BACKING THE NATION'S AMBITION

ANNUAL REPORT 2023

www.cbd.ae

بنك دبي التجاري
Commercial Bank of Dubai

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

HIS HIGHNESS

Sheikh Hamdan bin Mohammed bin Rashid Al Maktoum

Crown Prince of Dubai

HIS HIGHNESS

Sheikh Maktoum bin Mohammed bin Rashid Al Maktoum

Deputy Ruler of Dubai, Deputy Prime Minister and Minister of Finance

ABOUT CBD

Commercial Bank of Dubai (CBD) has stood at the forefront of the nation's banking sector for over 50 years, and is committed to empowering individuals, businesses, and institutions through comprehensive financial solutions.

As a full-service bank, CBD takes pride in delivering excellence across personal, business, Islamic, and institutional banking services. With a steadfast dedication to innovation and a customer-centric approach, CBD has become a pivotal force driving the realization of the nation's ambitious goals.

Embracing diversity, integrity, and expertise, CBD stands as the cornerstone of support, backing the nation's ambitions and contributing to its economic growth and prosperity.

CBD Purpose
Backing the Nation's Ambitions

CBD Vision
To be the best bank for our customers

CONTENT

AT A GLANCE

Ownership Structure

The Bank is mostly owned by UAE Nationals, including 20% by the Investment Corporation of Dubai ('ICD').

Credit Ratings

Long term A- / Short-term F2
Outlook Stable Fitch (Dec '23)

Long term Baa1 / Short-term A3
Outlook Stable Moody's (Oct '23)

Where we Operate

Branch Locations
in 6 Emirates

Number of Personal Banking Customers

505,845

Number of Branches

14

Number of Employees

1,200

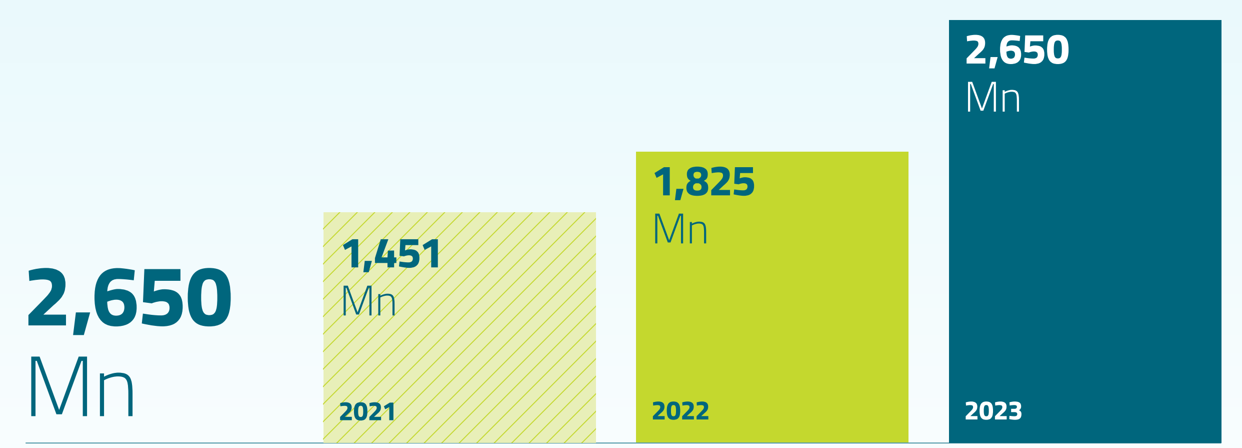
Percentage of UAE Nationals

37.1%

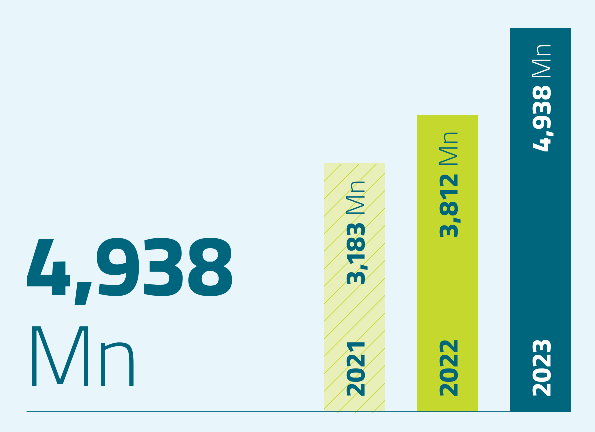
AT A GLANCE

KEY FINANCIALS

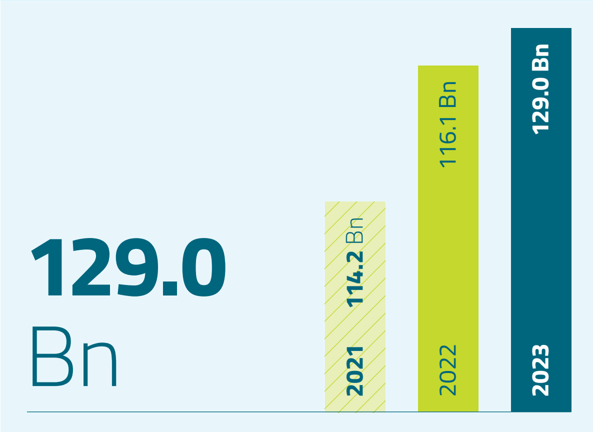
Net Profit (AED Mn)



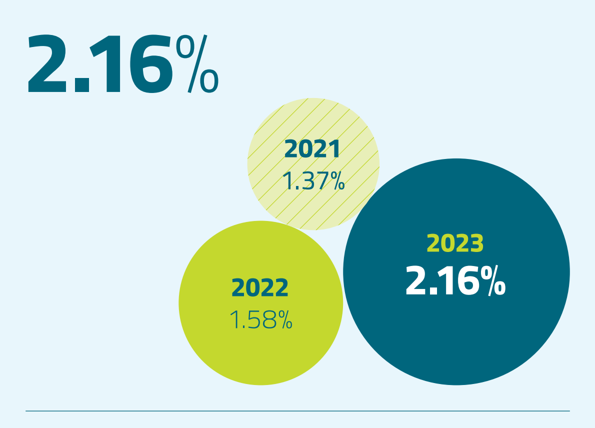
Operating Income (AED Mn)



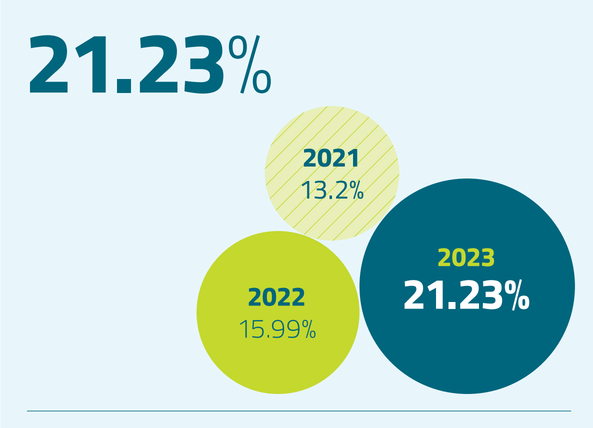
Total Assets (AED Bn)



Return on Assets (%)



Return on Equity (%)



AWARDS

Best Digitization Initiatives

By ME Banking AI Awards 2023

Mobile Banking Services

By MEA Finance Magazine Banking Technology Awards 2023

Best Digital Wallet Award

By MENA Banking Excellence Awards 2023

Payments Innovation of the Year

By MEA Finance Leaders in Payments Awards 2023

Best Instant Payments Platform Implementation

By MEA Finance Awards 2023

Excellence in Retail Banking

By Finnovex Middle East Awards 2023

CHAIRMAN'S MESSAGE

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to present you with the annual report and audited financial statements of the Commercial Bank of Dubai for the financial year ended 31 December 2023.

Commercial Bank of Dubai had an exceptional year with record net profit and remarkable achievements in all areas, reporting the highest ever net profit with a growth of 45.2 per cent to AED 2,650 million for the full year ended 31 December 2023. The Bank reached AED 129 billion in assets whilst total shareholders' equity increased by 13.7 per cent to AED 15.8 billion. Operating income for the year amounted to AED 4,938 million, an increase of 29.5 per cent, attributable to higher Net Interest Income (NII) and improved fee and commission income. The cost-to-income ratio was excellent at 24.87 per cent.

Market interest rates were elevated throughout the year, which supported the net interest income result. The economic outlook and business confidence remain robust and supportive for 2024. The UAE is likely to maintain broad based growth, supported by solid population growth, robust domestic business activity, and a strong fiscal and trade position. Despite high international interest rate levels and possible slowdowns in global growth rates, 2024 will be another year where the UAE economy outperforms.

The Bank continued to strengthen credit provisions with an additional impairment allowance totaling AED 1,060 million. The Bank's liquidity and adequacy position remained strong with the advances to stable resources ratio at 87.25 per cent as at 31 December 2023, the Capital Adequacy Ratio (CAR) at 15.95 per cent, Tier 1 ratio at 14.81 per cent and the Common Equity Tier 1 (CET1) ratio at 12.54 per cent.

The Bank kept enhancing engagement with its main franchise customers, a key strategy for the Bank. This led to higher fee income from transactional banking, trade, and investment sales. The Bank also focused on building a diversified deposit based with increased Current and Savings Accounts (CASA) balances. The Personal Banking business portfolio delivered an excellent performance on the back of higher market rates and well-managed cost of risk.

CBD continued with its default digital execution through innovation, partnerships, and by launching a variety of modern banking products and solutions that focused on customer experience. The Bank's digital and customer focus was widely recognized with multiple industry accolades, including:

- "Best Digitization Initiatives" by ME Banking AI Awards 2023,
- "Best Mobile Banking Services" by MEA Finance Magazine Banking Technology Awards 2023,
- "Best Instant Payments Platform Implementation" by MEA Finance Awards 2023,
- "Payments Innovation of the Year" by MEA Finance Leaders in Payments Awards 2023,
- "Best Digital Wallet Award" by MENA Banking Excellence Awards 2023, and;
- "Excellence in Retail Banking" by Finnovex Middle East Awards 2023.

CBD's strategic digital initiatives and innovations, continued to focus on improving our customer's experience better.

The Central Bank of the UAE expects the real Gross Domestic Product (GDP) to have grown by 3.1 per cent in 2023 and to grow by 5.7 per cent in 2024. The non-oil GDP is expected to have grown by 5.9 per cent in 2023 and to grow by 4.7 per cent in 2024. The UAE's prospects continue to be enhanced by start-ups, entrepreneurs, fin techs and investor activity as businesses continue to expand in a country increasingly considered the location of choice headquartering businesses.

CBD strongly supports the UAE's Emiratization vision. In this regard the Bank looks to assist the new generation of UAE National talent to reach their goals. We are investing in the future of these young leaders and more specifically in the banking and financial services sector in the UAE.

> *"The President, His Highness Sheikh Mohamed bin Zayed Al Nahyan, announced 2023 to have been the **"Year of Sustainability".***

The President, His Highness Sheikh Mohamed bin Zayed Al Nahyan, announced 2023 to have been "Year of Sustainability". CBD continued to make progress in our CSR activities, environmental initiatives, and ethical corporate governance focusing on delivering our environmental, social and governance (ESG) responsibilities to back the ambitions of our proud nation. CBD achieved a remarkable achievement in our ESG program by issuing our first green bond, which underscored our dedication to sustainable finance in accordance with our ESG strategy. Our commitment to carbon neutral operations by 2030 signifies our dedication to a sustainable future. Additionally, the Bank is dedicated to offering sustainable solutions that help in lowering emissions and supports the UAE's efforts to achieve net-zero goal by 2050.

CBD remains well-positioned for further growth and success in the future. We will continue to create a high-quality banking experience for our customers with leading financial performance that increases shareholder value. I am confident that through the efforts of our board, management team, and staff, we will continue to exceed our goals and move CBD forward in the years ahead.

In summary, on behalf of the Board, I would like to offer our appreciation and gratitude to the UAE's leadership for their vision, guidance, and support. I would also thank our shareholders, management team, employees, and valued customers for their trust, and continued support, throughout 2023.

H.E. Humaid Mohammad Al Qutami
Chairman

LETTER FROM THE CEO

Dear Shareholders,

In many ways, 2023 was a time-honored example of owing our success to maintaining strategic focus and highly disciplined execution. This strategic discipline coupled with a constant investment in digitization and ongoing development in our people is what has enabled CBD to achieve our remarkable results in 2023.

Before I recap on our performance and offer my perspective on 2024, I would like to share some views on the issues that have so dramatically impacted the financial services industry over the course of the year. The failures of two large banks in the United States are stark reminders of the importance of risk management and diversification across all aspects of both our balance sheet and business model. Almost all major economies felt the effects of global uncertainty due to higher energy prices, increasing inflation rates, and lingering supply chain impacts following Covid-19. Central Banks all over the world have stayed their course and maintained interest rates at elevated levels.

In these challenging circumstances, the UAE's leadership has once again displayed exemplary leadership in navigating the uncertain environment in which we operate. Building on this, your bank has exhibited a strong level of resilience and robustness to leverage on the outcomes of our strategy implementation. This resulted in strong customer demand for our services, placing the bank in a position to capture the opportunities offered by high interest rates, and grow our market share. As a result, your bank delivered record levels of financial performance on four major financial metrics (revenue, operating profit, return-on-equity and overall business growth) as well as setting numerous record performances in each of our business lines.

In 2023, we earned a net profit of AED 2.65 billion on which the Board of Directors is proposing a record cash dividend of AED 44.38 on par value (representing an increase of 81.5% over last year). The proposed dividend payout has been enabled by our high-quality performance and strong capital position which continues to be well above the regulatory thresholds set by the Central Bank of the UAE. This proposed shareholder distribution retains capital that will continue to set the foundation for our ambitions for growth in the years ahead.

I would like to take this opportunity to reiterate our strategic pillars on which we place an unwavering focus and highlight a few key achievements throughout the past year.

Achieve Financial Results

The Bank's revenue grew by 29.5%, operating profit increased by 31.8%, and we achieved a record return-on-equity of 21.2%. Of particular importance is the prudence of increasing provisions for non-performing loans, thereby improving the coverage ratio by 4.4% to 83.3%. In addition, the Bank significantly benefitted from an incessant focus on the execution of strategic initiatives:

1. In an approach to diversify the corporate lending book, the Bank was able to drive over half of the segment's net portfolio growth (of AED 2.9 billion) from three strategic sectors: transportation/logistics, manufacturing, and structured trade.
2. In terms of export trade revenue, the bank achieved the target as set out in our three-year strategy in the space of 12 months and delivered over 100 million Dirham in additional fee income.
3. The growth of our Retail Bank continued to outpace the market. Our residential mortgage offering continues to be a market leader while our Credit Cards business has delivered significantly higher growth than our competitors.

Become an Employer of Choice

The Bank embarked on three key strategic initiatives to help attract and retain talent. These activities included establishing a targeted approach towards Emiratization, engaging in workplace modernization, and supporting our employees in making a difference towards meaningful causes.

To this extent, for the first time in the Bank's history, CBD hired and trained a specific cohort of 'Tumoo7' graduates in the field of technology. These graduates carried a technology background, and their interests were further encouraged with a career path accompanied by a rigorous training program supported by the Emirates Institute of Finance. In addition, the Bank established a Digital Accelerator program where over 100 employees are undergoing training in the fields of artificial intelligence (AI), data analytics, and storyboarding.

In the fourth quarter of 2023, CBD partnered with Microsoft as an early adopter of the AI-based Copilot. Copilot is the software tool of the future, empowering our employees to increase productivity by intelligently automating tasks. The rollout of Copilot is a key pillar of our workplace modernization initiative and CBD was recognized by Microsoft's CEO as a pioneer in this respect.

In addition, CBD joined hands with the Emirates Red Crescent in their 'Tarahum for Gaza' campaign to make a meaningful difference to Palestinian families and children. As part of the campaign, CBD donated over 50 boxes of vital supplies and contributed over 200 hours of volunteering support.

Drive Customer Focus

It has long been a belief of mine that we should not be a bank that develops and offers financial products; the only value the bank should develop and offer is Customer Experience within which products and services are embedded. In 2023, we drove a hard cultural reset to improve on the feedback given by our customers with constant senior management attention. While I am proud of the results achieved, we still have a long way to go. Our Retail Bank ended 2023 with a Net Promotor Score (NPS) of 42 versus an industry average of 38 while our Wholesale Bank achieved an NPS of 46 versus a corresponding industry average of 35. Although encouraging, there is clearly room for further improvement, which we will focus on relentlessly.

In addition, in the run-up to the highly successful COP28, the Bank established an ESG council which oversees our efforts in this space. The Bank has made significant strides in areas that will have a profound impact for both our environment and society by issuing a 500 million US dollar Green Bond to finance projects championing green finance; this was the first conventional sustainability linked bond issued by a bank in Dubai. Other key activities included embedding ESG risk into our Risk Management Framework, sponsoring the Dubai Future sustainability Forum and conducting a collaborative hackathon, and introducing EV chargers for our customers, in key branches, committing to an eco-friendly future.

Maintain Default Digital

The bank continues to invest in its vision to be a default digital organization. Across our Retail Bank mobile application there was a strong focus on both enhancing features and improving the user experience. As a result, the market-leading annual benchmarking report found CBD to:

- Have earned a score of 69 versus a UAE bank average of 28; for context, the global best-in-class bank has a score of 74.
- Be the UAE leader in four categories: Marketing & Engagement Capabilities, Product Research, Product Application & Fulfillment, and Assisted Sales & Support.
- Close to local best-in class on the two categories where the bank was not a market leader: usability (a score of 75 vs CBD's score of 70) and third-party products (a score of 73 vs CBD's score of 70).

We continue to invest in our Wholesale Bank digital capabilities. In 2023, CBD launched a next-generation version of the iBusiness mobile solution offering over forty services including the tracking of payments, an improved user interface, and improved security capabilities. In addition, we have launched an assisted client onboarding digital platform called 'iBank', which enables a seamless experience for our Wholesale Banking clients and empowers our relationship managers to ensure robust compliance standards are being adhered to.

These efforts led to the industry recognizing CBD for our 'Default Digital Journey' and 'Best Digitization Initiatives' by the Middle East Banking AI & Analytics Awards, the 'Best Mobile Banking Services' award from the MEA Finance Banking Technology Awards, coupled with the 'Best Digital Wallet Award' by the MENA Banking Excellence Awards.

In Conclusion

To return to the start of this letter, the powerful simplicity of our business model is that when we deliver value for our clients, we also create more value for our shareholders. I would like to reiterate the critical importance of making targeted investments in the areas where we are the strongest and it is equally important that these investments allow us to achieve strong returns with minimal capital investment. This, along with extreme cost discipline, is the key to uplifting our profitability in 2024.

> *"Clients have always been central to all we do; we serve clients who have a wide range of financial objectives, preferences, time horizons, and risk tolerances."*

Clients have always been central to all we do; we serve clients who have a wide range of financial objectives, preferences, time horizons, and risk tolerances. We will continue to back their ambitions by offering prudent, value creating, innovative and digital choices to help them reach their goals.

I am confident in our leadership team's ability to create value for you-our shareholders, energize our employees, differentiate CBD from our competitors, and push our organization to innovate on behalf of our clients.

As always, I would like to thank our Board members for their continuing support and oversight. Special thanks are owed to our wonderful employees, whose passion and commitment ensured CBD achieved outstanding outcomes in 2023 and set the path for continued success in the years ahead.

Dr. Bernd van Linder
Chief Executive Officer

BOARD
OF DIRECTORS

H.E. Humaid Mohammad Obaid Yousuf Al Qutami
Chairman – Non-Independent, Non-Executive

- **Board Member since:** March 2015
- **End of current term:** March 2024
- **Elected as Chairman of the Board:** 17 March 2021
- **Qualification:** Master's Degree in Administration from the Western Michigan University, USA

He is the Chairman of the Federal Authority for Government Human Resources, Chairman of the Board of Trustees of Hamdan Bin Rashid Al Maktoum Award for Distinguished Academic Performance, Chairman of the Board of Trustees of the Sharjah Voluntary Work award and Chairman of the Board of Directors for Emirates Transport and Services Corporation. Until January 2021, he was the Director General of Dubai Health Authority, prior to which he has held the position of UAE Minister of Education and UAE Minister of Health, amongst many high other profile positions.

H.E. Sultan Saeed Al Mansoori
Vice Chairman – Non-Independent, Non-Executive

- **Board Member since:** March 2021
- **End of current term:** March 2024
- **Elected as Chairman of the Board:** 17 March 2021
- **Qualifications:** Bachelor of Science in Engineering from Arizona State University & Diploma in Computer System Analysis from the Institute of Computer Technology, Los Angeles, California, USA

He is the Chairman of the Emirates Human Resources Council and UAE Special Envoy to Canada and Turkey.

He was UAE Minister of Economy, UAE Minister of Communication, and UAE Minister of Government Developments.

Ahmad Abdulkarim Julfar
Independent, Non-Executive

- **Board Member since:** March 2018
- **End of current term:** March 2024
- **Chairman of Remuneration, Nomination & Governance Committee**
- **Elected as a Representative of Investment Corporation of Dubai**
- **Qualification:** Bachelor of Science degree in Civil Engineering & Computer Science from the Gonzaga University in Washington, USA

He has been a Board Director of Emirates Integrated Telecommunications Company (PJSC) since March 2018, and he has been the Managing Director of Emirates Integrated Telecom Company since September 2020.

Mr. Julfar served as Group Chief Executive Officer of Etisalat from July 2011 to March 2016. He served as a Board Director of The National Bank of Ras Al-Khaimah (PSC.) until March 2018.

Abdullah Salim Obaid Al Turifi Al Shamsi
Non-Independent, Non-Executive

- **Board Member since:** March 2018
- **End of current term:** March 2024
- **Qualifications:** Bachelor of Business Administration & Political Science from the UAE University and an Honorary Fellowship of the Institute of Securities & Investment (CISI) in London

He is Board Member of the DIFC Authority Board of Directors. He was the Chairman of the Sharjah Social Security Fund (2017-2023) and Chairman of the Board of Trustees of the Sharjah Award for Doctoral Dissertations in Management Science (2016-2022), member of the Board of Directors of the Business Company of the American University of Sharjah (2018-2022). He was the Chief Executive Officer of the Securities and Commodities Authority ('SCA') from 2003 to 2015. He was also the Chairman of Board of Trustees of the SCA Training Center. He was appointed in 2007 until 2010 as the Secretary General of the Union of Arab Securities Commissions. He was also Board member of the Emirates Industrial Bank from 2010 to 2011. He is the Founder and first director of the Hamriyah Industrial Free Zone, and Vice Chairman of the Board of Directors of DEPA (PLC) in 2018.

Abdulla Saif Obaid Al Hathboor
Non-Independent, Non-Executive

- **Board Member since:** March 2008
- **End of current term:** March 2024
- **Qualification:** Bachelor's Degree in Accounting & Business Administration from UAE University, UAE

He is the Chairman and Managing Director of Al Hathboor Group LLC, a Board member of Best Food Company, and Al Jadeed/Dubai Automatic Bakeries.

Abdul Wahed Mohamed Al Fahim
Independent, Non-Executive

- **Board Member since:** March 2018
- **End of current term:** March 2024
- **Chairman of Board Risk & Compliance Committee**
- **Elected as a representative of Investment Corporation of Dubai**
- **Qualification:** Bachelor's Degree in Business Administration Management from St. Edward's University

He has been Board member of EGA since 2014. He also acts as Chairman of NASDAQ Dubai Limited and serves as a Board member of DUBAL Holding (LLC) and Emirates Development Bank.

Mr. Al Fahim has over 25 years of banking and finance experience with the Emirates NBD Group, having served as a Board member of both Emirates NBD Capital and Emirates NBD Asset Management. Mr. Al Fahim served as General Manager of both the Corporate and Wholesale Banking divisions of Emirates NBD Bank before his appointment as Group Deputy Chief Executive Officer of the Bank in 2009.

Ali Fardan Ali Al Fardan
Non-Independent, Non-Executive

- **Board Member since:** March 2011
- **End of current term:** March 2024
- **Qualification:** Bachelor of Science (Major in Information System) from the Metropolitan State College, USA

He is the Chairman of the Al Fardan Group (Dubai, UAE) and its subsidiaries with over three decades of experience in real estate and banking. Al Fardan Group is a diversified conglomerate that is focused on the real estate and hospitality sector in the UAE and Europe. The Group also manages a significant investment portfolio in several sectors with a focus on the financial sector.

