differ from recognition under IFRS 4 and IFRS 17.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Modification and derecognition
An insurance contract may be modified, either by agreement between the parties or as result of regulation. If the terms are modified, an entity must derecognise the original insurance contract and recognise the modified contract as a new contract, if and only if certain conditions as prescribed in IFRS 17 are satisfied. The exercise of a right included in the terms of a contract is not a modification. Any contract modification that changes the accounting model or the applicable standard for measuring the components of the insurance contract, is likely to result in derecognition. If a contract modification meets none of the conditions for derecognition, any changes in cash flows caused by the modification are treated as changes in the estimates of the fulfilment cash flows. For contracts applying the premium allocation approach, any adjustments to premium receipts or insurance acquisition cash flows arising from a modification adjust the liability for remaining coverage and insurance revenue is allocated to the period for services provided (which would also require judgement in determining the period to which the modification applies).

Contractual Service Margin and Coverage units
Currently under IFRS 4, earned premiums are recognized as revenue proportionally over the period of coverage. Since PAA will be applicable for the majority of the portfolios, there will be no material change in recognition of revenue under IFRS 17.

For long term Individual Life portfolio, measured under the GMM, the Group will recognize a contractual service margin (CSM) which represents the unearned profit the group will earn as it provides service under those contracts. A coverage units methodology will be used for the release of the CSM. Based on the benefit for the Policy Holders, the applicable CSM release pattern will be determined by using coverage unit methodology which will reflect the benefit defined in the insurance contracts with the policy holders.

Investment component
The Group will identify the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios, regardless of whether the insurance event occurs. Under IFRS 17, the investment components will be excluded from the insurance revenue and insurance service expenses.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundaries of each contract in a group. The period covered by the premiums within the contract boundary is the "coverage period', which is relevant when applying IFRS 17 requirements.

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligation that exist during the reporting period in which the Group can compel the policyholder to pay premium or has a substantive obligation to provide services. For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligation that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

Transition

On the date of initial application, 1 January 2023, IFRS 17 standard has to be applied retrospectively (i.e. using the Full Retrospective Approach) unless impracticable. Where the full retrospective approach is impracticable, IFRS 17 allows for alternative transition methods as follows.

- Modified retrospective approach: based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications of requirements are applied to the extent their full retrospective application is not possible, but still with the objective to achieve the closest outcome to retrospective application possible; or
- Fair value approach: the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 and the fulfilment cash flows (any negative difference would be recognized in retained earnings at the transition date).

Group has assessed that it is impractical to apply the full retrospective approach to groups of contracts or to an asset for insurance acquisition cash flows due to factors such as the impossibility of running models since the inception of the contracts, the lack of historical data, etc. The Group is currently assessing and finalising the transition approach to the groups of contracts.

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Impact on transition to IFRS 17

Management expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these consolidated financial statements in respect of its insurance contracts issued and reinsurance contracts held.

The assessment of the impacts on the Group's Consolidated Financial Statements is in progress. Although the work is well advanced as of the date of the publication of these Consolidated Financial Statements, it is not yet practicable to reliably quantify them.

Impact on presentation and disclosures on transition to IFRS 17

In the consolidated statement of financial position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

The amounts presented in the statement of financial performance relating to insurance revenue and the insurance service expenses, and insurance finance, income and expenses and corresponding reinsurance contracts held are disclosed within other income in the Group's consolidated financial statements.

IFRS 17 will significantly change how insurance contracts, reinsurance contracts and investment contracts with DPF are presented and disclosed in the Group's consolidated financial statements. The Group will be required to provide disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts issued and reinsurance contracts held within the scope of IFRS 17;
- Significant judgements, and changes in those judgements, when applying the standard; and
- The nature and extent of the risks from contracts within the scope of the standard.

43 Risk management (continued)

Compliance Risk

Compliance risk is the risk of an activity not being conducted in line with the applicable laws and regulations leading to reputational and/or financial losses. The Group manages compliance risk through a compliance function which is responsible for monitoring compliance of laws and regulations across the various jurisdictions in which the Group operates.

In 2015, the Bank became aware that certain historical US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank proactively cooperated with the UAE and the US regulators and appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US.

During the year ended 31 December 2021 the Bank reached a joint settlement with the Office of Foreign Assets Control (OFAC), the New York State Department of Financial Services (DFS) and the Federal Reserve Board of Governors (FRB). The settlement included a financial penalty of US$100 million to be paid by the Bank to the DFS which was fully provided for and recognised as an expense in the consolidated financial statements for the year ended 31 December 2021. No separate financial penalty was levied by OFAC and FRB. Dialogue with another US agency on the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Bank is likely to be subject to any further penalty or the quantum of the penalty. The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with the accounting policy for provisions as disclosed in note 3.

