المصرف
AL MASRAF
Arab Bank for Investment & Foreign Trade المصرف العربي للاستثمار والتجارة الخارجية

ANNUAL REPORT 2022

بسم الله الرحمن الرحيم

His Highness
Sheikh Mohammed Bin Zayed Al Nahyan

President of the United Arab Emirates
and Ruler of Abu Dhabi

His Highness
Sheikh Mohammed Bin Rashid Al Maktoum

Vice President and Prime Minister of the United Arab Emirates
and Ruler of Dubai

Section 1

Corporate Overview

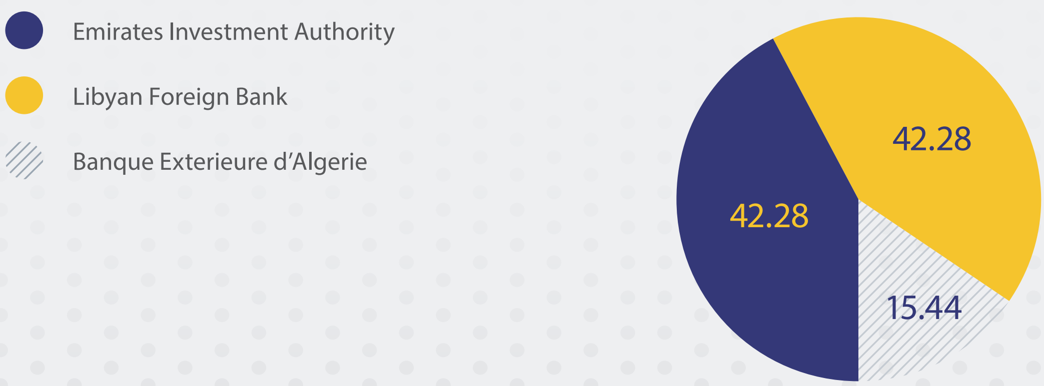
About Us

Arab Bank for Investment and Foreign Trade (Al Masraf) was established in November 1975 and started its banking operations following the Federal Decree no. 50 issued and signed by His Highness Sheikh Zayed Bin Sultan Al Nahyan in 1976.

The Bank was formed with the purpose of instilling co-operation amongst the Arab countries and promoting joint economic ventures. By providing world-class banking and trade finance services in the Gulf region, Al Masraf strives to achieve its vision of becoming an innovative and preferred financial partner for all banking services in the region.

Al Masraf offers a full range of financial services including Retail Banking, Corporate Banking, Islamic Banking and Treasury and Investment services with the aim of helping their customers build and manage their finances. The Bank's values create a drive to constantly update its products and services in order to meet the diverse and evolving needs of their customers.

Shareholding Structure (%)



Vision

To become an innovative and preferred financial partner for all banking services in the region.

Mission

- Become the first-choice bank for customers with best-in-class products and services.
- Be an employer of choice to attract, develop and retain high profile employees.
- Benefit our investors with sustainable Return on Investment (ROI) and continuous success.
- Contribute to society through active participation in the regional economic development initiatives.

Values

- Customer Focus
- Organization Commitment
- Change Orientation
- Quality Focus
- Team Spirit

At a Glance

Established
in 1975

Developed
trade links between
UAE, Libya and
Algeria

90% Corporate
Banking focused

Islamic Banking
window launched
in 2015

5 branches and
40+ ATMs

Drive to
digitalization
across the Bank

Our new strategic pillars:

Stabilization

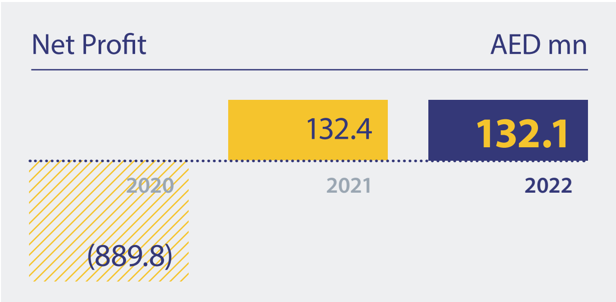
Diversification

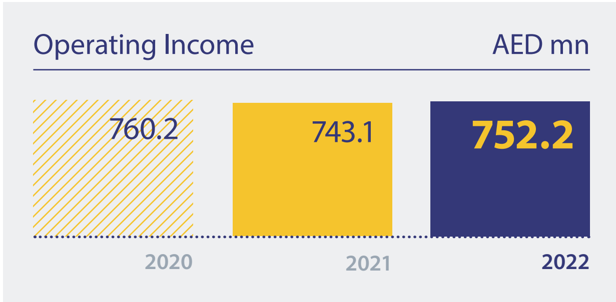
Growth

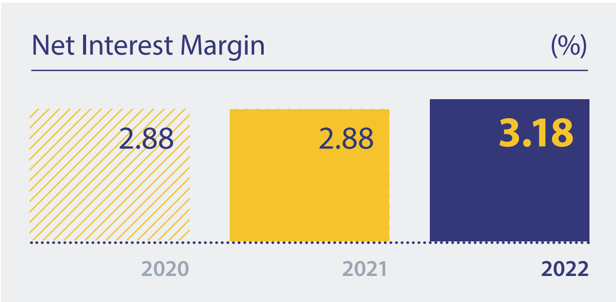
Credit Ratings

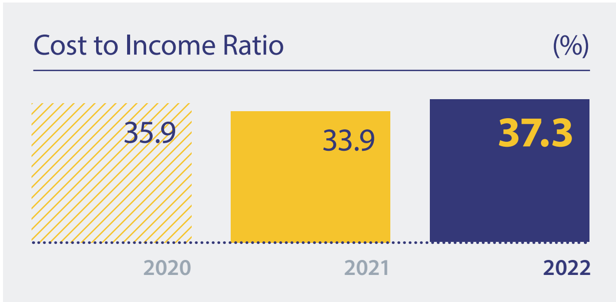
- FITCH: A / F1 – Stable (May 2022)
- Capital Intelligence: A / A1 – Stable (Sept 2022)

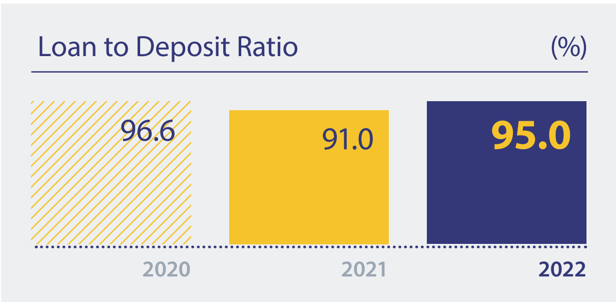
Financial Highlights

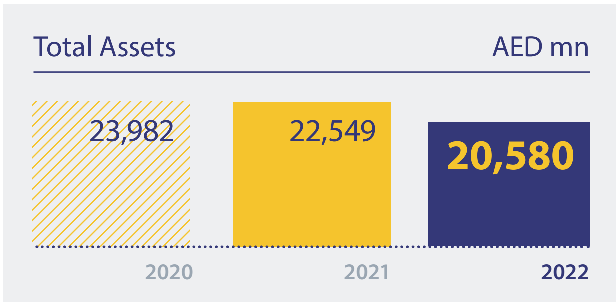


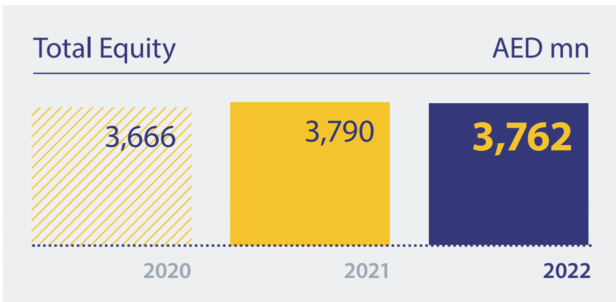


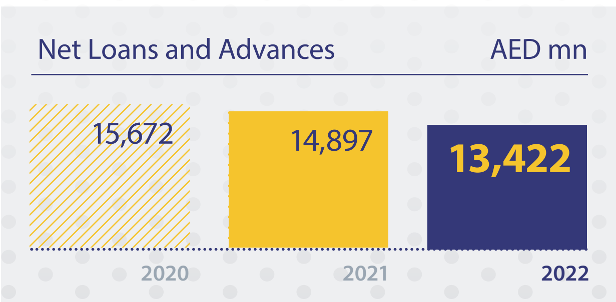


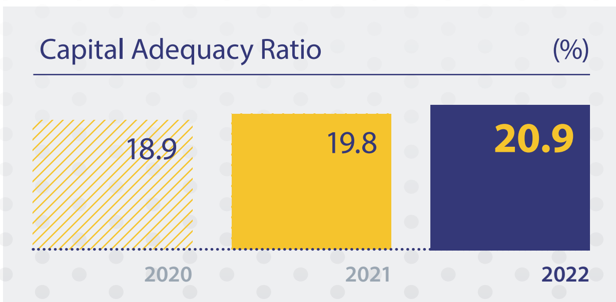












Board of Directors

Mr. Farhat Omar
Ben Gdara

Chairman

Mr. Mohamed Saif
Al Suwaidi

Deputy Chairman

Mr. Lazhar
Latreche

Director

Mr. Mustapha
Maklouf

Director

Mr. Amr Yaklaf
Amr AlHgag

Director

Ms. Raja Mohammed
Ghanim Al Mazrouei

Director

Mr. Khalaf Sultan Rashed
Al Dhaheri

Director

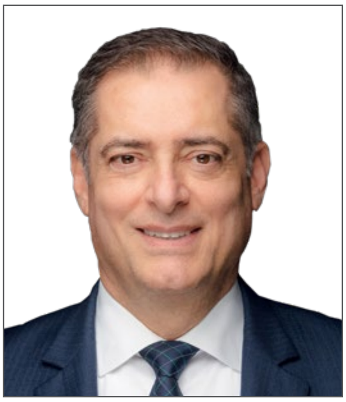
Mr. Ahmed AlSidieg
Al Sharkasi

Director

Executive Management

Mr. Graham FitzGerald

Chief Executive Officer



Mr. Charles Doghlass

Deputy Chief Executive Officer

Mr. Nitin Bhargava

Chief Operating Officer

Mr. Sanjeev Dureja

Chief Financial Officer

Mr. Rohit Kumar

Chief Risk Officer

Mr. Masood Safar Al Majedi

Chief Compliance Officer

Mr. Moath Ahmed Mustafa

Chief Internal Audit Officer

Ms. Safeya Almarzooqi

Chief Credit Officer

Mr. Ammar Husain

Chief Human Resources Officer

Mr. Razi Heyasat

General Counsel & Board Secretary

Section 2

Strategic Review

Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors, I have pleasure in presenting the Annual Report of the Arab Bank for Investment and Foreign Trade (Al Masraf) for the fiscal 2022.

Overview

Our 2022 financial results were positive and in line with the progress made in 2021. A key theme for the Bank this year was stabilization, to get the right structures and processes as the Bank maintained its focus to de-risk and prudently manage its asset quality while continuing to invest in the infrastructure and enhance the control environment. We welcomed a new CEO and new members of our leadership team, established a medium-term strategy, reviewed our asset quality and launched new technologies. We also looked to further develop our traditional trade corridors in North Africa leveraging on the strong relationships that the Bank enjoys with counterparties in those markets. Despite the global economic and geopolitical challenges, the UAE economy saw positive growth in 2022 which looks set to continue in 2023 and positions the bank for further growth in 2023 and beyond.

Financial performance

The Bank's net profit for the year remained stable at AED 132.1 million compared to AED 132.4 million reported in 2021. In keeping with the Bank's approach to de-risk and selectively secure new business, loans and advances were lower in 2022. At the back of this reduction, total assets stood at AED 20,580 million as at the end of 2022, lower by 9% compared to the preceding year-end. With a view to effectively manage the legacy loan book, considerable effort continues to be placed to maximize recoveries and good progress is being made. In line with the conservative approach towards credit quality and provisioning adopted by the Bank, the loan loss coverage was significantly augmented during the year.

The Bank has been actively managing its balance sheet whilst ensuring that it maintains adequate liquidity. The capital adequacy position continued to be strong with overall and Tier 1 capital adequacy ratios being well ahead of the stipulated regulatory requirements.

Fitch Ratings, one of the leading credit rating agency, has assigned the Bank with a Long-Term Issuer Default Rating (IDR) at 'A' with a Stable Outlook, a Short-Term 'F1' IDR. This rating demonstrates the Bank's continued resilience and improving financial position.

Macro-economic environment

Economic growth in the UAE has been robust over the past year, led by strong performance in both the oil and non-oil sectors. The non-oil sector growth was led by a strong rebound in tourism, construction and activity related to the Dubai World Expo, as the pandemic related restrictions abated. The Central Bank has projected real GDP to grow by 7.6% in 2022, improving from 3.8% in 2021.

The UAE's external sector mirrored the robust domestic economic growth in 2022, with non-oil foreign trade, topping AED 1 trillion for the first time. The drivers for this growth was new partnership agreements that aimed to enhance the role of international trade and the various initiatives undertaken by the UAE to develop and diversify its exports.

Globally, we saw inflationary pressures amid higher oil and commodity prices exacerbated by the geopolitical conflict, and a tightening of monetary conditions. The UAE banking sector has continued to fare well, reporting healthy growth in net interest margins with improving asset quality while liquidity and capital levels have continued to remain strong.

The UAE economic outlook remains positive, supported by encouraging levels of domestic activity. The IMF expects non-hydrocarbon growth to be around 4% in 2023 and to accelerate over the medium-term with the implementation of ongoing economic reforms.

Looking ahead to 2023

Moving into 2023, the Bank now has an experienced senior leadership team in situ and is well positioned for growth. During 2022, the building blocks were put in place as the Bank continued its journey to successfully achieve its medium-term strategy; with much of 2022 being spent on getting the compliance, asset quality and technology right, ready to pivot towards the diversification and growth phases of our strategic plan. Al Masraf is now well positioned to benefit from a buoyant UAE economy and the work that was put in place in 2022, will accelerate the transformation of the Bank.

Acknowledgements

On behalf of the Board and the entire team at Al Masraf, I extend our sincere appreciation and gratitude to His Highness Sheikh Mohammed bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi; to His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai; and to the Central Bank of the UAE for their ongoing support. I would also like to thank our shareholders, our valued customers for their patronage and all our Al Masraf employees for their continued dedication, commitment and hard work.

Farhat Omar Ben Gdara
Chairman

CEO's Message

Introduction

The year 2022 saw the Bank improving its financial and operational performance as we updated our medium-term strategy that covers the period until 2025.

The Strategy Refresh, which is based around three core pillars of Stabilization, Diversification and Growth, saw considerable progress being made during the year particularly on our first pillar, Stabilization, including strengthening the leadership team with key appointments, improving the Bank's compliance program, investing in technology and infrastructure plus developing a framework to attract talent and train our staff.

Amid an uncertain economic environment, it was pleasing to note that the Bank reported a profit of AED 132 million for the year ended 31 December 2022 in line with the results for the prior year. These results were underpinned by an improvement in credit quality metrics, including higher loan loss coverage, sound liquidity and capital prudency, as evidenced by strong overall and Tier 1 capital adequacy ratios.

In 2023 and thereafter, the Bank will build on the successes achieved in 2022 and pivot towards the other two strategic pillars: Diversification and Growth.

Financial Performance

The Bank recorded an operating income of AED 752.2 million in 2022, slightly higher compared to that reported for 2021. This increase was led by higher net interest margin by 30 bps from 2.88% in 2021 to 3.18% in 2022 and an increase in the non-interest income by over 6% in 2022. On the back of ongoing transformational investments in technology, infrastructure and people, the operating expenses during the year increased to AED 280.6 million. The net profit before net impairment charge for 2022 was AED 471.6 million, nominally lower compared to previous year. The Bank continued to adopt a conservative approach to manage its credit risk and in accordance with IFRS 9: Financial Instruments and the guidelines of the Central Bank of the UAE (CBUAE) recognized an additional and within budget impairment charge during the year of AED 339.5 million.

The net loans and advances declined in 2022 to AED 13.4 billion at the end of 2022 as the Bank remained selective in booking new business while proactively managing its legacy loan book. In line with the asset position, the customers' deposits were optimized as part of an active balance sheet management. The total assets of the Bank as at 31 December 2022 were AED 20.6 billion, lower by 8.7% compared to preceding year-end.

Liquidity remained sound with the headline loan to deposit ratio as at 31 December 2022 being 95%. Key profitability metrics namely Return on Average Equity and Return on Average Assets were consistent in 2022 with the similar ratios in 2021. Capital adequacy ratios were strong with overall Capital Adequacy ratio (CAR) and Tier 1 CAR of 20.9% and 19.7% respectively, well above of the minimum requirements set by the CBUAE.

Business Performance and Operational Highlights

In 2022, loans and advances were lower as considerable effort was made to de-risk and stabilize the loan portfolio. Key measures taken included a review of credit underwriting standards to ensure the right asset quality is being originated, on-boarding new clients, portfolio diversification and actively pursuing recoveries from delinquent customers, amongst several other initiatives to expand the product proposition and augment customer experience. The Bank further leveraged its partnerships with the counterparties in its traditional trade corridor to enhance its non-interest income. A new payment and cash management system was implemented by the Bank to further expand its digital product offering.

For the convenience of our retail customers, a digital onboarding platform was launched towards the backend of the year, which was supported by a well-received digital media campaign.