He is a Board member of Dubai Investments (PJSC), Al Mal Capital (PJSC), National General Insurance Co. (PJSC), and has been on the board of several listed entities in the past.

He is a licensed board director.

Buti Saeed Mohamed Al Ghandi
Independent, Non-Executive

- **Board Member since:** March 2015
- **End of current term:** March 2024
- **Chairman of Board Executive Committee**
- **Qualification:** Bachelor's Degree in Business Administration & Finance from George Washington University, USA.

He is the Managing Director of Al Ghandi Investment Co. and Chairman of the Board of Emirates Investment and Development Company (PSC). He is also the Managing Director of Meethaq Employment Agency, Chancellor of the Canadian University of Dubai, and Vice Chairman of Dubai World Trade Centre. He holds directorships on the Board of the Dubai Chamber of Commerce. He was member of the Board of Zakat Fund and served as a Director of Union National Bank (PJSC), Oman Insurance Company, Dubai Islamic Bank, and Union National Bank in Egypt.

Khalid Abdulwahid Hassan Al Rostamani
Non-Independent, Non-Executive

- **Board Member since:** March 2008
- **End of current term:** March 2024
- **Qualification:** Bachelor's Degree in Finance from George Washington University, USA.

He is the Chairman of the A.W. Rostamani Group of Companies and a Founder and Chairman of BCD Travel, Transport and Freight Forwarding. He is also a Board Director of Dubai Insurance Company (PSC) and Etisalat Group (e&).

Sheikh Maktoum Hasher Al Maktoum
Independent, Non-Executive

- **Board Member since:** March 2015
- **End of current term:** March 2024
- **Chairman of Board Audit Committee**
- **Qualification:** Bachelor of Science Degree in Business Administration & Finance from Boston University, USA

He is the Chairman of Dubai International Holdings and a Non – Executive Director of Artemis Resources. He served as an Executive Chairman of SHUAA Capital (PSC) from April 2012 to February 2015. He is a Founding Investor of Virgin Megastores in the UAE.

Hamad Omar Al Futtaim
Non-Independent, Non-Executive

- **Board Member since:** March 2021
- **End of current term:** March 2024
- **Qualification:** Bachelor of Science in Business Administration from Northeastern University, Boston, USA

He is a Director of Business Transformation of Al Futtaim Group and the Managing Director of Al Futtaim Logistics.

EXECUTIVE MANAGEMENT

Dr. Bernd van Linder
Chief Executive Officer

Mr. Mark Zanelli
General Manager, Treasury and Asset & Liability Management

Mr. Fahad Al Muhairi
General Manager, Institutional Banking

Mr. Rupert Rogers
Chief Risk Officer

Mr. Abdul Rahim Al Nimer
General Manager, Corporate Banking

Mr. Darren Clarke
Chief Financial Officer

Mr. Alan Grieve
Chief Credit Officer

Mr. Othman Bin Hendi
Chief Customer Officer

Mr. Ali Imran
Chief Operating Officer

Mr. Khaled Ahmed Al Hammadi
General Manager, Personal Banking Group

Sultan Ahmed AlMahmood
Chief Human Resources Officer

BOARD OF DIRECTORS' REPORT

BOARD OF DIRECTORS' REPORT

Dear Shareholders,

On behalf of Commercial Bank of Dubai (CBD), we have the pleasure of presenting our report together with the audited consolidated financial statements for the year ended 31 December 2023.

The audited 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 relevant laws of the United Arab Emirates.

FINANCIAL HIGHLIGHTS

Commercial Bank of Dubai (CBD) has delivered a record net profit of AED 2,650 million for the year ended 31 December 2023, up 45.2% year-on-year. Outstanding revenue contribution across Net Interest and Other Operating Income, backed by strong loan growth generated a significant rise in net profit. Notably, higher market interest rates contributed to the increase in revenue. UAE business activity and business confidence remains positive, supported by strong domestic non-oil business activity, anticipated robust performance across all key economic sectors and further growth in the number of people and businesses migrating to the country.

Net profit was AED 2,650 million, above the prior year on account of higher net interest income and a solid operating performance.

Total income for the year ended 31 December 2023 was AED 4,938 million, up 29.5%, attributable to an increase in Net Interest Income (NII) by 33.4% on higher interest rates, and growth in Other Operating Income (OOI) by 20.4%.

Operating expenses were AED 1,228 million, with the increase driven by investments in digitisation, business growth, risk management, regulatory compliance and governance. The cost to income ratio remains excellent at 24.87%.

Operating profit grew by 31.8% to AED 3,710 million.

(AED Million)

Income Statement	**2023**	**2022**	***YoY Var***
Net interest income	3,570	2,676	*33.4%*
Other operating income	1,368	1,136	*20.4%*
Total income	**4,938**	**3,812**	***29.5%***
Operating expenses	1,228	997	*23.2%*
Operating profit	**3,710**	**2,816**	***31.8%***
Net impairment loss	1,060	991	*7.0%*
Net profit	**2,650**	**1,825**	***45.2%***

Asset quality the non-performing loan (NPL) ratio decreased to 6.46%, down from 6.73% at the end of 2022.

The net impairment loss totaled AED 1,060 million for the year ended 31 December 2023 (December 2022: AED 991 million). The coverage ratio increased by 337 bps to 83.26% (December 2022: 79.89%) and 120.96% inclusive of collateral for stage 3 loans (December 2022: 120.83%). As at 31 December 2023, total expected credit loss allowances amounted to AED 5,561 million (December 2022: AED 4,900 million).

Total assets were AED 129.0 billion as at 31 December 2023, an increase of 11.0% compared to AED 116.2 billion as at 31 December 2022.

Net loans and advances were AED 83.3 billion, registering an increase of 11.5% compared to AED 74.7 billion as at 31 December 2022.

Customers' deposits were AED 88.3 billion as at 31 December 2023, representing an increase of 8.9% compared to AED 81.1 billion as at 31 December 2022.

Low-cost current and savings accounts (CASA) constitute 49.6% of the total customer deposit base, while the loan-to-deposits ratio stood at 94.4%.

(AED Million)

Balance Sheet	**2023**	**2022**	***YoY Var***
Gross loans and advances	88,874	79,620	*11.6%*
Allowances of impairment	5,561	4,900	*13.5%*
Net loans and advances	**83,313**	**74,720**	***11.5%***
Total assets	128,987	116,187	*11.0%*
Customer deposits	88,287	81,074	*8.9%*
Total equity	15,781	13,882	*13.7%*

The Bank's liquidity position remained robust with the advances to stable resources ratio at 87.25% as at 31 December 2023 (31 December 2022: 87.09%), compared to the Central Bank of the UAE maximum of 100%.

CBD's capital ratios remained strong with the capital adequacy ratio (CAR) at 15.95%, Tier 1 ratio at 14.81% and Common Equity Tier 1 (CET1) ratio at 12.54%. All capital ratios were well above the minimum regulatory thresholds mandated by the Central Bank of the UAE.

Key ratios %	**2023**	**2022**	***YoY Var (Bps)***
Return on equity	21.23%	15.99%	*524*
Return on assets	2.16%	1.58%	*58*
Cost to income ratio	24.87%	26.14%	*(127)*
Non-performing loans (NPL)	6.46%	6.73%	*(27)*
Provision coverage	83.26%	79.89%	*337*
Loan-to-deposit ratio	94.37%	92.16%	*221*
Advances to stable resources	87.25%	87.09%	*16*
Capital adequacy ratio	15.95%	16.04%	*(9)*
Tier 1 ratio	14.81%	14.90%	*(9)*
CET 1 ratio	12.54%	12.40%	*14*

The Board of Directors has proposed a cash dividend of 44.38 fils per share for the year. The total proposed dividend is 50% of net profit.

STRATEGY

CBD's vision is driven by our purpose 'Backing the Nation's Ambition'.

In 2023, the Bank's total assets increased to AED 129 billion recording growth of 11% over 2022. Gross lending was higher by 12%, well above the overall UAE banking market. The lending growth enabled the Bank to achieve continued market share expansion, aligned with the Bank's strategy. The Bank's loan growth was particularly strong in retail mortgages and credit cards over consecutive year, one of the strategic growth opportunities for the Bank. Net profit was higher at AED 2.65 billion, with higher market interest rates lifting net interest income alongside stronger Other Operating Income.

During the year, the Bank continued to deepen relationships with its core franchise customers, ensuring the Bank provides customer with all their banking needs, as a primary bank. As a result, the Bank's fee income was higher particularly in transaction banking and trade activities.

An important focus area remained Current and Savings Accounts (CASA) balances which were also higher. As at 31 December 2023, CASA balances accounted for 50% of the total deposits. The Bank continued expanding the Asset Backed Lending and Supply Chain Financing portfolio, which have grown impressively since their launch in 2021.

In 2023, the Bank further delivered on its Default Digital agenda, one of the core strategic pillars with the launch of several digital solutions whilst also supporting existing customers to better leverage the Bank's digital channels. For the year ended 31 December 2023, 99% of all wholesale transactions were initiated through digital channels, while 97% of retail customers were registered for digital channels and there were 40% increase in mobile banking transactions. CBD received several high-profile industry recognitions, including the "Excellence in Retail Banking" from Finnovex Middle East Awards 2023 and "Best Digitalisation Initiatives" from ME Banking AI Awards 2023, which affirmed the Bank's position as the bank of choice for all customer segments.

The Bank continued to invest in people in 2023 with a focus on Emiratisation and a high performance. During the year, the Bank welcomed over 140 new Emirati colleagues of which 26 UAE National Graduates as part of its Tumoo7 Management Trainee program, in collaboration with Emirates Institute of Finance – Ethraa and Future Tech Leaders. Also, the Bank welcomed 51 UAE National High School Graduates via the Bedayati Program, a 6-month training program in collaboration with Emirates Institute of Finance. The Bank also ran several initiatives during the year focused on physical, social and emotional health of its employees, helping to create a positive impact on their work and personal lives.

In 2024, the Bank forecasts to grow market share within its core business segments, increasing the number of customers and depth of activity with existing customers. The retail business had an outstanding year in 2023, and the Bank expects to continue growing predominantly in selected market segments with a focus on mortgages, credit cards and investment solutions, enabled by market leading digital offerings.

CBD's strong set of core values, Collaboration, Ownership, Delivery and Excellence (CODE) are embedded in its culture and will guide the Bank now and in the years ahead.

PROGRESS AGAINST STRATEGIC EXECUTION FY 2023

ACHIEVE Financial Results	**BECOME** Employer of Choice	**CUSTOMER** Focus	**DEFAULT** Digital
Interest rate tailwinds supported by **rise in CASA**	Recruiting, developing and retaining **UAE national talent**	**Deepening** customer relationships through service excellence	99% — % of **wholesale** transactions initiated **digitally**
Higher fees from improved **transactional activity**	Launched the new **Bedayati Program for High Schoolers**	An established **Voice of Customer Program**	**97%** of customers are registered for digital
Focused investment in digitisation	**Empowering our talent** across the organisation	**Strategic partnerships** providing enhanced customer experience	★★★★★ 4.8 *App Store* ★★★★★ 4.7 *Google Play*
Ongoing **sound portfolio** credit quality	Driving upskilling through the **Digital Accelerator Program**	Embedded **ESG focus** with a landmark **Green Bond issuance**	Expanding **technological capability** for our customers
Healthy liquidity ratios and a stable and diversified Balance Sheet			

BACKING THE NATION'S AMBITIONS

OUR VALUES

CODE

COLLABORATION	**OWNERSHIP**	**DELIVERY**	**EXCELLENCE**
One Bank together now	What we say, we do	Drive flawless execution through effective planning	Drive flawless execution through effective planning
Bank before team; team before me... but the CUSTOMER before everything	We take extreme ownership for what we say and what we do	We deliver measurable results with focus and urgency	Service excellence to be the Bank of Choice

MARKET OVERVIEW

The external market environment during 2023 has been changeable, a year that experienced high global inflation accompanied by higher global central bank mandated interest rates, external influencer and nuanced regional economic events. Growth was ultimately stronger than many expected at the outset of the year as economies and consumer demand proved to be more resilient. Business activity and confidence remained robust as did corporate profits, cashflows and non more so than in the United Arab Emirates which experienced a particularly strong economic period during the calendar year.

Looking ahead global economic forecasts highlight continued growth albeit at slower rates in 2024 and as central banks maintain restrictive monetary policies notwithstanding that interest rates appear to be taking effect at curbing stubbornly sticky inflation. Whilst the markets have priced in a number of US rate cuts in 2024, there remains risk that rates stay higher for longer, continuing to drive inflation lower. Recent US inflation data suggests that policy tightening is having the desired effect with attention turning to the timing and extent of forecast rate cuts. Global Central Banks have re-affirmed a data dependency as they wait and see when considering the timing and extent of any easingin monetary policy. In addition, a number of existing and potential macro-economic events could create extenuating circumstancesas 2024 unfolds. The International Monetary Fund, baseline forecast is for global growth to slow from 3.0 percent in 2023 to 2.9 percent in 2024. Advanced economies are expected to slow from 1.5 percent in 2023 to 1.4 percent in 2024 as policy tightening starts to bite. Global activity is positive albeit differentiated across economies and regions with considerations including the conflicts in the Ukraine and the Middle East accompanied by country specific economic headwinds such as in China.

All in all, and notwithstanding tight interest rate settings and potentially slowing global growth rates, 2024 may well prove to be another year that supports solid business activity and economic growth. It is expected that the United Arab Emirates presents as one of the strongest areas of growth in the year ahead.

More specifically the UAE is expected to continue to maintain broad based growth, with the IMF forecasting 3.38% growth in 2023 and 4.01% in 2024. These forecasts are underpinned by solid population growth, strong domestic business activity and confidence, and a strong fiscal and trade position. Inflationary pressures are expected to moderate gradually. The UAE's prospects continue to be supported by start-ups, entrepreneurs, fin techs and investor activity as businesses continue to expand in a country considered stable and one in which it is easy in headquarter businesses. In June, robust immigration moved Dubai's population above 3.7 million for the first time, while the Dubai Chamber of Commerce stated 30,000 new businesses were registered in the first six months of the year, up from 21,000 in 2022. These trends have also helped to lift the UAE's real estate market.

Dubai's GDP grew by 3.3% in the first nine months of 2023, driven by remarkable growth in sectors such as transportation and storage, wholesale and retail trade, finance and insurance, accommodation and food services, real estate, information and communication technology, education, construction, electricity and water, professional, scientific and technical activities and manufacturing.

These sectors collectively contributed to approximately 88.7 percent of first nine months growth. Accommodation and food services activities witnessed a remarkable 11.1 percent growth, transportation and storage services increased by 10.9 percent and the information and communications sector increase by 4.4 percent, according to figures released by the Dubai Data and Statistics Establishment.

The domestic economy appears well positioned for the year ahead. Domestically, strong trading conditions, economic activity, and healthy fiscal buffers help mitigate potential headwinds and may pose upside risks to medium-term growth.

WHOLESALE BANKING GROUP (WBG)

The Wholesale Banking Group (WBG) includes the relationship management teams for our small, mid-size and large corporate customers, family offices as well as institutional customers.

Our relationship management teams are responsible for servicing customers in these segments and to deliver the planned growth in a sustainable and diversified manner. In order to achieve these objectives, the Bank was able to leverage the product and digital capability in order to support our customers with all their banking requirements.

The WBG team achieved excellent progress in 2023 across our performance units. The successes with existing customers were complemented by a number of additional new to bank large franchise corporate customers.

The strategic focus was strengthened by our transaction banking propositions. In 2023, in addition to offering customers a wide product suite across import and export related credit offerings, further trade opportunities were established and executed in the open account trade area.

The Syndications and Debt Capital Markets business achieved a strong performance in 2023, with standout transactions executed across manufacturing, real estate, hospitality and Government Related Enterprise (GRE) sectors across primary and secondary syndicated loans, club deals, loan portfolio acquisitions as well as bond and sukuks transactions. CBD won and executed numerous mandates across these product categories during the year.

In the first half of 2023, CBD launched our Sustainable Finance Framework. Shortly thereafter, we utilised this framework to become the first Dubai-based bank to complete a conventional green bond, initiating $500 million (AED 1.84 billion) for projects championing green finance. This issuance aligns to Central Bank of the UAE's strategy to lead sustainable finance efforts to enable climate action.

In continuation to the successful initiatives delivered in 2022 across customer onboarding, mobile banking, cash and liquidity management, CBD continued executing on our strategic digital roadmap.

Throughout 2023, CBD embarked on a series of strategic initiatives to further improve our customers' banking journeys. Notable highlights include:

- iBusiness: The next generation of CBD's iBusiness platform. Enhanced innovation to the platform orientated around the user interface and experience, ensuring a more intuitive and user-friendly platform in addition to improving security by introducing biometric capabilities.
- Digital Client Onboarding: Building on the successful adoption of iBank launched in 2022, CBD delivered further business and regulatory enhancements. iBank has been enriched with additional customer solutions across Institutional and Corporate segments. iBank was also developed for regulatory enhancements across KYC, FATCA, CRS, Risk Scoring, Sanctions.
- Banking on The Go: CBD continued the focus on driving increased adoption of our award-winning Mobile App. As part of this programme, the Bank launched several campaigns to lift the number of users and transaction volumes. These campaigns yielded strong results across all segments as customers utilized the additional features available.

These initiatives align with our commitment to delivering a digital-first experience for our WBG customers by focusing on customer needs, embracing digital transformation, and addressing regulatory compliance.

The Group won several awards in 2023, a testament to the Bank's focus on the 'Default Digital' journey:

"Best Digitization Initiatives"

By ME Banking AI Awards 2023

"Best Digital Wallet Award"

By MENA Banking Excellence Awards 2023

PERSONAL BANKING GROUP (PBG)

PBG contributed a net profit of AED 1,109 million for 2023, a growth of 56% year on year.

The Bank's achievement was delivered through a broad-based focus on revenue growth, non-funded income growth supported by increased market interest rates. PBG witnessed a steady increase in operating profit as a result of growth in Current Account and Savings Account (CASA), mortgage volumes, higher market interest rates, deepened wealth relationships and digitisation. Non-funded income growth was driven by investment fees, foreign exchange (FX) and credit card spend.

The Bank's accelerated loan growth was mainly attributable to the market leading performance on home finance and credit cards. Steady growth in liabilities across individual and SME's translated into an asset-to-liability ratio of 49% by the end of 2023.

PBG supports individuals and business customers in managing their finances by providing award-winning products and services in conventional and Sharia-compliant banking. The Bank is committed to driving digital innovation to deliver excellence in customer service.

PBG also maintained its position as the leading digital retail bank in the UAE through its digital-first sales and serving model with more than 90% of new products sold through digital channels in 2023.

The Bank continues to make significant gains in its digital adoption efforts with more than 90% of its customers banking digitally. The CBD Mobile Banking App continues to be the highest rated banking app on the App Store, with more than 27,000 user ratings.

In line with the Bank's ESG strategy and UAE's theme for 2023, the Year of Sustainability, PBG launched Green Home Loan promotions in 2023 which aims to encourage customers to embrace sustainable living practices by providing exclusive discounts on home loans for eco-friendly properties.

The Group won several awards in 2023, a testament to the innovative products and services offered by the Bank:

"Excellence in Retail Banking"

Finnovex Middle East Awards 2023

"Best Mobile Banking Services"

MEA Finance Magazine Banking Technology Awards 2023

CBD AL ISLAMI

Key Facts & Figures

Financial Assets in 2023 **(AED)**

12,505 Mn

Customer Deposits in 2023 **(AED)**

14,358 Mn

CBD Al Islami continued to support customers extending Sharia compliant products and services.

In 2023, financing assets increased to AED 12,505 million and customer deposits to AED 14,358 million. Importantly, the Sharia Compliance function at CBD ensured that the Islamic window organizational structure upheld the three lines of defence, as mandated by the Sharia governance framework. The business complies with all regulatory requirements including the standard for Financial Institutions housing Islamic Windows, as issued by the CBUAE. Notably, in the context of empowering Emirati Women, the Bank appointed a female Emirati as a member of the Bank's Internal Sharia Supervision committee (ISSC).

In line with the Bank strategy to embed ESG throughout the bank with a focus on green financing, CBD Al Islami collaborated on the first green financing transaction with Dubai World Central Corporation (DWCC).

Overall, the CBD Al Isami window had a successful financial year in 2023 and is well positioned for continued success into 2024 and beyond.

DIGITAL AND INFORMATION TECHNOLOGY

During 2023 the Bank continued to accelerate the digital transformation agenda contributing significant uplift to the existing digital platforms, including middle and back-office systems whilst on-boarding new customer centric digital solutions. The Bank's digital transformation continued to drive improved operational efficiency enhancing the overall customer experience.

As part of the digital drive, significant investments were made to further modernize the Bank's Corporate digital platform delivering improvements to the Corporate customer experience. Strategic projects were undertaken to further transform Retail digital channels, including mobile and internet banking which will ensure CBD remains the #1 digital bank in UAE. In addition, projects were initiated to improve the in-branch banking experience by upgrading the Bank's ATMs with multifunctional ATMs.

Providing a superior digital experience to our customer necessitates enhancements to the platforms used by enablement functions across the Bank. Improved systems and processes included a wide range of service enablement and fulfilment systems such as advanced workflow systems, document management, risk decisioning and product capabilities.

High quality digital customer experiences require robust Application Programming Interfaces (API) infrastructure which enables agility in catering to digital demand from customers and external partners. Our Technology refresh strategy helped to position the Bank as an early adoptor of Central Bank's Financial Infrastructure Transformation (FIT) program.

During the year, our Bank undertook a number of technology initiatives to support the 'Gold Standard' in terms of Compliance and Risk. Notably, platforms used in these disciplines were upgraded to 'Best-in-Class' across the industry.

In 2023, CBD launched the infrastructure strategy leveraging hybrid cloud smart principles combining synergy with leading service providers. Investments were made to up-lift the Bank's information security posture which protects the Bank from multiple Distributed Denial-of-Service (DDoS) risks.

The Group's achievements have continued to be widely recognized by multiple industry accolades, including:

Best Instant Payments Technology Implementation

MEA Finance Leaders in Payments Awards 2023

Payment Innovation of the Year

MEA Finance Leaders in Payments Awards 2023

Top Project Execution BFSI

GEC Media Awards

These awards are the result of our relentless focus on enhancing the experience of our customers.

PEOPLE

CBD continued to drive a high-performance culture and back our people by attracting the best talent, driving retention initiatives, and developing capabilities in line with the growth objectives of the Bank. Our people were supported by several ongoing business and digital transformation, bringing about positive organizational change.

Emiratization efforts have continued as a strategic priority for the Bank, investing in UAE Nationals at all levels from graduate entry level and upwards, helping us to create a talent pipeline for the future, as well as appointing UAE Nationals in leadership and management positions.

The development of UAE Nationals has continued to be a focal point for the Bank year-on-year, in line with the ambitions of the UAE leadership and the directives of the CBD Management and Board. The Bank has invested more on professional certifications for the UAE National population as well as flagship development programs to develop targeted capabilities.

The Bank's employee engagement score remained stable from last year's strong score. Notably, CBD scored above the Global Financial Services benchmark across Customer Focus, Leadership, Communication, Collaboration, Feedback, Purpose, Belonging and Growth. These are significant drivers for the future of the Bank that have been trending positively over time. The survey has demonstrated high scores on Prioritization and Continuous Improvement that clearly signifies that the Bank is constantly thinking of innovative ways to become the best bank for our employees and customers.

CBD has continued to keep the health and wellbeing of employees as a top priority, offering a series of wellbeing initiatives designed to back employees emotionally, financially, socially, and physically to help create a positive impact on both their work and personal lives. Sanad, an Employee Assistance Programme (EAP), was launched to help employees cope with the different challenges they may face in their personal or professional lives. The Bank also ran a speaker series in collaboration with our CBD Digital Lab, on a variety of well-being themes. We continued with our regular physical activities bringing exercise to the office through 'Deskercise' and group fitness in Boxing and Yoga sessions.

Our employees also continue to take part in volunteering activities to promote social wellbeing and support the community.

Learning and Development remained at the heart of our people priorities with a focus on professional certifications and digital upskilling. The Bank rolled out an enhanced Credit Skills program in partnership with Fitch Learning for a selection of UAE National Relationship Managers. In 2023, CBD launched our Digital Accelerator program to create a culture of enhanced Innovation and Digital Transformation.

