

**Arab Bank PLC**  
**United Arab Emirates Branches**  
**FINANCIAL STATEMENTS**  
**31 DECEMBER 2022**

## **Table of Contents**

	<b>Page</b>
Report of the Management	1
Independent Auditor's Report on the Financial Statements	2 – 4
<b>Financial Statements:</b>	
Statement of Comprehensive Income	5
Statement of Financial Position	6
Statement of Cash Flows	7
Statement of Changes in Head Office Equity	8
Notes to the Financial Statements	9 - 97

## REPORT OF THE MANAGEMENT

We are pleased to submit this report and the audited financial statements of Arab Bank PLC, United Arab Emirates (“UAE”) branches (the “Branches” or the “Bank”) for the year ended 31 December 2022.

### *Incorporation and registered offices*

The Branches were incorporated in the United Arab Emirates as a commercial bank in 1971. The Bank has eight branches, three in Dubai, three in Abu Dhabi and one each in Sharjah and Ras al-Khaimah.

The Head Office of the Branches is Arab Bank PLC (the “Head Office”), a public listed bank registered in Amman, Jordan. The Head office is listed on the Amman Securities Exchange.

### *Financial position and results*

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

During the year ended 31 December 2022, the Branches recorded total operating income of AED 591,151 thousand (2021: AED 441,019 thousand) and net profit of AED 203,389 thousand (2021: net loss of AED 203,866 thousand).

Signed on behalf of the Management



Feras Darwish  
Country Manager

Date: 13 March 2023



## INDEPENDENT AUDITOR'S REPORT TO THE HEAD OFFICE OF ARAB BANK PLC, UNITED ARAB EMIRATES BRANCHES

### Report on the audit of the financial statements

#### *Opinion*

We have audited the financial statements of Arab Bank PLC, United Arab Emirates Branches (the "Bank" or the "Branches"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

#### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Branches in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the 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.

#### *Other information*

The other information obtained at the date of the auditor's report is the Branches' 2022 Management Report. Those charged with governance are responsible for the other information.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, 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.

INDEPENDENT AUDITOR'S REPORT TO THE HEAD OFFICE OF  
ARAB BANK PLC, UNITED ARAB EMIRATES BRANCHES (continued)

Report on the audit of the financial statements (continued)

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the UAE Federal Law No (32) of 2021 and the Decretal Federal Law No. (14) of 2018, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branches' 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 Branches or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branches' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT TO THE HEAD OFFICE OF  
ARAB BANK PLC, UNITED ARAB EMIRATES BRANCHES (continued)

Report on the audit of the financial statements (continued)

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

- 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 Branches ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branches to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

For Ernst & Young



Signed by:  
Wardah Ebrahim  
Partner  
Registration No. 1258

17 March 2023


Dubai, United Arab Emirates

Arab Bank PLC, United Arab Emirates Branches

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Interest income	3	561,848	399,045
Interest expense	4	(137,448)	(122,958)
<b>NET INTEREST INCOME</b>		<b>424,400</b>	<b>276,087</b>
Other operating income	5	166,751	164,932
<b>TOTAL OPERATING INCOME</b>		<b>591,151</b>	<b>441,019</b>
Credit loss expense on financial assets	6	(103,236)	(479,874)
<b>NET OPERATING INCOME / (LOSS)</b>		<b>487,915</b>	<b>(38,855)</b>
General and administrative expenses	7	(218,609)	(202,389)
Depreciation on property and equipment	15	(3,738)	(4,375)
Depreciation on right-of-use assets	34	(10,796)	(10,678)
<b>TOTAL OPERATING EXPENSES</b>		<b>(233,143)</b>	<b>(217,442)</b>
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		<b>254,772</b>	<b>(256,297)</b>
Income tax (expense) / credit	21(b)	(51,383)	52,431
<b>NET PROFIT / (LOSS) FOR THE YEAR AFTER TAXATION</b>		<b>203,389</b>	<b>(203,866)</b>
<b>Other comprehensive income / (loss) for the year</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
- Unrealised loss on revaluation of financial assets at FVTOCI	12(e)	(19)	(7)
- Tax effect		7	3
<b>Other comprehensive loss for the year, net of tax</b>		<b>(12)</b>	<b>(4)</b>
<b>TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR</b>		<b>203,377</b>	<b>(203,870)</b>



Feras Darwish  
Country Manager – United Arab Emirates



Khalil Abu Farah  
Country Head of Finance – United Arab Emirates

The attached notes 1 to 35 form an integral part of these financial statements.



# Arab Bank PLC, United Arab Emirates Branches

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
<b>ASSETS</b>			
Cash and balances with the Central Bank of UAE	8	2,249,825	2,161,184
Due from banks, net	9	1,984,005	1,621,300
Due from Head Office and its branches abroad	10	106,507	186,558
Loans and advances, net	11	9,543,230	9,211,200
Other financial assets, net	12	4,511,981	3,961,240
Right-of-use assets	34	13,320	24,116
Other assets	13	469,019	399,817
Deferred tax assets	14	367,372	366,016
Property and equipment	15	5,246	7,851
<b>TOTAL ASSETS</b>		<b>19,250,505</b>	<b>17,939,282</b>
<b>LIABILITIES AND HEAD OFFICE EQUITY</b>			
<b>LIABILITIES</b>			
Due to banks	16	156,627	72,084
Due to Head Office and its branches abroad	17	136,296	121,035
Customers' deposits	18	14,774,220	13,744,673
Security deposits from customers	19	1,128,952	1,211,098
Other liabilities	20	542,587	514,484
Provisions	21	70,945	30,105
Deferred tax liability		170	176
Lease contract liability	34	11,122	19,418
Subordinated loan	22	374,595	374,595
<b>TOTAL LIABILITIES</b>		<b>17,195,514</b>	<b>16,087,668</b>
<b>HEAD OFFICE EQUITY</b>			
Designated share capital	23	620,704	620,704
Statutory reserve	24	310,352	310,352
Other reserve	24	23,000	23,000
Impairment reserve	24	95,685	127,247
Revaluation reserve on financial assets - FVTOCI		691	703
Retained earnings		1,004,559	769,608
<b>TOTAL HEAD OFFICE EQUITY</b>		<b>2,054,991</b>	<b>1,851,614</b>
<b>TOTAL LIABILITIES AND HEAD OFFICE EQUITY</b>		<b>19,250,505</b>	<b>17,939,282</b>