During the year, the Bank has made significant transformational investments in upgrading its technology platforms and infrastructure, including implementation of a middleware that has facilitated effective digital onboarding of new customers and introducing new products and services to our clients. Another area of achievement has been the enhancement in the Bank's compliance capabilities to ensure that the related risks are being effectively managed.

The Bank has been investing in its People to ensure that we continue to attract and retain talent. We now have the right leadership team in place across the businesses and functions, where we share the same vision for Al Masraf's future, both in terms of where we are heading and how we are going to get there. Various bank wide employee engagement initiatives and programs have been launched to increase communication, share a common purpose and foster teamwork and collaboration.

Outlook for 2023

Moving into 2023, we are looking to leverage the success we witnessed in customer acquisition in Retail Banking and replicate that into our SME business. Retail customers can now be on-boarded quickly and efficiently, and we want to take that experience into our SME sector. Selectively we will continue to increase our Corporate and Sharia'a compliant Islamic financing business, whilst ensuring adherence to robust credit standards and maintaining an effective risk and control environment. Trade finance will be another focus area to facilitate trade flows in our target trade corridors and to support our customers in the UAE and abroad.

Enhancing digital capabilities, process automation, ongoing investment in technology and infrastructure will further continue to support the various business initiatives, as we push to further transform and grow the bank.

Our pivot towards Diversification and Growth will not be possible without continuing to attract some of the best talent to the firm, and as such we remain committed to diversifying the workforce and to continue to increase Emiratization levels across the Bank.

Acknowledgements

This is my first Annual Report as the Chief Executive Officer of Al Masraf and I would like to express my sincere gratitude for the warm welcome and strong support from the Board, from my leadership team, from all our employees and from our growing customer base of the Bank.

Our business is undergoing a significant transformation and I have been impressed by how energetically and enthusiastically our staff have risen to meet the associated challenges. I am confident that the investments we are making during this period will translate into further sustainable success for the Bank in the years ahead.

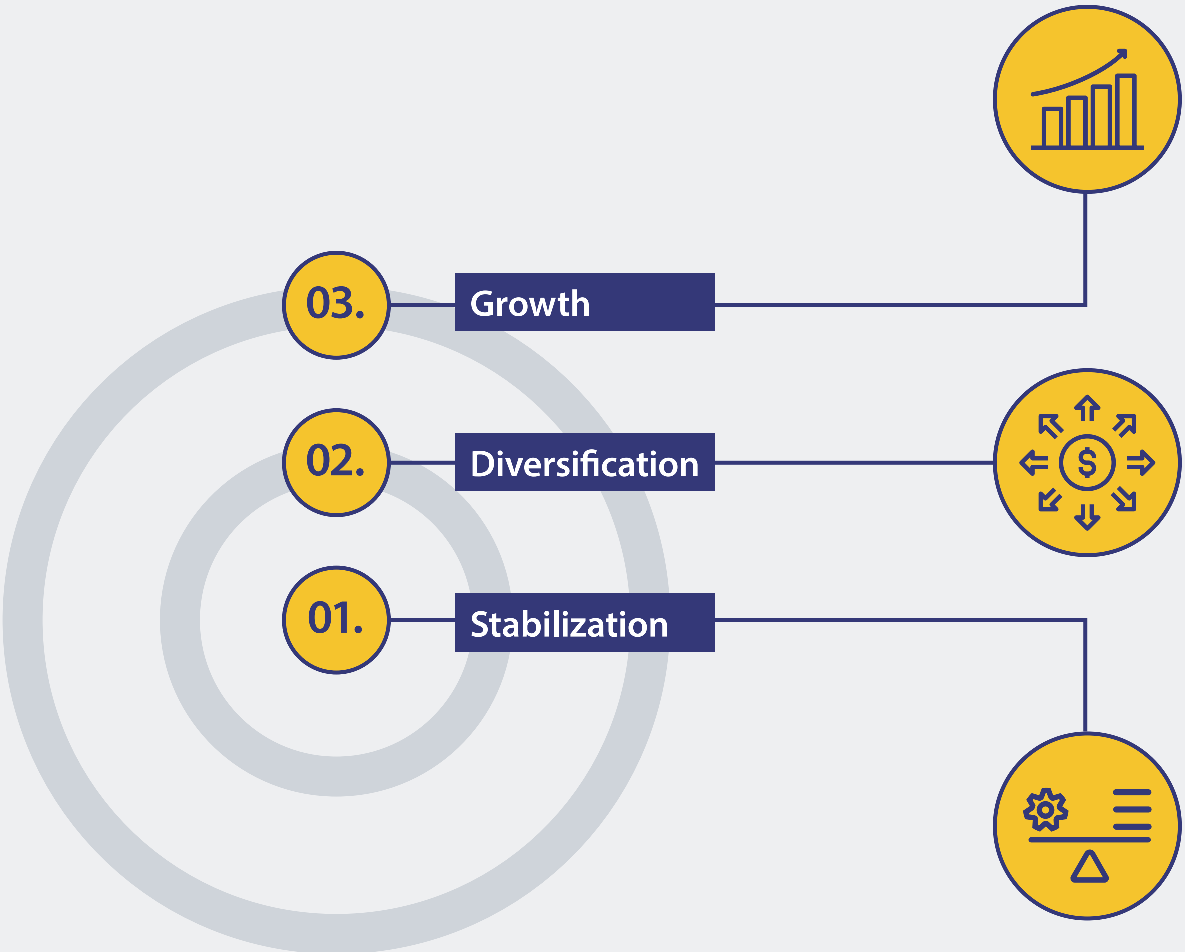
Our journey continues.

Graham FitzGerald
Chief Executive Officer

Our Strategy

In 2022, the Bank undertook a strategy refresh exercise. After reviewing the current processes and structures within the Bank and in collaboration with the Executive Management team, a new strategy was launched. This strategy is based on three pillars.

Our 3 Pillars:



During 2022, the main focus of the Bank's activities was on pillar one: Stabilization. In the following years, we will pivot towards the other pillars of – Diversification and Growth.

01. The main objectives and progress for the Stabilization Phase made in 2022 were:

• **New leadership**	Several senior hires in key positions were made across the Bank
• **Compliance Culture**	Compliance procedures were updated to ensure adherence to CBUAE regulations
• **Asset Quality**	The overall asset quality of the Bank's portfolio was reviewed
• **Digital Transformation**	Investments were made in enhancing technology infrastructure in developing solutions for digital onboarding of new customers and Payments Cash Management
• **People and Culture**	Initiatives around succession planning and Emiratization were rolled out and strengthened

02. The main objectives and progress for the Diversification Phase made in 2022 were:

• **Revenue streams**	New revenue streams were identified and planned
• **Loan book texture**	Our asset quality was enhanced
• **Segments**	Customer segmentation across Islamic finance, SMEs, and Retail. Resources and plans are in place for implementation
• **Customers / assets**	De-risking our customer and asset profile
• **Product suite**	New products and services offered to Retail and Corporate Banking customers
• **Industries**	Targeting new sectors such as manufacturing and trade
• **People**	Ongoing training and development of our staff

03. The main objectives and progress for the Growth Phase in 2022 were:

• **Trade Corridors**	Continue to leverage our heritage with our Libyan and Algerian corridors
• **SMEs**	Review the customer profile, and put customer plans in place
• **Treasury**	Develop new products
• **Retail**	Digital onboarding of clients and offering corporate packages for retail customers
• **Trade Finance**	Develop Trade Finance products
• **Bank Products**	Expand product offering
• **Marketing**	Marketing strategy developed

Our strategic priorities remain unchanged, our Stabilization initiatives set in 2022, have made good progress. Moving into 2023, we will focus on our Diversification and Growth phases to continue with the transformation of the Bank.

Section 3

Corporate Governance

Corporate Governance Report

1. Introduction

The Bank practices good governance with the belief to create long-term added value on a sustainable basis for all its shareholders and all interested parties through the commitment to the principles contained in the Governance Code. The Code builds good governance principles in all of the bank's activities.

Under governance, both the Board of Directors and the Bank's Management are committed to the principles set out in the Governance Code. Both the Board of Directors and the Bank's Management act at the best interests of the Bank and its business.

The Bank has a vision, mission and values of its own consistent with the principles and philosophy of governance. The Board of Directors adopted this and ensured that it is applied.

2. Al Masraf Governance Framework

The Corporate Governance framework of Al Masraf is created on the principles of fair treatment for all stakeholders with the aim of providing a basis for an inclusive relationship between the Bank, its Board of Directors, Shareholders, Customers, Regulators and Employees throughout a set of systems, principles and processes by which the bank is directed and controlled for the long-term benefit of all Stakeholders.

Mainly our key principles of good governance are underpinned by Corporate Governance Code which ensures accountability, transparency, integrity and attention to the Bank's sustainable success and it serves as a guide for implementing and practicing good corporate governance.

Both the Board of Directors and the Bank's management are committed to the principles set out in the Code. The compliance department is responsible for ensuring adherence to the manual by all employees. The Bank's management acts as the guardian of the interests of all other parties dealing with the Bank or affected by its business.

3. Transparency and Disclosure

The delivery of accurate information to our stakeholders represents an important priority of the Bank. For the sake of transparency, numerous reports are submitted and published by the Bank including financial and non-financial reports. The Audit & Compliance Committee plays a vital role in helping Al Masraf in achieving its objectives by enhancing the transparency in financial reporting process rather than only providing reasonable assurance with regard to compliance with rules and regulations and adopting financial standards and forwarding it to the Board and recommending to appoint external auditors.

4. Al Masraf's Board of Directors (BODs)

The BODs have overall responsibility to manage and conduct the Bank's affairs, including adopting strategic objectives and overseeing the senior management under the corporate governance framework and Al Masraf Corporate Governance Code. BODs primary responsibility is to provide effective governance over Al Masraf affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, such as its customers, employees, suppliers under the framework of the work environment of Al Masraf. The BODs define appropriate governance structures and suitable practices for its own work, and puts in place the means and mechanism for such practices to be followed and periodically reviewed for its ongoing effectiveness. The Board consist of 8 members as follows:

1. **H.E. Farhat Bengdara (Chairman):**

   H.E. Farhat Omar Bengdara is a seasoned financial professional with a wealth of experience and a strong record of accomplishment of leadership and achievement. His career in the financial industry is highlighted with a number of influential positions, topped by Chairman of Libya's National Oil Corporation and Chairman of Arab Bank for Investment & Foreign Trade (Al Masraf). In addition, H.E. is a Chairman of Arab Banking Corporation International Bank in London, Vice Chairman of Unicredit Group, and Deputy Chairman of Arab Banking Corporation in Bahrain. H.E. has also served as an Advisory Board Member for Standard Chartered Bank, and as Founder and Chairman of Investment and Development Fund.

In addition to his work in the private sector, H.E. Bengdara has also held several important public positions, including Governor of the Central Bank of Libya, Member of the Oil and Gas Supreme Council, Member of the Supreme Planning Council, and Chairman of the African Central Bank Governors Association. Currently, H.E. holds a Master's degree in Money, Banking and Finance from Sheffield University in the UK, as well as a BA in Economics from Ben Ghazi University.

2. **H.E Mohamed Saif Al Suwaidi (Vice Chairman)**

H.E. Mohamed Saif Al Suwaidi is the Director General of Abu Dhabi Fund for Development (ADFD), as has been appointed since 2008, in addition, H.E. Al Suwaidi is the Vice Chairman of the Arab Bank for Investment and Foreign Trade (Al Masraf); H.E. is also Chair of the Board of Directors of Al Ain Farms for Livestock Production which is the biggest of its kind in the UAE. He is also the alternate Governor representing the UAE at the Board of Governors of the Asian Infrastructure Investment Bank (AIIB). Moreover, he also serves as a board member of many institutions such as the First Abu Dhabi Bank (post-merger), the Food Security Centre – Abu Dhabi, Al Jazira Sports and Cultural Club, UAE Red Crescent Authority, Agthia Group, Raysut Cement Company and Maroc Telecom, as well as many international institutions and entities. H.E. Al Suwaidi holds a B.Sc. degree in Business Administration from the California Baptist University, USA. He has also undertaken many intensive technical, administrative and leadership training programs.

3. **Ms. Raja Mohammed Al Mazrouei (Board Member)**

A multi-award-winning digital transformation leader with over 20 years of experience accentuating the next-gen wave of digital innovation. Specializing heavily on the intricacies of the financial and technology sectors, Ms. Raja holds a strong history involving cross-functional leadership, finance, and all things progressive - collectively steered by her passion for pioneering large-scale industry and UAE community reform. Furthermore, she is heavily acclaimed for instilling innovative advancements here in the present, as well as positioning stakeholders for sustainable success as they navigate deeper into the ever-transient, digital future.

Ms. Raja holds multiple membership positions in various organizations. She is currently the Managing Director of Etihad Credit Insurance (ECI) also a Board Member of ECI. She is also a Board Member of Zand and has been serving in this position on a full-time basis. Additionally, she is a Member of the Board of Trustees for the Mohammed Bin Rashid School of Government (MBRSG). In 2019 Ms. Raja appointed as a Board Member of Al Masraf. Furthermore, she is a Board Member of the MENA and Central Asia Advisory Board for the Harvard Business School.

She worked as a senior executive, former EVP of DIFC FinTech Hive. Here, Ms. Raja proactively networked with financial institutions, government entities, technology partners, venture capital/funds, and entrepreneurs to spearhead the UAE's national innovation agenda. In addition, Ms. Raja's technical/financial acumen led to FinTech becoming a leading contributor to the UAE digital economy, the formation of 500+ FinTech, RegTech, and InsurTech startups that opened new doors for societal opportunities, and FinTech ranking as one of the world's best financial innovation labs under Global Finance Magazine.

From building winning mindsets, implementing scaling accelerations to diversely improving life quality via cutting-edge integrations, Ms. Raja enjoys leveraging larger-picture technology to secure viable outcomes across the board. This, in conjunction with her history of harvesting new 'status quo challenged' opportunities, and reputation for positioning UAE as an innovation destination, is what shaped Raja into an internationally recognized digital change agent – one who values people and process bridging and addresses every project with an ambition to create solutions that promote mutually beneficial outcomes.

4. **Mr. Khalaf Sultan Al Dhaheri (Board Member)**

Mr. Khalaf Sultan Al Dhaheri is a prominent business leader in the United Arab Emirates, as he is known for his extensive experience in serving on numerous boards, besides he is a board member at Arab Bank for Investment & Foreign Trade (Al Masraf); he was appointed recently in June 2022 as an Independent Non-Executive Director at Amanat Holdings PJSC, the largest healthcare and education investment company in the GCC also he is the Chairman of Abu Dhabi National Islamic Finance and of Abu Dhabi National Properties Co. Meanwhile he sits on the board of Abu Dhabi National Hotels, BEA Dar Al Takaful PJSC and Islamic Development Bank.

Mr. Al Dhaheri previously served as the Chairman of Massar Solutions PJSC, a Board Member of Emirates Institution for Banking and Financial Studies, and an Audit Committee Member of Abu Dhabi National Oil Company. Mr. Al Dhaheri also held numerous executive roles including Group Chief Operating Officer at National Bank of Abu Dhabi and General Manager & Chief Risk Officer of First Abu Dhabi Bank PJSC.

Mr. Al Dhaheri holds a bachelor's degree in accounting from U.A.E. University and holds an MBA from Zayed University. He is also a Certified Public Accountant from the California Board of Accountancy and the American Institute of Certified Public Accountants in the USA and has an accredited certification from Ashridge – Hertfordshire (UK) in advanced management programs. With his strong background in finance and management, Al Dhaheri has established himself as a leader in the UAE's business community and has made significant contributions to the growth and development of the country's economy.

5. **Mr. Makhlouf Mustapha (Board Member)**

Mr. Makhlouf Mustapha is a seasoned financial professional with a wealth of experience in international banking and finance. He holds a Higher Certificate of Education in Mathematics, a Bachelor of Economics Sciences from the University of Algiers, and a post-graduate degree in Economic Sciences with an option in economics analysis. He also holds several accreditations and certifications in technical training, banking activities, and anti-money laundering.

Mustapha's professional journey began as a teacher of Physics and Natural Sciences, before he served his military service.

In 1988, he joined Banque Extérieure d'Algérie (BEA) as a project manager and went on to serve in various capacities, including Area Manager for Europe and North America, Head of Department for International Banking Relations, and Manager of International Banking.

Throughout his career, Mr. Mustapha has received extensive training in banking and finance, participating in technical trainings, workshops, and seminars on anti-money laundering, international guarantees, international finance, and foreign trade. He has also gained international exposure through his active participation in business forums and meetings, representing BEA and promoting Algerian exports and business. Some of his notable international experiences include participation in conferences and exhibitions in Libya, Malaysia, France, Jordan, and South Korea.

6. **Mr. Lazhar Latreche (Board Member)**

Mr. Lazhar Latreche is an experienced expert with a passion for finance and banking. He holds a Bachelor's degree in Commercial and Financial Sciences with a focus on Finance and Accounting from the High School of Commerce of Algiers (1986-1990). After completing his Bachelor's degree, Mr. Lazhar went on to pursue a Master's degree in Banking and Financial Sciences at the same institution (1990-1992). He later earned a Master in Banking and Finance from the Banking and Business School of Algiers and High School of Commerce of Amiens in Paris, France (2007).

Throughout his academic career, Mr. Lazhar has produced impressive work, including a Bachelor's degree paper on the Study of the Profitability of Economic Public Enterprises and a Master's thesis on the Approach in Assessing Credit Applications from big companies. His Master's degree memory focused on the role of banks and the new conditions for financing foreign trade.