We continue to collaborate with the Emirates Institute of Finance (EIF), with over 160 employees attending various topics across Compliance, Risk Management in Banks, Data Visualization using Power BI, Artificial Intelligence & Machine Learning among others, as we continue to back the professional development of our employees. Importantly, all bank employees successfully completed mandatory learning obligations.

We continue our strong commitment to drive a high-performance culture by recognizing individuals, teams and line managers who demonstrated our CODE values while delivering outstanding customer service and operational excellence. Nearly 200 employees were recognized this year across our all-inclusive platforms: CODE and Spot awards.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

CBD remains committed to the community as a responsible corporate citizen underpinned by our belief that businesses must operate ethically and with integrity. Our core pillars for CSR are unchanged and we continue to identify areas where the Bank can contribute to society in the fields of Health, Education, Financial Literacy, Charity and volunteer programs.

On the occasion of marking Zayed Humanitarian Day following the legacy of the late Sheikh Zayed, CBD donated to 33 charitable, educational, research and training and rehabilitation centres for people of determination across UAE. In an effort to embrace the spirit of giving during the holy month of Ramadan, and as part of our continued partnership with Beit Al Kahir Society, CBD organized a volunteering program to distribute Iftar meal boxes, accumulating for up to 180 volunteering hours. This initiative provided a great opportunity for CBD volunteers to experience Ramadan and give back to society. The Bank was recognized and awarded by our partner Beit Al Khair Society for the continuous support.

In 2023, CBD volunteers joined the Emirates Red Crescent in their "Bridges of Giving Campaign" and preparing packages for the earthquake victims in Turkey and Syria accumulating over 200 volunteering hours. The Bank also arranged several volunteering programs including an outing at the al Noor training center, a visit to the Elderly center, volunteering with the Dubai Center for Special Needs and the Wheelchair Basketball World Championships.

Overall, CBD achieved 2,890 volunteering hours, with 132 volunteers. The Bank's volunteers along with thousands of volunteers from all over the city, joined the " Tarahum for Gaza" campaign, a UAE initiative aimed at providing relief to those affected by the conflict in Gaza.

Under the patronage and attendance of H.H Sheikh Sultan bin Mohammed bin Sultan Al Qasimi, Crown Prince and Deputy Ruler of Sharjah, the Commercial Bank of Dubai was recognized and awarded by the Sharjah City for Humanitarian Services (SCHC) in an honoring ceremony, for the Bank's efforts in giving back to the community and making a positive impact to society.

CBD continued the 28-year-old partnership with the Jabel Ali horse racecourse sponsoring 8 races in 2023-24 as part of CBD's support to UAE Culture and sports heritage.

FINANCIAL STATEMENTS & NOTES

FINANCIAL STATEMENTS & NOTES

Independent auditors' report on the group consolidated financial statements

KPMG Lower Gulf Limited
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Independent auditors' report

To the Shareholders of Commercial Bank of Dubai PSC

Report on the Audit of the Group Consolidated Financial Statements

Opinion

We have audited the Group consolidated financial statements of Commercial Bank of Dubai PSC ("the Bank") and its subsidiaries ("the Group"), which comprise the Group consolidated statement of financial position as at 31 December 2023, the Group consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying Group consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2023, its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

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 *Auditors' Responsibilities for the Audit of the Group Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the Group consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key Audit Matters (continued)

Impairment of loans and advances and Islamic financing

See Note 9 and 35 (b) to the Group consolidated financial statements

The key audit matter	How the matter was addressed in our audit
The Group recognized allowances for credit losses in its Group consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Material exposures within Stage 3 are individually measured for impairment allowances. This includes the assessment of recovery scenarios, exit strategies, and time to collect. The assessment involves significant management judgement in estimating these amounts. This is considered a key audit matter, as the determination of ECL involves significant management judgement, estimates, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, and our business understanding. • Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the entity's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Assessing the design, implementation, and testing the operating effectiveness of selected relevant controls. • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and the application of expert credit judgment to determine the ECL based on their industry knowledge and relevant experience. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends. • Testing the completeness and accuracy of the data used within the ECL calculation. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process. • Re-performing key aspects of the Group's SICR determinations for selected samples of loans and advances and Islamic financing by analysing financial information, assumptions and professional judgements applied by the Group to determine whether a SICR event was appropriately identified. • Involving our valuation specialists on a sample basis to assess the reasonableness of the valuation of real estate collaterals held by the Group, relating to the determination of ECL based on their industry knowledge and relevant experience.

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Commercial Bank of Dubai PSC
Independent Auditors' Report
31 December 2023

Key Audit Matters (continued)

Impairment of loans and advances and Islamic financing (continued)

See Note 9 and 35(b) to the Group consolidated financial statements (continued)

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the Group consolidated financial statements and our auditors' report thereon ('Annual Report'). We obtained the Board of Directors' report prior to the date of this auditors' report, and the remaining sections of the Annual Report are expected to be made available to us after that date.

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

In connection with our audit of the Group consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Group consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' 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.

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

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

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

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

KPMG

Commercial Bank of Dubai PSC
Independent Auditors' Report
31 December 2023

Auditors' Responsibilities for the Audit of the Group Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 Group consolidated financial statements.

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

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

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Commercial Bank of Dubai PSC
Independent Auditors' Report
31 December 2023

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021 we report that for the year ended 31 December 2023:

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

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

iii) the Group has maintained proper books of account;

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

v) as disclosed in note 10 to the Group consolidated financial statements, the Group has purchased shares during the year ended 31 December 2023;

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

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

viii) note 24 to the Group consolidated financial statements discloses the social contributions made during the year ended 31 December 2023.

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

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Dubai, United Arab Emirates
31 January 2024

Group consolidated statement of financial position
As at 31 December 2023

	Notes	2023 AED'000	2022 AED'000
ASSETS			
Cash and balances with Central Bank	7	**15,009,602**	15,760,429
Due from banks, net	8	**3,772,709**	3,766,507
Loans and advances and Islamic financing, net	9	**83,313,306**	74,720,117
Investment securities, net	10	**15,098,729**	8,810,092
Investment in an associate	11	**102,390**	92,916
Investment properties	12	**246,050**	185,768
Property and equipment	13	**431,843**	354,251
Bankers acceptances		**7,931,518**	8,570,044
Positive mark to market value of derivatives	31	**697,872**	1,024,009
Other assets, net	14	**2,383,472**	2,902,494
TOTAL ASSETS		**128,987,491**	116,186,627
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	15	**7,833,389**	7,838,704
Customer deposits and Islamic customer deposits	16	**88,287,145**	81,074,379
Notes and medium term borrowings	17	**5,705,456**	2,034,019
Due for trade acceptances		**7,931,518**	8,570,044
Negative mark to market value of derivatives	31	**634,707**	923,911
Other liabilities	18	**2,813,919**	1,863,324
TOTAL LIABILITIES		**113,206,134**	102,304,381
EQUITY			
Share capital	19.1	**2,985,192**	2,802,734
Tier 1 capital notes	19.2	**2,203,800**	2,203,800
Legal and statutory reserve	19.3	**1,492,596**	1,401,447
General reserve	19.4	**1,328,025**	1,328,025
Capital reserve	19.5	**38,638**	38,638
Fair value reserve	19.6	**(552,325)**	(693,832)
Retained earnings		**8,285,431**	6,801,434
TOTAL EQUITY		**15,781,357**	13,882,246
TOTAL LIABILITIES AND EQUITY		**128,987,491**	116,186,627

To the best of our knowledge, the Group's consolidated financial information presented fairly in all material respects the financial condition, results of operation and cash flows of the Group as of, and for, the years presented herein.

The Group's consolidated financial statements were approved and authorized for issue by the Board of Directors on 31 January 2024.

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 38 to 42.

H.E. Humaid Al Qutami
Chairman

Dr. Bernd van Linder
Chief Executive Officer

Group consolidated statement of profit or loss
For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Interest income	20	**5,901,253**	3,311,444
Interest expense	21	**(2,629,459)**	(909,957)
Net interest income		**3,271,794**	2,401,487
Income from Islamic financing	20	**762,316**	471,612
Distribution on Islamic deposits	21	**(464,421)**	(197,226)
Net income from Islamic financing		**297,895**	274,386
Total net interest income and net income from Islamic financing		**3,569,689**	2,675,873
Fees and commission income	22	**1,229,088**	1,089,157
Fees and commission expense	22	**(294,438)**	(333,539)
Net fees and commission income	22	**934,650**	755,618
Share of profit of an associate	11	**16,803**	8,583
Other operating income / (loss)	23	**416,785**	372,148
Total operating income		**4,937,927**	3,812,222
Operating expenses	24	**(1,227,849)**	(996,605)
Operating profit before impairment		**3,710,078**	2,815,617
Net impairment loss	25	**(1,060,012)**	(990,598)
Net profit for the year		**2,650,066**	1,825,019
Basic and diluted earnings per share	27	**AED 0.84**	AED 0.57

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 38 to 42.

Group consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Net profit for the year		**2,650,066**	1,825,019
Items that will not be reclassified to profit or loss:			
Realised gains on sale of equity investments held at fair value through other comprehensive income		**438**	406
Net change in fair value of equity investments (or instruments) at FVOCI		**(14,240)**	4,528
Actuarial loss on retirement benefits obligations	18	**(1,623)**	(3,889)
Items that may be subsequently reclassified to profit or loss:			
Changes in fair value of effective portion of cash flow hedge		**–**	1,641
Changes in fair value reserve of property	19.6	**(12,741)**	–
Changes in fair value reserve of an associate	11	**190**	(1,825)
Net amount transferred (or reclassified) to profit or loss on debt investments (or instruments) at FVOCI		**(705)**	(398)
Net change in fair value of debt investments (or instruments) at FVOCI		**170,626**	(632,715)
		157,370	(633,297)
Other comprehensive income / (loss) for the year		**141,945**	(632,252)
Total comprehensive income for the year		**2,792,011**	1,192,767

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 38 to 42.

Group consolidated statement of changes in equity

For the year ended 31 December 2023

	Share capital AED'000	Tier 1 capital notes AED'000	Legal and statutory reserve AED'000	General reserve AED'000	Capital reserve AED'000	Fair value reserve AED'000	Retained earnings AED'000	Total AED'000
Balances as at 1 January 2023	**2,802,734**	**2,203,800**	**1,401,447**	**1,328,025**	**38,638**	**(693,832)**	**6,801,434**	**13,882,246**
Net profit for the year	–	–	–	–	–	–	**2,650,066**	**2,650,066**
Other comprehensive income for the year	–	–	–	–	–	**141,507**	**438**	**141,945**
Transactions with shareholders, recorded directly in equity								
Interest on Tier 1 capital notes	–	–	–	–	–	–	**(132,228)**	**(132,228)**
Bonus shares for 2022 (6.51%)	**182,458**	–	–	–	–	–	**(182,458)**	–
Cash dividend paid for 2022 (26.05%)	–	–	–	–	–	–	**(730,112)**	**(730,112)**
Directors' remuneration paid for 2022	–	–	–	–	–	–	**(23,000)**	**(23,000)**
Transfer to legal and statutory reserve	–	–	**91,149**				**(91,149)**	–
Share of Directors' remuneration of an associate (note 11)	–	–	–	–	–	–	**(866)**	**(866)**
Other reserves	–	–	–	–	–	–	**(6,694)**	**(6,694)**
Balances as at 31 December 2023	**2,985,192**	**2,203,800**	**1,492,596**	**1,328,025**	**38,638**	**(552,325)**	**8,285,431**	**15,781,357**
Balances as at 1 January 2022	2,802,734	2,203,800	1,401,447	1,328,025	38,638	(61,174)	5,853,744	13,567,214
Net profit for the year	–	–	–	–	–	–	1,825,019	1,825,019
Other comprehensive loss for the year	–	–	–	–	–	(632,658)	406	(632,252)
Transactions with shareholders, recorded directly in equity								
Interest on Tier 1 capital notes	–	–	–	–	–	–	(132,228)	(132,228)
Cash dividend paid for 2021 (25.88%)	–	–	–	–	–	–	(725,348)	(725,348)
Directors' remuneration paid for 2021	–	–	–	–	–	–	(19,250)	(19,250)
Transfer to legal and statutory reserve	–	–	–	–	–	–	–	–
Share of Directors' remuneration of an associate (note 11)	–	–	–	–	–	–	(909)	(909)
Balances as at 31 December 2022	2,802,734	2,203,800	1,401,447	1,328,025	38,638	(693,832)	6,801,434	13,882,246

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 38 to 42.

Group consolidated statement of cash flows

For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
OPERATING ACTIVITIES			
Net profit for the year		**2,650,066**	1,825,019
Adjustments for non-cash and other items:			
Depreciation and amortisation		**49,409**	35,768
Amortisation of (premium) on investments		**(213,185)**	(2,103)
Amortisation of transaction cost on notes and medium term borrowings		**970**	971
(Gain) / loss on foreign exchange translation		**(8,761)**	19,152
Realised gains on sale of investments		**(705)**	(398)
Net unrealized losses on derivatives		**36,260**	21,308
Impairment allowance on investment securities	25	**810**	100
Share of profit of an associate	11	**(16,803)**	(8,583)
Dividend income		**(9,758)**	(6,261)
Impairment allowance on loans and advances and Islamic financing	25	**1,000,388**	1,025,480
Charge / (reversal) of impairment allowance on due from banks	25	**571**	(884)
Impairment allowance on other assets	25	**147,721**	56,155
Impairment allowance on financial guarantees and loans commitments	25	**92,565**	50,859
Gains on disposal of property and equipment		**(113)**	(8)
		3,729,435	3,016,575
Increase in negotiable Central Bank UAE certificate of deposits with original maturity of more than three months		**(250,000)**	(1,050,000)
(Increase) / decrease in due from banks with original maturity of more than three months		**(1,580,831)**	248,751
(Increase) / decrease in loans and advances and Islamic financing		**(9,593,577)**	757,225
Decrease / (increase) in other assets		**295,556**	(606,365)
(Decrease) / increase in due to banks		**(5,315)**	1,718,490
Increase / (decrease) in customer deposits and Islamic customer deposits		**7,206,072**	(1,647,290)
Increase in other liabilities		**856,407**	416,869
Directors' remuneration paid		**(23,000)**	(19,250)
Net cash flow from operating activities		**634,747**	2,835,005
INVESTING ACTIVITIES			
Purchase of investments		**(14,889,652)**	(9,076,064)
Proceeds from sale and matured investments		**8,977,864**	8,613,395
Purchase of property and equipment		**(122,825)**	(77,477)
Proceeds from sale of property and equipment		**443**	2,529
Dividend income received		**9,758**	6,261
Dividend from an associate	11	**6,653**	7,984
Net cash flow used in investing activities		**(6,017,759)**	(523,372)
FINANCING ACTIVITIES			
Issuance / (Repayment) of notes and medium term borrowings		**3,670,467**	(551,442)
Interest on Tier 1 capital notes		**(132,228)**	(132,228)
Dividend paid		**(730,112)**	(725,348)
Net cash flow from / (used in) financing activities		**2,808,127**	(1,409,018)
Net (decrease) / increase in cash and cash equivalents		**(2,574,885)**	902,615
Cash and cash equivalents at 1 January		**17,991,801**	17,089,186
Cash and cash equivalents at end of the year	28	**15,416,916**	17,991,801
Supplemental disclosure:			
Interest income and income from Islamic financing received		**6,428,974**	3,615,900
Interest expense and distributions to Islamic depositors paid		**2,577,000**	831,593

The attached notes from 1 to 37 form part of the Group's consolidated financial statements.

The independent auditors' report on the Group consolidated financial statements is set out on pages 38 to 42.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

1. LEGAL STATUS AND ACTIVITIES

Commercial Bank of Dubai PSC ("the Bank") was incorporated in Dubai, United Arab Emirates (UAE) in 1969 and is registered as a Public Joint Stock Company (PJSC) in accordance with Federal Law No. 32 of 2021. The Bank is listed on the Dubai Financial Market. The Bank's principal activity is commercial and retail banking. The registered address of the Bank is CBD Head Office, Al Ittihad Street, P. O Box 2668, Dubai, United Arab Emirates.

The consolidated financial statements for the year ended 31 December 2023 comprise the results of the Bank, its wholly-owned subsidiaries (together referred to as "the Group") and the Group's interest in an associate.

Details about subsidiaries, special purpose entities and an associate:

Name of Subsidiary	Ownership Interest		County of Incorporation	Principle activities
	30 Dec 2023	31 Dec 2022		
Subsidiary CBD Financial Services LLC	100%	100%	UAE	Providing brokerage facilities for local shares and bonds.
CBD Employment Services One Person Company LLC	100%	100%	UAE	Supply of manpower services.
Attijari Properties LLC	100%	100%	UAE	Self-owned property management services as well as buying and selling of real estate.
Noor Almethaq Real Estate Development LLC	100%	100%	UAE	Development of real estate.
Special Purpose Entity CBD (Cayman) Limited	100%	100%	Cayman Islands	Issuance of debt securities.
CBD (Cayman II) Limited	100%	100%	Cayman Islands	Transact and negotiate derivative agreements.
VS 1897 (Cayman) Limited	100%	100%	Cayman Islands	Manage investment acquired in the settlement of debt.
CBD Digital Lab Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	100%	UAE	Technology research and development.
Hortin Holding Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	100%	British Virgin Islands	Manage real estate related investment acquired in the settlement of debt.
Lodge Hill Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	100%	British Virgin Islands	Manage real estate related investment acquired in the settlement of debt.
Westdene Investment Limited [Subsidiary of VS 1897 (Cayman) Limited]	100%	100%	British Virgin Islands	Manage real estate related investment acquired in the settlement of debt.
Associate National General Insurance Co. (PJSC)	17.8%	17.8%	UAE	Life and general insurance business as well as certain reinsurance business.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

2. BASIS OF PREPARATION

2.1 Statement of compliance

These Group consolidated 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 relevant laws of the UAE.

As required by the UAE Securities and Commodities Authority (SCA) notification number 85/2009 dated January 6, 2009, the Group's exposure in cash and balances with Central Bank of the UAE, Due from Banks and Investment Securities outside the UAE have been presented under the respective notes.

2.2 Functional and presentation currency

These Group's consolidated financial statements are presented in United Arab Emirates Dirhams ("AED"), which is the Bank's functional and presentation currency, rounded to the nearest thousand unless otherwise stated.

2.3 Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity are disclosed in note 4.

2.4 Basis of measurement

These Group's consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value through profit or loss (FVPL);
- financial instruments classified as fair value through profit or loss;
- financial assets at fair value through other comprehensive income;
- recognised financial assets and financial liabilities that are hedged items in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged. Amortised cost is adjusted for hedging gain or loss;
- investment properties;
- end of service benefits that are measured at the present value of the defined benefit obligation;
- granted land, which is stated at the market value at the date of grant.

2.5 Basis of consolidation

These Group's consolidated financial statements comprise the financial statements of the Bank and its subsidiaries. Subsidiaries are entities controlled by the Group.

i. Business Combination

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired.

ii. Subsidiary

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

2. BASIS OF PREPARATION (CONTINUED)

2.5 Basis of consolidation (continued)

ii. Subsidiary (continued)

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interest (NCI). When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the cumulative translation differences recorded in equity;
- Derecognises the carrying amount of any non-controlling interest;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any gain or loss in the consolidated statement of profit or loss; and
- Reclassifies the parent's share of components previously recognised in consolidated OCI to consolidated statement of profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

When the Group loses control of a subsidiary, a gain or loss is recognised in the consolidated statement of profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest, and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary, and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity).

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

iii. Associate

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in its associate is accounted for using the equity method. Under the equity method, the investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate since the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated statement of profit or loss.

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

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

2. BASIS OF PREPARATION (CONTINUED)

2.5 Basis of consolidation (continued)

iii. Associate (continued)

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of profit or loss.

Management reviews its share of investments in associates to assess impairment on a regular basis. In determining the assessment, management compares the recoverable amount with the carrying value of the investment. Estimating recoverable amount using value in use requires the Group to make an estimate of the expected future cash flows from the associates and choosing a suitable discount rate in order to calculate the present value of those cash flows.

iv. Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency translation gains or losses) arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all the years presented in these consolidated financial statements, except for the accounting standards mentioned in note 5.1 which are applied for the first time.

3.1 Financial Instruments

a) Recognition and initial measurement

A financial instrument is any contract that gives rise to both a financial asset for the Group and a financial liability or equity instrument for another party or vice versa.

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis, which is the date on which the Group becomes a party to the contractual provisions of the instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are added to or deducted from the fair value of the financial assets or financial liabilities respectively, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition or issue of financial assets are amortised over the expected life of the financial instrument or a shorter period if it relates to the expected period of the costs. Transaction costs related to financial liabilities are recognized immediately in the consolidated statement of profit or loss.

If the transaction price differs from fair value at initial recognition, the Group accounts for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in consolidated statement of profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value is adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss is deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss is released to consolidated statement of profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

b) 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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group 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 the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – 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. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

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

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

c) Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

c) Fair value hierarchy (continued)

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; 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 based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The hierarchy used by the Group is set out in note 6.2.

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., an exit price). Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Group applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates.

For over-the-counter (OTC) derivative financial instruments, fair value is determined using well established valuation techniques that incorporate assumptions based primarily on observable market inputs such as current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves, currency rates as well as price and rate volatility factors.

As at 31 December 2023, the fair value of investment properties is based on the valuations performed by third party valuers and all are level 3 under fair value hierarchy. The valuations are carried out by professional valuers who hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued. The valuations were based on income (investment) and a market-based method of valuation. To value the investment properties, the existing rental income and estimated market rental income are used. Any significant movement in the assumptions used for the fair valuation of investment properties such as yield, rental growth, vacancy rate is expected to result in significantly lower / higher fair value of these assets.

The Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Group analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

3.1.1 Financial assets

a) Classification

The Group classifies financial assets on initial recognition in the following categories:

i. Amortised cost;

ii. Fair value through other comprehensive income (FVOCI); and

iii. Fair value through profit or loss (FVPL).

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.1 Financial Instruments (continued)
3.1.1 Financial assets (continued)
a) Classification (continued)

o Business model assessment

The Group makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the entity considers all relevant information available at the date of the assessment. The information considered includes:

- the stated policies and objectives for the business 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 and the financial asset held within the portfolio is evaluated and reported to the management;
- the risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed;
- how the managers of the business are compensated; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Group's stated objective for managing the financial assets is achieved and how cash flows are realised.

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

o Assessment whether contractual cash flows is solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Group considers the contractual terms of the instrument.

For the purpose 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.

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

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

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

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.1 Financial Instruments (continued)
3.1.1 Financial assets (continued)
a) Classification (continued)

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

<u>Non-recourse</u>

In some cases, loans made by the Group that are secured by collateral of the borrower's limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgement in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

i. Financial assets at amortised cost

A debt instrument, including loans and advances and Islamic financing asset is classified as being measured at amortised cost if it meets both of the following conditions and is not designated as FVPL:

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

ii. Financial assets at fair value through other comprehensive income (FVOCI)

A debt instrument is classified as being measured at FVOCI if it meets the following two conditions and the debt instrument is not designated at FVPL:

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

The Group measures all equity investments at FVPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are not held for trading. This election is made on an investment-by-investment basis.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

a) Classification (continued)

iii. Financial assets at fair value through profit or loss (FVPL)

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL.

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

b) Subsequent measurement

The Group measures financial instruments, such as derivatives and investments in equity and certain fixed income instruments, at fair value at each reporting date.

Financial asset classified as at FVOCI or FVPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortised cost using the effective interest method, less expected credit allowances.

c) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition except in the period after the Group changes its business model for managing financial assets. If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current and previous financial year there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification of financial assets' and 'Derecognition of financial assets' described in note 3.1.1 (g) and 3.1.1 (h) respectively.

d) Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- for financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in consolidated statement of profit or loss in the 'other operating income / (loss)' line item;
- for debt instruments measured at FVOCI that are not part of a designated hedging relationship, exchange differences on the amortised cost of the debt instrument are recognised in the consolidated statement of profit or loss in the 'other operating income / (loss)' line item. Other exchange differences are recognised in OCI in the investments revaluation reserve;
- for financial assets measured at FVPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in consolidated statement of profit or loss in 'other operating income / (loss)';
- for equity instruments measured at FVOCI, exchange differences are recognised in OCI in the investments revaluation reserve; and
- Non-monetary assets and liabilities denominated in foreign currencies that are measured at FVPL are retranslated into the functional currency (AED) at the foreign exchange rate at the date that the fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets

The Group recognizes, where applicable, loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at FVPL:

- balances with central banks;
- due from banks;
- debt investment securities;
- loans and advances, Islamic financing and other financial assets;
- loan commitments; and
- financial guarantee contracts.