43 Risk management (continued)

Fair value measurements

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

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

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2021.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2022		2021				
	AED'000		AED'000				
Other financial assets measured at FVTPL							
Quoted debt investments	**202,752**		257,064	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**16,667**		37,668	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**1,145,385**		1,291,065	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Funds	**1,286,743**		686,534	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**707**		1,113	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited / historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	2,652,254		2,273,444				

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	2022	2021				
	AED'000	AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	**699,587**	577,857	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**-**	559,930	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	**6,934,735**	12,920,789	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**63,117**	53,589	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
Funds	**80,072**	55,514	Level 2	Quoted prices in secondary market.	None	Not Applicable
	7,777,511	14,167,679				
	10,429,765	16,441,123				

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTPL

	2022 AED'000	2021 AED'000
At 1 January	**1,113**	1,112
Change in fair value	**(406)**	1
At 31 December	**707**	1,113

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2022 AED'000	2021 AED'000
At 1 January	**613,519**	615,541
Purchases	**12,856**	7,933
Disposals/matured	**(573,611)**	(1,118)
Change in fair value	**10,353**	(8,837)
At 31 December	**63,117**	613,519

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2022					
Financial assets:					
Other financial assets measured at amortised cost	**16,451,362**	**13,843,005**	**1,468,843**	**741,681**	**16,053,529**
31 December 2021					
Financial assets:					
Other financial assets measured at amortised cost	10,302,332	7,142,239	1,944,036	1,385,285	10,471,560

	Carrying Amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2022					
Financial liabilities					
Medium-term notes	**5,223,565**	**4,060,351**	**-**	**1,055,949**	**5,116,300**
31 December 2021					
Financial liabilities					
Medium-term notes	7,315,119	5,259,890	-	2,070,100	7,329,990

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis
The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2022 and 31 December 2021:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2022				
Other financial assets measured at fair value	**26,523**	**(26,523)**	**77,775**	**(77,775)**
Derivatives	**9,642**	**(9,642)**	**395**	**(395)**
31 December 2021				
Other financial assets measured at fair value	22,734	(22,734)	141,677	(141,677)
Derivatives	6	(6)	585	(585)

Majority of the derivative financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Foreign restricted assets

Net assets equivalent to AED 549 million as at 31 December 2022 (31 December 2021: AED 218 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Taxation

Tax expense

Tax expense for the year ended 31 December 2021, excludes an amount of AED 59 million which has been classified within general and administrative, this is immaterial to the consolidated financial statements of the Group and has not been adjusted.

Implementation of UAE Corporation Tax Law and application of IAS 12 Income Taxes

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE.

45 Taxation (continued)

Implementation of UAE Corporation Tax Law and application of IAS 12 Income Taxes (continued)

The Law was published in the official gazette on 10 October 2022 and became effective on 25 October 2022. The Corporate Tax law will apply to taxable persons for financial years beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% corporate tax rate, while a rate of 0% will apply to taxable income not exceeding AED 375,000. However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, that are critical for entities to determine their tax status and the amount of tax due. Therefore, pending such important decisions by the Cabinet, the Group has determined that the Law is not applicable to the financial year ended 31 December 2022, and so not enacted or substantively enacted 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 its tax status and the applicability of IAS 12 – Income Taxes. The Group is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, in preparation for full compliance with the new Corporate tax law noting that the first tax period for the Group is starting on 1 January 2024.

46 Additional Tier 1 capital securities

In July 2022, the Bank issued US$ 300 million (AED 1,101.9 million) regulatory Additional Tier 1 (AT1) capital securities. These securities are perpetual, conditional, subordinated and unsecured and are classified as equity. These securities are issued at a coupon rate of 8.5% p.a. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities in July 2027 subject to Central Bank approval.

47 Subordinated debt

In November 2022, the Bank issued US$ 500 million of subordinated Tier 2 notes. The notes, which were issued at a re-offer price and yield of 99.702 and 7.95 per cent, respectively, and with a coupon of 7.875%, are callable after 5.25 years and have a final maturity of 10.25 years .They will rank pari passu among themselves, rank subordinate and junior to all senior obligations and rank in priority only to all junior obligations, subject to solvency conditions.

48 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2022.

49 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2022 were approved by the Board of Directors and authorised for issue on 30 January 2023.