Mr. Lazhar is the Chief Executive Officer at Banque Exterieure d'Algerie (BEA); meanwhile he is a Board member at Arab Bank for Investment & Foreign Trade (Al Masraf) and he was appointed as the Chairman and General Manager of BEA, also he is a director at Union de Banques Arabes et Françaises.

Mr. Lazhar began his professional career at BEA in 2008 as the Manager of Credit Directorate for Large and Huge Enterprises and Great Projects.

He went on to serve as the Deputy General Manager (Credit Recovery and Legal Department) from 2013 to 2016 and aside from his career at BEA, Mr. Lazhar has also served as an Assistant Master at the National Institute of Commerce of Algiers from 1993 to 2012. He has also been an active member of several boards, including AXA Assurances (2011-2013), Investment National Fund (2011-present), The Public Group IMETAL SPA (2017-present), and BAMIC Bank (2016-present).

7. **Mr. Amr Alhagag (Board Member)**

Mr. Amr Alhagag has held the position of Assistant General Manager of the Libyan Foreign Bank since 2012, and he is a member of the Board of Directors of the Arab Bank for Investment and Foreign Trade (Al Masraf). Also, Mr. Amer was appointed at the Arab International Bank in Cairo as Board member and a member of the Audit Committee, in addition to being a member of the Board of Directors of the Libyan Stock Exchange.

Mr. Amr holds professional qualifications as a fellow member of the Arab Academy for Banking and Financial Sciences, an accredited expert at the State Audit Bureau, and an accredited expert at the Libyan courts in Tripoli.

8. **Mr. Ahmed Alsharkasi (Board Member)**

The Board Member Mr. Ahmed Al-Sharkasi has been appointed at Arab Bank for Investment and Foreign Trade (Al Masraf) since Jan 2022, he is the Secretary of the Prime Minister of the Council of Ministers of the Libyan Government of National Unity since 2021, and he is the head of the Future Foundation and a political advisor for general staff affairs, in addition to being the executive director of Musharakah and Atismo Charity.

Mr. Ahmed Al-Sharkasi holds a Master of Science degree from Britain and holds a Bachelor of Science degree from the University of Misurata.

5. Role of Board of Directors

The Board of Directors are empowered, under Al Masraf's Article of Association ("AOA") with the widest powers necessary to carry out the activities and functions required to fulfil the objectives of Al Masraf, which includes but not limited to:

1. Determining strategic goals of the Bank and guiding the Senior Management.
2. Supervising the Senior Management and follow up its performance and ensure the safety of the financial position of Al Masraf by adopting policies and adequate procedures to supervise and oversee the performance of Al Masraf.
3. Ensuring that the Bank manages risk effectively by approving Risk Appetite Statement and risk framework and monitor aggregate risk exposures that occurs to the Bank in its generality.
4. Ensuring implementation of disclosure policies and procedures that comply with regulatory requirements.
5. Appointing Chief Executive Officer of the Bank and his deputies and key members of Senior Management that includes organizing their selection process and their compensation, monitoring and overseeing succession planning.
6. Ensuring that the Bank has strong and well-articulated cyber security systems in place. The BODs must learn about any related breaches or losses.
7. Establishing conflict of interest practices between the Board members and within Al Masraf in general.

6. Board of Directors Obligations and Duties

The Board of Directors are expected to exercise their business judgment in what they reasonably believe to be in the best interests of Al Masraf and to comply with relevant laws, regulations, rules and best practices. In discharging that obligation, the directors may rely on the honesty and integrity of Al Masraf's senior executives and its advisors and auditors.

The BODs shall be responsible to ensure that the Management balances the promotion of long-term growth with the delivery of short-term goals. The BODs are the main body for making decisions within Al Masraf.

7. Board of Directors Composition and Nomination

As per the AoA the Bank shall be managed by a Board of Directors comprised of a minimum of eight Arab members, nominated by the Shareholders and appointed by the General Assembly after obtaining CB approval.

The term of membership in the Board is three years subject to renewal. The Board of Directors shall elect from its members a Chairman and one or two deputies, one of whom shall substitute for the Chairman in his absence or in case of incapacity.

- **Frequency of BODs Meetings**

  The BODs shall meet at least 6 times yearly or whenever the need arises, and the agenda of the meeting with supporting documents shall be provided to the directors within sufficient time prior to the meeting date to provide ample time for review beforehand.

  Also, a director has the right to suggest items for inclusion on the agenda or to raise subjects that are not on the agenda for that meeting.

- **Decision Making within the Board**

  Decisions of the Board shall be taken by vote of the majority of Board i.e. directors present. If votes are equal, the side, which the Chairman supports, shall prevail.

  The Board may take some decisions passing resolutions if all BODs agree that the case necessitates that due its urgency and the proposed resolutions are delivered to BODs in writing and accompanied by all necessary supporting information.

- **Conflict of Interest**

  The BODs shall disclose any conflict of interest to the Board. Board members shall not use inside information to achieve personal gains for themselves or others.

  They shall also abstain from voting or even taking part in decision making process on any matter where they have an actual or potential conflict of interest. And it is not permitted for BODs to enter into any advisory relationship with Al Masraf.

- **Confidentiality**

  The BODs shall keep the entire Bank's information strictly confidential so as long as such information has not been made public.

  At the end of the term of their mandate, they must return all confidential documents to Al Masraf and destroy all electronic copies if directed to do so by Al Masraf and they remain legally responsible if any information is made public through them.

- **Difference between the Positions of the Chairman of the Board of Directors and the Chief Executive Officer**

  The Chairman of the BODs and the Chief Executive Officer has different kind of responsibilities, therefore to prevent any conflict of interest and to preserve an effective supervision over the management; the positions should be occupied by two different individuals in application to the valuable principles of the code.

8. Board Remuneration

As best practice of Corporate Governance Regulation, and based on the Board's recommendation, it has been decided to have a fixed amount as Board's remuneration and this amount should not exceed 12 Million AED paid into 2 parts one of them as the remuneration for the Board memberships and the other part in return for Board committees.

9. Board Activities (Meetings) in 2022

The Board of Directors met 7 times in 2022 and received information in between meetings on regular basis from the Board and Management Committees in relation to the Bank's business developments.

10. Board Committees

The Board of Directors established Board Committees to assist the Board in carrying out its duties and obligations and offer a more detailed review of important areas of business control. The BoD often delegate work to committees of directors to more effectively deal with complex or specialized issues and to use directors' time more efficiently. Committees make recommendations for action to BODs, which retains collective responsibility for decision-making.

The Bank has 6 Board Committees as following:

1. **Audit and Compliance Committee (ACC)**

   BODs appoint the ACC for overseeing of the following:

   To assist Al Masraf's BODs in fulfilling its overseeing role regarding establishment of controls and compliance standards and maintaining effective Corporate Governance policies and procedures. The ACC plays a vital role in helping Al Masraf in achieving its objectives by enhancing the transparency in financial reporting process rather than only providing reasonable assurance with regard to compliance with rules and regulations and adopting financial standards and forwarding it to the Board and recommending to appoint external auditors.

2. **Remuneration and Nomination Committee (RNC)**

   BODs appoint the RNC for overseeing of the following:

   The RNC considers matters relating to appointing the Senior Management and review their remunerations and performance including policy for Executive Management remuneration and their annual individual remuneration awards. The RNC also reviews succession plans for the Chief Executive Officer and other key Senior Management positions. The RNC approves and reviews strategic HR issues including employee retention, motivation and commitment and succession planning for senior management positions.

3. **Board Risk Committee (BRC)**

   BODs appoint the BRC for overseeing of the following:

   1. Risk arising from all businesses of Al Masraf and control processes related to it.
   2. Ensure comprehensive Risk Management functions and organization within the Bank.
   3. Ensure that Risk Management adopts best practices and follow regulatory stipulations.

4. **Corporate Governance Committee (CGC)**

   BODs appoint the CGC for overseeing of the following:

   The CGC is a set of systems, principles and processes by which an organization is directed and controlled for the long-term benefit of all stakeholders. The purpose of the CGC is to ensure and monitor the implementation of Corporate Governance Code in real spirit in Al Masraf. Where it evaluates the performance of board members and committees, ensuring the effectiveness of applying corporate governance within the bank, adopting, and reviewing the Annual Governance Report.

5. **Strategy and Innovation Committee (SIC)**

   BODs appoint the SIC for overseeing of the following:

   The main purpose of this SIC is to keep the BODs aware of the progress in executing the bank's business and digital strategies. The SIC gives its recommendations, for any strategic decisions raised by the bank to the BODs, which makes addressing such strategic decisions more efficient.

   The SIC, which includes members and advisors with extensive experience in technology, acts as a trigger for innovation in business and digital domains and facilitates the timely decisions on any strategic innovative idea.

6. **Board Executive Committee (BEC)**

   BODs appoint the BEC for overseeing of the following:

   The main purpose of the BEC is to assist the BOD to expedite making the necessary decisions in accordance with the applicable laws, Regulations and Bank's policies. The BEC consists of four members of the BODs in addition to the CEO.

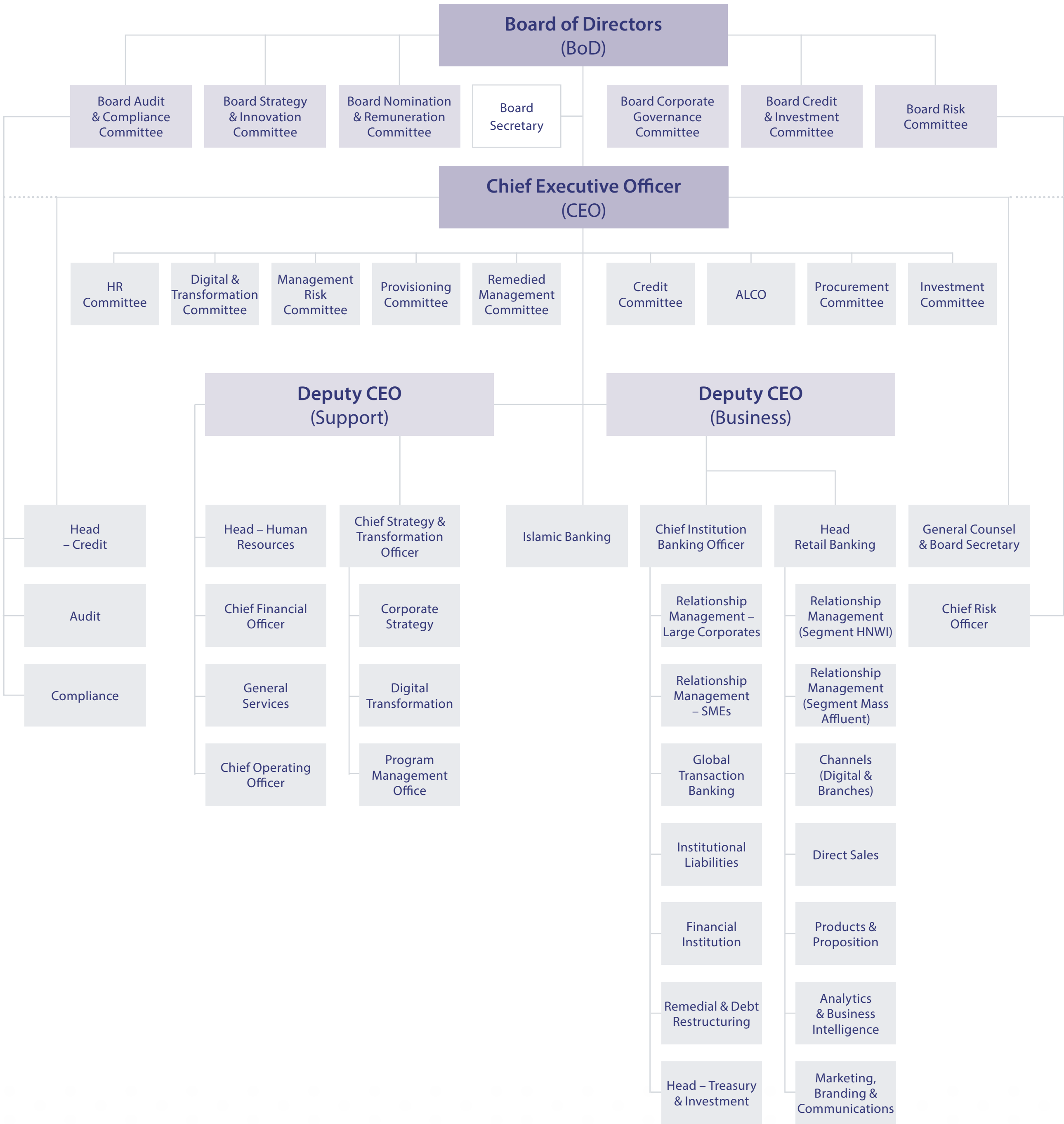
10. Board Committees (continued)

Committee	Member	Position	Frequency as per charter	Meetings held in 2022
Audit & Compliance Committee	Raja AlMazrouei Ahmed Alsharkasi Abdulqader Obaid Ali	Chairperson Member Independent - Audit Member	At least quarterly	7
Risk Committee	Khalaf AlDhaheri Mustapha Makhlouf Amr Yaklaf Amr AlHgag	Chairman Member Member	At least 4 times in a year	7
Remuneration and Nomination Committee	Mohamed Saif Al Suwaidi Lazhar Latreche Amr Yaklaf Amr AlHgag	Chairman Member Member	At least once yearly	5
Corporate Governance Committee	Farhat Ben Gdara Mohamed Saif Al Suwaidi Lazhar Latreche	Chairman Member Member	At least once yearly	–
Strategy and Innovation Committee	Farhat Ben Gdara Raja Al Mazrouei Abdulqader Obaid Ali	Chairman Member Advisor	6	2
Board Executive Committee	Farhat Ben Gdara Raja Al Mazrouei Mohamed Saif Al Suwaidi Khalaf AlDhaheri Graham FitzGerald	Chairman Member Member Member Member	Upon request	9

11. Related Party Transactions During 2022

Al Masraf is following the requirements of relevant Central Bank Corporate Governance Regulation for Banks with respect to related party transactions. Related parties can include its Controlling Shareholders, Members of the Board and Senior Management (and their First-Degree Relatives) and person with control, joint control or significant influence over the Bank (and their First-Degree Relatives).

12. Al Masraf Organization Structure:



Note:

1. Chief Compliance Officer & Head – Audit will have direct reporting to Board Compliance & Audit Committee and administrative reporting to the Chief Executive Officer.
2. Chief Risk Officer will have direct reporting line to Board Risk Committee for Risk Management and for other administrative reporting to the Chief Executive Officer.
3. The position of Board Secretary and General Counsel is managed by General Counsel & Board Secretary.

13. Senior Management Compensation

The annual compensation paid to the Bank's senior management for the fiscal 2022 was AED 13.6 million.

14. Management Committees

The Management Committees have ultimate responsibility for directing the activity of Al Masraf ensuring it is well run and delivering the outcomes for which it has been set up where the Bank has the following:

1. **Credit Committee:**

The purpose of the committee is to ensure that quality of financing meets the Bank's Risk-and-Return Strategy and Policies.

- Management of the Bank's credit exposures.
- Establish a collective Credit approval process at Management level.
- Competitive speed of decision-making.
- Timely response to urgent needs of the customers.
- Monitor performance and quality of Bank's Credit portfolio.
- Review overall credit portfolios through various Credit/Risk reports.
- Ensure compliance with Central Bank of the UAE (CBUAE) and other regulatory guidelines with regard to asset quality and classification.

2. **Digital & Transformation Committee:**

The committee considers strategies and policies relevant to business development and to attain the desired market position and any other matter pertinent in the day-to-day operations of the Bank.

3. **Management Risk Committee:**

The Management Risk Committee is formed to oversee and take decisions for mitigation and control of Bank wide risks.

It also includes assessing risks and making action plans related to:

- Risks arising from businesses of the Bank and related control processes.
- Comprehensive Risk Management and organization within the Bank.
- Follow best practices in Risk Management and regulatory stipulations.

4. **Investment Committee:**

The purpose of Investment committee is to:

- Take Investment Decisions in Stocks and Bonds.
- Review the Stock and Bond portfolio.
- Take Liquidation Decisions for Individual Stock and Bonds.

5. **Asset Liability Management Committee:**

The Asset/Liability Committee of the Board (ALCO) has been established by the Board of Directors of Al Masraf to assist the BODs by assessing the adequacy and monitoring the implementation, of the Bank's Asset / Liability Management Policy and related procedures. The ALM Policy will include specific policies and procedures relating to:

- Interest rate
- Market/investment risk
- Liquidity risk
- Contingency funding plan
- Funds transfer pricing

6. **Remedial Management Committee:**

The purpose of Remedial Management Committee is to:

- Improve efficiency of Remedial Management by respective units after reviewing/ acting on the reports of Recovery and Remedial management units within business and Credits.
- Expedite process of restructuring and settlement by taking decisions on proposals or suggest changes in existing term and conditions including deferrals, with notifications to Credit Committee (CC) (or approval, if found necessary).

7. **Procurement Committee:**

This committee reviews and evaluates the purchasing process in order to select the most appropriate supplier or service provider based on price, quality, local support and competence profile of the vendor, stock availability, reference, etc.

8. **Provisioning (Impairment Allowance) Committee:**

The purpose of Provisioning Committee is to:

- Review and confirm the adequacy of the required credit provisioning as part of quarterly exercise coordinated by Credit & Risk at Bank-wide level.
- As part of its responsibilities, the committee also reviews recommendations from Remedial Management Committee on customer's upgrade/ downgrade, re-aging, rebuttals etc. to compute the provision.