No impairment loss is recognized on equity investments.

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

Stage 1:	When financial instruments are first recognised, the Group recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.
Stage 2:	When a financial instruments has shown a significant increase in credit risk since origination, the Group records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.
Stage 3:	Financial instruments considered credit-impaired. The group records an allowance for the LTECLs.

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive); and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows.

However, for unfunded exposures, ECL is measured as follows:

- for undrawn loan commitments, as the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

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

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

These parameters are generally derived from internally developed statistical models, other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Group, and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Group 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, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross-collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, history of recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

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 grading;
- collateral type;
- loan to value ratio for retail exposure;
- date of initial recognition;
- remaining term of maturity;
- industry; and
- geography location of the borrower.

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

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Restructured financial assets

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

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

At each reporting date, the Group 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. Credit-impaired financial assets are referred to as Stage 3 assets. 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 lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessments of creditworthiness;
- the country's ability to access the capital markets for new debt issuance; and
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators or a backstop if amounts are overdue for 90 days or more.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are assets that are credit-impaired on initial recognition. For POCI assets, lifetime ECL are incorporated into the calculation of the effective interest rate on initial recognition. Consequently, POCI assets do not carry an impairment allowance on initial recognition. The amount recognised as a loss allowance subsequent to initial recognition is equal to the changes in lifetime ECL since initial recognition of the asset.

Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs or the identification of a significant increase in credit risk.

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

- the borrower is unlikely to pay its credit obligations to the Group in full without recourse by the Group to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

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.

In assessing whether a borrower is in default, the Group 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 Group; and
- based on data developed internally and obtained from external sources

The Group has performed a historical default rate analysis to identify homogeneous segments and further estimated ECL parameters (i.e. PD, LGD and EAD) at similar granularities. To perform a historical default rate analysis, the Group has adopted two separate definitions of default for the non-retail and the retail portfolio.

o Non-retail portfolio

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Group. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days of any of its credit obligation. Materiality refers to 5% of the principal outstanding being past due for 90+ days is considered delinquent.

o Retail portfolio

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days. The default rate analysis for the retail portfolio is performed at the account level.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

e) Impairment of financial assets (continued)

Assessment of significant increase in credit risk

The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The assessment is performed on monthly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit risk by comparing the risk of default estimated at origination with the risk of default at reporting date based on the movement in credit rating by 3 notches for credit risk grading 1 – 10, by 2 notches for credit risk grading 11 – 17 and 1 notch for credit risk grading 18 – 19. In addition to quantitative criteria the Group has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

Multiple macro-economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different macro-economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the probability of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the probability of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment. The following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behavior of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macro-economic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

The quantitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

As a back stop, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.1 Financial Instruments (continued)
3.1.1 Financial assets (continued)
e) Impairment of financial assets (continued)
Assessment of significant increase in credit risk (continued)

For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in Stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

Improvement in credit risk profile

The Group has defined the below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded in stage (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

Incorporation of forward-looking information

The Group incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Group relies on a broad range of forward-looking information as economic inputs such as:

- House prices like real estate – Dubai and Abu Dhabi Index;
- Economic Composite Index (ECI);
- Non-Oil Economic Composite Index (NIECI);
- Oil Price per Barrel (OPB);
- Consumer Price Index (CPI) and
- Hotel Occupancy Dubai.

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

The Group formulates three economic scenarios: a base case, which is the median scenario assigned a 40% (2022: 40%) probability of occurring, and two less likely scenarios, one upside at 30% (2022: 30%) probability of occurring and one downside at 30% (2022: 30%) probability of occurring.

The table below summarizes key macroeconomic indicators included in the economic scenarios in UAE at 31 December 2023 for the years ending 2023 to 2025:

	Base Scenario			Downside Scenario			Upside Scenario		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Economic Composite Index	2.3%	1.5%	1.3%	–	(3.6)%	1.9%	3.5%	3.1%	1.3%
Oil Price – USD	79	69	61	69	56	58	84	68	59
Real Estate Index – Dubai	14,209	14,612	14,818	13,611	12,796	13,256	14,529	15,388	15,481

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)
3.1 Financial Instruments (continued)
3.1.1 Financial assets (continued)
e) Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

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

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- for loan commitments and financial guarantee contracts: generally, as other liabilities; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

f) Write-off
Loans and advances and Islamic financing and debt securities are written-off when the Group has no reasonable expectations of recovering the financial asset (either partially or in full). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written-off.

Recoveries of amounts previously written-off are included in 'recoveries' in the consolidated statement of profit or loss.

g) Modification of financial assets
A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Group assesses whether this modification results in derecognition. In accordance with the Group's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Group deems the arrangement is substantially different leading to derecognition.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

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

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

g) Modification of financial assets (continued)

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

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

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Group's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms.

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the consolidated statement of profit or loss. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. 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 received 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 rate method.

h) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.1 Financial assets (continued)

h) Derecognition of financial assets (continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in OCI is recognised in consolidated statement of profit or loss.

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

3.1.2 Financial liabilities

a) Classification

The Group classifies its financial liabilities in the following categories:

i. Fair value through profit or loss; and

ii. Amortised cost.

i. Financial liabilities at FVPL

Financial liabilities are classified as at FVPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and is effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Subsequent measurement

Financial liabilities at FVPL are stated at fair value, with any gains / losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain / loss recognised in consolidated statement of profit or loss incorporates any interest paid on the financial liability.

However, for non-derivative financial liabilities that are designated as at FVPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to consolidated statement of profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.2 Financial liabilities (continued)

a) Classification (continued)

i. Financial liabilities at FVPL (continued)

Subsequent measurement (continued)

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVPL. This determination is made at initial recognition.

Fair value is determined in the manner described in note 3.1 (b).

ii. Financial liabilities at amortised cost

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

b) Modification of financial liabilities

The Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is materially different from the discounted present value of the remaining cash flows of the original financial liability.

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

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in the consolidated statement of profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification.

Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

c) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the consolidated statement of profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.1 Financial Instruments (continued)

3.1.3 Financial guarantee contracts and loan

Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

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

Financial guarantees issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value. Subsequently, they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Other loan commitments issued are measured at the sum of (i) the loss allowance determined in accordance with IFRS 9 and (ii) the amount of any fees received, less, if the commitment is unlikely to result in a specific lending arrangement, the cumulative amount of income recognised. Derecognition policies are applied to loan commitments issued and held.

The Group has issued no loan commitments that are measured at FVPL.

Liabilities arising from financial guarantees and loan commitments are included within other liabilities.

3.2 Derivative financial instruments

a) Classification

The Group enters into derivative financial instruments including forwards, futures, swaps and options in the foreign exchange and capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVPL – financial assets held for trading" financial instruments.

b) Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

c) Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as FVPL are taken to the consolidated statement of profit or loss.

3.3 Hedging instruments

As part of its asset and liability management, the Group uses derivatives for hedging purpose.

When derivatives are designated as hedges, the Group classifies them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

Hedge accounting

a) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Group's risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Group will assess the effectiveness of the hedging relationship on an ongoing basis.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.3 Hedging instruments (continued)

Hedge accounting (continued)

b) Hedge effectiveness testing
The hedge is regarded as highly effective if both of the following conditions are met:

- At the inception of the hedge and in subsequent periods, the hedge is expected to be highly effective in offsetting the changes in fair value or cash flows of the hedging instruments with corresponding changes in the hedged risk and should be reliably measurable; and
- The actual results of the hedge effectiveness testing are within a range of 80 to 125 percent.

In case of a cash flow hedge, prospective hedge effectiveness is assessed by matching the critical terms of hedging instruments and hedged items.

c) Fair value hedge
When a derivative is designated as the hedging instrument in a hedge relationship, changes in the fair value of the derivative are recognised immediately in profit or loss, together with changes in the fair value of the hedged item that are attributable to the hedged risk. The change in fair value of the hedged item attributable to the hedged risk is recognised in profit or loss. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly. If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. Any adjustment up to the point of discontinuation to a hedged item for which the effective interest method is used is amortised to profit or loss as an adjustment to the recalculated effective interest rate of the item over its remaining life.

d) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the consolidated statement of profit or loss.

e) Discontinuance of hedge accounting
The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in OCI until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in OCI is immediately transferred to the consolidated statement of profit or loss.

f) Hedges that do not qualify for hedge accounting
For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the consolidated statement of profit or loss for the year.

3.4 Loans and advances and Islamic financing

Loans and advances and Islamic financing are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except when the Group chooses to carry the loans and advances at FVPL.

In addition to conventional banking products, the Group offers its customers certain Islamic financing products, which are approved by Sharia Supervisory Board. Islamic financing consists of the following:

Murabaha

An agreement whereby the Group sells to a customer, commodity or asset (subject asset) on a deferred payment basis, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the subject asset and an agreed profit margin. Income is recognised on an accrual basis adjusted by actual income when received.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.4 Loans and advances and Islamic financing (continued)

Ijara

Ijara refers to lease of the asset, which the Group (Lessor) constructs or purchases as per customer (Lessee) request based on the promise to lease the asset for a fixed term against certain rent installment. Ijara can end by transferring the ownership of the asset to the lessee in case of Ijara Muntahia Bittamleek.

The Ijara agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijara agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijara rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rental (which predominantly represent the cost of the leased asset).

3.5 Investment securities

The 'investment securities' caption in the consolidated statement of financial position includes:

- debt investment securities measured at amortised cost: these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVPL or designated as at FVPL: these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as 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 debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

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

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

3.6 Investment properties

The Group holds certain investment properties to earn rental income, for capital appreciation or both. The leased out or intended to lease out components have been classified as investment properties. Investment properties are measured initially at cost, including transaction costs. Effective 1 January 2023, the Group changed the accounting policy for Investment Properties from the cost model to the fair value model as the Group believes that this will make the financial results more reliable and relevant in relation to the value of the investment properties. The impact of this change was not considered material, with the net change being reflected prospectively in the current year's profit within other operating income. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement under 'Other operating income' in the year in which they arise.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.6 Investment properties (continued)

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are determined by comparing the proceeds from disposal with the carrying amount and are recognised in the consolidated statement of profit or loss under 'Other operating income' in the year of retirement or disposal.

3.7 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment losses except for granted land, which is stated at the market value at the date of grant.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of replacing an item of property and is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The day-to-day servicing expenses of property and equipment are recognised in the consolidated statement of profit or loss as incurred.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment. These are included in the consolidated statement of profit or loss.

Property and equipment is impaired if the carrying amount of the asset or its cash generating unit (CGU) exceed its recoverable amount. The impairment loss is recognised in the consolidated statement of profit or loss.

The cost of all property and equipment other than freehold land and capital work in progress is depreciated using the straight-line method over the following estimated useful lives:

Buildings	30 to 60 years
Leasehold improvements	5 to 10 years
Building renovations	7 years
Furniture and fixtures	7 years
Computer equipment	3 to 10 years
Computer software	7 years
Motor vehicles	5 years

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

Capital work in progress is initially recorded at cost, and upon completion is transferred to the appropriate category of property and equipment and thereafter depreciated in accordance with the Group's policies.

3.8 Repurchase agreement

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset at a fixed price on a future date the agreement is accounted for as a term borrowing depending on period of the agreement, and the underlying asset continues to be recognised in the Group's consolidated financial statements.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.9 Customer deposits and Islamic customer deposits

Customer deposits are initially recognised at fair value, being the fair value of the consideration received. After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

The Islamic customer deposits are received by entering into following kinds of agreements:

Mudaraba

An agreement between the Group and a third party whereby one party would provide a certain amount of funds (Rab ul Mal) which the other party (Mudarib) would then invest in a specific enterprise or activity against a specific share in the profit. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba. In principle Mudaraba profit is distributed on declaration/distribution by the Mudarib.

Wakala

An agreement between Group and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Wakil 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 Wakil.

Islamic customer deposits are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective profit method.

3.10 Employees' terminal benefits

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

Defined contribution scheme

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

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

Defined benefit scheme

A defined benefit scheme is a post-employment benefit scheme other than a defined contribution scheme. The liability recognised in the statement of financial position in respect of defined benefit gratuity schemes is the present value of the defined benefit obligation at the end of the reporting period together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using assumptions in line with the guidelines of IAS 19. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.10 Employees' terminal benefits (continued)

Defined benefit scheme (continued)

The Group has determined that, in accordance with the terms and conditions of the defined benefit scheme, and in accordance with statutory requirements, the present value of refunds or reductions in future contributions, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. Net interest expense and other expenses related to defined benefit scheme are recognised in staff and other expenses in consolidated statement of profit or loss. When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately to profit or loss. The Group recognises gains and losses on the settlement of a defined benefit scheme when the settlement occurs.

The below are the key actuarial assumptions used to value the liabilities using weighted average rates.

	2023	2022
Discount Rate	4.15% per annum	4.30% per annum
Salary Increase Rate	2.00% per annum	1.15% per annum

3.11 Share capital

The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instruments.

3.12 Dividend on ordinary shares

Dividends payable on ordinary shares are recognised as a liability in the period in which they are approved by the Group's shareholders in the Annual General Meeting.

3.13 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when, and only when, the Group has a legally enforceable 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 of gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.14 Revenue recognition

i. Interest income and expense

Interest income and expense for all interest bearing financial instruments except at FVPL, are presented in 'interest income' and 'interest expense' in the consolidated statement of profit or loss on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate. Interest income and expense for financial instruments at FVPL is recognised as 'Net gain from investments at fair value through profit or loss'.

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 Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.14 Revenue recognition (continued)

i. 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. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

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.

ii. Income from Islamic financing and distributions to depositors

Income from Islamic financing is recognised in the consolidated statement of profit or loss using the effective profit method.

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

Distribution to depositors (Islamic products) is calculated according to the Group's standard procedures and is approved by the Group's Sharia Supervisory Board.

iii. Fees and commission

Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Group to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Group based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control over a product or service to a customer.

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

Fee income is accounted for as follows:

- Personal and Corporate banking: 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.
- Investment banking service: Revenue from administrative agency services is recognized over time as the services are provided. The amounts to be collected from customers on 31 December are recognised as trade receivables. Revenue related to transactions is recognised at the point in time when the transaction takes place.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'Interest income'.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.14 Revenue recognition (continued)

iii. Fees and commission (continued)

- **Asset management services**

The Group provides asset management services. Fees for asset management services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.

- **Customer loyalty programme**

The Group operates a rewards programme which allows customers to accumulate points when they purchase products on the Group's credit cards. The points can then be redeemed for shopping rewards, cash back or air miles, subject to a minimum number of points being obtained. While some aspects of the programme are administered in-house, third party providers are used for certain other aspects of the programme.

In the case of the in-house administered aspects, the sale proceeds received are allocated between the products / services sold and the points issued. The proceeds allocated to the points are equal to their fair value. Fair value is determined by applying statistical techniques.

For aspects where third party providers are used, the consideration allocated to the awards credits collected on behalf of the third party are charged to the consolidated statement or profit or loss at the time of supplying the rewards.

iv. Property related income

Property related income includes rental income, which is recognised on a straight line basis over the term of the lease and is recorded under 'Other operating income' in the consolidated statement of profit or loss.

v. Dividend income

Dividend income is recognised when the right to receive payment is established. The presentation of dividend income in the consolidated statement of profit or loss depends on the classification and measurement of the equity investment, i.e.:

- for equity instruments designated at FVOCI, dividend income is presented as Dividend Income; and
- for equity instruments at FVPL, dividend income is presented as 'Net gain from investments at FVPL' in the 'other operating income / (loss) line item'.

vi. Share of profit of an associate

Share of profit of an associate reflects the Group's share of the results of operations of the associate.

3.15 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at the value dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date, are translated at the foreign exchange rate ruling at spot date.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the consolidated statement of profit or loss.

Foreign currency differences arising on translation are generally recognized in the consolidated statement of profit or loss. However, foreign currency differences arising from the translation of qualifying cash flow hedges to the extent that the hedge is effective, are recognised in OCI.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.16 Acceptances

Acceptances arise when the Group 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 Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IFRS 9 – Financial Instruments and continued to be recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

3.17 Derivative product types

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Group enters into a variety of derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and interest rate swap.

Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Swaps

Swaps are contractual agreements between two parties to exchange interest or foreign currency differentials based on a specific notional amount. For interest rate swaps, counterparties generally exchange fixed and floating rate interest payments based on a notional value in a single currency. For currency swaps, the underlying amounts are exchanged in different currencies.

Options

Options are contractual agreements that convey the right, but not the obligation, to either buy or sell a specific amount of a commodity or financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

i. Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favorable to the Group and potential future fluctuations.

ii. Derivatives held or issued for trading purposes

Most of the Group's derivative trading activities relate to sales and position coverage. Sales activities involve offering products to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks.

Interest rate derivatives trading are conducted under Assets & Liabilities Committee (ALCO) approved limits.

Derivatives are initially recognised in the consolidated financial statements at cost being its fair value, for the premium received /paid. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Subsequent to initial recognition derivatives (held for trading) are measured at fair value with fair value changes recognised in the consolidated statement of profit or loss.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.18 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to ordinary shareholders of the Group (further adjusted for interest expense and transaction cost on Tier 1 capital notes) by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.19 Segment reporting

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

3.20 Related parties

An entity is considered related party of the Group if:

a) A person or a close member of that person's family is related to the Group if that person:

i. has control or joint control of the Group;
ii. has significant influence over the Group; or
iii. is a member of the key management personnel of the Group.

b) An entity is related to a Group if any of the following conditions applies:

i. The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
iii. Both entities are joint ventures of the same third party.
iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
v. The entity is controlled or jointly controlled by a person identified in (a).
vi. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

c) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity.

Other than the transactions disclosed in note 33, the Group enters into transactions with other Government entities. In accordance with the exemption available in the revised IAS 24, these transactions with such related Government entities are not collectively or individually significant and have not been disclosed.

3.21 Impairment of non-financial assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in consolidated statement of profit or loss.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

3. MATERIAL ACCOUNTING POLICIES (CONTINUED)

3.21 Impairment of non-financial assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in consolidated statement of profit or loss.

3.22 Interest Rate Benchmark Reform

Interbank offered rates ("IBORs"), such as the London Interbank Offered Rate ("LIBOR"), played a critical role in global financial markets, serving as reference rates for derivatives, loans, and securities, and as parameters in the valuation of financial instruments. However, uncertainty surrounding the integrity of IBOR led regulators, central banks, and market participants to work towards a transition to alternative risk-free benchmark reference rates ("RFRs").

After 31 December 2021, most market IBORs were phased out and replaced by certain Alternative Reference Rates (ARRs), with the exception of USD LIBOR, which was discontinued after 30 June 2023.The Group established a cross-functional IBOR committee to manage its transition to alternative rates. This committee successfully ran a project on the Group's transition activities and engaged with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition.

The Group was successful in transitioning from the London Interbank Offered Rate ("LIBOR") to the Secured Overnight Financing rate ("SOFR") as the primary reference rate for our financial products and contracts. We had proactively communicated this change to all the affected customers in advance of the transition date, ensuring transparency and clarity throughout the process with the aim to facilitate a smooth transition for all parties involved. As a result of the collective efforts, we have effectively replaced LIBOR with SOFR as the reference rate for all the new contracts, agreements, and financial instruments. For all existing contracts referencing LIBOR, we had taken the necessary steps to amend and align them with the new reference rate.

This transition marks an important milestone in our commitment and aligning with the market best practices. The LIBOR Transition had no material impact on the financial statements.

4. USE OF ESTIMATE AND JUDGEMENT

The preparation of these Group consolidated financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgement and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

Critical judgements in applying the Group's accounting policies

In particular, considerable management judgement is required in respect of the following issues:

4.1 Going concern

The Group's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

4.2 Financial asset classification

Assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

4.3 Significant increase in credit risk

As explained in note 3.1.1 (e), ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

4. USE OF ESTIMATE AND JUDGEMENT (CONTINUED)

4.4 Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 3.1.1 (e) for details of the characteristics considered in this judgement. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

4.5 Models and assumptions used

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 3.1.1 (e) for more details on ECL.

4.6 Key sources of estimation uncertainty

The following are key estimations that have been used in the process of applying the Group's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario. When measuring ECL, the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- 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.

4.7 Credit risk management

In addition to the management of credit risk described in Note 35 b. (i), the Group has identified several more vulnerable sectors to an environment with higher interest rates, and reviews are being conducted on a more frequent basis. Sectors that are currently considered more vulnerable are:

- Contracting
- Construction and Manufacturing
- Commercial Real Estate
- Trade

The Group continues to apply robust underwriting standards to companies in the above sectors, especially for any new to bank customers. Extra measures, such as requiring additional approvals for disbursals of facilities have been implemented to ensure a high level of scrutiny over the credit management process.

The Group will continue to demonstrate sound prudence and vigor in underwriting across the retail sector whilst supporting customers and businesses across the UAE.

The Group exercises significant judgement in assessing and estimating areas such as Expected Credit Losses. The Group has during the year updated the ECL model based on relevant macro-economic data provided by Moody's.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

4. USE OF ESTIMATE AND JUDGEMENT (CONTINUED)

4.7 Credit risk management (continued)

Governance around IFRS 9 ECL models and calculations

Given the significant impact that the macro-economic scenarios and weightings have on the Group's ECL, the Group has further strengthened its processes, controls and governance frameworks around macro-economic forecasting and the computation of ECL. The Group's IFRS 9 Committee, which reports to the Executive Management, has primary responsibility for overseeing the Group's ECL models. To ensure the ongoing integrity of ECL calculations during times of extreme uncertainty and volatility, the Group's IFRS 9 Committee exercises oversight by conducting regular reviews of the portfolio. The Committee has been closely monitoring the macro-economic inputs applied to the IFRS 9 model at the Group and has recommended changes required during the current year in the light of relevant information received. The Committee continually assesses the performance of the Group's portfolio, ensuring that credit risk behaviors align with the significant increase in credit risk policy and that the staging criteria remain relevant.

4.8 Fair value measurement of financial instruments

The Group's existing policy on fair value measurement of financial instruments is disclosed in note 3.1 (b).

4.9 Investment properties

The Group's existing policy on the recognition and measurement of investment properties is disclosed in note 3.6.

The Group has changed its accounting policy from cost model to fair value model effective from 1 January 2023. The impact is not considered material, with the net gain amounting to AED 64.8 million being reflected in the current year's profit within other operating income.

4.10 Regulatory updates

The regulations which were issued by CBUAE to mitigate the repercussions of COVID 19 pandemic, which are still effective as at 31 December 2023 are detailed below:

- Reduction of the reserve requirements by half for CASA deposits for all banks, from 14% to 7%. As part of CBUAE exit strategy from the Targeted Economic Support Scheme (TESS), the new ratio is 11% effective from 12 April 2023.
- In order to relieve the pressure on financial institutions, the CBUAE, vide its official paper issued on 5 April 2020, had allowed banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter aims to minimize the effect of IFRS 9 provisions on regulatory capital, in view of the expected volatility due to the COVID-19 crisis. The filter allows Banks to partially add incremental ECL provisions back to their Tier 2 capital for the purpose of calculating capital adequacy ratios. Banks are however required to reverse this capital benefit in a gradual and phased manner over a period of 5 years (ending on 31 December 2024).

4.11 Concentration analysis:

Please refer to note 35-b (x), which discloses the sector categorization of assets as at 31 December 2023.

4.12 Corporate Tax

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

The Cabinet of Ministers Decision No.116/2022 effective from January 2023, has confirmed the threshold of income over which the 9% tax rate would apply, and the Law is considered to be substantively enacted. A rate of 9% will apply to taxable income exceeding AED 375.000, a rate of 0% will apply to taxable income not exceeding AED 375,000.