9. **Human Resource Committee**

The purpose of HR committee is to:

- Ensure effective decision-making process on all Human Resources related matters.

10. **Compliance Committee**

The compliance committee is responsible for ensuring that the bank complies with all relevant laws, regulations, and policies related to its operations. As a management level committee, its purpose is to oversee the bank's compliance activities, identify potential compliance risks, and recommend measures to mitigate those risks.

Specifically, the compliance committee may have the following responsibilities:

1. Develop and review compliance policies and procedures that govern the bank's operations
2. Monitor the bank's compliance with applicable laws, regulations, and policies
3. Identify potential compliance risks and recommend measures to mitigate those risks
4. Review and approve compliance-related reports, including those required by regulators and auditors
5. Provide guidance and approve training to bank employees on compliance matters
6. Establish and maintain effective communication with regulatory authorities and other stakeholders
7. Ensure that the bank's senior management is informed of any significant compliance issues

Overall, the compliance committee plays a critical role in helping the bank maintain its reputation and avoid regulatory penalties by ensuring that it operates in compliance with applicable laws and regulations.

15. Internal Control

Audit

Al Masraf has implemented the three lines of defense model; Business Units, the control functions and the Internal Audit are the three lines of defense within Al Masraf.

The business units are the first line of defense as they are expected to undertake risks within assigned limits of risk exposure and are responsible and accountable for identifying, assessing and controlling the risks of their businesses;

The second line of defense includes the support and control functions, such as risk management, compliance, legal, human resources, finance, operations, and technology. Each of these functions, in close relationship with the business units ensures that risks in the business units have been appropriately identified and managed;

The third line of defense is the Internal Audit Department that independently assesses the effectiveness of the processes created in the first and second lines of defense and provides assurance on these processes as well as value added recommendations to improve the process and promote best practice.

Internal Audit charter is approved by Board Audit & Compliance Committee and defines internal audit responsibilities, authority and reporting lines. Internal Audit Department reports functionally to the Board Audit & Compliance Committee & administratively to the CEO.

Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve Al Masraf's operations. Internal audit applies a comprehensive risk-based approach covering Al Masraf functions & processes in line with CBUAE regulations and the Institute of Internal Auditors' "IIA" International Professional Practices Framework.

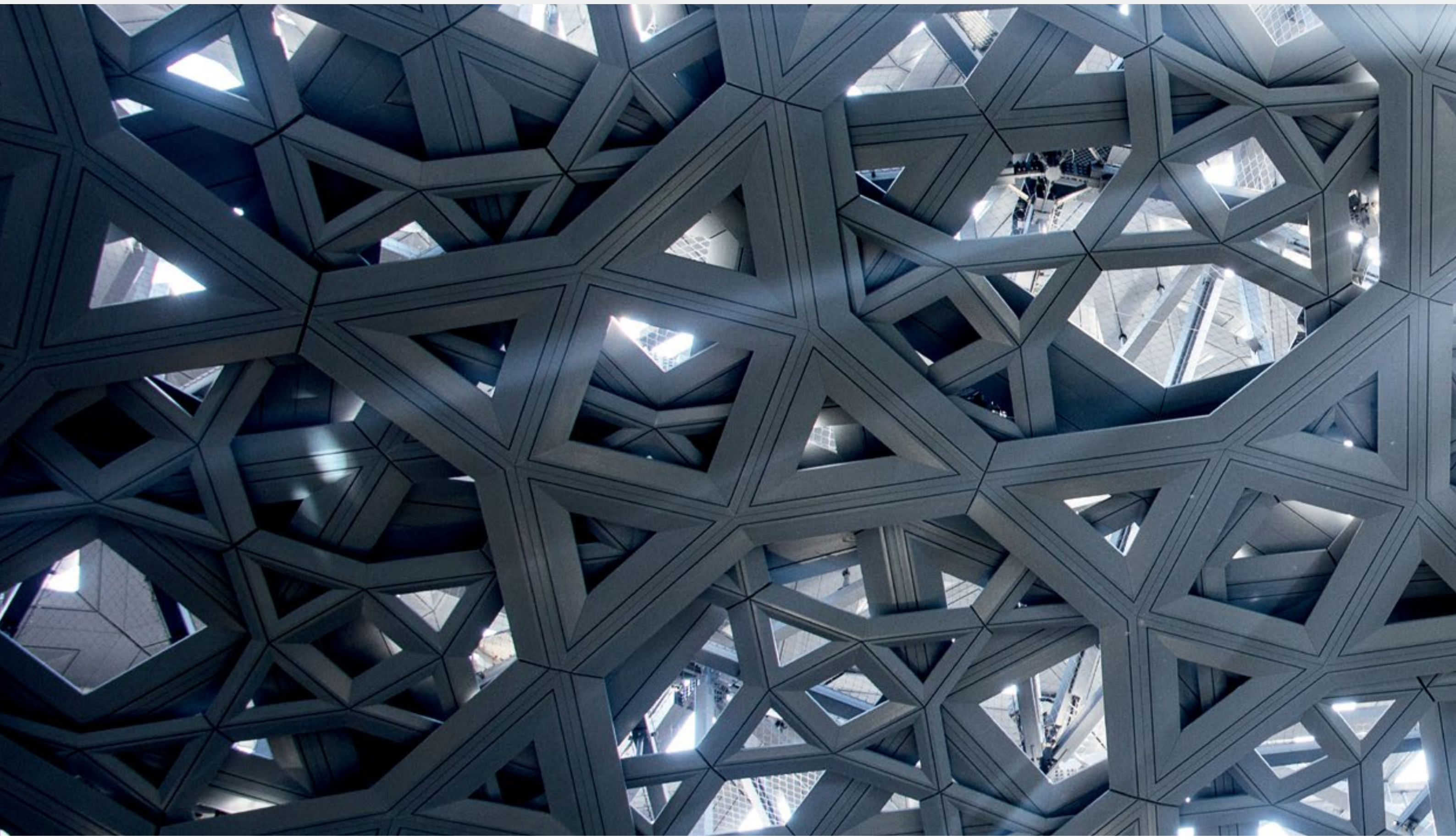
Compliance

The Compliance function at Al Masraf is independent and has unrestricted access to Senior Management, Board as well as all necessary information. Al Masraf has a comprehensive Compliance & AML policy in place. It has a well-defined process for performing ongoing and periodic due diligence on qualifying new and existing customers as per risk-based approach. In line with international standards, Compliance department arranges periodic trainings, which is mandatory for all bank staff to attend. Internal and external examiners, as well as assessors have independently validated adequacy of Al Masraf's compliance function.

Risk

The risk management framework lays emphasis on the Bank's risk philosophy, appropriate organizational structure, risk and reward balance and is supported by dedicated risk measuring, monitoring and reporting mechanism.

Al Masraf has defined the required policies and procedures that defines the operational aspects of the Bank's key activities. In addition, business units also use approved process flows, procedure documents etc. to establish formal processing.



The Bank has implemented a process flow application, which provides the staff an online access to the Policies, Standard Operating Procedures (SOPs) and training.

Al Masraf has an independent Risk Management Function headed by Chief Risk Officer who functionally reports to Board Risk Committee.

Legal

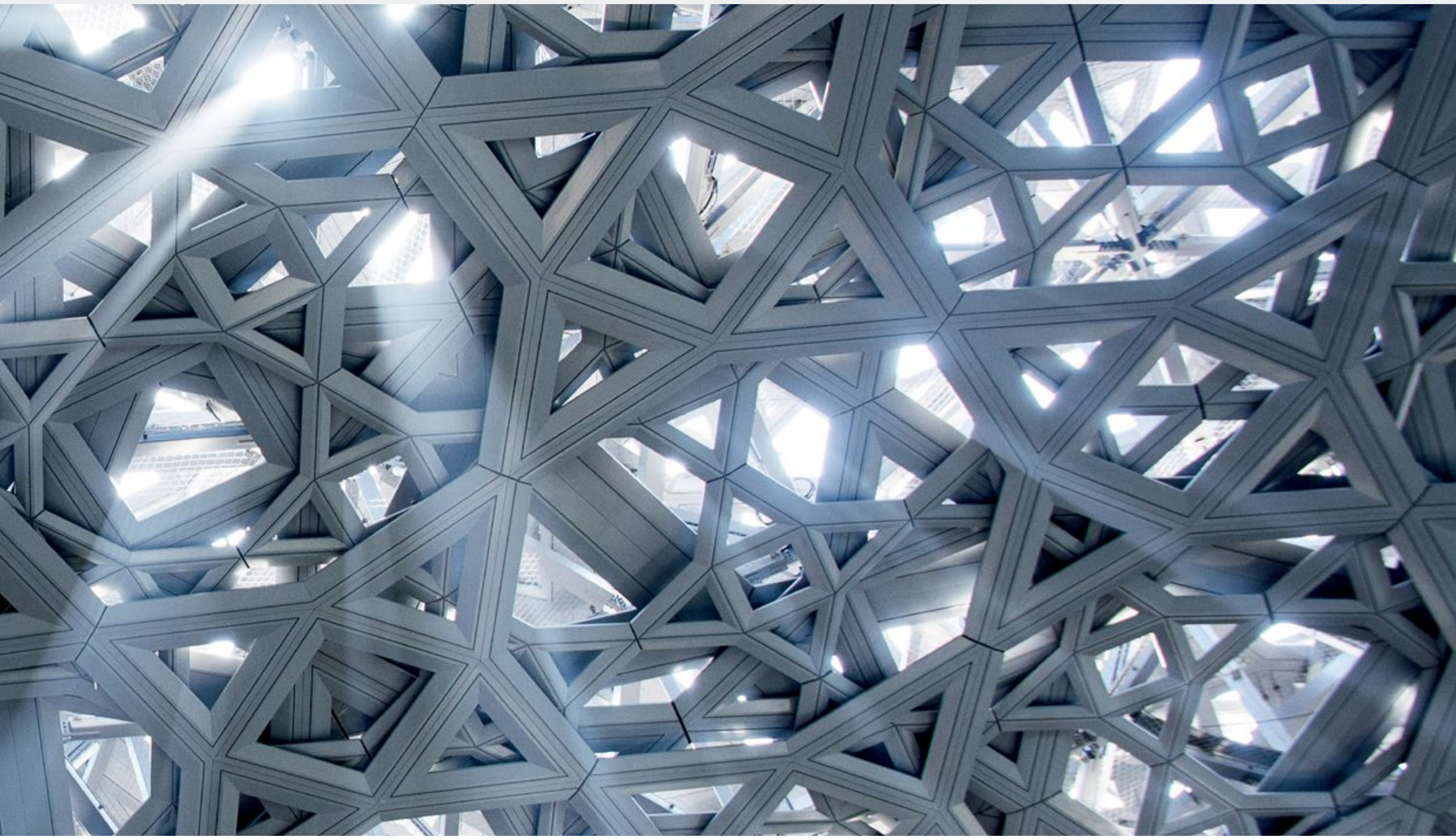
The Legal Department provides exemplary legal services mitigating bank's financials and reputational risk by implementing internal customer focused policies, terms and conditions and continual improvement of Quality Management System for delivering best in class legal services including but not limited to providing advices as precautionary actions, vetting and drafting of documentations, contracts, account openings, borrowing documents and collateral securities, protecting Al Masraf's interest.

Sharia'a Compliance – Islamic Products and Services

Al Masraf shall strictly adhere to Islamic Shari'a regulations and principles as contained in the Shari'ah Standards issued by AAOIFI and Higher Shari'ah Authority HSA decisions in accordance with the interpretation of Internal Shari'ah Supervision Committee ISSC fatwa, and its directions and advices, in respect of all products and services offered under the Islamic window or branches.

16. Contributions for the Community

The Corporate Social Responsibility (CSR) is key indicator of the economic advancement of financial institutions. It no longer limits to the financial side but has transcended the contribution of financial institutions in building society and achieving social solidarity. Al Masraf has, during the past years, achieved qualitative leaps and remarkable results, which were clearly demonstrated in the comprehensiveness of the social, voluntary and charitable services that were embraced by the bank, whether through initiative, partnership or sponsorship. The Bank has adopted a policy and methodology to prove its worth in carrying out its role to support the society through its CSR initiatives within the framework of Corporate Governance, which comprises many pillars including social, environmental, corporate governance and workplace commitments.



1. Bank commits to support the community and society co-exist by contributing to and creating awareness on health and welfare issues.
2. Bank strives to be an industry leader by adopting progressive environmental standards and practices that demonstrate Bank's commitment to CSR.
3. Bank's governance commitment ensures that the Bank consistently strives to achieve the highest ethical standards in its dealings with its staff, customers, contractors and suppliers. Bank commits to adhere to policies and procedures etc.
4. Bank strives to be fair, transparent and provide equal opportunities to all staff.
5. Al Masraf staff joins the AKCAF association team in distributing Iftar meals to the laborers in Al Qouz area in conjunction with Zayed Humanitarian Work Day.
6. Participated in National Default Debt Settlement Fund program launched by the UAE government for the 5th time in a row.
7. Conducted an awareness session on general health and breast cancer

Annual Shari'ah Report of Internal Shari'ah Supervision Committee of Arab Bank for Investment and Foreign Trade (Islamic Banking Services)

Issued on: January 25, 2023

To: Shareholders of Arab Bank for Investment and Foreign Trade ("the Institution")

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards ("the Regulatory Requirements"), the Internal Shari'ah Supervision Committee of the Institution ("ISSC") presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ending on 31 December 2022 ("Financial Year").

1. **Responsibility of the ISSC**

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

a. Undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders ("Institution's Activities") and issue Shari'ah resolutions in this regard, and

b. Determine Shari'ah parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority ("HSA") to ascertain compliance of the Institution with Islamic Shari'ah.

The senior management is responsible for compliance of the Institution with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA ("Compliance with Islamic Shari'ah") in all Institution's Activities, and the Board bears the ultimate responsibility in this regard.

2. **Shari'ah Standards**

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities without exception.

3. **Duties Fulfilled by the ISSC During the Financial Year**

The ISSC conducted Shari'ah supervision of the Institution's Activities by reviewing those Activities, and monitoring them through the Internal Shari'ah Control Department, Internal Shari'ah Audit Department, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:

a. Convening (4) meetings during the year.

b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.

c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Institution to the ISSC for approval.

d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between investment accounts holders and shareholders with parameters set by the ISSC.

e. Supervision through the Internal Shari'ah Control Department, Internal Shari'ah Audit Department of the Institutions' Activities including supervision of executed transactions and adopted procedures based on samples selected from executed transactions, and reviewing reports submitted in this regard.

f. Providing guidance to relevant parties in the Institution – to rectify (where possible) incidents cited in the reports prepared by internal Shari'ah Control Department, Internal Shari'ah Audit Department, and/or External Shari'ah Audit – and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.

g. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.

h. Specifying the amount of Zakat due on each share of the Institution.

i. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Based on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Institution's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also provided directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee of the Institution:

Prof. Jassim Ali Salem Alshamsi
Chairman of The Committee

Dr. Ali Husain Ali Aljunaidi
Member of The Committee

Dr. Mohammed Ahmed Alhashmi
Member of The Committee

Section 4

Board of Directors' Report and Financial Statements

Board of Directors' Report

For the year ended 31 December 2022

Respected Shareholders,

The Board is pleased to present its report together with the audited financial statements Arab Bank for Investment and Foreign Trade PJSC (the "Bank") for the year ended 31 December 2022. The audited financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the independent auditors have issued an unqualified audit opinion.

Financial highlights

As of 31 December 2022, the total assets stood at AED 20,580 million (2021: AED 22,549 million), a decrease of 9% driven mainly by a reduction in loans and advances and investments.

The Bank's net profit for the year 2022 remained stable at AED 132.1 million compared to net profit of AED 132.4 million reported in previous year.

Loans and advances

The net loans and advances at AED 13,422 million as at 31 December 2022 were lower as compared to AED 14,897 million as at 31 December 2021 as the Bank continued to de-risk and selectively book new business.

Funding

In line with asset position, Customers' deposits were optimized to AED 14,130 million as at 31 December 2022 from AED 16,368 million as at 31 December 2021. As part of the active balance sheet management, the inter-bank borrowings increased to AED 1,792 million from AED 1,303 million in the previous year, an increase of 38%.

Balances with Central Bank & due from banks

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

The balances with the Central Bank, which also includes the statutory reserves was at AED 1,467 million as at 31 December 2022 against AED 1,433 million in the previous year. The placements with banks is AED 1,883 million as at 31 December 2022 compared to AED 1,572 million as at 31 December 2021.

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

Investments

The Bank's financial investments comprises mainly of fixed income securities measured at fair value or at amortized cost. The total value of the investment portfolio of the Bank amounted to AED 2,658 million as at 31 December 2022 compared to AED 3,243 million as at 31 December 2021. The decrease was attributable to the maturity of CBUAE M-Bills and partly to the decline in fair value of fixed income securities at the back of an increase in market reference rates.

Investment Properties

The investment properties were revalued during the year by an external valuation firm. During the year, the Bank disposed of certain properties which resulted in the decrease of investment properties from AED 378 million as at 31 December 2021 to AED 284 million as at 31 December 2022.

Contingent Liabilities

The Bank had a total outstanding in Documentary Credits and Letters of Guarantee of AED 4,230 million as at the end of the year, compared to AED 4,706 million in the previous year.