For the Group, current taxes shall be accounted for as appropriate in the financial statements for the period beginning 1 January 2024. In accordance with IAS 12 Income Taxes, the related deferred tax accounting impact has been considered for current period financial statements. The Group has assessed the deferred tax implications and, after considering its interpretations of applicable tax law, official pronouncements, cabinet decisions and ministerial decisions (especially with regard to transition rules), it has been concluded that it is not expected to be material.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

4. USE OF ESTIMATE AND JUDGEMENT (CONTINUED)

4.12 Corporate Tax (continued)

On 24 November 2023, the MOF published Federal Decree Law No. (60) of 2023, amending specific provisions of the CT Law to facilitate the future introduction of domestic minimum taxes under Organisation for Economic Cooperation and Development (OECD) Pillar 2 rules. The effective date of application of the new rules is not yet announced. The Group is UAE domiciled and is not expected to be captured within the Pillar 2 rules. We are closely monitoring legislative developments and will provide the necessary disclosures after further announcements are released.

4.13 Sanctions and Economic Updates

A variety of sanctions have been imposed on Russia in response to the conflict in Ukraine by a number of jurisdictions, which may be broadened in the foreseeable future to include further individuals, additional entities, and a wider range of goods and services than currently targeted.

The Group has assessed the exposure to this and confirms that there are no material exposures to these jurisdictions.

5. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

5.1 Relevant new and revised IFRS applied with no material effect on the consolidated financial statements

The following new and revised IFRS have been adopted in the Group consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

	Effective for annual periods beginning on or after
a Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
b Amendment to IFRS 17 Insurance contracts	1 January 2023
c Amendment to IAS 1 and IFRS Practice Statement 2 relating to disclosure of Accounting Policies	1 January 2023
d Deferred Tax related to Assets and liabilities arising from a Single Transaction – Amendment to IAS 12	1 January 2023

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

5.2 Relevant new and revised IFRS issued but not yet effective

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

	Effective for annual periods beginning on or after
a Classification of Liabilities as Current or Non-Current Liabilities with Covenants (Amendments to IAS 1).	1 January 2024
b Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7).	1 January 2024
c Lack of Exchangeability (Amendment to IAS 21).	1 January 2025
d Lease Liability in a Sale and Leaseback (Amendments to IFRS 16).	1 January 2024

Management anticipates that these IFRS and amendments will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments is currently being assessed by the management.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

6. FINANCIAL ASSETS AND LIABILITIES

6.1 Financial assets and liabilities classification

The table below sets out the Group's financial assets and liabilities classification in accordance with the categories of financial instruments in IFRS 9:

31 December 2023	**Fair value through profit or loss AED'000**	**Fair value through OCI AED'000**	**Amortised cost amount AED'000**	**Total carrying AED'000**
Cash and balances with Central Bank	**–**	**–**	**15,009,602**	**15,009,602**
Due from banks, net	**–**	**–**	**3,772,709**	**3,772,709**
Loans and advances and Islamic financing, net	**–**	**–**	**83,313,306**	**83,313,306**
Investment securities, net	**161,717**	**6,751,376**	**8,185,636**	**15,098,729**
Bankers acceptances	**–**	**–**	**7,931,518**	**7,931,518**
Positive mark to market value of derivatives	**697,872**	**–**	**–**	**697,872**
Other assets, net	**–**	**–**	**865,074**	**865,074**
Total financial assets	**859,589**	**6,751,376**	**119,077,845**	**126,688,810**
Due to banks	**–**	**–**	**7,833,389**	**7,833,389**
Customer deposits and Islamic customer deposits	**–**	**–**	**88,287,145**	**88,287,145**
Notes and medium term borrowings	**–**	**–**	**5,705,456**	**5,705,456**
Due for trade acceptances	**–**	**–**	**7,931,518**	**7,931,518**
Negative mark to market value of derivatives	**634,707**	**–**	**–**	**634,707**
Other liabilities	**–**	**–**	**2,771,695**	**2,771,695**
Total financial liabilities	**634,707**	**–**	**112,529,203**	**113,163,910**
31 December 2022				
Cash and balances with Central Bank	–	–	15,760,429	15,760,429
Due from banks, net	–	–	3,766,507	3,766,507
Loans and advances and Islamic financing, net	–	–	74,720,117	74,720,117
Investment securities, net	247,170	6,445,009	2,117,913	8,810,092
Bankers acceptances	–	–	8,570,044	8,570,044
Positive mark to market value of derivatives	1,024,009	–	–	1,024,009
Other assets, net	–	–	710,010	710,010
Total financial assets	1,271,179	6,445,009	105,645,020	113,361,208
Due to banks	–	–	7,838,704	7,838,704
Customer deposits and Islamic customer deposits	–	–	81,074,379	81,074,379
Notes and medium term borrowings	–	–	2,034,019	2,034,019
Due for trade acceptances	–	–	8,570,044	8,570,044
Negative mark to market value of derivatives	923,911	–	–	923,911
Other liabilities	–	–	1,814,746	1,814,746
Total financial liabilities	923,911	–	101,331,892	102,255,803

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

6. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.2 Fair value measurement – Fair value hierarchy:

The table below shows categorization of fair value of financial assets and liabilities into different levels of the fair value hierarchy:

31 December 2023	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total fair value AED'000
Investments				
Equity instruments and funds	52,991	115,797	164,792	333,580
Fixed and floating rate securities	5,649,712	929,801	–	6,579,513
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	–	697,650	–	697,650
Held for fair value hedge	–	222	–	222
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	–	(631,473)	–	(631,473)
Held for fair value hedge	–	(3,234)	–	(3,234)
	5,702,703	1,108,763	164,792	6,976,258
31 December 2022				
Investments				
Equity instruments and funds	60,072	117,752	264,115	441,939
Fixed and floating rate securities	5,136,500	1,113,740	–	6,250,240
Positive market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	–	1,009,598	–	1,009,598
Held for fair value hedge	–	14,411	–	14,411
Negative market value of forward foreign exchange contracts and other derivatives				
Fair value through profit or loss	–	(918,580)	–	(918,580)
Held for fair value hedge	–	(5,331)	–	(5,331)
	5,196,572	1,331,590	264,115	6,792,277

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

	2023 AED'000	2022 AED'000
Balance at the beginning of year	264,115	281,389
Additions	1,956	6,454
Settlement and other adjustments	(101,279)	(23,728)
Balance as at end of year	164,792	264,115

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

6. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

6.2 Fair value measurement – Fair value hierarchy (continued):

The Level 3 financial instruments include private equity investments, and their valuations are based on the last net asset published by the fund manager. The sensitivity of the effect as a result of a change in the fair value of equity instruments under level 3, due to reasonable possible change in equity indices, with all other variables held constant, is as follows:

	Assumed level of change %	2023 Impact on change in fair value AED'000	2022 Impact on change in fair value AED'000
Upward Shift	5%	8,240	13,206
Downward Shift	5%	(8,240)	(13,206)

The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different from their fair values.

During the year there were no transfers between Level 1, Level 2 and Level 3 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the current or prior year.

6.3 Fair value measurement – Hedges

The Group has hedged the fair value of certain fixed rate financial instruments. The combined net negative fair value of hedged components are AED 3.0 million (2022: net positive AED 9.08 million) with a combined notional amount of AED 203.8 million (2022: AED 2,777.1 million). The Group has no cash flow hedges as at the accounting date. Refer to note 31 for details.

7. CASH AND BALANCES WITH CENTRAL BANK

	2023 AED'000	2022 AED'000
Cash on hand	841,965	830,692
Balances with Central Bank of the UAE ("CBUAE")		
– Statutory reserves and other deposits	12,567,637	13,529,737
– Negotiable certificates of deposit	1,600,000	1,400,000
	15,009,602	15,760,429

Effective 28 October 2020, the CBUAE introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the CBUAE on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and the directives of Central Bank of the UAE.

Cash and balances with Central Bank is classified under stage 1 as per IFRS 9. However, as the counterparty holds a good credit rating, the probability of default is considered to be low and hence the expected credit loss is considered to be immaterial.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

8. DUE FROM BANKS, NET

	2023 AED'000	2022 AED'000
Current and demand deposits	**1,421,606**	2,800,919
Overnight, call and short notice	**285,708**	480,453
Loans to banks	**2,067,139**	486,308
Gross due from banks	**3,774,453**	3,767,680
Less: Expected credit losses	**(1,744)**	(1,173)
Net due from banks	**3,772,709**	3,766,507
Within the UAE	**31,963**	77,545
Outside the UAE	**3,740,746**	3,688,962
	3,772,709	3,766,507

Due from banks is classified under stage 1 as per IFRS 9.

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET

The composition of the loans and advances and Islamic financing portfolio is as follows:

At Amortised Cost	2023 AED'000	2022 AED'000
Loans and advances		
Overdrafts	**6,762,575**	7,217,838
Loans	**62,503,108**	54,547,369
Advances against letters of credit and trust receipts	**3,676,238**	2,593,738
Bills discounted	**3,426,645**	3,454,296
Gross loans and advances	**76,368,566**	67,813,241
Islamic financing		
Murabaha and Tawaruq	**5,052,626**	4,793,285
Ijara	**6,717,064**	6,299,758
Others	**735,808**	713,454
Gross Islamic financing	**12,505,498**	11,806,497
Gross loans and advances and Islamic financing	**88,874,064**	79,619,738
Less: Expected credit losses	**(5,560,758)**	(4,899,621)
Net loans and advances and Islamic financing	**83,313,306**	74,720,117

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

9. LOANS AND ADVANCES AND ISLAMIC FINANCING, NET (CONTINUED)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross exposure at 1 January 2023	**66,198,778**	**7,342,083**	**6,078,877**	**79,619,738**
Net transfers between stages	**(4,267,185)**	**2,858,984**	**1,408,201**	**–**
Net additions / (repayments)	**11,901,009**	**(1,875,311)**	**125,141**	**10,150,839**
Amounts written off	**–**	**–**	**(896,513)**	**(896,513)**
At 31 December 2023	**73,832,602**	**8,325,756**	**6,715,706**	**88,874,064**
ECL allowance at 1 January 2023	**472,031**	**683,245**	**3,744,345**	**4,899,621**
Net transfers between stages	**(43,683)**	**(104,507)**	**148,190**	**–**
Net impairment charge	**7,544**	**155,736**	**1,445,758**	**1,609,038**
Recoveries	**–**	**–**	**(51,388)**	**(51,388)**
Amounts written off	**–**	**–**	**(896,513)**	**(896,513)**
At 31 December 2023	**435,892**	**734,474**	**4,390,392**	**5,560,758**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Gross exposure at 1 January 2022	67,128,686	7,234,414	6,102,103	80,465,203
Net transfers between stages	(2,200,170)	1,412,228	787,942	–
Net additions / (repayments)	1,270,262	(1,304,559)	(565,641)	(599,938)
Amounts written off	–	–	(245,527)	(245,527)
At 31 December 2022	66,198,778	7,342,083	6,078,877	79,619,738
ECL allowance at 1 January 2022	581,244	658,186	2,722,950	3,962,380
Net transfers between stages	(29,986)	(23,094)	53,080	–
Net (reversals) / impairment charge	(79,227)	48,153	1,321,736	1,290,662
Recoveries	–	–	(107,894)	(107,894)
Amounts written off	–	–	(245,527)	(245,527)
At 31 December 2022	472,031	683,245	3,744,345	4,899,621

The net impairment charge is inclusive of interest in suspense.

The economic sector composition of the loans and advances and Islamic financing is set out in note 35 (b).

The Group has hedged the fair value of certain fixed rate loans and advances and Islamic financing. The carrying value of these loans and advances and Islamic financing is AED 18.5 million (2022: AED 30.8 million). Net negative fair value of the hedged component is AED 0.2 million (2022: net negative fair value of AED 0.4 million).

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

10. INVESTMENT SECURITIES, NET

	UAE AED'000	GCC AED'000	International AED'000	Total AED'000
31 December 2023				
Held at fair value through profit or loss				
Unquoted equity instruments	–	–	161,717	161,717
Held at fair value through other comprehensive income				
Quoted equity instruments	52,991	–	–	52,991
Unquoted equity instruments and fund	115,797	–	3,075	118,872
Fixed rate securities				
– Government	1,990,419	556,096	913,534	3,460,049
– Others	835,082	304,195	1,814,691	2,953,968
Floating rate non-government securities	128,781	–	36,715	165,496
Held at amortised cost				
Fixed rate securities				
– Government	6,087,820	552,119	552,381	7,192,320
– Others	244,903	36,077	712,464	993,444
Floating rate non-government securities	–	–	–	–
	9,455,793	1,448,487	4,194,577	15,098,857
Less: Expected credit losses on amortised cost securities				(128)
				15,098,729
31 December 2022				
Held at fair value through profit or loss				
Unquoted equity instruments	1,837	–	245,333	247,170
Held at fair value through other comprehensive income				
Quoted equity instruments	60,072	–	–	60,072
Unquoted equity instruments and fund	117,753	–	16,944	134,697
Fixed rate securities				
– Government	1,907,173	582,880	816,680	3,306,733
– Others	728,610	297,066	1,736,488	2,762,164
Floating rate non-government securities	146,185	–	35,158	181,343
Held at amortised cost				
Fixed rate securities				
– Government	1,599,505	124,363	109,939	1,833,807
– Others	73,099	–	165,026	238,125
Floating rate non-government securities	–	45,998	–	45,998
	4,634,234	1,050,307	3,125,568	8,810,109
Less: Expected credit losses on amortised cost securities				(17)
				8,810,092

Included in fixed and floating rate securities held at fair value through other comprehensive income and at amortised cost securities is an amount of AED 5.3 billion (31 December 2022: AED 3.3 billion), pledged under repurchase agreements with banks under short term and medium-term borrowings.

Net gains from sale of debt investments at fair value through other comprehensive income amounted to AED 0.7 million (2022: AED 0.4 million).

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

10. INVESTMENT SECURITIES, NET (CONTINUED)

10.1 Rating of fixed and floating rate securities

The below table shows the rating of fixed and floating rate securities:

	2023 AED'000	2022 AED'000
Rated Aaa to Aa3	4,513,108	2,966,742
Rated A1 to A3	3,366,470	2,610,813
Rated Baa1 to Baa3	786,447	649,789
Rated below Baa3 or Unrated – Government	6,099,252	2,038,643
Rated below Baa3 – others	–	102,183
	14,765,277	8,368,170

The above represents approved ratings from External Credit Assessment Institutions (ECAIs) as per BASEL III guidelines.

11. INVESTMENT IN AN ASSOCIATE

Equity accounting was applied using management information available at the date of reporting.

The following is the aggregated financial information of the associate:

	2023 AED'000	2022 AED'000
At 1 January	92,916	95,051
Share of profit of an associate	16,803	8,583
Dividends received	(6,653)	(7,984)
Share of Directors' remuneration of an associate	(866)	(909)
Change in fair value reserve of an associate	190	(1,825)
At 31 December	102,390	92,916

	2023 AED'000	2022 AED'000
Statement of financial position		
Assets	1,339,702	1,531,428
Liabilities	783,586	1,007,959
Net assets	556,116	523,469
Statement of comprehensive income		
Revenue	71,245	62,773
Net profit	62,186	51,551

12. INVESTMENT PROPERTIES

Investment properties comprise buildings. Rental income amounting to AED 15.4 million (2022: AED 15.0 million) from investment properties leased under operating lease is recorded in other operating income.

The fair value of the investment property amounted to AED 246.1 million (2022: AED 256.2 million). All of the investment properties have been categorised as Level 3 fair value measurements.

Notes to the Group consolidated financial statements
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13. PROPERTY AND EQUIPMENT

Cost	Freehold land and buildings AED'000	Leasehold improvements AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress (CWIP) AED'000	Total AED'000
At 1 January 2023	**287,206**	**39,413**	**495,278**	**63,573**	**885,470**
Additions during the year	**–**	**204**	**812**	**121,809**	**122,825**
Transfers	**2,955**	**596**	**95,705**	**(100,511)**	**(1,255)**
Disposals / write off	**–**	**–**	**(3,003)**	**–**	**(3,003)**
At 31 December 2023	**290,161**	**40,213**	**588,792**	**84,871**	**1,004,037**
Accumulated Depreciation					
At 1 January 2023	**138,757**	**29,906**	**362,556**	**–**	**531,219**
Transfers	–	–	–	–	–
Charge for the year	**2,574**	**1,741**	**39,333**	**–**	**43,648**
On disposals	**–**	**–**	**(2,673)**	**–**	**(2,673)**
At 31 December 2023	**141,331**	**31,647**	**399,216**	**–**	**572,194**
Net book value at 31 December 2023	**148,830**	**8,566**	**189,576**	**84,871**	**431,843**

Cost	Freehold land and buildings AED'000	Leasehold improvements AED'000	Furniture, equipment & vehicles AED'000	Capital work in progress (CWIP) AED'000	Total AED'000
At 1 January 2022	287,129	42,652	508,005	43,173	880,959
Additions during the year	–	–	122	77,355	77,477
Transfers	77	3,042	53,913	(56,955)	77
Disposals / write off	–	(6,281)	(66,762)	–	(73,043)
At 31 December 2022	287,206	39,413	495,278	63,573	885,470
Accumulated Depreciation					
At 1 January 2022	136,062	34,569	400,903	–	571,534
Transfers	77	–	–	–	77
Charge for the year	2,618	1,611	25,901	–	30,130
On disposals	–	(6,274)	(64,248)	–	(70,522)
At 31 December 2022	138,757	29,906	362,556	–	531,219
Net book value at 31 December 2022	148,449	9,507	132,722	63,573	354,251

The Group assessed whether there is an indication that an asset may be impaired and concluded that there was no indication of impairment.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

14. OTHER ASSETS, NET

	2023 AED'000	2022 AED'000
Interest receivable	**750,601**	516,006
Accounts receivable and prepayments	**278,171**	231,176
Properties acquired in settlement of debt-held for sale, net	**1,354,700**	2,155,312
	2,383,472	2,902,494

As at 31 December 2023, AED 729.3 million (2022: AED 777.9 million) are classified under stage 1 and AED 102.5 million (2022: AED 82.2 million) are under stage 2.

Properties acquired in settlement of debt were acquired in order to extinguish a loan. During the year provision of AED 146.8 million (2022: AED 38.6 million) was charged on property acquired in settlement of debt.

15. DUE TO BANKS

	2023 AED'000	2022 AED'000
Current and demand deposits	**980,425**	289,037
Term borrowings	**6,852,964**	7,549,667
	7,833,389	7,838,704

16. CUSTOMER DEPOSITS AND ISLAMIC CUSTOMER DEPOSITS

Customer deposits	2023 AED'000	2022 AED'000
Current and demand accounts	**36,356,851**	30,329,265
Savings accounts	**3,476,115**	4,019,908
Time deposits	**34,095,987**	35,044,252
	73,928,953	69,393,425
Islamic customer deposits		
Current and demand accounts	**3,359,229**	3,494,609
Mudaraba savings accounts	**589,916**	551,217
Investment and Wakala deposits	**10,409,047**	7,635,128
	14,358,192	11,680,954
Total customer deposits and Islamic customer deposits	**88,287,145**	81,074,379

By sector:	2023 AED'000	2022 AED'000
Government	**15,793,582**	14,605,181
Corporate	**39,140,743**	35,009,222
Personal	**33,352,820**	31,459,976
	88,287,145	81,074,379

The Group maintains an investment risk reserve, which represents a portion of the depositors' share of profits set aside as a reserve for AED 6.7 million (2022: AED Nil).

Notes to the Group consolidated financial statements
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17. NOTES AND MEDIUM TERM BORROWINGS

		31 December 2022 AED'000	Cash flow Changes AED'000	Non cash flow Changes AED'000	31 December 2023 AED'000
Syndicated loan	17.1	622,823	–	**970**	**623,793**
Repurchase agreements – I	17.2	–	–	–	–
Repurchase agreements – III	17.2	1,135,721	–	–	**1,135,721**
Repurchase agreements – IV	17.2	–	**917,459**	–	**917,459**
Repurchase agreements – V	17.2	–	**916,508**	–	**916,508**
Medium term notes	17.3	275,475	**1,836,500**	–	**2,111,975**
Total		2,034,019	**3,670,467**	**970**	**5,705,456**

		31 December 2021 AED'000	Cash flow Changes AED'000	Non cash flow Changes AED'000	31 December 2022 AED'000
Syndicated loan	17.1	621,852	–	971	622,823
Repurchase agreements – I	17.2	551,442	(551,442)	–	–
Repurchase agreements – III	17.2	1,135,721	–	–	1,135,721
Medium term notes	17.3	275,475	–	–	275,475
Total		2,584,490	(551,442)	971	2,034,019

17.1 Syndicated loan

In August 2019, the Group entered into a club deal of USD 170 million (AED 624.4 million) priced at 6 month LIBOR plus 135 bps, the transaction is now transitioned to daily compounding SOFR + 135 bps + 42.868 bps (Credit Adjustment Spread) for a term of 5 years with an option to roll over on a semi-annual basis maturing in August 2024.

17.2 Repurchase agreements

The Group entered into multiple repurchase agreement transactions to obtain financing against the sale of certain debt securities. The repurchase agreement transactions details are as follows:

	Purchase date	Maturity date	Price	Amount in USD (millions)	Amount in AED (millions)
Repurchase agreements – I	July 2012	July 2022	3-month LIBOR plus 150 bps	150.1	551.4
Repurchase agreements – III	June 2021	June 2026	SOFR plus106 bps	309.2	1,135.7
Repurchase agreements – IV	April 2023	April 2026	SOFR plus 90 bps	249.8	917.5
Repurchase agreements – V	April 2023	April 2028	SOFR plus 99 bps	249.5	916.5

As at 31 December 2023 the fair value of the debt securities, which have been pledged under these repurchase agreements with banks, amounts to AED 3,768.4 million (USD 1,026.0 million) (31 December 2022: AED 1,265.1 million (USD 344.4 million)).

17.3 Medium term notes

In July 2021, CBD issued USD 50 million (AED 183.7 million) of conventional notes. These notes were priced at 3 month LIBOR plus 130 bps floating rate and had transitioned to CME TERM SOFR +130 bps + Credit Adjustment spread for the first period and further to daily compounded SOFR + 130 bps + 26.161 bps (Credit Adjustment Spread) and will mature on 8 July 2026.

In September 2021, CBD issued USD 25 million (AED 91.8 million) of conventional notes. These notes were priced at 3 month LIBOR plus 130 bps floating rate and had transitioned to daily compounded SOFR + 130 bps + 26.161 bps (Credit Adjustment Spread) and will mature on 15 September 2026.

In June 2023, CBD issued USD 500 million (AED 1.8 billion) of senior unsecured conventional green notes. These notes were priced at 5.319% fixed rate and will mature on 14 June 2028.

Notes to the Group consolidated financial statements
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18. OTHER LIABILITIES

	2023 AED'000	2022 AED'000
Accrued interest payable	**1,015,482**	498,602
Employees' terminal benefits	**48,522**	53,885
Accounts payable	**692,922**	437,305
Accrued expenses	**244,791**	182,260
Manager cheques	**565,117**	530,398
Unearned fee income and deferred credits	**42,224**	48,578
Impairment allowance on financial guarantees and loans commitments	**204,861**	112,296
	2,813,919	1,863,324

Based on the actuarial computation of employees' terminal benefits, the obligation under the defined benefit scheme is AED 48.5 million (2022: AED 53.9 million). The actuarial loss for the year ended 31 December 2023 amounting to AED 1.6 million loss (2022: AED 3.9 million loss) has been recognized directly in other comprehensive income under Actuarial loss on retirement benefits obligations.

The table below shows the movement in the employees' terminal benefits:

	2023 AED'000	2022 AED'000
Balances as at 1 January	**53,885**	54,190
Expense during the year	**9,987**	6,461
Actuarial loss in other comprehensive income	**1,623**	3,889
Benefits paid and adjustments during the year	**(16,973)**	(10,655)
Balances as at 31 December	**48,522**	53,885

19. EQUITY

19.1 Share capital

The fully paid up and authorised ordinary share capital as at 31 December 2023 comprised 2,985,191,949 ordinary shares of AED 1 each (31 December 2022: 2,802,733,968 shares of AED 1 each). The movement in the number of shares during the year is as follows:

	2023	2022
As at the beginning of the year	**2,802,733,968**	2,802,733,968
Bonus shares issued during the year	**182,457,981**	–
At the end of the year	**2,985,191,949**	2,802,733,968

19.2 Tier 1 capital notes

The Group had issued USD 600 million (AED 2,203.8 million) of Tier 1 Capital Securities at a price of 6% per annum on 21 October 2020. The notes are non-callable for 6 years and are listed on Euronext Dublin and Nasdaq Dubai.

The notes are perpetual, subordinated and unsecured. The Group can elect not to pay a coupon at its own discretion. Note holders will not have a right to claim the coupon and such event will not be considered an event of default.