Independent Auditor's Report to the Shareholders of Arab Bank for Investment & Foreign Trade PJSC

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Arab Bank for Investment and Foreign Trade PJSC (the "Bank") as at 31 December 2022, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the statement of financial position as at 31 December 2022;
- the statement of profit or loss for the year then ended
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the Notes to the Financial Statements, which include 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 Financial Statements* section of our report.

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

Independence

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

Other information

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

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

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

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

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

Independent Auditor's Report to the Shareholders of Arab Bank for Investment & Foreign Trade PJSC (continued)

Report on the audit of the financial statements (continued)

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

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Independent Auditor's Report to the Shareholders of Arab Bank for Investment & Foreign Trade PJSC (continued)

Report on the audit of the financial statements (continued)

Report on other legal and regulatory requirements

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

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

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

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

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

(v) as disclosed in note 9 to the financial statements the Bank has purchased or invested in shares during the year ended 31 December 2022;

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

(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the year ended 31 December 2022 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, or it's Articles of Association which would materially affect its activities or its financial position as at 31 December 2022.

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

PricewaterhouseCoopers
8 February 2023

Jacques Fakhoury
Registered Auditor Number 379
Place: Abu Dhabi, United Arab Emirates

Statement of Financial Position

As at 31 December 2022

	Note	2022 AED'000	2021 AED'000
ASSETS			
Cash and balances with the Central Bank of the UAE	7	1,466,810	1,433,471
Due from banks	8	1,882,565	1,571,654
Investments at fair value through other comprehensive income (FVOCI)	9	2,310,224	2,280,300
Investments at fair value through profit or loss (FVTPL)	10	17,577	17,577
Investments at amortised cost	11	329,906	945,521
Loans and advances	12	13,422,182	14,897,420
Investment properties	13	283,643	377,768
Other assets	14	591,519	751,550
Intangible assets	15, 39	50,093	51,135
Property and equipment	15	214,311	222,474
		20,568,830	**22,548,870**
Asset held-for-sale	16	**11,395**	–
Total assets		**20,580,225**	**22,548,870**
LIABILITIES			
Customers' deposits	17	14,129,728	16,368,132
Due to banks	18	1,791,975	1,303,062
Other liabilities	19	896,367	1,088,119
Total liabilities		**16,818,070**	**18,759,313**
EQUITY			
Share capital	20 (a)	1,500,000	1,500,000
Statutory reserve	20 (b)	669,172	655,965
Special reserve	20 (c)	664,582	651,375
General reserve	20 (d)	380,000	380,000
Revaluation reserve	20 (e)	128,972	122,902
Fair value reserve	20 (f)	(112,136)	98,313
Retained earnings		531,565	381,002
Total equity		**3,762,155**	**3,789,557**
Total liabilities and equity		**20,580,225**	**22,548,870**

These financial statements were authorised and approved for issue by the Board of Directors on 30 January 2023 and signed on their behalf by:

Farhat Omar ben Gdara
Chairman

Graham FitzGerald
Chief Executive Officer

The notes on pages 44 to 130 form an integral part of these financial statements.
The independent auditor's report is set out on pages 36 to 38.

Statement of Profit or Loss

For the year ended 31 December 2022

	Note	2022 AED'000	2021 AED'000
Interest income	21	668,512	614,819
Interest expense	22	(168,754)	(118,926)
Net interest income		**499,758**	**495,893**
Income from Islamic financing contracts	23	96,759	94,806
Depositors' share of profit	24	(26,500)	(19,013)
Net income from Islamic financing		**70,259**	**75,793**
Net interest and Islamic financing income		**570,017**	**571,686**
Fee and commission income	25	129,595	126,671
Fee and commission expense	25	(12,902)	(11,654)
Net fee and commission income		**116,693**	**115,017**
Dividend income		5,239	4,777
Net investment income		2,057	2,957
Net foreign exchange gain	26	43,863	24,770
Other operating income	27	14,282	23,923
Net other operating income		**65,441**	**56,427**
Operating income		**752,151**	**743,130**
General, administration and other operating expenses	28	(280,567)	(252,188)
Net profit before net impairment charge		471,584	490,942
Net Impairment Charge on Financial Assets	29	(351,544)	(370,756)
Change in Fair Value of Investments at FVTPL		-	6,556
Net Impairment Reversal on Properties	30	12,034	5,689
Net profit for the year		**132,074**	**132,431**

The notes on pages 44 to 130 form an integral part of these financial statements.
The independent auditor's report is set out on pages 36 to 38.

Statement of Other Comprehensive Income

For the year ended 31 December

	Note	2022 AED'000	2021 AED'000
Net Profit for the Year		**132,074**	132,431
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss			
Revaluation gain / (loss) on property and equipment	15	6,070	(6,711)
Change in fair value of equity investments at FVOCI		11,642	33,427
Actuarial losses on defined benefit obligation		(1,963)	-
Item that may be reclassified subsequently to profit or loss			
Change in fair value of debt investments at FVOCI		(173,960)	(33,923)
Other comprehensive loss for the year		**(158,211)**	**(7,207)**
Total comprehensive (loss) / income for the year attributable to shareholders		**(26,137)**	**125,224**
Earnings per share	**35**	**1.76**	**1.77**

The notes on pages 44 to 130 form an integral part of these financial statements.
The independent auditor's report is set out on pages 36 to 38.

Statement of Changes in Equity

For the year ended 31 December

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Fair value Reserve AED'000	Retained earnings AED'000	Total equity AED'000
BALANCE AT 1 JANUARY 2021	**1,500,000**	**642,722**	**638,132**	**380,000**	**129,613**	**98,430**	**277,183**	**3,666,080**
Profit for the year	-	-	-	-	-	-	132,431	132,431
Other comprehensive loss	-	-	-	-	(6,711)	(496)	-	(7,207)
Transfer to statutory reserve and special reserve (Note 20)	-	13,243	13,243	-	-	-	(26,486)	-
Transfer of loss on disposal of equity investments at FVOCI to retained earnings				-	-	379	(379)	-
Total comprehensive income for the year	**-**	**13,243**	**13,243**	**-**	**(6,711)**	**(117)**	**105,566**	**125,224**
Zakat	-	-	-	-	-	-	(1,747)	(1,747)
Balance at 31 December 2021	**1,500,000**	**655,965**	**651,375**	**380,000**	**122,902**	**98,313**	**381,002**	**3,789,557**
BALANCE AT 1 JANUARY 2022	**1,500,000**	**655,965**	**651,375**	**380,000**	**122,902**	**98,313**	**381,002**	**3,789,557**
Profit for the year	-	-	-	-	-	-	132,074	132,074
Other comprehensive gain/ (loss)	-	-	-	-	6,070	(162,318)	(1,963)	(158,211)
Transfer to statutory reserve and special reserve (Note 20)		13,207	13,207	-	-	-	(26,414)	-
Transfer of profit on disposal of equity investments at FVOCI to retained earnings						(48,131)	48,131	-
Total comprehensive loss for the year	**-**	**13,207**	**13,207**	**-**	**6,070**	**(210,449)**	**151,828**	**(26,137)**
Zakat	-	-	-	-	-	-	(1,265)	(1,265)
Balance at 31 December 2022	**1,500,000**	**669,172**	**664,582**	**380,000**	**128,972**	**(112,136)**	**531,565**	**3,762,155**

The notes on pages 44 to 130 form an integral part of these financial statements.
The independent auditor's report is set out on pages 36 to 38.

Statement of Cash Flows

For the year ended 31 December

	Note	2022 AED'000	2021 AED'000
OPERATING ACTIVITIES			
Profit for the year		**132,074**	**132,431**
Adjustments for:			
Depreciation on investment properties	13	10,662	10,662
Depreciation on property and equipment	15	20,949	23,010
Net impairment charge on financial assets	29	351,544	370,756
Amortisation of premium on bonds		17,733	14,283
Change in fair value of investments at FVTPL		-	(6,556)
Impairment reversal on properties	30	(16,174)	(5,689)
Fair value loss on properties	30	4,140	-
Gain on sale of FVOCI debt securities		(2,499)	-
Dividend income		(5,239)	(4,777)
Provision for employees' end of service benefits	19	4,041	4,834
Operating cash flows before payment of employees' end of service benefits and changes in working capital		**517,231**	**538,954**
Payment of employees' end of service benefits	19	(7,358)	(4,929)
Changes in:			
Loans and advances		1,154,153	370,020
Due from banks		(187,323)	154,259
Other assets		160,029	(344,580)
Customers' deposits		(2,238,404)	141,436
Due to banks		488,913	(2,115,155)
Other liabilities		(222,595)	455,321
Cash reserve with Central Bank of the UAE	31	43,338	328,031
Net cash outflow from operating activities		**(292,016)**	**(476,643)**
INVESTING ACTIVITIES			
Purchases of property and equipment	15	(19,195)	(22,249)
Proceeds from sale of property and equipment	15	-	930
Proceeds from sale of investment properties		99,640	-
Proceeds from sale/redemption of investments at FVOCI	9	574,003	376,118
Proceeds from redemption of investments at amortised cost	11	1,667,983	4,521
Purchases of investments at FVOCI	9	(775,070)	(263,264)
Purchases of investments at amortised cost	11	(1,058,988)	(924,133)
Dividends received		5,239	4,777
Net cash inflow/(outflow) from investing activities		**493,612**	**(823,300)**
FINANCING ACTIVITIES			
Payment of lease liabilities		(1,311)	(6,701)
Net cash outflow from financing activities		**(1,311)**	**(6,701)**
Net increase/(decrease) in cash and cash equivalents		**200,285**	**(1,306,644)**
Cash and cash equivalents at 1 January		2,510,231	3,816,875
Cash and cash equivalents at 31 December	31	**2,710,516**	**2,510,231**

The notes on pages 44 to 130 form an integral part of these financial statements.
The independent auditor's report is set out on pages 36 to 38.

Notes to the Financial Statements

31 December 2022

1. Legal status and principal activities

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

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 Bank is engaged in commercial and retail banking activities and carries out its operations solely in the United Arab Emirates through its five branches (31 December 2021: seven branches).

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

On 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. The Law was previously gazetted on 10 October 2022, becoming law 15 days later. The Corporate Tax regime will become effective for accounting periods 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 a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,00 based on information released by the Ministry of Finance).

However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, including the threshold mentioned above, 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 Bank has determined that the Law was not practically operational as at 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. The Bank 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 Bank is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

Notes to the Financial Statements

31 December 2022

2. Basis of preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgements

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

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

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

3. Significant accounting policies

(a) Financial assets and liabilities

(i) Recognition and initial measurement

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

(ii) Classification of financial assets and financial liabilities

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

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

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

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

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

All other financial assets are classified as measured at FVTPL.

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

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

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

Business model assessment

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

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

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

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), |as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Bank considers:

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

(iii) Reclassifications

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

3. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

(iv) De-recognition

Financial asset

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

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

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

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

Financial liability

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

(v) Modifications of financial assets and financial liabilities

Financial assets

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

- Fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- Other fees are included in profit or loss as part of the gain or loss on derecognition.

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

(v) Modifications of financial assets and financial liabilities (continued)

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

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

(vi) Subsequent measurement

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

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

3. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

(vii) Offsetting

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

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

(viii) Amortised cost measurement

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

(ix) Fair value measurement

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

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

x) Impairment of financial assets

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

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

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

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

- Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
- Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
- Under Stage 3, where there is objective evidence of impairment at the reporting date, these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.

Measurement of ECL

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

Details of these statistical parameters/inputs are as follows:

- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon;
- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and
- The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Macroeconomic factors, forward looking information and multiple scenarios

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

3. Significant accounting policies (continued)

(a) Financial assets and liabilities (continued)

(x) Impairment of financial assets (continued)

Credit-impaired financial assets

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

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

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

Experienced credit judgment

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

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

Write-off

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

Expected life

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

Central Bank of UAE ("CBUAE") provision requirements

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(b) Cash and cash equivalents

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

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

(c) Due from banks

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

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

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

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

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

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

(e) Investments at fair value through profit or loss

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

(f) Loans and advances

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

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

- Loans and advances measured at amortised cost; they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Loans and advances mandatorily measured at FVTPL or designated at FVTPL, these are measured at fair value with changes recognised immediately in the profit or loss account; and
- Lease receivables.

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

3. Significant accounting policies (continued)

(g) Islamic financing activities

i) Murabahah "the purchase orderer"

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

ii) Ijarah Muntahia Bittamleek & Forward Ijarah

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

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

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

iii) Wakala Investment

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

iv) Mudaraba

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(g) Islamic financing activities (continued)

iv) Mudaraba (continued)

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

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

v) Monetisation "DMCC Murabahah"

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

vi) Customers' accounts and Wakala deposits from banks

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

(h) Property and equipment

i) Recognition and measurement

Items of property and equipment are initially measured at cost. Subsequently, all items except for freehold land and buildings are measured at cost less accumulated depreciation. Freehold land and buildings, which are measured using the revaluation model, are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent impairment losses, if any. All other property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

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

3. Significant accounting policies (continued)

(h) Property and equipment (continued)

i) Recognition and measurement (continued)

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

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

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

(ii) Revaluation, depreciation methods and useful lives

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

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

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

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

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(i) Leases

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

Bank as a lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Bank. As the right-of-use asset and lease liability at the reporting date was not material, the Bank has presented them in the statement of financial position under property and equipment and other liabilities respectively.

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

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

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

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

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

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

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

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

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

Bank as a lessor

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

3. Significant accounting policies (continued)

(j) Investment properties

(i) Investment properties

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

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

(k) Non-current asset held for sale

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

(l) Impairment of non-financial assets

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

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

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

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

(m) Customers' deposits and due to banks

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(n) Provisions

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

(o) Employee benefits

(i) Employees terminal benefits

Defined contribution plan

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

Defined benefit plan

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

(ii) Short term employee benefits

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

(p) Financial guarantees

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

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

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

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

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

3. Significant accounting policies (continued)

(q) Acceptances

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

(r) Collateral pending sale

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

(s) Earnings per share

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

(t) Interest income and expense

Effective interest rate

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

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

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

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

Amortised cost and gross carrying amount

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

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

Notes to the Financial Statements

31 December 2022

3. Significant accounting policies (continued)

(t) Interest income and expense (continued)

Calculation of interest income and expense

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

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

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

(u) Profit distribution

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

(v) Fee and commission income and expense

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

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

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

(w) Dividend income

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

3. Significant accounting policies (continued)

(x) Foreign currency

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

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

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

(y) Fiduciary activities

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

(z) Value Added Tax ("VAT")

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

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

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

Notes to the Financial Statements

31 December 2022

4. Application of new and revised IFRS

(a) New and amended standards adopted by the Bank

In the current year, the Bank has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2022. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Bank's future transactions or arrangements.

Title and key requirements	Effective for annual periods beginning, on or after
Property, plant and equipment: Proceeds before intended use – Amendments to IAS 16 The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity's ordinary activities.	1 January 2022
Onerous contracts: Cost of fulfilling a contract – Amendments to IAS 37 The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022
Annual improvements to IFRS Standards 2018–2020: The following improvements were finalised in May 2020: • IFRS 9 Financial Instruments – clarifies which fees should be included in the 10% test for derecognition of financial liabilities. • IFRS 16 Leases – amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives. • IFRS 1 First-time Adoption of International Financial Reporting Standards – allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption. • IAS 41 Agriculture – removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.	1 January 2022

4. Application of new and revised IFRS (continued)

(a) New and amended standards adopted by the Bank (continued)

Title and key requirements (continued)	Effective for annual periods beginning, on or after
Reference to the Conceptual Framework: Amendments to IFRS 3 Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022

Other than the above, there are no other significant IFRSs, amendments or interpretations that were effective for the first time for the financial year beginning on or after 1 January 2022.

(b) New standards and interpretations not yet adopted

The following standards and interpretations have been issued but are not mandatory for annual reporting periods beginning on 1 January 2022. Management anticipates that these amendments will be adopted in the initial period when they become mandatorily effective and expects that the adoption of these new standards, interpretations and amendments will have no material impact on the financial statements of the Bank in the period of initial application.