The accounting treatment for the securities is governed by IAS 32 Financial Instruments Presentation. As per IAS 32, the instrument qualifies as an equity instrument and the interest paid on the securities is accounted for as a deduction from retained earnings. The accounting treatment for issuing securities transaction costs are accounted for as a deduction from equity. These are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

19.3 Legal and statutory reserve

The Group's Article of Association in compliance with the Decretal Federal Law No. (14) of 2018 require a minimum of 10% of annual net profit to be transferred to non-distributable legal and statutory reserve, until such time as this reserve equals 50% of share capital. During the year AED 91.1 million was transferred to legal and statutory reserve (2022: AED Nil) to meet the minimum legal and statutory reserve requirement. The legal and statutory reserve is not available for distribution except under the circumstances stipulated by the relevant laws.

Notes to the Group consolidated financial statements
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19. EQUITY (CONTINUED)

19.4 General reserve

The Group's Articles of Association adopted by the General Assembly of Shareholders in its meeting held on 26 June 2016 deleted the requirement for the general reserve. Therefore, there is no requirement to transfer 10% of the annual net profit to the general reserve. The previous Group's Articles of Association, required a minimum of 10% of the annual net profit to be transferred to general reserve until such time as this reserve equals 50% of share capital. The disposition of the general reserve shall be in accordance with a resolution made by the Board of Directors.

19.5 Capital reserve

This reserve represents the inaugural value of land at the CBD head office. The reserve is available for distribution to the shareholders.

19.6 Fair value reserve

This represents the net change in the fair values of OCI investments, derivative instruments designated as cash flow hedge instruments held by the Group at reporting date and actuarial changes on retirement benefits obligations. This reserve is not available for distribution to the shareholders until realised.

The reserve includes property impairment reserves amounting to AED 12.7 million (2022: Nil).

19.7 Proposed distribution

i) *Proposed cash dividend*

As of the date of approving the consolidated financial statements, the Board of Directors' proposed a cash dividend of AED 0.4438 per share for the year (2022: AED 0.2605 per share).

ii) *Proposed bonus share issue*

No bonus share capital issuance is proposed (2022: 6.51%).

20. INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2023 AED'000	2022 AED'000
Interest income		
Loans and advances	**4,860,387**	2,959,562
Negotiable certificates of deposit and other deposits with the Central Bank	**508,187**	168,483
Due from banks	**47,168**	14,031
Investment securities		
– Debt securities at FVOCI	**171,727**	133,475
– Debt securities at amortised cost	**313,784**	35,893
	5,901,253	3,311,444
Income from Islamic financing		
Murabaha and Tawaruq	**333,127**	162,537
Ijara	**429,189**	309,075
	762,316	471,612
Total interest income and income from Islamic financing	**6,663,569**	3,783,056

Interest income is recognised using the effective interest rate.

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21. INTEREST EXPENSE AND DISTRIBUTION ON ISLAMIC DEPOSITS

	2023 AED'000	2022 AED'000
Interest expense		
Due to banks	**171,461**	80,995
Customer deposits	**1,966,323**	680,422
Notes and medium term borrowings	**491,675**	148,540
	2,629,459	909,957
Distribution on Islamic deposits		
Islamic customer deposits	**464,421**	197,226
	464,421	197,226
Total interest expense and distribution on Islamic deposits	**3,093,880**	1,107,183

Distribution on Islamic deposits represents the share of income allocated to Islamic depositors of the Group. The allocation and distribution are approved by the Group's Internal Sharia Supervision Committee (ISSC).

22. NET FEES AND COMMISSION INCOME

	2023 AED'000	2022 AED'000
Lending activities	**368,349**	299,312
Trade finance activities	**212,794**	206,373
Account operating activities	**365,675**	309,984
Cards income and brokerage fees	**282,270**	273,488
	1,229,088	1,089,157
Cards, commissions and brokerage expenses	**(294,438)**	(333,539)
	934,650	755,618

23. OTHER OPERATING INCOME / (LOSS)

	2023 AED'000	2022 AED'000
Net gain from foreign exchange and derivatives	**312,442**	314,338
Net gain from investments at fair value through profit or loss	**377**	1,249
Net gain from sale of debt investments at fair value through other comprehensive income	**705**	398
Dividend income	**9,758**	6,261
Other income, net	**93,503**	49,902
	416,785	372,148

24. OPERATING EXPENSES

	2023 AED'000	2022 AED'000
Depreciation and amortisation	**49,409**	35,768
General and administrative expenses	**456,127**	374,520
Staff expenses	**722,313**	586,317
	1,227,849	996,605

The social contributions (including donations and charity) made during the year amount to AED 2.9 million (2022: AED 3.2 million)

Notes to the Group consolidated financial statements
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25. NET IMPAIRMENT LOSS

	2023 AED'000	2022 AED'000
Net impairment charge / (reversal) on		
Due from banks	**571**	(884)
Investment securities	**810**	100
Loans and advances and Islamic financing	**1,000,388**	1,025,480
Other assets	**147,721**	56,155
Impairment allowance on financial guarantees and loans commitments	**92,565**	50,859
Recoveries of loans and advances and Islamic financing	**(182,043)**	(141,112)
Net impairment loss for the year	**1,060,012**	990,598

26. LEASE COMMITMENTS

Group as lessee

Operating expenses include expenses related to the leases of the Group amounting to AED 11.0 million (2022: AED 10.2 million). Future minimum lease payments under non-cancellable leases as at 31 December are, as follows:

	2023 AED'000	2022 AED'000
Less than 1 year	**7,473**	4,400
From 1 year to 5 years	**3,554**	3,380
	11,027	7,780

27. BASIC AND DILUTED EARNINGS PER SHARE

Basic earnings per share have been computed using the net profit (further adjusted for interest expense and transaction cost on Tier 1 capital notes) divided by the weighted average number of ordinary shares outstanding 2,985,191,949 (31 December 2022: 2,985,191,949 after adjustment of bonus shares).

	2023 AED'000	2022 AED'000
Net profit for the year	**2,650,066**	1,825,019
Deduct: Interest on Tier 1 capital notes	**(132,228)**	(132,228)
Deduct: Tier 1 capital notes transaction cost	**–**	–
Adjusted net profit for the year	**2,517,838**	1,692,791
Weighted average number of ordinary shares ('000)	**2,985,192**	2,985,192
Adjusted earnings per share (AED)	**0.84**	0.57

The weighted average number of shares for 31 December 2023 and 31 December 2022 are adjusted with the issuance of bonus shares issued during the period (note 19.1)

Diluted earnings per share for the year ended 31 December 2023 and 31 December 2022 are equivalent to basic earnings per share as Group has not issued any financial instruments that should be taken into consideration as it would impact earnings per share when executed.

28. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in these Group consolidated statement of cash flows comprise the following consolidated statement of financial position amounts. The Group has reclassified cash and cash equivalents for the comparative year.

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28. CASH AND CASH EQUIVALENTS (CONTINUED)

	2023 AED'000	2022 AED'000
Cash on hand	**841,965**	830,692
Statutory reserves and other deposits	**12,567,637**	13,529,737
Negotiable certificates of deposit with Central Bank of the UAE	**1,600,000**	1,400,000
Due from banks	**3,774,453**	3,767,680
	18,784,055	19,528,109
Less: Negotiable certificates of deposit with Central Bank of the UAE with original maturity more than three months	**(1,300,000)**	(1,050,000)
Less: Due from banks with original maturity of more than three months	**(2,067,139)**	(486,308)
	15,416,916	17,991,801

29. CONTINGENT LIABILITIES AND COMMITMENTS

Contingent liabilities represent credit-related commitments to extend letters of credit and guarantees which are designed to meet the requirements of the Group's customers toward third parties. Undrawn commitments represent the Group's commitments towards approved un-drawn credit facilities. The amount of contingent liabilities reflected below represent the maximum accounting loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted.

Contingent liabilities:	2023 AED'000	2022 AED'000
Letters of credit	**3,032,725**	3,334,275
Letters of guarantee	**16,801,181**	13,320,233
Total contingent liabilities	**19,833,906**	16,654,508
Undrawn commitments to extend credit	**27,037,144**	23,263,977
Capital expenditure commitments	**245,766**	119,081
Commitments for future private equity investments	**46,171**	111,508
Total contingent liabilities and commitments	**47,162,987**	40,149,074

The maximum exposure to credit risk on unfunded exposure:

31 December 2023	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Letters of credit	**2,839,242**	**184,271**	**9,212**	**3,032,725**
Letters of guarantee	**14,585,722**	**1,769,554**	**445,905**	**16,801,181**
	17,424,964	**1,953,825**	**455,117**	**19,833,906**
Undrawn commitments	**25,413,363**	**1,623,781**	**–**	**27,037,144**
	42,838,327	**3,577,606**	**455,117**	**46,871,050**

31 December 2022	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Letters of credit	3,166,497	154,734	13,044	3,334,275
Letters of guarantee	11,952,934	1,034,879	332,420	13,320,233
	15,119,431	1,189,613	345,464	16,654,508
Undrawn commitments	22,062,333	1,201,644	–	23,263,977
	37,181,764	2,391,257	345,464	39,918,485

Notes to the Group consolidated financial statements
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29. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

In the normal course of business, certain litigations were filed by or against the Group. However based on management assessment, none of the litigations have a material impact on Group's financial results.

The Group seeks to comply with all applicable laws by which it is governed and is not aware of any material fines or penalties that warrant disclosure in the consolidated financial statements.

30. FIDUCIARY ASSETS

Assets held under fiduciary capacity on behalf of clients amounted to AED 8,812.1 million (2022: AED 7,555.9 million).

31. DERIVATIVES

The following table shows the positive and negative fair values of derivative financial instruments at the reporting date, together with the notional amounts, analyzed by terms to maturity. The notional amount is the value of the derivative's underlying asset and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and therefore, are neither indicative of the Group's exposure to credit risk nor market risk. Credit risk on derivatives is limited to its positive fair value if any, the positive MTM and also the Group's own credit risk associated with it's derivative liability position.

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over five years AED'000
31 December 2023							
Cash flow hedge instruments							
Currency Swaps	–	–	–	–	–	–	–
Fair value hedge instruments							
Interest Rate Swaps	222	3,234	203,750	–	–	203,750	–
Forward foreign exchange contracts and other derivatives							
Currency swaps	131	102	146,920	–	146,920	–	–
Interest rate swaps	615,506	545,192	28,044,947	34,972	2,039,042	16,502,213	9,468,720
Foreign exchange deals	72,613	77,011	8,159,198	5,030,732	3,109,187	19,279	–
Currency options	225	225	734,600	734,600	–	–	–
Interest rate options	9,175	8,943	1,322,186	–	460,425	571,825	289,936
	697,872	634,707	38,611,601	5,800,304	5,755,574	17,297,067	9,758,656

	Positive market value AED'000	Negative market value AED'000	Notional amount AED'000	Less than three months AED'000	From three months to one year AED'000	From one year to five years AED'000	Over five years AED'000
31 December 2022							
Cash flow hedge instruments							
Currency Swaps	–	–	–	–	–	–	–
Fair value hedge instruments							
Interest Rate Swaps	14,411	5,331	2,777,096	–	2,582,721	194,375	–
Forward foreign exchange contracts and other derivatives							
Currency swaps	538	1,618	343,279	–	–	343,279	–
Interest rate swaps	809,353	728,648	30,991,247	914,218	4,014,089	11,561,269	14,501,671
Foreign exchange deals	88,507	77,849	6,017,406	3,090,069	2,875,574	51,763	–
Currency options	101,598	101,598	7,691,615	8,540	2,587,996	5,095,079	–
Interest rate options	9,602	8,867	1,502,958	–	–	1,195,025	307,933
	1,024,009	923,911	49,323,601	4,012,827	12,060,380	18,440,790	14,809,604

Notes to the Group consolidated financial statements
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32. SEGMENTAL REPORTING

The Group uses business segments for presenting its segment information, which is based on the Group's management and internal reporting structure that are regularly reviewed by the Executive Committee in order to allocate resources to the segment and to assess its performance.

The business segments pay to and receive interest from the Treasury to reflect the allocation of funding costs. Interest is charged or credited to business segments and branches to match funding at transfer pricing rates which approximate the cost of funds.

Business segments

Institutional banking	Includes loan and other credit facilities, deposits, trade finance products and e-commerce solutions to institutional clients (including Government related entities).
Corporate banking	Includes loans, working capital financing, trade finance and deposits products to corporate (mid-sized and emerging) clients.
Personal banking	Includes current accounts, easy access saving accounts, fixed rate deposit accounts, personal loans, overdraft facilities, vehicle finance, mortgage products, loans and other credit facilities to small business and retail clients. It also includes the enterprise wide liabilities unit serving non-borrowing wholesale and small business clients.
Trading & Other	Undertakes balance sheet management deals and manages the Group's proprietary investment portfolio. It also has derivatives for trading and risk management purposes.

Geographical

The Group operates in one geographic area, the United Arab Emirates.

	Institutional banking AED'000	Corporate banking AED'000	Personal banking AED'000	Trading & Other AED'000	Total AED'000
31 December 2023					
Assets	36,594,853	43,387,782	17,188,948	31,815,908	128,987,491
Liabilities	47,531,978	17,075,163	35,087,923	13,511,070	113,206,134
31 December 2022					
Assets	29,451,445	42,484,513	14,633,667	29,617,002	116,186,627
Liabilities	42,781,625	15,334,560	33,279,029	10,909,167	102,304,381
31 December 2023					
Net interest income and net income from Islamic financing	595,093	835,556	1,232,977	906,063	3,569,689
Non-interest & other income	368,978	347,539	544,165	107,556	1,368,238
Total operating income	964,071	1,183,095	1,777,142	1,013,619	4,937,927
Operating expenses	210,123	272,386	650,856	94,484	1,227,849
Net impairment loss	198,255	706,554	17,179	138,024	1,060,012
	408,378	978,940	668,035	232,508	2,287,861
Net profit for the year	555,693	204,155	1,109,107	781,111	2,650,066

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

32. SEGMENTAL REPORTING (CONTINUED)

Geographical (continued)

	Institutional banking AED'000	Corporate banking AED'000	Personal banking AED'000	Trading & Other AED'000	Total AED'000
31 December 2022					
Net interest income and net income from Islamic financing	567,607	982,876	767,601	357,789	2,675,873
Non-interest & other income	348,052	309,565	417,523	61,209	1,136,349
Total operating income	915,659	1,292,441	1,185,124	418,998	3,812,222
Operating expenses	160,428	152,926	471,474	211,777	996,605
Net impairment loss	285,092	615,311	1,916	88,279	990,598
	445,520	768,237	473,390	300,056	1,987,203
Net profit for the year	470,139	524,204	711,734	118,942	1,825,019

The following is an analysis of the total operating income of each segment between income from external parties and inter-segment:

	External parties		Inter-segment	
	2023 AED'000	2022 AED'000	**2023 AED'000**	2022 AED'000
Institutional banking	**634,447**	749,906	**329,624**	165,753
Corporate banking	**2,927,551**	2,035,492	**(1,744,456)**	(743,051)
Personal banking	**908,221**	842,783	**868,921**	342,341
Trading & Other	**467,708**	184,041	**545,911**	234,957
Total operating income	**4,937,927**	3,812,222	–	–

33. RELATED PARTY TRANSACTIONS AND BALANCES

As at 31 December 2023 and 31 December 2022, the Investment Corporation of Dubai ("ICD") owns 20% share capital of the Group. ICD is a wholly-owned entity by the Government of Dubai (the "Government"). The Group applies the exemption in IAS 24 Related Party Disclosures that allows to present reduced related party disclosures regarding transactions with government related parties.

The Group in the ordinary course of business enters into transactions with major shareholders, directors, key management personnel and their related entities. The terms of these transactions are approved by the Group's Board of Directors. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties.

Notes to the Group consolidated financial statements
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33. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

	Directors and key management personel		Government related related parties		Other related parties	
	2023 AED'000	2022 AED'000	**2023 AED'000**	2022 AED'000	**2023 AED'000**	2022 AED'000
Due from banks	**–**	–	**73,460**	73,460	**–**	–
Loans and advances and Islamic financing	**103,382**	128,849	**1,073,800**	1,473,374	**2,174,448**	2,112,026
Investment securities, net	**–**	–	**551,331**	441,243	**–**	–
Bankers acceptances	**–**	–	**27,615**	94,765	**40,987**	4,909
Letters of credit	**–**	–	**5,082**	–	**211,062**	149,107
Letters of guarantee	**–**	–	**148,674**	433,103	**123,966**	119,765
Undrawn commitments to extend credit	**58,095**	37,168	**1,213,161**	539,198	**284,167**	417,566
Due to banks	**–**	–	**46,788**	59,576	**–**	–
Customer deposits and Islamic customer deposits	**112,365**	63,382	**3,928,062**	4,116,685	**1,062,602**	249,922
Interest income and commission income	**7,807**	6,513	**68,671**	66,169	**164,971**	126,553
Interest expense	**2,784**	363	**197,870**	88,569	**16,529**	5,937
Dividend from an associate (note 11)	**–**	–	**–**	–	**6,653**	7,984

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Other related parties represent major shareholders and parties related to directors, key management personnel.

Sitting fees paid to directors for attending committee meetings during the year ended 31 December 2023 amounted to AED 2.9 million (2022: AED 3.3 million).

Directors' remuneration paid during the period amounted to AED 23.0 million (2022: AED 19.25 million).

Key management compensation	**2023 AED'000**	2022 AED'000
Salaries	**24,064**	20,363
Post-employment benefits	**1,278**	963
Other benefits	**20,157**	17,844

34. RISK MANAGEMENT OBJECTIVES AND POLICIES

34.1 Risk Governance

The Board of Directors (the "Board") has the overall responsibility for the operations and the financial stability of the Group, and ensures that the interests of shareholders, depositors, creditors, employees and other stakeholders, including the banking regulators and supervisors, are addressed. The Board is responsible for strategic direction, oversight of management and satisfying itself there are adequate controls with the ultimate objective of promoting the success and long-term value of the Group. The Board is also responsible for the overall framework of the risk governance, management, determining risk strategy, setting the Group's risk appetite and ensuring that risk exposure is monitored, controlled effectively and kept within set limits. Additionally, it is responsible for establishing a clearly defined risk management structure and for approval of the risk policies and procedures as well as management of all risks related to the Group.

In order to effectively discharge this responsibility the Board is assisted by various Board Committees, namely the Board Executive Committee (BEC), Board Risk and Compliance Committee (BRCC), Board Audit Committee (BAC) and the Remuneration, Nomination and Governance Committee (REMCO).

Management actively manages risk, primarily through the Risk Department with oversight by the Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Credit Committee (CC), Project Investment Committee (PIC), Risk Management and Compliance Committee (RMCC), Human Resources Committee (HRC), Operational Risk Management Committee (ORMC), Environmental, Social, and Governance Council (ESG Council), Model Oversight Committee (MOC), IFRS 9 Provisions Committee (IFRS 9 PC) and the Sharia Supervision Committee (ISSC).

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

34.2 Control Environment

a) Group Risk

The Group Risk Management Department comprises of the following areas: Enterprise Risk Management, Market Risk, Operational Risk including Technology Risk and Business Continuity Management, Risk Governance and Fraud Risk Management. The core responsibilities include the following:

- The upkeep of the Risk Management Framework and risk appetite in accordance with the strategic plan approved by the Board and regulatory requirements;
- Performing the Group's Internal Capital Adequacy Assessment Process (ICAAP) – including the Material Risk Identification Process – Capital Management analysis, the development of Pillar II capital assessment models and conducting Stress Testing;
- Providing the independent assessment of, and challenge to the business areas' risk management and profiles to ensure that they are maintained in a robust manner;
- Acting as a point of reference for risk and control matters, providing advice to management, sharing best practices and carrying out special reviews as directed by RMCC and the ALCO, and highlighting emerging risks.
- Conducting assurance reviews on the 1st line of defense activities including risk and control self-assessments, control testing and the appropriate adoption of risk policies.
- Providing operational resilience – protecting Group and customer information assets from cybersecurity risks and ensuring that critical functions can be maintained should a disruptive event occurs;
- Centrally managing the Group's policies to ensure timely review and approval in accordance with regulatory and internal deadlines;
- Formulating and managing the Group's Model Risk management approach, ensuring appropriate governance controls are in place and in line with internal and regulatory expectations;
- Framing and introducing necessary controls to identify, assess and monitor the Group's exposure to Market Risk.

b) Internal Audit

The role of the Internal Audit Department within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent assurance on the compliance with key laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the BAC or Management.

It is led by the Chief Internal Audit Officer who reports to the BAC of the Board of Directors, with administrative reporting to the Chief Executive Officer of the Group.

To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel. The Internal Audit Charter empowers it to have full, free and effective access at all reasonable times to all records, documents and employees of the Group. Internal Audit has direct access to the Chairman of the BAC and Chief Executive Officer of the Group.

To determine whether the Internal Audit Function is functioning effectively, the BAC shall:

- Assess the appropriateness of the Internal Audit Charter;
- Assess the adequacy of resources available, both in terms of skills and funding once each year; and
- Sponsor external assessments, at least once every five (5) years, by a qualified, independent reviewer from outside the Group.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

34.2 Control Environment (continued)

c) Internal Control

Board of Directors and management are responsible for developing and maintaining the existence of a sound internal control system and procedures that meet international standards and fulfill the requirements of the Group's management and external regulatory bodies. The internal control system should be capable of ensuring the achievement of the following:

- Accuracy and integrity of financial and operational statements issued by the Group;
- Effectiveness and efficiency of the Group's operational activities;
- Effectiveness of measures and procedures set to safeguard the Group's assets and properties; and
- Compatibility with laws, legislations and regulations in force as well as policies pertinent to internal operational procedures.

Executive management constantly monitors and assesses the efficiency and effectiveness of internal control procedures and their ability to achieve stated objectives and their furtherance and enhancement.

The processes and responsibilities of the Internal Control functions include but not limited to:

- Ensuring that the Group's operational policies, processes and controls are adhered to;
- Ensuring that proper internal controls are in place and that they are functioning as designed in a timely and effective manner;
- Periodic review of the Group's internal control system in order to identify areas where internal controls may be weak, not present and areas where there appear to be excessive controls resulting in operational inefficiency so as to suggest ways to rectify the same;
- Enabling the management to conduct an annual review of the efficiency of the internal control system and report its findings; and
- Monitoring of operational activities and overseeing operational controls being exercised to ensure that these are timely and effective.

d) Compliance

Compliance risk is defined by the Basel Committee as "the risk of legal or regulatory sanctions, financial loss, or loss to reputation that a Group may suffer as a result of its failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice".

The process of monitoring compliance is an independent task which aims at ensuring that the Group, which includes the Bank and its regulated subsidiaries, operates in compliance with applicable laws, regulations, instructions, directives and circulars, issued by relevant authorities as well as prevailing market practices and ethical standards.

The Board of Directors oversees management of Compliance risk within the Group and takes necessary measures to set and promote a culture of compliance with the letter and spirit of applicable laws, rules, standards, ethical and professional conduct values when conducting the business of the Group.

The mission and role of the Group Compliance department is to:

- Ensure Compliance risk is adequately identified, assessed, monitored and mitigated in conjunction with Business and other control functions;
- Ensure senior management and the Board are fully informed of significant compliance issues and plans for resolution;
- Contribute to a "no surprise" compliance culture by educating and communicating compliance awareness throughout the Group;
- Conduct independent reviews of selected processes and controls across the Group to ensure that key regulatory obligations are met and that key controls operate effectively;
- Develop annual compliance plans which set out compliance priorities for the Group and align compliance plans with business strategies and goals; and
- Support the business in meeting applicable regulatory requirements, including Anti-Money Laundering (AML), Combatting the Financing of Terrorism (CFT), Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) requirements.

Notes to the Group consolidated financial statements
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34. RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

34.2 Control Environment (continued)

e) Whistle Blowing
A set of arrangements has been designed to enable employees and customers to confidentially report concerns about any potential violations or misconduct, enabling the investigation and follow up of such concerns in an independent and confidential manner. Such arrangements are supervised by the Board in coordination with the senior management.

f) Fraud prevention
The Group has a dedicated Fraud Prevention and Investigation Unit that assists in identification, detection, and verification of potential or actual fraud incidents including quantification and recoupment of any losses sustained as a result of such incident. The purpose is to manage the susceptibility of the Group's assets and processes to fraud risk with a view to reducing it and to raise the level of fraud awareness amongst employees, customers and other stakeholders.