Title and key requirements	Effective for annual periods beginning, on or after
Classification of liabilities as current or non-current: Amendments to IAS 1 The narrow-scope amendments to IAS 1 – Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. * Since issuing these amendments, the IASB issued an exposure draft proposing further changes and the deferral of the amendments until at least 1 January 2024.	1 January 2023*

Notes to the Financial Statements

31 December 2022

4. Application of new and revised IFRS (continued)

(b) New standards and interpretations not yet adopted (continued)

Title and key requirements (continued)	Effective for annual periods beginning, on or after
Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2 The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.	1 January 2023
IFRS 17 "Insurance contracts" IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of: • discounted probability-weighted cash flows • an explicit risk adjustment, and • a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers. There is a modification of the general measurement model called the 'variable fee approach' for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model. The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.	1 January 2023

4. Application of new and revised IFRS (continued)

(b) New standards and interpretations not yet adopted (continued)

Title and key requirements (continued)	Effective for annual periods beginning, on or after
IFRS 17 "Insurance contracts" (continued) Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The amendments also deferred the application date of IFRS 17 to 1 January 2023. Further amendments made in December 2021 added a transition option that permits an entity to apply an optional classification overlay in the comparative period(s) presented on initial application of IFRS 17. The classification overlay applies to all financial assets, including those held in respect of activities not connected to contracts within the scope of IFRS 17. It allows those assets to be classified in the comparative period(s) in a way that aligns with how the entity expects those assets to be classified on initial application of IFRS 9. The classification can be applied on an instrument-by-instrument basis.	1 January 2023
Definition of Accounting Estimates – Amendments to IAS 8 The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023

Notes to the Financial Statements

31 December 2022

5. Financial risk management

Overview

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

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

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

Risk management framework

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

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

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

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

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

5. Financial risk management (continued)

(a) Credit risk

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

Management of credit risk

The Bank's credit risk management framework includes:

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

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

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis

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

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

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

	31 December 2022				31 December 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
DUE FROM BANKS								
Low-fair risk	1,882,924	1,046	-	1,883,970	1,573,035	-	-	1,573,035
Total gross carrying amount	**1,882,924**	**1,046**	-	**1,883,970**	**1,573,035**	-	-	**1,573,035**
Loss allowance	(1,381)	(24)	-	(1,405)	(1,381)	-	-	(1,381)
Carrying amount	**1,881,543**	**1,022**	-	**1,882,565**	**1,571,654**	-	-	**1,571,654**

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit quality analysis (continued)

	31 December 2022				31 December 2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
LOANS & ADVANCES TO CUSTOMERS								
Low-fair risk	5,609,779	302,074	-	5,911,853	6,191,150	1,126,322	-	7,317,472
Marginal risk	3,050,512	2,158,723	-	5,209,235	2,458,032	2,190,826	-	4,468,858
Higher risk	7,799	1,682,411	-	1,690,210	1,650	1,802,721	-	1,804,371
Grade 8: Substandard	-	-	469,635	469,635	-	-	859,786	859,786
Grade 9: Doubtful	-	-	1,135,534	1,135,534	-	-	2,049,050	2,049,050
Grade 10: Loss	-	-	2,237,041	2,237,041	-	-	993,097	993,097
Total gross carrying amount	**8,668,090**	**4,143,208**	**3,842,210**	**16,653,508**	**8,650,832**	**5,119,869**	**3,901,933**	**17,672,634**
Loss allowance	(111,538)	(438,006)	(2,154,296)	(2,703,840)	(121,663)	(371,658)	(1,945,755)	(2,439,076)
Interest in suspense	-	-	(487,602)	(487,602)	-	-	(322,155)	(322,155)
Deferred Profit	(39,884)	-	-	(39,884)	(13,983)	-	-	(13,983)
Carrying amount	**8,516,668**	**3,705,202**	**1,200,312**	**13,422,182**	**8,515,186**	**4,748,211**	**1,634,023**	**14,897,420**
DEBT SECURITIES – FVOCI								
Low-fair risk	2,325,581	-	-	2,325,581	2,154,444	-	-	2,154,444
Total gross carrying amount	**2,325,581**	**-**	**-**	**2,325,581**	**2,154,444**	**-**	**-**	**2,154,444**
Loss allowance	(20,027)	-	-	(20,027)	(21,370)	-	-	(21,370)
Carrying amount	**2,305,554**			**2,305,554**	**2,133,074**	**-**	**-**	**2,133,074**
DEBT SECURITIES – AMORTISED COST								
Low-fair risk	330,041	-	-	330,041	946,117	-	-	946,117
Total gross carrying amount	**330,041**	**-**	**-**	**330,041**	**946,117**	**-**	**-**	**946,117**
Loss allowance	(135)	-	-	(135)	(596)	-	-	(596)
Carrying amount	**329,906**	**-**	**-**	**329,906**	**945,521**	**-**	**-**	**945,521**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Loans and advances to customers

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

Security and collaterals are bifurcated into following categories:

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

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

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

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

At 31 December 2022, the net carrying amount of credit-impaired loans and advances to customers amounted to AED 1,200,312 thousands (2021: AED 1,634,023 thousands) and the value of identifiable collateral (mainly commercial properties) held against those loans and advances amounted to AED 1,905,919 thousands (2021: AED 1,639,229 thousands). For each loan, the value of disclosed collateral is capped at the nominal amount of the loan that it is held against.

5. Financial risk management (continued)

(a) Credit risk (continued)

Amounts arising from ECL

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

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

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

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

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

Credit risk grades

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

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

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Credit risk grades (continued)

The monitoring typically involves use of the following information:

Corporate exposures

- Financial and non-financial Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes etc.
- Data from credit reference agencies, press articles, changes in external credit ratings, market references.
- Quoted bond and credit default swap (CDS) prices for the borrower where available.
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

Retail exposures

- Internally collected data on customer behaviour – e.g. utilisation of credit card facilities
- External data from credit reference agencies.

All exposures

- Payment record – this includes overdue status as well as a range of variables about payment ratios.
- Utilisation of the granted limit.
- Requests for and granting of forbearance.
- Existing and forecast changes in business, financial and economic conditions.

Determining whether credit risk has increased significantly

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

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

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

5. Financial risk management (continued)

(a) Credit risk (continued)

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

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

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

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

- Equity (ADX Equity Index)
- Oil Price

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Modified financial assets

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

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

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

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

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

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

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

Measurement of ECL

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

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

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

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

5. Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Loss allowance

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**1,381**	**-**	**-**	**1,381**
Transfers:				
Transfer from stage 1 to stage 2	(1)	1	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Impact of change in provision	**1**	**23**	**-**	**24**
	1,381	**24**	**-**	**1,405**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for due from banks for the year ended 31 December 2021.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**2,438**	**3,261**	**-**	**5,699**
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	831	(831)	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Impact of change in provision	**(1,888)**	**(2,430)**	**-**	**(4,318)**
	1,381	**-**	**-**	**1,381**

5. Financial risk management (continued)

(a) Credit risk (continued)

Loss allowance (continued)

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**21,370**	**-**	**-**	**21,370**
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Impact of change in provision	**(1,343)**	**-**	**-**	**(1,343)**
	20,027	**-**	**-**	**20,027**

The following tables show reconciliations from the opening to the closing balance of the loss allowance for investments at FVOCI for the year ended 31 December 2021

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**13,177**	**3,563**	**-**	**16,740**
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	3,471	(3,471)	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
Impact of change in provision	**4,722**	(92)	-	**4,630**
	21,370	-	-	**21,370**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Loss allowance (continued)

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

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

The following tables show reconciliations from the opening to the closing balance of the loss allowance for loans and advances for the year ended 31 December 2021.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**130,250**	**448,332**	**1,451,351**	**2,029,933**
Transfers:				
Transfer from stage 1 to stage 2	(9,632)	9,632	-	-
Transfer from stage 1 to stage 3	(11,662)	-	11,662	-
Transfer from stage 2 to stage 1	113,661	(113,661)	-	-
Transfer from stage 2 to stage 3	-	(75,185)	75,185	-
Transfer from stage 3 to stage 2	-	157,993	(157,993)	-
Impact of change in provision	**(100,954)**	**(55,453)**	**569,205**	**412,798**
Write-offs	**-**	**-**	**(3,655)**	**(3,655)**
	121,663	**371,658**	**1,945,755**	**2,439,076**

5. Financial risk management (continued)

(a) Credit risk (continued)

Loss allowance (continued)

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

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

The following tables show reconciliations from the opening to the closing balance of the loss allowance for letters of credit and guarantee for the year ended 31 December 2021.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**8,144**	**53,850**	**162,549**	**224,543**
Transfers:				
Transfer from stage 1 to stage 2	(1,239)	1,239	-	-
Transfer from stage 1 to stage 3	(187)	-	187	-
Transfer from stage 2 to stage 1	16,333	(16,333)	-	-
Transfer from stage 2 to stage 3	-	(2,473)	2,473	-
Transfer from stage 3 to stage 2	-	21,667	(21,667)	-
Impact of change in provision	**(6,861)**	**(16,743)**	**(9,634)**	**(33,238)**
	16,190	**41,207**	**133,908**	**191,305**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**1,573,035**	**-**	**-**	**1,573,035**
Transfers:				
Transfer from stage 1 to stage 2	(887)	887	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	310,776	159	–	310,935
	1,882,924	**1,046**	**-**	**1,883,970**

The following table further explains the changes in the gross carrying amount of due from banks for the year ended 31 December 2021 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**529,696**	**1,162,183**	**-**	**1,691,879**
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	739,795	(739,795)	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	303,544	(422,388)	-	(118,844)
	1,573,035	**-**	**-**	**1,573,035**

5. Financial risk management (continued)

(a) Credit risk (continued)

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

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**2,154,444**	**-**	**-**	**2,154,444**
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	-	-	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	171,137	-	–	171,137
	2,325,581	**-**	**-**	**2,325,581**

The following table further explains the changes in the gross carrying amount of debt securities at FVOCI for the year ended 31 December 2021 to help explain their significance to the changes in the loss allowance.

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**2,150,920**	**154,425**	**-**	**2,305,345**
Transfers:				
Transfer from stage 1 to stage 2	-	-	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	88,093	(88,093)	-	-
Transfer from stage 2 to stage 3	-	-	-	-
Transfer from stage 3 to stage 2	-	-	-	-
New financial assets net of repayments/ adjustments	(84,569)	(66,332)	-	(150,901)
	2,154,444	**-**	**-**	**2,154,444**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

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

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

The following table further explains the changes in the gross carrying amount of loans and advances for the year ended 31 December 2021 to help explain their significance to the changes in the loss allowance:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**9,791,608**	**4,619,883**	**3,514,973**	**17,926,464**
Transfers:				
Transfer from stage 1 to stage 2	(2,483,848)	2,483,848	-	-
Transfer from stage 1 to stage 3	(161,946)	-	161,946	-
Transfer from stage 2 to stage 1	1,070,921	(1,070,921)	-	-
Transfer from stage 2 to stage 3	-	(730,812)	730,812	-
Transfer from stage 3 to stage 2		529,460	(529,460)	-
New financial assets net of repayments / adjustments	434,097	(711,589)	23,662	(253,830)
	8,650,832	**5,119,869**	**3,901,933**	**17,672,634**

5. Financial risk management (continued)

(a) Credit risk (continued)

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

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

The following table further explains the changes in the gross carrying amount of letters of credit and guarantee for the year ended 31 December 2021 to help explain their significance to the changes in the loss allowance:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
BEGINNING OF THE PERIOD	**3,446,736**	**1,472,381**	**224,083**	**5,143,200**
Transfers:				
Transfer from stage 1 to stage 2	(598,494)	598,494	-	-
Transfer from stage 1 to stage 3	(14,463)	-	14,463	-
Transfer from stage 2 to stage 1	868,058	(868,058)	-	-
Transfer from stage 2 to stage 3	-	(21,302)	21,302	-
Transfer from stage 3 to stage 2	-	28,796	(28,796)	-
New financial assets net of repayments / adjustments	227,070	(599,678)	(64,763)	(437,371)
	3,928,907	**610,633**	**166,289**	**4,705,829**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

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

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

	2022 AED'000	2021 AED'000
GROSS MAXIMUM EXPOSURE		
Balances with Central Bank of the UAE	1,361,941	1,318,952
Due from banks	1,883,970	1,573,035
Investments at FVOCI	2,305,554	2,133,074
Investments at FVTPL	17,577	17,577
Investments at amortised cost	330,041	946,117
Loans and advances	16,653,508	17,672,634
Other assets	558,706	722,101
Contingent liabilities	4,229,614	4,705,829
Commitments	3,731,523	3,875,395
	31,072,434	**32,964,714**

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

Loans with renegotiated terms

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

	2022 AED'000	2021 AED'000
LOANS WITH RENEGOTIATED TERMS		
Non impaired loans	1,941,279	1,941,530
Impaired loans	1,864,012	1,791,838
Allowance for impairment	(990,643)	(830,367)
Net loans with renegotiated terms	**2,814,648**	**2,903,001**

5. Financial risk management (continued)

(a) Credit risk (continued)

Collateral

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

As at 31 December 2022, the Bank held credit risk mitigants with an estimated value of AED 13,345,661 thousands (2021: AED 11,471,209 thousand) against loans and advances in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Bank accepts sovereign guarantees and guarantees from well reputed local or international banks, well established local or multinational large corporate and high net-worth private individuals.

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

	2022 AED'000	2021 AED'000
LTV RATIO		
Less than 50%	407,253	304,675
51 – 70%	148,969	185,665
71 – 90%	96,119	102,269
	652,341	**592,609**

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Collateral (continued)

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

	2022 AED'000	2021 AED'000
STAGE 3		
Properties	1,897,055	1,639,178
Equities	8,864	-
Others	-	51
	1,905,919	**1,639,229**
AGAINST PAST DUE BUT NOT IMPAIRED		
Properties	2,253,650	1,663,095
Equities	36,560	245
Others	83,291	163,749
	2,373,501	**1,827,089**
AGAINST NEITHER PAST DUE NOR IMPAIRED		
Properties	6,948,626	5,725,133
Equities	661,690	819,213
Others	1,455,925	1,460,545
	9,066,241	**8,004,891**
	13,345,661	**11,471,209**

5. Financial risk management (continued)

(a) Credit risk (continued)

Concentrations of credit risk

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

	Loans and advances	
	2022 AED'000	2021 AED'000
CONCENTRATION BY INDUSTRY		
Real estate	4,663,462	4,695,779
Financial institutions	2,571,466	2,287,632
Services	2,538,588	2,770,771
Trading	2,022,114	2,195,727
Individuals	1,182,283	1,107,514
Construction	1,140,967	1,603,140
Manufacturing	967,637	1,204,567
Personal loans for business (HNI)	619,210	1,056,628
Transport	531,682	588,108
Electricity, gas and water	357,790	99,586
Others	58,309	63,182
Gross loans and Islamic financing	**16,653,508**	**17,672,634**
Less: deferred profit	(39,884)	(13,983)
Less: interest suspended	(487,602)	(322,155)
Less: allowance for impairment	(2,703,840)	(2,439,076)
	13,422,182	**14,897,420**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Concentrations of credit risk (continued)

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

	Due from banks	
	2022 AED'000	2021 AED'000
Concentration by sector:		
Financial institutions	1,883,970	1,573,035
Less: allowance for impairment	(1,405)	(1,381)
Carrying amount	**1,882,565**	**1,571,654**

	Investment at FVOCI		Investment at amortised cost	
	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000
Concentration by sector:				
Public sector	1,358,573	1,279,096	330,041	946,117
Private sector	335,130	73,875	-	-
Financial institutions	631,878	801,473	-	-
	2,325,581	2,154,444	330,041	946,117
Less: allowance for impairment	(20,027)	(21,370)	(135)	(596)
Carrying amount	**2,305,554**	**2,133,704**	**329,906**	**945,521**

5. Financial risk management (continued)

(a) Credit risk (continued)

Concentrations of credit risk (continued)

	Due from banks		Loans and advances	
	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000
Concentration by location:				
UAE	473,798	261,758	16,186,183	17,489,207
Europe	29,123	243,921	2,052	-
GCC	972,409	852,642	209,313	-
Arab world	148	18,078	255,960	183,427
North America	116,395	196,251	-	-
Asia	292,097	385	-	-
	1,883,970	1,573,035	16,653,508	17,672,634
Less: deferred profit	-	-	(39,884)	(13,983)
Less: interest suspended	-	-	(487,602)	(322,155)
Less: allowance for impairment	(1,405)	(1,381)	(2,703,840)	(2,439,076)
Carrying amount	**1,882,565**	**1,571,654**	**13,422,182**	**14,897,420**

	Investment at FVOCI		Investment at amortised cost	
	2022 AED'000	2021 AED'000	2022 AED'000	2021 AED'000
Concentration by location:				
UAE	1,494,160	1,653,026	330,041	946,117
Europe	-	-	-	-
GCC	404,624	393,247	-	-
Arab world	-	-	-	-
North America	-	-	-	-
Asia	299,180	-	-	-
Others	127,617	108,171	-	-
	2,325,581	2,154,444	330,041	946,117
Less: allowance for impairment	(20,027)	(21,370)	(135)	(596)
Carrying amount	**2,305,554**	**2,133,704**	**329,906**	**945,521**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(a) Credit risk (continued)

Concentrations of credit risk (continued)

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

As at 31 December 2022, twelve customers, (group wise exposures), comprised 27.63% of the total balance of loans and advances (2021: 26.49%).

Settlement risk

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

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

Commitments and contingencies related credit risk

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

Expected credit loss (ECL) - Forward Looking Information

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

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring (31 December 2021: 40%), and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring (31 December 2021: 30%). External information considered includes economic data and forecasts published by governmental bodies and monetary authorities, and the International Monetary Fund, and selected private-sector and academic forecasters. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of the upside and downside representative scenarios. The Bank has applied the following Macro Economic Variables for the Corporate portfolio in conditional IFRS 9 analysis with forecast scenarios: Equity (ADX Equity Index) and Oil Price. Had the weightage to the adverse scenario been increased by another 10% with a corresponding decrease of 10% in upside scenario, the impairment loss allowance would increase by AED 11 million at 31 December 2022.