34.3 Disclosure policy

The Group has laid down the disclosure policy to ensure compliance with all regulations and guidelines issued by Central Bank of the UAE (CBUAE), International Financial Reporting Standards (IFRS), Securities and Commodities Authority (SCA) and Dubai Financial Market (DFM).

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds
Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement, and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down qualitative materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

b) Control framework
In order to ensure true and fair disclosure, the Group has established controls including detailed procedures for finalization and review of financial disclosures.

c) Frequency and medium of disclosure
Interim financial results are disclosed on a quarterly basis while complete consolidated financial statements complying with the requirements of IFRS, Basel III Pillar 3, relevant laws of the UAE, SCA requirement and other guidelines from CBUAE are made on annual basis. Disclosures of material non-public financial information are made as follows:

- Uploading quarterly reviewed and annual audited consolidated financial statements to DFM, SCA, Nasdaq Dubai and the Group's websites;
- Management discussion and analysis in Arabic and English newspapers in a manner that ensures wide dissemination;
- Publication of the annual report which includes audited consolidated financial statements, list of names of members of the Board of Directors, senior executives and names of wholly or partially owned subsidiaries; and
- Investor's pack is presented on Group's website on a quarterly and annual basis.
- Uploading quarterly reviewed Basel III, Pillar 3 disclosures to the Group's website.

35. FINANCIAL RISK MANAGEMENT

a) Introduction and overview
Risk is inherent to the Group's business and operating activities. The Group's Risk Management Framework sets out the governance and risk management techniques to enable risk identification, assessment and the ongoing monitoring and management of each risk-type to which the Group is exposed. These activities contribute to the Group's overall financial and operational stability, performance and reputation.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Introduction and overview (continued)

As determined by the Group's Material Risk Identification Process, the main risk-types that the Group is exposed to are as follows:

- Credit (including concentration risk and residual risk)
- Market Risk and Counterparty Credit Risk
- Operational Risk (including cyber risk and business resilience)
- Interest Rate Risk in the Banking Book (IRRBB)
- Strategic Risk
- Reputational Risk
- Liquidity Risk
- Regulatory Compliance & Financial Crime
- Model Risk
- Environmental, Social, and Governance risks
- Sharia Risk

The Board Risk and Compliance Committee (BRCC) is responsible for overseeing the management of risk through the Group Risk Management Framework. A key risk management technique is Risk Appetite setting that commences with the Board's articulation of accepted and tolerated levels of risk and return on an enterprise-wide basis. Other key techniques include Policies and Procedures, Internal Capital Adequacy Assessment Process, Internal Controls – including Risk and Control Assessments and Control testing, Limits and Key Risk Indicator Monitoring & Reporting and Stress Testing.

The Group's BRCC is assisted by the Risk Management and Compliance Committee (RMCC). The RMCC is responsible for monitoring compliance with the Group's Risk Management policies and procedures, including the ongoing review of the adequacy of the Risk Management Framework. The RMCC provides risk performance updates to the BRCC and recommends key risk policies for approval.

Formal RMCC sub committees are in place for certain risk categories where there is a cross risk element to the activity or by exception. The sub-committees include the Model Oversight Committee and the Operational Risk Committee.

Market Risk is overseen by the Asset and Liability Committee.

Environmental, Social, and Governance risks is overseen by the ESG Council.

All Group polices are prepared as per the requirements set out in the Policy Management Framework. Risk policies are established to manage principal risks taken, in accordance with the approved risk-appetite and typically include limits, delegations and requirements for reporting and monitoring.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training, management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

b) Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations arising principally from the Group's balances with Central Bank, due from banks, loans and advances and Islamic financing, other financial assets, loan commitments and financial guarantee contracts. For reporting purpose, credit risk on loan commitments and financial guarantee contracts is reported as a component of credit risk on loans and advances and Islamic financing. For risk management purposes, credit risk arising on investment securities held at FVPL is managed independently.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

i. *Management of credit risk*
Credit Committee (CC) manages the credit risk of the Group by continuous review and update of the following:

- Formulating credit policies;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk;
- Limiting concentrations of exposure to counterparties, geographies and industries;
- Developing and maintaining the Group's risk gradings;
- Developing and maintaining the Group's processes for measuring ECL;
- Reviewing compliance of business units with agreed exposure limits; and
- Providing advice, guidance and specialist skills to business units to promote best practice.

ii. *Internal credit risk ratings*
In order to minimize credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categories exposures according to their degree of risk of default. The Group's credit risk grading framework comprises various categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk increases. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the customer risk profile:

- Payment record and ageing analysis;
- Extent of utilisation of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review and where available changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the probability of default (PD) for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading.

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as Economic Composite Index (ECI), Oil price per barrel (OPB), hotel occupancy and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly for each obligor. The criteria used are both quantitative changes in PDs as well as qualitative.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

ii. *Internal credit risk ratings (continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increase in credit is effective, meaning that significant increase in credit risk is identified before the exposure is defaulted. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Loss Given Default is the loss expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Group expects to receive. The Group estimates LGD based on history of recovery rates and considers the valuation of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.

iii. *Measurement of ECL*
As explained in note 3.1.1 (e), the Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk. However, for financial instruments such as credit cards and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group 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 Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Group has the right to require repayment of an advance to terminate a loan commitment or guarantee.

iv. *Restructured and renegotiated loans*
Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Group has made concessions by agreeing to terms and conditions that are more favourable for the borrower than the Group had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans to ensure compliance with the terms at all times.

v. *Exposure to credit risk*
The Group measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)
b) Credit risk (continued)
v. *Exposure to credit risk (continued)*

31 December 2023	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Due from banks				
Performing	**3,774,453**	**–**	**–**	**3,774,453**
Expected credit losses allowance	**(1,744)**	**–**	**–**	**(1,744)**
Net carrying amount	**3,772,709**	**–**	**–**	**3,772,709**

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Loans and advances				
Performing	**73,832,602**	**8,325,756**	**–**	**82,158,358**
Non-performing	**–**	**–**	**6,715,706**	**6,715,706**
Expected credit losses allowance	**(435,892)**	**(734,474)**	**(4,390,392)**	**(5,560,758)**
Net carrying amount	**73,396,710**	**7,591,282**	**2,325,314**	**83,313,306**

31 December 2022	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Due from banks				
Performing	3,767,680	–	–	3,767,680
Expected credit losses allowance	(1,173)	–	–	(1,173)
Net carrying amount	3,766,507	–	–	3,766,507

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Loans and advances				
Performing	66,198,778	7,342,083	–	73,540,861
Non-performing	–	–	6,078,877	6,078,877
Expected credit losses allowance	(472,031)	(683,245)	(3,744,345)	(4,899,621)
Net carrying amount	65,726,747	6,658,838	2,334,532	74,720,117

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)
b) Credit risk (continued)
v. *Exposure to credit risk (continued)*

The stage 1 and stage 2 are performing loans having credit risk grading 1 – 19 while stage 3 are predominantly non-performing loans having grades 20 – 22, or other uncured indicators of default.

The borrower risk ratings are mapped into the following buckets as below:

31 December 2023	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Loans and advances and Islamic financial, net				
1-10 (Strong Credit Risk ratings)	**11,952,120**	**85,854**	**–**	**12,037,974**
11-14 (Good Credit Risk ratings)	**51,311,896**	**1,567,927**	**–**	**52,879,823**
15-19 (Moderate to Weaker Credit Risk ratings)	**10,568,586**	**6,671,975**	**–**	**17,240,561**
20-22 (Default non-performing loans)	**–**	**–**	**6,715,706**	**6,715,706**
Gross loans and advances and Islamic financing	**73,832,602**	**8,325,756**	**6,715,706**	**88,874,064**
Expected credit losses	**(435,892)**	**(734,474)**	**(4,390,392)**	**(5,560,758)**
Net loans and advances and Islamic financing	**73,396,710**	**7,591,282**	**2,325,314**	**83,313,306**

31 December 2022	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Loans and advances and Islamic financial, net				
1-10 (Strong Credit Risk ratings)	7,372,097	143,301	–	7,515,398
11-14 (Good Credit Risk ratings)	49,924,196	1,864,524	–	51,788,720
15-19 (Moderate to Weaker Credit Risk ratings)	8,902,485	5,334,258	–	14,236,743
20-22 (Default non-performing loans)	–	–	6,078,877	6,078,877
Gross loans and advances and Islamic financing	66,198,778	7,342,083	6,078,877	79,619,738
Expected credit losses	(472,031)	(683,245)	(3,744,345)	(4,899,621)
Net loans and advances and Islamic financing	65,726,747	6,658,838	2,334,532	74,720,117

The Group's Investment securities were classified under stage 1 at the reporting date (2022: classified under stage 1).

vi. *Impairment reserve under Central Bank of the UAE (CBUAE) guidance*
The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

Allowances for impairment losses: General	**2023 AED'000**	2022 AED'000
General provisions under Circular 28/2010 of CBUAE	**1,332,066**	1,208,867
Less: Stage 1 and Stage 2 provisions under IFRS 9	**1,345,489**	1,247,154
General provision transferred to the impairment reserve*	**–**	–
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**4,216,879**	3,407,387
Less: Stage 3 provisions under IFRS 9	**4,422,002**	3,764,763
Specific provision transferred to the impairment reserve*	**–**	–
Total provision transferred to the impairment reserve	**–**	–

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

vii. *Allowances for impairment*

As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures, a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk.

Assets carried at fair value through profit or loss is not subject to ECL, as the measure of fair value reflects the credit quality of each asset.

The Group monitors concentrations of its impaired loans by sector and by geographic location. An analysis of concentrations of impaired (excluding restructured / under restructuring) loans by sector is shown below:

31 December 2023	**Impaired loans AED'000**	**Collateral AED'000**	**Specific provision and interest in suspense AED'000**
Manufacturing	**47,838**	**16,283**	**34,361**
Construction	**1,797,660**	**519,861**	**1,509,860**
Real estate	**2,124,965**	**1,652,172**	**955,643**
Trade	**335,136**	**37,520**	**297,667**
Transportation and storage	**117,844**	**81,304**	**36,557**
Services	**922,856**	**461,769**	**518,590**
Hospitality	**284,661**	**212,772**	**97,978**
Financial and insurance activities	**701,856**	**29,496**	**688,238**
Personal – mortgage	**49,140**	**42,338**	**11,387**
Personal – schematic	**133,332**	**112,373**	**28,385**
Individual loans for business	**107,320**	**23,170**	**99,504**
Others	**93,098**	**1,221**	**112,222**
Total carrying amount	**6,715,706**	**3,190,279**	**4,390,392**

31 December 2022	Impaired loans AED'000	Collateral AED'000	Specific provision and interest in suspense AED'000
Manufacturing	69,639	37,012	46,142
Construction	1,443,931	528,585	992,152
Real estate	1,511,585	1,084,330	632,165
Trade	351,931	33,966	319,439
Transportation and storage	5,901	1,117	5,986
Services	918,110	424,093	412,503
Hospitality	278,555	236,561	80,129
Financial and insurance activities	1,064,870	270,254	901,097
Personal – mortgage	71,717	61,052	17,713
Personal – schematic	50,223	18,919	22,879
Individual loans for business	297,335	42,238	298,980
Others	15,080	235	15,160
Total carrying amount	6,078,877	2,738,362	3,744,345

All impaired loans are located in one geographic area i.e. the United Arab Emirates. The value of collateral is restricted to lower of loan exposure or realisable value of the collateral.

The gross carrying value of unfunded exposures pertaining to impaired loans amounted to AED 456.4 million (2022: AED 346.8 million).

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

viii. *Write-off policy*

The Group writes off a loan / investment in debt security (and any related expected credit allowances) when the Board Executive Committee (BEC) determines that the loan / security is uncollectible. This determination is reached after considering information such as the significant deterioration in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or proceeds from collateral will not be sufficient to pay back the entire exposure or all possible efforts of collecting the amounts have been exhausted.

For smaller balances of standardized loans, write off decisions are generally based on a product-specific past due status.

ix. *Collateral*

The Group holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored and updated on a periodic basis. Generally, collateral is not held against debt securities and amounts due from banks, and no such collateral was held at 31 December 2023 or 2022.

Analysis of collateral by type is presented in the following table:

	2023 AED'000	2022 AED'000
Pledged deposits	**2,357,544**	2,024,670
Properties	**35,526,549**	38,009,754
Mortgages	**1,226,135**	1,207,668
Pledge of shares	**1,580,478**	2,491,527
Bank guarantees	**174,966**	212,796
Gold	**118,288**	185,880
Credit Insurance	**160,212**	127,415
Total collaterals	**41,144,172**	44,259,710

The above represents collateral value restricted to the lower of loan balance or collateral value.

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For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

x. *Concentration*

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The following tables set out the concentration of credit risk by sector, geography and currency.

Concentration of credit risk by sector for 2023:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
Manufacturing	6,767,339	–	341,357	–	–	7,108,696	1,874,970	1,496,542
Construction	5,860,537	–	–	–	–	5,860,537	966,543	10,477,062
Real estate	18,394,058	–	–	–	–	18,394,058	4,245,922	1,400,828
Trade	9,573,867	–	–	–	–	9,573,867	5,032,808	10,869,045
Transportation and storage	2,771,389	–	123,574	–	–	2,894,963	1,511,650	101,731
Services	6,290,765	–	368,251	52,991	–	6,712,007	1,417,580	892,834
Hospitality	2,782,500	–	–	–	–	2,782,500	179,665	18,001
Financial and insurance activities	8,688,549	3,774,453	3,227,769	280,589	102,390	16,073,750	4,336,059	1,349,397
Government entities	2,651,504	–	9,089,976	–	14,167,637	25,909,117	1,001,866	42,557
Personal – mortgage	12,356,828	–	–	–	–	12,356,828	8,864	–
Personal – schematic	4,950,521	–	–	–	–	4,950,521	4,077,042	10,691
Individual loans for business	1,495,293	–	–	–	–	1,495,293	572,469	647
Others	6,290,914	–	1,614,350	–	5,090,804	12,996,068	1,811,706	1,106,089
Total carrying amount	88,874,064	3,774,453	14,765,277	333,580	19,360,831	127,108,205	27,037,144	27,765,424

Concentration of credit risk by sector for 2022:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
Manufacturing	5,555,810	–	255,625	–	–	5,811,435	2,013,617	1,479,519
Construction	5,267,474	–	–	–	–	5,267,474	686,635	7,643,635
Real estate	19,133,781	–	–	–	–	19,133,781	5,183,808	1,296,605
Trade	9,230,932	–	–	–	–	9,230,932	4,674,607	10,966,060
Transportation and storage	2,390,725	–	134,426	–	–	2,525,151	423,995	77,751
Services	5,987,754	–	334,727	60,072	–	6,382,553	1,427,151	840,490
Hospitality	3,182,690	–	–	–	–	3,182,690	315,806	14,504
Financial and insurance activities	5,948,857	3,767,680	2,284,008	381,867	92,916	12,475,328	4,130,769	1,717,568
Government entities	1,656,336	–	4,039,390	–	14,929,737	20,625,463	217,522	171,140
Personal – mortgage	10,284,271	–	–	–	–	10,284,271	32,850	–
Personal – schematic	4,512,723	–	–	–	–	4,512,723	3,400,171	1,677
Individual loans for business	1,484,289	–	–	–	–	1,484,289	372,997	682
Others	4,984,096	–	1,319,994	–	5,625,537	11,929,627	384,049	1,014,921
Total carrying amount	79,619,738	3,767,680	8,368,170	441,939	20,648,190	112,845,717	23,263,977	25,224,552

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Credit risk (continued)

x. *Concentration (continued)*

Concentration of credit risk by geographic location for 2023:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
UAE	80,110,995	31,962	9,287,005	168,788	19,360,831	108,959,581	21,850,660	21,794,553
GCC	3,576,298	1,307,428	1,448,487	–	–	6,332,213	2,502,331	672,289
Middle East	925,796	550,367	–	66,665	–	1,542,828	162,600	100,061
Europe	2,043,617	531,132	761,211	1,702	–	3,337,662	1,429,582	2,883,392
USA	24,341	1,029,417	1,296,813	3,075	–	2,353,646	275	21,817
Asia	791,403	160,073	1,570,139	–	–	2,521,615	270,390	2,151,516
Others	1,401,614	164,074	401,622	93,350	–	2,060,660	821,306	141,796
Total carrying amount	88,874,064	3,774,453	14,765,277	333,580	19,360,831	127,108,205	27,037,144	27,765,424

Concentration of credit risk by geographic location for 2022:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
UAE	75,988,624	77,545	4,454,572	179,662	20,648,190	101,348,593	20,339,004	20,427,867
GCC	625,889	219,440	1,050,307	–	–	1,895,636	1,419,744	475,548
Middle East	489,517	350,148	–	47,846	–	887,511	689	182,425
Europe	967,695	1,408,405	335,837	1,651	–	2,713,588	1,119,611	499,748
USA	6,035	1,530,369	1,039,483	16,944	–	2,592,831	45	1,380,392
Asia	689,626	86,191	1,184,611	–	–	1,960,428	307,210	2,154,039
Others	852,352	95,582	303,360	195,836	–	1,447,130	77,674	104,533
Total carrying amount	79,619,738	3,767,680	8,368,170	441,939	20,648,190	112,845,717	23,263,977	25,224,552

Concentration of credit risk by currency for 2023:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
AED	64,974,039	7	6,171,814	52,991	18,322,441	89,521,292	21,060,347	15,186,477
Other currencies*	23,900,025	3,774,446	8,593,463	280,589	1,038,390	37,586,913	5,976,797	12,578,947
Total carrying amount	88,874,064	3,774,453	14,765,277	333,580	19,360,831	127,108,205	27,037,144	27,765,424

Concentration of credit risk by currency for 2022:

	Loans and advances and Islamic financing AED'000	Due from banks AED'000	Debt securities AED'000	Equity securities and fund of funds AED'000	Cash, balances with Central bank and other assets AED'000	Total funded exposures AED'000	Undrawn commitments AED'000	Acceptances and contingent liabilities AED'000
AED	62,845,809	7	1,541,743	60,072	19,569,402	84,017,033	18,397,554	12,228,639
Other currencies*	16,773,929	3,767,673	6,826,427	381,867	1,078,788	28,828,684	4,866,423	12,995,913
Total carrying amount	79,619,738	3,767,680	8,368,170	441,939	20,648,190	112,845,717	23,263,977	25,224,552

*Majority of assets denominated in other currencies are in USD to which AED is pegged.

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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Settlement risk
The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of the counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Delays in settlement are rare and are monitored through a framework of limits.

For certain types of transactions, the Group 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 above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Wholesale Credit Department.

d) Liquidity risk
Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Liquidity risk is the inability to meet obligations as they become due. This risk includes the inability to liquidate assets at reasonable prices and in the required timeframe. Liquidity risk can be caused by market disruptions or idiosyncratic events which may cause certain sources of funding to diminish.

i. *Management of liquidity risk*
Liquidity risk is managed by the Treasury and Asset and Liability management (ALM) department in line with the regulatory, internal policies and guidelines. The Group's approach to manage liquidity risk is to ensure that it has adequate funding from diversified sources at all times to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage of the Group's reputation.

Funds are raised using a broad range of instruments including customers' deposits, medium term borrowings, repurchase agreements, money market instruments, subordinated debts and capital. The Treasury and ALM department monitors the liquidity profile of financial assets and liabilities and the projected cash flows arising from existing and future business. Treasury maintains a portfolio of short-term liquid assets and inter-bank placements to ensure that sufficient liquidity is maintained. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and abnormal market conditions.

The Group's liquidity management process, as carried out within the Group and monitored by Group's treasury, includes:

- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met including replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to facilitate funding activities;
- Maintenance of a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Managing balance sheet liquidity ratios against internal and regulatory requirements;
- Managing the concentration and profile of funding maturities; and
- Maintaining repurchase arrangements with various Banks to allow for the bank to 'Repo' fixed income investments to meet any liquidity needs that may arise.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. *Exposure to liquidity risk*
The key measure used by the Group for measuring liquidity risk is the Advances to Stable Resources ratio (ASRR) (regulatory ratio) which is 87.25% as at 31 December 2023 (2022: 87.09%). In addition, the Group also uses the following ratios / information on a continuous basis for measuring liquidity risk:

- Eligible Liquid Assets ratio (ELAR) to total assets ratio;
- Net Loans to Deposits ratio (LDR); and
- Basel III ratios (including LCR and NSFR) are also monitored internally and by the ALCO and Board Risk and Compliance Committee (BRCC).

The following table summarizes the maturity profile of the Group's assets and liabilities based on the contractual repayment arrangements. This profile does not take into account the effective maturities as indicated by the Group's deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the residual period at the report date to the contractual maturity date.

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

Assets	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000	No Fixed Maturity AED'000
Cash and balances with Central Bank	15,009,602	8,141,965	200,000	1,300,000	–	–	5,367,637
Due from banks, net	3,772,709	1,705,569	–	422,395	1,644,745	–	–
Loans and advances and Islamic financing, net	83,313,306	8,495,817	7,820,806	11,512,497	29,134,773	26,349,413	–
Investment securities, net	15,098,729	1,131,840	1,281,112	5,542,294	5,227,473	1,916,010	–
Investment in associate	102,390	–	–	–	–	–	102,390
Investment properties	246,050	–	–	–	–	–	246,050
Property and equipment	431,843	–	–	–	–	–	431,843
Bankers acceptances	7,931,518	1,961,053	88,611	5,850,331	31,523	–	–
Positive mark to market value of derivatives	697,872	697,872	–	–	–	–	–
Other assets, net	2,383,472	1,028,772	–	–	–	–	1,354,700
Total assets	**128,987,491**	**23,162,888**	**9,390,529**	**24,627,517**	**36,038,514**	**28,265,423**	**7,502,620**
Liabilities and equity							
Due to banks	7,833,389	2,556,667	183,650	2,045,867	3,047,205	–	–
Customer deposits and Islamic customer deposits	88,287,145	52,923,801	11,957,338	22,947,418	446,716	11,872	–
Notes and medium term borrowings	5,705,456	–	–	623,793	5,081,663	–	–
Due for trade acceptances	7,931,518	1,961,053	88,611	5,850,331	31,523	–	–
Negative mark to market value of derivatives	634,707	634,707	–	–	–	–	–
Other liabilities	2,813,919	2,765,397	–	–	–	–	48,522
Total liabilities	**113,206,134**	**60,841,625**	**12,229,599**	**31,467,409**	**8,607,107**	**11,872**	**48,522**
Gap representing equity	**15,781,357**	**(37,678,737)**	**(2,839,070)**	**(6,839,892)**	**27,431,407**	**28,253,551**	**7,454,098**

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. *Exposure to liquidity risk (continued)*

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

Assets	Total AED'000	Less than 1 month AED'000	From 1 to 3 months AED'000	From 3 months to 1 year AED'000	From 1 to 5 years AED'000	Over 5 years AED'000	No Fixed Maturity AED'000
Cash and balances with Central Bank	15,760,429	12,530,692	–	–	–	–	3,229,737
Due from banks, net	3,766,507	3,281,371	–	182,531	302,605	–	–
Loans and advances and Islamic financing, net	74,720,117	9,197,572	6,886,764	8,534,060	29,091,078	21,010,643	–
Investment securities, net	8,810,092	56,260	666,260	1,370,382	4,044,117	2,673,073	–
Investment in associate	92,916	–	–	–	–	–	92,916
Investment properties	185,768	–	–	–	–	–	185,768
Property and equipment	354,251	–	–	–	–	–	354,251
Bankers acceptances	8,570,044	1,254,037	1,674,927	5,634,675	6,405	–	–
Positive mark to market value of derivatives	1,024,009	1,024,009	–	–	–	–	–
Other assets, net	2,902,494	747,182	–	–	–	–	2,155,312
Total assets	116,186,627	28,091,123	9,227,951	15,721,648	33,444,205	23,683,716	6,017,984
Liabilities and equity							
Due to banks	7,838,704	1,835,072	577,883	989,099	4,436,650	–	–
Customer deposits and Islamic customer deposits	81,074,379	50,431,143	11,122,064	18,601,077	909,119	10,976	–
Notes and medium term borrowings	2,034,019	–	–	–	2,034,019	–	–
Due for trade acceptances	8,570,044	1,254,037	1,674,927	5,634,675	6,405	–	–
Negative mark to market value of derivatives	923,911	923,911	–	–	–	–	–
Other liabilities	1,863,324	1,809,439	–	–	–	–	53,885
Total liabilities	102,304,381	56,253,602	13,374,874	25,224,851	7,386,193	10,976	53,885
Gap representing equity	13,882,246	(28,162,479)	(4,146,923)	(9,503,203)	26,058,012	23,672,740	5,964,099

The table below shows the maturity of the Group's contingent liabilities and credit commitments:

31 December 2023	**Total AED'000**	**Less than 1 month AED'000**	**From 1 to 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 to 5 years AED'000**	**Over 5 years AED'000**
Contingent liabilities	**19,833,906**	**956,151**	**1,872,942**	**3,067,041**	**2,330,483**	**11,607,289**
Credit commitments	**27,037,144**	**5,139,610**	**1,820,345**	**5,018,472**	**6,964,757**	**8,093,960**
Total	**46,871,050**	**6,095,761**	**3,693,287**	**8,085,513**	**9,295,240**	**19,701,249**
31 December 2022						
Contingent liabilities	16,654,508	2,005,206	1,839,560	2,365,779	1,328,365	9,115,598
Credit commitments	23,263,977	4,884,592	2,511,043	3,793,699	3,163,637	8,911,006
Total	39,918,485	6,889,798	4,350,603	6,159,478	4,492,002	18,026,604

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Liquidity risk (continued)

ii. *Exposure to liquidity risk (continued)*

Due to the nature of the contingent liabilities and credit commitment, it is possible that the guarantees and commitments could be called in the less than one month bucket, being the earliest period in which the guarantees could be called, and commitments could be drawn. Behavioral maturity is materially aligned with contractual dates.

The tables below show undiscounted contractual cash flows on the Group's financial liabilities:

31 December 2023	**Total AED'000**	**Less than 1 month AED'000**	**From 1 to 3 months AED'000**	**From 3 months to 1 year AED'000**	**From 1 to 5 years AED'000**
Due to banks	**8,057,940**	**2,559,196**	**185,198**	**2,077,001**	**3,236,545**
Customer deposits and Islamic customer deposits	**89,279,015**	**52,948,812**	**12,069,243**	**23,731,930**	**529,030**
Notes and medium term borrowings	**6,555,710**	**–**	**–**	**638,734**	**5,916,976**
Due for trade acceptances	**7,931,518**	**1,961,053**	**88,611**	**5,850,331**	**31,523**
Other liabilities	**1,028,458**	**1,028,458**	**–**	**–**	**–**
Total liabilities	**112,852,641**	**58,497,519**	**12,343,052**	**32,297,996**	**9,714,074**
31 December 2022					
Due to banks	8,167,278	1,836,210	579,564	1,012,193	4,739,311
Customer deposits and Islamic customer deposits	81,663,802	50,447,283	11,167,828	19,045,284	1,003,407
Notes and medium term borrowings	2,124,807	–	–	–	2,124,807
Due for trade acceptances	8,570,044	1,254,037	1,674,927	5,634,675	6,405
Other liabilities	722,028	722,028	–	–	–
Total liabilities	101,247,959	54,259,558	13,422,319	25,692,152	7,873,930

e) Market risk

Market Risk is the risk of losses arising from movements in market prices. Market risk comes from a number of factors, particularly changes to market variables including, but not limited to, interest rates, credit spreads, exchange rates, equity prices, commodity prices, and implied volatilities. The Group is exposed to market risk through its participation in trading, investment, and asset/liability management activities. Trading activities involve taking positions on various instruments such as bonds, shares, currencies, commodities, or derivative financial instruments. The Group is exposed to non-trading market risk through its asset/liability management and investment portfolios.

i. *Governance*

Market risk management policy governs global market risk management across the Group. The policy is approved by the Board Risk and Compliance Committee (BRCC). It sets out the principles for managing market risk and the framework that defines risk measures, control and monitoring activities, market risk limits, and reporting of breaches.

A limit and governance structure are in place to manage market risk which are consistent with the Group's Risk Appetite framework.

The BRCC sets the risk appetite pertaining to market risk which translates into risk limits which are closely monitored by Group Risk Management, reported daily to senior management and discussed monthly by the ALCO.

The Group separates its exposure to market risk between trading and non-trading portfolios with overall responsibility vested with the ALCO. The Group Risk Management department is responsible for the development of detailed risk management policies and for the day-to-day implementation, subject to review and approval by the ALCO.

Notes to the Group consolidated financial statements
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35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

ii. *Assessment and Management of market risk*

The Risk Management Group uses a variety of risk measures to estimate the size of potential losses due to market risk. The Group's risk measures include Value-at-Risk (VaR), sensitivity metrics and stress test analysis.

Additionally, a comprehensive set of limits is applied to market risk measures, and these limits are monitored and reported on a regular basis. Instances when limits are exceeded are reported to the appropriate management level. The risk profiles of the Group's operations remain consistent with its risk appetite and the resulting limits, and are monitored and reported to traders, management of the applicable business unit, senior executives, and Board committees.

iii. *Investment Portfolio*

The Group has an investment portfolio of liquid securities for strategic and liquidity management purposes. These investments carry market risk, credit risk, liquidity risk, and concentration risk.

In line with the IFRS9, the transactions pertaining to this portfolio are either classified as amortised cost or fair value through other comprehensive income (FVOCI).

The investment governance framework sets out the guiding principles and general management standards that must be followed by all parties involved. Under the framework, the Board of Directors through the Board Risk and Compliance Committee (BRCC) approves and sets risk appetite for the investment portfolio in terms of size, returns and risk. The investment portfolio is managed directly by the Treasury and risk limits are closely monitored by the market risk and reported regularly to ALCO.

The Risk Management Group applies different risk measures including Value-at-Risk (VaR), sensitivity metrics and stress test analysis. The risk reports are shared with ALCO and BRCC on a regular basis.

iv. *Exposure to interest rate risk – non trading portfolio*

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Group manages the risk principally through measuring and monitoring interest rate gaps, Economic Value of Equity (EVE) and Net Interest Income (NII) sensitivity as well as DV01 for the entire balance sheet. The Group Risk Management Department monitors compliance with these Interest rate risk measures against approved limits on a regular basis and is responsible for reporting breaches if any, to senior management. ALCO review reports monthly.

The following is the impact of interest rate movement on net interest income:

	2023 Net interest income		2022 Net interest income	
	50 bps AED'000	**100 bps AED'000**	50 bps AED'000	100 bps AED'000
Upward Parallel Shift	**52,085**	**107,584**	75,417	137,914
Downward Parallel Shift	**(98,439)**	**(179,699)**	(72,602)	(150,620)

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

iv. *Exposure to interest rate risk – non trading portfolio (continued)*

A summary of the Group's interest rate sensitivity position based on contractual re-pricing arrangements or maturity dates, whichever dates are earlier is as follows:

31 December 2023	**Non-interest bearing AED'000**	**Less than 3 months AED'000**	**From 3 to 6 months AED'000**	**From 6 months to 1 year AED'000**	**Over 1 year AED'000**	**Total AED'000**
Assets						
Cash and balances with Central Bank	6,209,602	8,800,000	–	–	–	15,009,602
Due from banks, net	1,705,570	–	–	–	2,067,139	3,772,709
Loans and advances and Islamic financing, net	1,154,946	63,072,044	6,394,963	1,489,866	11,201,487	83,313,306
Investment securities, net	333,580	2,208,154	3,558,463	1,855,050	7,143,482	15,098,729
Investment in associate	102,390	–	–	–	–	102,390
Investment properties	246,050	–	–	–	–	246,050
Property and equipment	431,843	–	–	–	–	431,843
Bankers acceptances	7,931,518	–	–	–	–	7,931,518
Positive mark to market value of derivatives	697,872	–	–	–	–	697,872
Other assets, net	2,383,472	–	–	–	–	2,383,472
Total assets	21,196,843	74,080,198	9,953,426	3,344,916	20,412,108	128,987,491
Liabilities						
Due to banks	1,422,628	1,317,690	1,219,441	826,426	3,047,204	7,833,389
Customer deposits and Islamic customer deposits	32,270,579	40,189,904	5,986,508	9,410,719	429,435	88,287,145
Notes and medium term borrowings	–	–	623,793	–	5,081,663	5,705,456
Due for trade acceptances	7,931,518	–	–	–	–	7,931,518
Negative mark to market value of derivatives	634,707	–	–	–	–	634,707
Other liabilities	2,813,919	–	–	–	–	2,813,919
Total liabilities	45,073,351	41,507,594	7,829,742	10,237,145	8,558,302	113,206,134
Interest rate sensitivity gap	(23,876,508)	32,572,604	2,123,684	(6,892,229)	11,853,806	15,781,357
Cumulative interest rate sensitivity gap	(23,876,508)	8,696,096	10,819,780	3,927,551	15,781,357	
Represented by equity						15,781,357

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

iv. *Exposure to interest rate risk – non trading portfolio (continued)*

31 December 2022	Non-interest bearing AED'000	Less than 3 months AED'000	From 3 to 6 months AED'000	From 6 months to 1 year AED'000	Over 1 year AED'000	Total AED'000
Assets						
Cash and balances with Central Bank	4,060,429	11,700,000	–	–	–	15,760,429
Due from banks, net	3,281,371	36,640	275,092	145,891	27,513	3,766,507
Loans and advances and Islamic financing, net	1,179,258	58,005,001	3,761,734	1,656,895	10,117,229	74,720,117
Investment securities, net	441,939	949,858	793,103	531,285	6,093,907	8,810,092
Investment in associate	92,916	–	–	–	–	92,916
Investment properties	185,768	–	–	–	–	185,768
Property and equipment	354,251	–	–	–	–	354,251
Bankers acceptances	8,570,044	–	–	–	–	8,570,044
Positive mark to market value of derivatives	1,024,009	–	–	–	–	1,024,009
Other assets, net	2,902,494	–	–	–	–	2,902,494
Total assets	22,092,479	70,691,499	4,829,929	2,334,071	16,238,649	116,186,627
Liabilities						
Due to banks	–	7,216,905	309,594	312,205	–	7,838,704
Customer deposits and Islamic customer deposits	31,628,721	30,188,365	8,349,818	10,515,308	392,167	81,074,379
Notes and medium term borrowings	–	1,411,196	622,823	–	–	2,034,019
Due for trade acceptances	8,570,044	–	–	–	–	8,570,044
Negative mark to market value of derivatives	923,911	–	–	–	–	923,911
Other liabilities	1,863,324	–	–	–	–	1,863,324
Total liabilities	42,986,000	38,816,466	9,282,235	10,827,513	392,167	102,304,381
Interest rate sensitivity gap	(20,893,523)	31,875,033	(4,452,305)	(8,493,442)	15,843,483	13,882,246
Cumulative interest rate sensitivity gap	(20,893,523)	10,981,509	6,529,204	(1,964,237)	13,882,246	
Represented by equity						13,882,246

Non-interest bearing loans and advances and Islamic financing, net comprises of stage 3 loans.

Overall interest rate risk positions are managed by the Treasury and ALM Department, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's activities. Interest rate risks are assumed by ALM from the businesses through fund transfer pricing process.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Transactional foreign currency exposures represent exposure on banking assets and liabilities, denominated in currencies other than the functional currency of the transacting entity.

The Market risk management policy is designed to prevent the holding of significant open positions in foreign currencies outside the trading portfolio managed by the Group. Exposures are monitored through open currency position limits and VaR, within the risk appetite set by the Board.

Positions are closely monitored by the Market Risk Department and hedging strategies are used to ensure positions are maintained within established limits.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Market risk (continued)

Currency Risk (continued)

At 31 December, the Group had the following significant net exposures denominated in foreign currencies:

Currencies	Net spot Position AED'000	Forward Position AED'000	Net exposure 2023 AED'000	Net exposure 2022 AED'000
US Dollar	**5,986,887**	**(4,373,694)**	**1,613,193**	(308,067)
GCC currencies	**(849,991)**	**952,174**	**102,183**	11,188
Great Britain Pound	**(97,574)**	**98,183**	**609**	92
Japanese Yen	**(39)**	**1,103**	**1,064**	720
Euro	**(206,472)**	**211,972**	**5,500**	7,890
Others	**31,385**	**(19,972)**	**11,413**	15,378

A summary of capital requirement for market risk under standardized approach of Basel III is set out below:

	2023 AED'000	2022 AED'000
Foreign currency risk	**12,733**	3,746
Interest rate risk	**62,337**	75,472
	75,070	79,218

f) Equity risk

The Group has defined in its trading book policy the instruments which the Group is allowed to trade. A limited trading activity takes place in the equity market, monitored by Risk Management and in line with ALCO recommendations. Daily stop loss limits as well as portfolio notional limits are monitored daily and reported to senior management. In addition, the Group has classified an equity portfolio as FVOCI.

Analysis of equity portfolio:

Publicly traded (quoted):	2023 AED'000	2022 AED'000
Equity (note 10)	**52,991**	60,072
Privately held (unquoted):		
Unquoted equity instruments and fund (note 10)	**280,589**	381,867
Total	**333,580**	441,939

Analysis of gains or (losses) on equity investments:

	2023 AED'000	2022 AED'000
Unrealised loss	**(19,585)**	(8,196)

Analysis of capital requirement for equity investments under standardized approach of Basel III:

	2023 AED'000	2022 AED'000
Quoted equity instruments and fund	**5,564**	6,308
Unquoted equity instruments and fund	**52,683**	73,120
Total	**58,247**	79,428

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Operational risk

Operational risk is defined by Basel as "The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, this includes legal risk but excludes strategic and reputation risks".

The Group's objective is to manage operational risk, to balance the mitigation of financial losses and damage to the Group's reputation, with overall cost effectiveness and to avoid control procedures that restrict initiative, innovativeness and creativity.

The primary responsibility for overseeing the establishment of sound operational risk management framework and monitoring the operational risk profile of the Group vests with the senior management of the Group. The Group maintains a cross functional committee, the Operational Risk Management Committee (ORMC), the members of which are senior management with the responsibility to closely monitor the status of key Operational Risks across the Group and support timely execution of action plans.

The Group maintains a robust risk governance framework with accountability embedded throughout the organisation. The Group applies a "Three lines of defense" model within which the businesses and functions are responsible for the risks that form part of their respective areas and must ensure that these risks are identified, measured, mitigated, and monitored through appropriate control. Risk, Compliance and Finance are the major second lines of defense and are responsible for providing policy guidance, assurance, challenge, and oversight of risks they steward. Internal Audit is the third line, providing independent assurance to senior management and the Board and its subcommittees.

Accountability and responsibility is assigned to the heads of individual units, departments or branches. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions to eliminate scenarios involving any conflict of interest;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures pertaining to all activities of the Group;
- Requirements for at least annual assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses, tracking preventative actions to avoid future recurrence, and remedial actions to ensure the incident is appropriately managed;
- Development and testing of contingency plans to mitigate the threats that could disrupt the functioning of the Group to service its customers;
- Training and professional development of employees at all levels so as to maintain and increase their awareness of the areas they are responsible for;
- Mandatory annual risk and compliance training for all staff;
- Ethical and business standards (through the Group's Code of Conduct);
- Risk mitigation, including insurance wherever this is effective; and
- Whistle Blowing and Incident Reporting Policies are channels available to all staff for reporting of any loss events or other wrongdoings.

The Group has an approved framework for end-to-end management of its operational risks, which involves the active participation of the employees at all levels. The Operational Risk Management policy defines the framework for the identification, assessment, control, monitoring and reporting of operational risks and events. The Control Testing Program was introduced to the Operational Risk Framework and Policy in 2023 as the 4th integral pillar of Operational Risk Management. Control Test programs have been developed to assess the operating effectiveness of controls recorded in departmental risk profiles. Reports are produced for the Operational Risk Management Committee.

The Group maintains an operational risk tool to record and manage all operational risk activities. The system collates operational risk information that enables the group to effectively analyse and report operational risk data.

Group Risk Management are responsible for embedding group-wide operational risk awareness, by delivering workshops, seminars and training courses on different operational risk disciplines, for employees throughout the year.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

35. FINANCIAL RISK MANAGEMENT (CONTINUED)

g) Operational risk (continued)

As part of the operational risk framework in the Group, Risk and Control Self Assessments (RCSA) are carried out by all business units to identify and measure their operational risks and assess the effectiveness of existing controls. Action plans are agreed for any control weaknesses or unacceptable risks to mitigate the likelihood and / or impact of an operational risk event. Any operational risk events that occur are recorded and escalated to ensure timely remedial actions are taken, to reduce customer dissatisfaction and recover losses.

Information and Cyber Security is the practice that protects Information and Information Systems from unauthorized access, use, disclosure, disruption, modification, or destruction. The risk includes cyber threats to application, infrastructure, and cloud security. The Group's Information Security Management System is certified to ISO/IEC 27001, and compliant to UAE's National Electronic Security Authority (NESA) Standards, the Payment Card Industry (PCI) Data Security Standards and Article 6 of the Consumer Protection Regulation. The key risk to the Group is the safety and privacy of critical data such as customer account details and financial data that could lead to reputational damage, financial loss and regulatory violations.

36. CAPITAL MANAGEMENT

36.1 Regulatory capital

The Group's regulator, Central Bank of the UAE (CBUAE), sets and monitors regulatory capital requirements. The Group's objectives when managing capital are as follows:

- Safeguard the Group's ability to continue as a going concern and optimize returns for shareholders;
- Comply with regulatory capital requirements set by Central Bank of the UAE.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its integrated ICAAP Framework. Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

The Group also calculates the Risk Adjusted Return on Capital (RAROC) for credit applications that are priced on a risk-adjusted basis. RAROC calculations are also built into the Credit Appraisal System.

The CBUAE supervises the Group on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole. Effective from 2017, the capital is computed at a Group level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Group's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (T2), depending on their characteristics;

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

36. CAPITAL MANAGEMENT (CONTINUED)
36.1 Regulatory capital (continued)

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital. The minimum capital adequacy requirements as set out by Central Bank of the UAE are as follows:

- Minimum Common Equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total Capital Adequacy Ratio (CAR) of 10.5% of RWAs.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) – maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

The Group has complied with all the externally imposed capital requirements.

36.2 Capital resources and adequacy

The table below summarizes the composition of regulatory capital and the ratios of the Group as per BASEL III guidelines and has complied with all of the externally imposed capital requirements to which it is subject. As per Central Bank of the UAE regulation for Basel III, the capital requirement as at 31 December 2023 is 13% inclusive of capital conservation buffer of 2.5%. The Group has also applied the standards issued vide its circular dated 12 November 2020 and 30 December 2022 by the CBUAE which includes additional Guidance on the topics of Credit Risk, Market Risk, Operational Risk, Equity Investment in Funds (EIF), Counter Party Credit Risk (CCR) and Credit Value Adjustment (CVA). The Standards support the implementation of the "Regulations re Capital Adequacy" (Circular 52/2017).

Common equity tier 1 (CET1) capital	**2023 AED'000**	2022 AED'000
Share capital	**2,985,192**	2,802,734
Legal and statutory reserve	**1,492,596**	1,401,447
General reserve and other reserves	**1,366,663**	1,366,663
Retained earnings	**6,960,603**	6,071,426
Accumulated other comprehensive income	**(550,354)**	(692,040)
IFRS transitional arrangement	**108,425**	90,292
	12,363,125	11,040,522
Regulatory deductions and adjustments	**(159,903)**	(123,565)
Total CET1 capital	**12,203,222**	10,916,957
Additional tier 1 (AT1) Capital (note 19.2)	**2,203,800**	2,203,800
Tier 1 capital	**14,407,022**	13,120,757
Tier 2 capital		
Eligible general provision	**1,110,055**	1,007,389
Tier 2 capital	**1,110,055**	1,007,389
Total regulatory capital	**15,517,077**	14,128,146
Risk weighted assets (RWA)		
Credit risk	**88,804,371**	80,591,138
Market risk	**1,038,385**	1,248,790
Operational risk	**7,458,217**	6,233,385
Risk weighted assets	**97,300,973**	88,073,313
Tier 1 ratio	**14.81%**	14.90%
Tier 2 ratio	**1.14%**	1.14%
Capital adequacy ratio	**15.95%**	16.04%

The Capital adequacy ratio calculation is after netting off the proposed dividend distribution from the capital base.

Notes to the Group consolidated financial statements
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36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk Weighted Capital Requirement
The Group has adopted the standardized approach for credit risk and market risk and basic indicator approach for operational risk for regulatory reporting purposes. The Group's risk weighted capital requirement for credit, market and operational risk are given below:

i. *Risk weights for credit risk*
The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under Central Bank of the UAE Basel III Capital Adequacy Framework covering the standardized approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

- **Funded exposure**

Claims on sovereigns
These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable external credit assessment institutions (ECAIs). Exposure to the Federal Government and Emirates Government receives 0% risk weight, if such exposures are denominated and funded in AED or USD. A 0% risk weight is applied to exposures to GCC sovereigns and their central banks only if these exposures are denominated and funded in the domestic currency of that sovereign and the Supervisory authority of that sovereign has adopted such preferential treatment for exposures to its own sovereign and central bank.

Claims on non-commercial public sector entities (PSEs) and government related enterprises (GRE)
Non-Commercial PSEs that are acknowledged by the Central Bank is treated in the same as Claims on Bank. Exposure to all other PSEs that are not included on the Central Bank's list must be treated like exposures to corporates.

Claims on government related entities (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated government related entities.

Claims on multilateral development banks (MDBs)
All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks
Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims were assigned more favorable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

Claims on corporate
Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weight of 100% is applied on claims on unrated corporate.

For unrated exposures to Small and Medium-sized Entities (SME) that do not meet the criteria of regulatory retail portfolio, an 85% risk weight is applied.

Claims on regulatory retail portfolio
Retail claims that are included in the regulatory retail portfolio (including SME) are assigned risk weights of 75% (except for those assets that are past due loans), if they meet the criteria mentioned in Central Bank of the UAE Basel III guidelines.

Claims secured by residential property
A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. If the two criteria cannot be definitively established or met, then if the exposure meets the criteria for regulatory retail claims then a 75% risk weight applies. Other claims secured on residential property were risk weighted 100%.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk Weighted Capital Requirement (continued)

i. *Risk weights for credit risk (continued)*

- **Funded exposure (continued)**

Claims secured by commercial real estate
100% risk weight was applied on claims secured by commercial property.

Past due loans
The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

– 150% risk weight when specific provisions are less than 20% of the outstanding amount of loan;
– 100% risk weight when specific provisions are greater than 20% of the outstanding amount of loan.

In the case of residential mortgage, when such loans are past due for more than 90 days it is risk weighted at 100%. All other assets are classified between 'assets under higher-risk categories' and 'others'; and risk weighted at the prescribed risk weights.

- **Unfunded exposure**

For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item, and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilized at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

- **Equity Investments in Funds (EIF)**

For all equity investments by banks in all types of funds that are held in the banking book (in-scope equity positions), the RWA is calculated as if the bank held the fund's exposures directly rather than indirectly through investment in the fund. The Group has used a hierarchy of three successive approaches i.e. Look-through approach (LTA), Mandate-based approach (MBA) and Fall-back approach (FBA) with varying degrees of risk sensitivity and conservatism, as required in the standards. Further, leverage adjustment to RWA is also incorporated to reflect a fund's leverage appropriately as described in the standards.

- **Credit Valuation Adjustment (CVA)**

The Group has adopted the standardized approach for calculating risk weighted assets for CVA risk. The process followed by the Group is as follows:

- Exposure at Default (EAD) is calculated based on the Counterparty Credit Risk (CCR) standard.
- Single Name Exposure (SNE) for each counterparty is calculated by multiplying the EAD by the Supervisory Discount Factor (DF) for each netting set.
- Capital is calculated using the formula applicable for Banks.

The final calculation performed is to multiply the capital by 12.5 to derive at the CVA RWA.

Notes to the Group consolidated financial statements
For the year ended 31 December 2023

36. CAPITAL MANAGEMENT (CONTINUED)

36.2 Capital resources and adequacy (continued)

Risk Weighted Capital Requirement (continued)

ii. *Risk weights for market risk*
Capital requirement for market risk is calculated using standardized approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

iii. *Risk weight for operation risk*
Capital requirement for operation risk is calculated using basic indicator approach. This capital charge was computed using basic indicator approach by multiplying the three years average gross income by a predefined beta factor.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the presentation adopted in these consolidated financial statements, the effect of which are considered immaterial.