5. Financial risk management (continued)

(b) Liquidity risk

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

Management of liquidity risk

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

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

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

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

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

Exposure to liquidity risk

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

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

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

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
ASSETS							
Cash and balances with the Central Bank of the UAE	1,466,810	1,466,810	-	-	-	-	-
Due from banks	1,882,565	1,680,550	202,015	-	-	-	-
Investments at FVOCI	2,310,224	128,375	29,699	848,174	557,603	741,703	4,670
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	329,906	144,574	174,952	-	-	10,380	-
Loans and advances	13,422,182	3,008,864	1,763,891	2,715,000	1,989,778	3,944,649	-
Other assets	558,706	545,872	12,485	349	-	-	-
Total assets	**19,987,970**	**6,975,045**	**2,183,042**	**3,563,523**	**2,547,381**	**4,696,732**	**-**
LIABILITIES							
Customers' deposits	14,129,728	10,299,456	3,059,211	771,061	-	-	-
Due to banks	1,791,975	1,791,975	-	-	-	-	-
Other liabilities	596,539	583,705	12,485	349	-	-	-
Total liabilities	**16,518,242**	**12,675,136**	**3,071,696**	**771,410**	**-**	**-**	**-**
Statement of financial position gap	**3,469,728**	**(5,700,091)**	**(888,654)**	**2,792,113**	**2,547,381**	**4,696,732**	**22,247**

5. Financial risk management (continued)

(b) Liquidity risk (continued)

Exposure to liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2021 was as follows:

	Carrying amount AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Unspecified maturity AED'000
ASSETS							
Cash and balances with the Central Bank of the UAE	1,433,471	1,433,471	-	-	-	-	-
Due from banks	1,571,654	1,556,962	14,692	-	-	-	-
Investments at FVOCI	2,280,300	129,205	185,701	627,247	416,661	774,261	147,225
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	945,521	360,279	563,258	-	-	21,984	-
Loans and advances	14,897,420	3,511,297	2,535,484	2,656,647	2,232,026	3,961,966	-
Other assets	722,301	516,154	205,195	402	350	-	-
Total assets	21,868,044	7,507,368	3,504,330	3,284,296	2,649,037	4,758,211	164,802
LIABILITIES							
Customers' deposits	16,368,132	12,022,990	3,513,714	831,428	-	-	-
Due to banks	1,303,062	458,272	844,790	-	-	-	-
Other liabilities	825,017	647,574	176,554	540	349	-	-
Total liabilities	18,496,211	13,128,836	4,535,058	831,968	349	-	-
Statement of financial position gap	3,371,833	(5,621,468)	(1,030,728)	2,452,328	2,648,688	4,758,211	164,802

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(c) Market risk

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

Management of market risk

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

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

Interest rate risk

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

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

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

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

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
ASSETS							
Cash and balances with the Central Bank of the UAE	1,466,810	923,690	-	-	-	-	543,120
Due from banks	1,882,565	1,680,550	202,015	-	-	-	-
Investments at FVOCI	2,310,224	128,375	29,699	848,174	557,603	741,703	4,670
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	329,906	144,574	174,952	-	-	10,380	-
Loans and advances	13,422,182	12,272,872	320,455	189,331	246,280	393,244	-
Other assets	558,706	-	-	-	-	-	558,706
Total assets	**19,987,970**	**15,150,061**	**727,121**	**1,037,505**	**803,883**	**1,145,327**	**1,124,073**
LIABILITIES							
Customers' deposits	14,129,728	6,710,420	3,035,746	59,823	-	-	4,323,739
Due to banks	1,791,975	1,791,975	-	-	-	-	-
Other liabilities	596,539	-	-	-	-	-	596,539
Total liabilities	**16,518,242**	**8,502,395**	**3,035,746**	**59,823**	**-**	**-**	**4,920,278**
Statement of financial position gap	**3,469,728**	**6,647,666**	**(2,308,625)**	**977,682**	**803,883**	**1,145,327**	**(3,796,205)**

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

A summary of the Bank's interest rate gap position based on contractual re-pricing arrangements at 31 December 2021 is as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing AED'000
ASSETS							
Cash and balances with the Central Bank of the UAE	1,433,871	748,349	-	-	-	-	685,122
Due from banks	1,571,654	1,556,962	14,692	-	-	-	-
Investments at FVOCI	2,280,300	129,205	185,701	627,247	416,661	774,261	147,225
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	945,521	360,279	563,258	-	-	21,984	-
Loans and advances	14,897,420	11,235,355	2,033,483	321,294	378,232	929,056	-
Other assets	722,101	-	-	-	-	-	722,101
Total assets	**21,868,044**	**14,030,150**	**2,797,134**	**948,541**	**794,893**	**1,725,301**	**1,572,025**
LIABILITIES							
Customers' deposits	16,368,132	8,936,790	2,475,330	1,866	-	-	4,954,146
Due to banks	1,303,062	1,301,181	-	-	-	-	1,881
Other liabilities	825,017	-	-	-	-	-	825,017
Total liabilities	**18,496,211**	**10,237,971**	**2,475,330**	**1,866**	**-**	**-**	**5,781,044**
Statement of financial position gap	**3,371,833**	**3,792,179**	**321,804**	**946,675**	**794,893**	**1,725,301**	**(4,209,019)**

5. Financial risk management (continued)

(c) Market risk (continued)

Interest rate risk (continued)

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The Bank assumes a fluctuation in interest rates of 75 basis points (2021: 75 basis points) and estimates the following impact on the profit for the year and equity at that date:

	2022 Profit for the year AED'000	2021 Profit for the year AED'000	2022 Equity AED'000	2021 Equity AED'000
Fluctuation in yield	37,203	40,858	19,911	24,860

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios They are based on AED 16,558 million interest bearing assets at year-end (2021: AED 18,163 million) and AED 11,598 million interest bearing liabilities at year-end (2021: AED 12,715 million). The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

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

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Bank's functional currency is the UAE Dirham. As at 31 December 2022, the Bank had the following significant net exposures denominated in foreign currencies:

	Net spot position AED'000	Forward position AED'000	Net exposure 2022 AED'000	Net exposure 2021 AED'000
CURRENCY				
Euro	6,316	(5,839)	477	758
GBP	(206)	155	(51)	252
Libyan Dinar	54	-	54	3,234
Saudi Riyal*	(1,258,328)	1,265,712	7,384	(37)
US Dollar*	664,782	(1,261,750)	(596,968)	(3,093,806)

***These currencies are pegged to the UAE Dirham.**

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(c) Market risk (continued)

Other market price risk

Equity price risk arises from the change in fair values of equity investments. The Bank manages this risk through diversification of investments in terms of geographical distribution and industry concentration. The effect on equity as a result of a change in the fair value of equity instruments due to a reasonably possible change in equity indices by 5%, with all other variables held constant as at 31 December 2022 is Nil (2021: AED 7,361 thousand).

(d) Operational risk and Business Continuity Management

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

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

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

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

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

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

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

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

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

5. Financial Risk Management (continued)

(e) Capital management

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

The Bank's objectives when managing capital are:

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

During 2022, the Bank's strategy, which was unchanged from 2021, was to:

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

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

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2022

5. Financial risk management (continued)

(e) Capital management (continued)

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

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

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

The Bank must comply with following minimum requirement:

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

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

Capital allocation

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

5. Financial risk management (continued)

(e) Capital management (continued)

The Bank's regulatory capital positions as 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
TIER 1 CAPITAL		
Share capital	1,500,000	1,500,000
Statutory reserve	669,172	655,965
Special reserve	664,582	651,375
General reserve	380,000	380,000
Fair value reserve	(112,136)	44,241
Retained earnings	531,565	381,002
IFRS transitional arrangement: Partial addback of ECL	110,744	87,116
Other deductions	(53,082)	(24,625)
Proposed dividend	(60,000)	-
Eligible Tier 1 capital (a)	**3,630,845**	**3,675,074**
TIER 2 CAPITAL		
Eligible general provisions	211,808	227,332
Eligible Tier 2 capital (b)	211,808	227,332
Total capital base (a+b)	**3,842,653**	**3,902,406**
Risk weighted assets:		
Credit risk	16,944,636	18,186,591
Market risk	44,426	24,358
Operational risk	1,409,653	1,489,674
Total risk weighted assets	**18,398,715**	**19,700,623**
CET 1 ratio	**19.7%**	**18.7%**
Tier 1 ratio	**19.7%**	**18.7%**
Capital adequacy ratio	**20.9%**	**19.8%**

Notes to the Financial Statements

31 December 2022

6. Use of estimates and judgements

(a) Key sources of estimation uncertainty

(i) Allowances for credit losses

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

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

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

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

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

(ii) Determining fair values

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

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

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

(i) Financial assets and liabilities classification

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

6. Use of estimates and judgements (continued)

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

ii) Contingent liability arising from litigation

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

(iii) Valuation of financial instruments and other assets

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

Fair value hierarchy

Fair value measurements recognised in the statement of financial position

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

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

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

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

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

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

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

Notes to the Financial Statements

31 December 2022

6. Use of estimates and judgements (continued)

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

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

Fair value hierarchy: (continued)

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

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

	Level 1 AED'000	Level 1 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2022				
Investments at FVOCI (Note 9)	2,305,554	-	4,670	**2,310,224**
Investment at FVTPL (Note 10)	-	-	17,577	**17,577**
Investment properties (Note 13)	-	-	283,643	**283,643**
Property and equipment (Note 15)	-	-	183,538	**183,538**
Property acquired in settlement of debt (Note 14)		-	1,406	**1,406**
Asset held for sale	-	-	11,395	**11,395**
	2,305,554	**-**	**502,229**	**2,807,783**
At 31 December 2021				
Investments at FVOCI (Note 9)	2,265,792	-	14,508	**2,280,300**
Investment at FVTPL (Note 10)	-	-	17,577	**17,577**
Investment properties (Note 13)	-	-	377,768	**377,768**
Property and equipment (Note 15)	-	-	175,807	**175,807**
Property acquired in settlement of debt (Note 14)			6,910	**6,910**
	2,265,792	**-**	**592,570**	**2,858,362**

There have been no transfers of assets between Level 1 and Level 2 or any transfers into or out of Level 3 of the fair value hierarchy during the year ended 31 December 2022 (2021: Nil).

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

6. Use of estimates and judgements (continued)

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

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

Fair value hierarchy (continued)

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

Level 3 reconciliation

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

	Investments at FVOCI AED'000	Investments at FVTPL AED'000	Investment properties AED'000	Property & equipment AED'000	Property acquired in settlement of debt AED'000	Asset held for sale AED'000	Total AED'000
At 1 January 2022	**14,508**	**17,577**	**377,768**	**175,807**	**6,910**	**-**	**592,570**
Changes in fair value	-	-	-	6,070	-	-	6,070
Additions / (disposals)	(9,838)	-	(99,641)	-	(5,500)	17,544	(97,435)
Depreciation	-	-	(10,662)	(348)	-	-	(11,010)
Net reversal / (impairment) charge (Note 30)	-	-	16,178	2,009	(4)	(6,149)	12,034
At 31 December 2022	**4,670**	**17,577**	**283,643**	**183,538**	**1,406**	**11,395**	**502,229**
At 1 January 2021	**18,541**	**11,021**	**330,776**	**182,869**	**9,185**	**49,690**	**602,082**
Changes in fair value	(4,033)	6,556	-	(6,711)	-	-	(4,188)
Transfers	-	-	49,690	-	-	(49,690)	-
Depreciation	-	-	(10,662)	(351)			(11,013)
Net reversal / (impairment) charge	-	-	7,964	-	(2,275)	-	5,689
At 31 December 2021	**14,508**	**17,577**	**377,768**	**175,807**	**6,910**	**-**	**592,570**

Notes to the Financial Statements

31 December 2022

6. Use of estimates and judgements (continued)

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

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

Fair value hierarchy (continued)

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

Accounting classifications and fair values

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

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

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

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

	2022 AED'000	2021 AED'000
Cash in hand	104,870	114,524
Balances with the Central Bank of the UAE	923,691	837,364
Cash reserve with Central Bank of the UAE	438,250	481,588
Gross balance	**1,466,811**	**1,433,476**
Allowance for expected credit losses	**(1)**	**(5)**
	1,466,810	**1,433,471**

Cash reserve deposits are not available for the day-to-day operations of the Bank.

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

	2022 AED'000	2021 AED'000
Opening balance	5	681
Impairment reversal for the year, net	(4)	(676)
	1	**5**

8. Due from banks

	2022 AED'000	2021 AED'000
Current, call and nostro balances	366,891	477,429
Fixed deposits	1,517,079	1,095,606
Gross balance	1,883,970	1,573,035
Allowance for expected credit losses	(1,405)	(1,381)
Net balance	**1,882,565**	**1,571,654**
By location:		
Within the UAE	473,798	265,844
Outside the UAE	1,410,172	1,307,191
	1,883,970	**1,573,035**

Notes to the Financial Statements

31 December 2022

8. Due from banks (continued)

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

	2022 AED'000	2021 AED'000
Opening balance	1,381	5,699
Impairment charge / (reversal) for the year, net	24	(4,318)
	1,405	**1,381**

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

	2022 AED'000	2021 AED'000
Investment in quoted debt securities (UAE)	1,484,156	1,638,242
Investment in quoted debt securities (outside UAE / others)	821,398	494,832
Total debt securities at FVOCI	**2,305,554**	**2,133,074**
Investment in quoted equity securities (UAE)	-	130,303
Investment in unquoted equity securities (outside UAE)	3,406	13,234
Investment in quoted equity securities (outside UAE)	-	2,415
Investment in unquoted equity securities (UAE)	1,080	1,080
Investment in overseas funds	184	194
Total equities at FVOCI	**4,670**	**147,226**
Total investments at FVOCI	**2,310,224**	**2,280,300**

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

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

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

	2022 AED'000	2021 AED'000
Fair value at 1 January	2,280,300	2,406,828
Purchases during the year	775,070	263,264
Sales / redemptions during the year	(525,872)	(376,118)
Change in fair value	(162,197)	(116)
Impairment reversal / (charge) for the year	1,343	(4,630)
Amortisation of premium on debt securities	(10,279)	(8,607)
Transfer of profit on disposal of equity investments at FVOCI to retained earnings	(48,131)	(379)
Translation (loss) / gain	(10)	58
Fair value at 31 December	**2,310,224**	**2,280,300**

As at 31 December 2022, the allowance for impairment on debt instruments designated at FVOCI amounting to AED 20,027 thousand (2021: AED 21,370 thousand) is included in revaluation reserve of investments carried at FVTOCI and recognised in other comprehensive income.

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

	2022 AED'000	2021 AED'000
Opening balance	17,577	11,021
Change in fair value	-	6,556
	17,577	**17,577**

Notes to the Financial Statements

31 December 2022

11. Investment at amortised cost

	2022 AED'000	2021 AED'000
Investment in quoted debt security (UAE)	10,379	21,984
Central Bank of UAE M-Bills	319,662	924,133
Less: Allowance for expected credit losses	(135)	(596)
	329,906	**945,521**
As at 1 January	945,521	31,905
Purchases during the year	1,058,988	924,133
Sales / redemptions during the year	(1,667,983)	(4,521)
Impairment reversal / (charge) for the year	461	(263)
Amortisation of premium on debt securities	(7,081)	(5,733)
As at 31 December	**329,906**	**945,521**

12. Loans and advances

	2022 AED'000	2021 AED'000
Loans and advances	14,434,747	15,619,760
Islamic financing	2,218,761	2,052,874
GROSS LOANS AND ISLAMIC FINANCING	**16,653,508**	**17,672,634**
Deferred profit	(39,884)	(13,983)
Allowance for expected credit losses	(2,703,840)	(2,439,076)
Interest suspended	(487,602)	(322,155)
Net loans and advances	**13,422,182**	**14,897,420**
ISLAMIC FINANCE BREAKDOWN		
By type:		
Ijarah	1,226,824	1,175,279
Murabaha	991,937	877,595
GROSS ISLAMIC FINANCING	**2,218,761**	**2,052,874**
Deferred profit	(39,884)	(13,983)
Profit in suspense	(10,141)	(9,039)
Allowance for expected credit losses	(136,255)	(98,962)
Net Islamic financing	**2,032,481**	**1,930,890**

12. Loans and advances (continued)

	2022 AED'000	2021 AED'000
THE MATURITIES OF MINIMUM IJARA PAYMENTS		
Less than one year	178,833	188,229
Between one year and five years	772,465	626,337
More than five years	275,526	360,713
Gross Ijara financing	**1,226,824**	**1,175,279**

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

	2022 AED'000	2021 AED'000
Corporate segment	15,847,008	16,654,247
Consumer segment	806,500	1,018,387
Gross loans and Islamic financing	**16,653,508**	**17,672,634**

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

	2022 AED'000	2021 AED'000
Opening balance	2,439,076	2,029,933
Net charge for the year	342,514	412,798
Net amounts written off	(77,750)	(3,655)
	2,703,840	**2,439,076**

Notes to the Financial Statements

31 December 2022

13. Investment properties

	Freehold land and building AED'000
COST	
At 1 January 2021 and 31 December 2021	833,611
Disposals	(187,210)
At 31 December 2022	**646,401**
Accumulated depreciation	
At 1 January 2021	114,419
Charge for the year	10,662
At 31 December 2021	**125,081**
Charge for the year	10,662
Disposals	(18,235)
At 31 December 2022	**117,508**
Net carrying amount	
At 31 December 2022	528,893
Less: allowance for impairment	(245,250)
	283,643
At 31 December 2021	708,530
Less: allowance for impairment	(330,762)
	377,768

Towards the end of 2022, the Bank carried out a valuation exercise of the investment properties and investment properties under development through qualified, independent external valuators. The valuation methodologies used by the external valuators include:

- Direct Comparable method: This method seeks to determine the value of the property from transactions and asking prices of comparable properties within the same and comparable communities applying adjustments to reflect differences to the subject property.
- Investment method (Income Capitalisation & DCF): The Income Capitalisation Method has been used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield after allowing for appropriate maintenance and vacancies. A net yield range of 6% to 8.5% has been applied which reflects what an investor would expect for an investment of the duration of the interest being valued for the respective properties.

13. Investment properties (continued)

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

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

	2022 AED'000	2021 AED'000
Rental income	23,954	24,577
Direct operating expenses	(11,794)	(11,488)
	12,160	**13,089**

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

	2022 AED'000	2021 AED'000
At 1 January	**330,762**	**286,460**
Net impairment reversal for the year (note 30)	(16,178)	(7,964)
Disposals	(69,334)	-
Transfer from asset held-for-sale (note 16)	-	52,266
At 31 December	**245,250**	**330,762**

14. Other assets

	2022 AED'000	2021 AED'000
Acceptances	381,364	578,753
Interest receivable	168,749	133,802
Sundry debtors and other assets	40,000	32,085
Property acquired in settlement of debt, net	1,406	6,910
	591,519	**751,550**

During the year, the Bank carried out a valuation exercise of the properties acquired in settlement of debt through a qualified, independent external valuator. The external valuator has used the Direct Comparable method valuation methodology. This resulted in a charge for the year amounting to AED 4 thousand (2021: AED 2,275 thousand).

Notes to the Financial Statements

31 December 2022

15. Property and equipment

	Freehold land and Building AED'000	Furniture equipment & vehicles AED'000	Capital Work in-progress AED'000	Right of use Assets AED'000	Total AED'000	Intangible Assets AED'000
COST						
At 1 January 2021	**363,469**	**103,421**	**12,133**	**24,425**	**503,448**	**83,621**
Additions	-	-	22,249	-	22,249	-
Transfers	-	3,838	(8,081)	-	(4,243)	4,243
Disposals	-	(1)	-	(127)	(128)	(1,040)
Loss on revaluation	(6,711)	-	-	-	(6,711)	-
At 31 December 2021	**356,758**	**107,258**	**26,301**	**24,298**	**514,615**	**86,824**
At 1 January 2022	**356,758**	**107,258**	**26,301**	**24,298**	**514,615**	**86,824**
Additions	-	-	19,195	-	19,195	-
Transfer to asset held for sale	-	-	(15,529)	-	(15,529)	-
Transfers	-	2,558	(12,456)	-	(9,898)	9,898
Disposals	-	-	-	-	-	-
Gain on revaluation	8,079	-	-	-	8,079	-
At 31 December 2022	**364,837**	**109,816**	**17,511**	**24,298**	**516,462**	**96,722**

15. Property and equipment (continued)

	Freehold land and Building AED'000	Furniture equipment & vehicles AED'000	Capital Work in-progress AED'000	Right of use Assets AED'000	Total AED'000	Intangible Assets AED'000
ACCUMULATED DEPRECIATION						
At 1 January 2021	**180,600**	**87,176**	-	**12,757**	**280,533**	**24,525**
Charge for the year	351	4,879	-	-	5,230	11,401
Right of use assets	-	-	-	6,379	6,379	
Disposals	-	(1)	-	-	(1)	(237)
At 31 December 2021	**180,951**	**92,054**	-	**19,136**	**292,141**	**35,689**
At 1 January 2022	**180,951**	**92,054**	-	**19,136**	**292,141**	**35,689**
Charge for the year	348	4,869	-	-	5,217	10,940
Right of use assets	-	-	-	4,793	4,793	-
Disposals	-	-	-	-	-	-
At 31 December 2022	**181,299**	**96,923**	-	**23,929**	**302,151**	**46,629**
Net carrying amount						
At 31 December 2021	175,807	15,204	26,301	5,162	222,474	51,135
At 31 December 2022	183,538	12,893	17,511	369	214,311	50,093

Notes to the Financial Statements

31 December 2022

15. Property and equipment (continued)

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

- Direct Comparable method: This method seeks to determine the value of the property from transactions and asking prices of comparable properties within the same and comparable communities applying adjustments to reflect differences to the subject property.
- Investment method (Income Capitalisation & DCF): The Income Capitalisation Method has been used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield after allowing for appropriate maintenance and vacancies. A net yield range of 6% to 8.5% has been applied which reflects what an investor would expect for an investment of the duration of the interest being valued for the respective properties.

The fair value of the buildings as at 31 December 2022, as provided by the valuers was AED 183.5 million (2021: AED 175.9 million), resulting in an increase in the revaluation reserve by AED 6.1 million (2021: decrease by AED 6.7 million). The table below represents the movement in the revaluation reserve of the freehold land and building:

	2022 AED'000	2021 AED'000
REVALUATION RESERVE: Freehold land and buildings		
At 1 January	122,902	129,613
Fair value gain/ (loss)	6,070	(6,711)
At 31 December	**128,972**	**122,902**

At 31 December 2022, total cost of AED 178.2 million (2021: AED 178.2 million) of fully depreciated assets was included in freehold land and buildings.

16. Asset held-for-sale

	2022 AED'000	2021 AED'000
Building	11,395	-

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

Notes to the Financial Statements

31 December 2022

17. Customers' deposits

	2022 AED'000	2021 AED'000
By type:		
Notice and time deposits	8,455,849	10,124,168
Current accounts	3,710,267	4,637,220
Savings accounts	246,098	179,634
	12,412,214	**14,941,022**
ISLAMIC DEPOSITS		
By type:		
Current accounts	428,130	447,086
Mudaraba term and savings deposits	5,594	4,802
Wakala deposits	1,283,790	975,222
	1,717,514	**1,427,110**
Total deposits	**14,129,728**	**16,368,132**
By sector:		
Private sector	7,117,418	9,782,049
Government sector	4,934,050	4,379,510
Individuals	2,078,260	2,206,573
	14,129,728	**16,368,132**

18. Due to banks

	2022 AED'000	2021 AED'000
Current, call and vostro balances	207,398	384,812
Fixed deposits	1,584,577	918,250
	1,791,975	**1,303,062**
By location:		
Within the UAE	714,076	-
Outside the UAE	1,077,899	1,303,062
Total deposits	**1,791,975**	**1,303,062**

Notes to the Financial Statements

31 December 2022

19. Other liabilities

	2022 AED'000	2021 AED'000
Acceptances	381,364	578,753
Allowance for ECL on contingent assets	223,549	191,305
Interest payable	66,015	68,588
Provision for employees' end of service benefits	21,308	22,662
Others	204,131	226,811
	896,367	**1,088,119**

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

	2022 AED'000	2021 AED'000
At 1 January	22,662	22,757
Provided during the year	4,041	4,834
Actuarial losses on defined benefit obligation	1,963	-
Paid during the year	(7,358)	(4,929)
	21,308	**22,662**

The Bank provides end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2022 to ascertain present value of the defined benefit obligation. A registered actuary was appointed to evaluate the same. The liabilities were measured using the projected unit credit method. For valuing liability as at 31 December 2022, a discount rate of 4.9% (2021: 2.34%) and salary escalation rate of 3% (2021: 3%) were used.

The liability would be higher by AED 469 thousand had the discount rate used in the assumption been lower by 0.5% and the liability would be lower by AED 447 thousand had the discount rate used in the assumption been higher by 0.5%. Similarly, the liability would be higher by AED 490 thousand had the salary increment rate used in the assumption been higher by 0.5% and the liability would be lower by AED 447 thousand had the salary increment rate used in the assumption been lower by 0.5%.

20. Capital and reserves

a) Share capital

The authorised, issued and fully paid share capital of the Bank comprises 75,000 ordinary shares of AED 20,000 each (2021: 75,000 shares of AED 20,000 each).

b) Statutory reserve

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

20. Capital and reserves (continued)

c) Special reserve

In accordance with UAE Federal Law No. (14) of 2018 Regarding the Central Bank & Organisation of Financial Institutions and Activities, 10% of the net profit for each year is transferred to a special reserve until this reserve equals 50% of the share capital. There has been a transfer of AED 13.2 million to the reserve during the year (2021: AED 13.2 million).

d) General reserve

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

e) Revaluation reserve

The revaluation reserve includes gains on revaluation of freehold land and buildings, amounting to AED 129 million (2021: AED 123 million). During the year 2022 a revaluation gain of AED 6 million (2021: loss of AED 6.7 million) was adjusted in the reserves, resulting from the revaluation exercise performed over freehold land and buildings (Note 15).

f) Fair value reserve

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

	2022 AED'000	2021 AED'000
FAIR VALUE RESERVE: Investments designated at FVOCI		
At 1 January	98,313	98,430
Fair value changes - net	(210,449)	(117)
At 31 December	**(112,136)**	**98,313**

g) Dividends

For the year ended 31 December 2022, the Board of Directors has proposed to pay a cash dividend of AED 800 per ordinary share (2021: AED Nil per ordinary share). This is subject to the approval of the shareholders in the Annual General Meeting.

The Bank has received a no-objection from the Central Bank of UAE to increase the paid-up share capital of the Bank from AED 1.5 billion to AED 2 billion by issuance of Bonus Shares through capitalization of the General reserve and Retained Earnings. This will be completed in 2023 after obtaining necessary shareholders' consent in the Annual General meeting.

h) Zakat

The Bank has paid AED 1.3 million as Zakat during the year (2021: AED 1.7 million).

Notes to the Financial Statements

31 December 2022

21. Interest income

	2022 AED'000	2021 AED'000
Loans and advances to customers	555,551	524,587
Investment securities	90,295	78,793
Due from banks	22,666	11,439
	668,512	**614,819**

22. Interest expense

	2022 AED'000	2021 AED'000
Customers' deposits	146,598	113,880
Due to banks	22,156	5,046
	168,754	**118,926**

23. Income from Islamic financing contracts

	2022 AED'000	2021 AED'000
Ijarah	61,110	56,385
Murabaha	35,649	38,421
	96,759	**94,806**

24. Depositors' share of profit

	2022 AED'000	2021 AED'000
Wakala	26,496	19,009
Mudaraba deposits and saving accounts	4	4
	26,500	**19,013**

25. Net fee and commission income

	2022 AED'000	2021 AED'000
FEE AND COMMISSION INCOME		
Letters of credit	46,550	44,234
Letters of guarantee	23,158	22,709
Retail and corporate lending fees	19,098	14,886
Transfers and other fees	10,291	6,646
Others	30,498	38,196
Total fee and commission income	**129,595**	**126,671**
FEE AND COMMISSION EXPENSE		
Brokerage fees	(4,155)	(2,565)
Handling charges	(1,225)	(1,271)
Others	(7,522)	(7,818)
Total fee and commission expense	**(12,902)**	**(11,654)**
Net fee and commission income	**116,693**	**115,017**

Performance obligations and revenue recognition policies

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

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

Notes to the Financial Statements

31 December 2022

26. Net foreign currency exchange gain

	2022 AED'000	2021 AED'000
Trading and retranslation gain/ (loss)	2,627	(8,695)
Dealing with customers	41,236	33,465
	43,863	**24,770**

27. Other operating income

	2022 AED'000	2021 AED'000
Rental income, net	12,160	13,089
Others	2,122	10,834
	14,282	**23,923**

28. General, administration and other operating expenses

	2022 AED'000	2021 AED'000
Staff costs (i)	164,173	153,861
Depreciation (ii)	31,612	33,672
Board of Directors expenses	15,918	14,618
Others	68,864	50,037
	280,567	**252,188**

(i) Staff costs are divided as follows:

	2022 AED'000	2021 AED'000
Salaries and wages	66,611	65,372
End of service benefits (note 19)	4,041	4,834
Other benefits	93,521	83,655
	164,173	**153,861**

(ii) Depreciation comprises of depreciation charge for the year on property and equipment and right of use assets amounting to AED 20.9 million (2021: AED 23.0 million) and investment properties amounting to AED 10.7 million (2021: AED 10.6 million).

29. Net impairment charge on financial assets

	2022 AED'000	2021 AED'000
Net impairment charge on loans and advances	342,514	412,798
Net impairment charge / (reversal) on unfunded exposures	32,244	(33,238)
Net impairment charge / (reversal) on due from banks	24	(4,318)
Net impairment reversal on balances with CBUAE	(4)	(676)
Net impairment charge / (reversal) on investment securities	(1,804)	4,893
Write-off of impaired financial assets	753	4,786
Recovery of loans previously written – off	(22,183)	(13,489)
	351,544	**370,756**

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

30. Impairment and fair value loss on properties

	2022 AED'000	2021 AED'000
Net impairment reversal on investment properties	(16,178)	(7,964)
Net impairment charge on property acquired in settlement of debt	4	2,275
Net impairment reversal on properties	**(16,174)**	**(5,689)**
Fair value loss on assets held-for-sale	6,149	-
Fair value gain on own properties	(2,009)	-
Net fair value loss on properties	**4,140**	-

Notes to the Financial Statements

31 December 2022

31. Cash and cash equivalents

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

	2022 AED'000	2021 AED'000
Cash and balances with the Central Bank of the UAE	1,466,811	1,433,476
Due from banks	1,883,970	1,573,035
	3,350,781	**3,006,511**
Less: cash reserve with Central Bank of the UAE	(438,250)	(481,588)
Less: due from banks with original maturity of more than 3 months	(202,015)	(14,692)
Cash and cash equivalents	**2,710,516**	**2,510,231**

32. Commitments and contingencies

	2022 AED'000	2021 AED'000
Letters of credit	1,217,056	1,785,682
Letters of guarantee	3,012,558	2,920,147
	4,229,614	**4,705,829**

Commitments at the reporting date are shown below:

	2022 AED'000	2021 AED'000
Un-drawn commitments to extend credit	3,731,523	3,875,395
Commitment for future capital expenditure	16,046	7,670
	3,747,569	**3,883,065**
Total commitments and contingencies	**7,977,183**	**8,588,894**

Notes to the Financial Statements

31 December 2022

32. Commitments and contingencies (continued)

Irrevocable undrawn commitments to extend credit as at 31 December 2022 amounted to AED 438.3 million (2021: AED 496.9 million)

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

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

As at 31 December 2022, the ECL on unfunded exposures amounted to AED 223.5 million (2021: AED 191.3 million).

33. Related parties

Identity of related parties

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

	Shareholding percentage (%)	
	2022	**2021**
Emirates Investment Authority	42.28	42.28
Libyan Foreign Bank	42.28	42.28
Banque Exterieure d'Algerie	15.44	15.44

Notes to the Financial Statements

31 December 2022

33. Related parties (continued)

In the normal course of business, the Bank has various transactions with its related parties. Banking transactions are entered into with related parties on terms and conditions approved by either the Bank's management or the Board of Directors.

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

	Key management personnel		Others	
	31 December 2022 AED'000	31 December 2021 AED'000	31 December 2022 AED'000	31 December 2021 AED'000
BALANCES				
Loans and advances	8,429	12,894	331,288	343,558
Due from banks	-	-	4,236	205,262
Deposits	20,208	16,568	3,275,648	2,767,416
Due to banks	-	-	860,821	935,136
Commitments and Contingencies	-	-	1,308,347	1,484,864
TRANSACTIONS				
Board of Directors' remuneration	**15,918**	**14,618**	**-**	**-**
Salaries and benefits	**13,440**	**13,067**	**-**	**-**
Post-employment benefits	**1,153**	**916**	**-**	**-**
Interest income	**537**	**356**	**11,033**	**9,690**
Interest expense	**202**	**75**	**57,158**	**17,57**
Fee and commission	**-**	**-**	**4,052**	**2,981**
Other operating expenses	**-**	**-**	**184**	**-**

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

Loans and advances issued to related parties are repayable over one year and bear interest rates ranging between 4% and 9% (2021: 1% to 6%). No collateral is under lien on loans and advances to related parties. There were no loans and advances to related parties that were classified as Stage 3 as of 31 December 2022 (2021: Nil).

Due to banks from other related parties include term deposits under lien amounting to AED 845 million (31 December 2021: AED 845 million).

The Bank has received a corporate guarantee from a related party as a collateral for loans and advances amounting to AED 975 million (31 December 2021: AED 955 million).

34. Derivative contracts

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

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

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

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

	Notional amount by term to maturity					
	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000	Up to 3 months AED'000	3 to 6 months AED'000	6 to 12 months AED'000
31 December 2022						
Forward Foreign Exchange contract	172	1,305	1,278,17	887,222	390,954	-
31 December 2021						
Forward Foreign Exchange contract	322	2,826	3,803,581	2,712,841	626,075	464,665

Notes to the Financial Statements

31 December 2022

35. Earnings per share

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

	2022 AED'000	2021 AED'000
Profit for the year	**132,074**	**132,431**
Weighted average number of ordinary shares	75,000	75,000
Earnings per share (AED)	**1.76**	**1.77**

There were no potentially dilutive securities as at 31 December 2022 or 2021, and accordingly, diluted earnings per share are the same as basic earnings per share.

36. Legal proceedings

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

37. Social contributions

There are no social contributions made by the Bank during the year (2021: Nil).

38. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2022, the market value of such assets amounted to AED 330.2 million (2021: AED 337.9 million) and are excluded from the financial statements of the Bank.

39. Comparative figures

Comparative figures have been reclassified in accordance with IAS 1 'Presentation of financial statements' in order to conform with the presentation for the current year. During the period, the Bank performed an exercise to determine if the presentation of the financial statements is in accordance with IAS 1 "Presentation of financial statements". This exercise resulted in reclassification of certain line items in the financial statements. The comparative figures have been reclassified in order to conform with the presentation for the current period. Such reclassifications have been made by the Bank to improve the quality of information presented.

Intangible assets (2021: AED 51.1 million) had been previously presented within property and equipment. As at 31 December 2022, the intangible assets have been presented as a separate line item in the statement of financial position. As at 1 January 2021, intangibles assets amounted to AED 59.1 million.

40. Subsequent events

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