These financial statements were approved and authorised for issue on 13 March 2023 by:



Feras Darwish  
Country Manager -- United Arab Emirates



Khalil Abu Farah  
Country Head of Finance -- United Arab Emirates

The attached notes 1 to 35 form an integral part of these financial statements.



# Arab Bank PLC, United Arab Emirates Branches

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
<b>OPERATING ACTIVITIES</b>			
Net profit / (loss) before taxation		254,772	(256,297)
Adjustments for:			
Depreciation on property and equipment	15	3,738	4,375
Depreciation on right-of-use assets	34	10,796	10,678
Provision for expected credit losses	6	103,389	480,287
Gain on disposal of property and equipment		(8)	(10)
Provision for employees' end of service benefits	21(d)	3,050	2,699
Amortisation of premium on other financial assets	12 (e)	48,803	15,651
Cash generated from operations before changes in operating assets and liabilities		424,540	257,383
Changes in operating assets and liabilities:			
Due from Central Bank on statutory deposits		(34,210)	122,199
Due from Central Bank and banks with original maturity of more than 3 months	27	(630,000)	(1,750,000)
Loans and advances, net		(436,663)	1,141,688
Other assets		37,394	(25,576)
Customers' deposits		1,029,547	(477,002)
Security deposits from customers		(82,146)	(38,399)
Other liabilities		(79,028)	17,856
Cash generated from / (used in) operations		229,434	(751,851)
Income tax paid	21(a)	(13,478)	(68,900)
Employees' end of service benefits paid	21(d)	(1,471)	(2,077)
Net cash generated from / (used in) operating activities		214,485	(822,828)
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment	15	(1,133)	(2,170)
Proceeds from disposal of property and equipment		8	10
Purchase of investments	12(e)	(9,835,588)	(10,672,217)
Proceeds from redemption of investments	12(e)	9,237,805	7,525,493
Net cash used in investing activities		(598,908)	(3,148,884)
<b>FINANCING ACTIVITY</b>			
Repayment of lease liability, net of accretion of interest	34	(8,296)	(10,953)
Net cash used in financing activity		(8,296)	(10,953)
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(392,719)</b>	<b>(3,982,665)</b>
Cash and cash equivalents at the beginning of the year		1,361,186	5,343,851
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	27	<b>968,467</b>	<b>1,361,186</b>
Interest income received		574,348	393,045
Interest expense paid		139,971	149,865
Dividend received		22	22

The attached notes 1 to 35 form an integral part of these financial statements.

# Arab Bank PLC, United Arab Emirates Branches

## STATEMENT OF CHANGES IN HEAD OFFICE EQUITY

For the year ended 31 December 2022

	<i>Designated share capital AED'000</i>	<i>Statutory reserve AED'000</i>	<i>Other reserve AED'000</i>	<i>Impairment reserve AED'000</i>	<i>Asset revaluation reserve AED'000</i>	<i>Retained earnings AED'000</i>	<i>Total Head Office equity AED'000</i>
Balance at 1 January 2021	620,704	310,352	23,000	59,179	707	1,041,542	2,055,484
Loss for the year	-	-	-	-	-	(203,866)	(203,866)
Other comprehensive loss	-	-	-	-	(4)	-	(4)
Total comprehensive loss for the year	-	-	-	-	(4)	(203,866)	(203,870)
Shortfall in impairment reserve transferred from retained earnings (note 11(i))	-	-	-	68,068	-	(68,068)	-
Balance at 31 December 2021	620,704	310,352	23,000	127,247	703	769,608	1,851,614
Profit for the year	-	-	-	-	-	203,389	203,389
Other comprehensive loss	-	-	-	-	(12)	-	(12)
Total comprehensive income /(loss) for the year	-	-	-	-	(12)	203,389	203,377
Excess impairment reserve transferred to retained earnings (note 11(i))	-	-	-	(31,562)	-	31,562	-
<b>Balance at 31 December 2022</b>	<b>620,704</b>	<b>310,352</b>	<b>23,000</b>	<b>95,685</b>	<b>691</b>	<b>1,004,559</b>	<b>2,054,991</b>

The attached notes 1 to 35 form an integral part of these financial statements.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**1 ACTIVITIES**

Arab Bank plc, United Arab Emirates Branches (the “Branches” or the “Bank”) were incorporated in the United Arab Emirates (“UAE”) as a commercial bank in 1971. The Head Office of the Branches is Arab Bank plc (the “Head Office”), a public shareholding bank, listed on the Amman Securities Exchange.

The Bank operates within the UAE through the following branches:

Abu Dhabi	3 branches
Dubai	3 branches
Sharjah	1 branch
Ras al-Khaimah	1 branch

These financial statements reflect the activities of the Branches in the United Arab Emirates only and exclude all transactions, assets and liabilities of the Head Office and its other branches elsewhere. Since the capital of the Branches is not publicly traded, no segmental analysis has been presented.

**2 ACCOUNTING POLICIES**

**2.1 BASIS OF PREPARATION**

The financial statements of the Branches have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), the UAE Federal Law No. (32) of 2021 and applicable regulations of the Central Bank of UAE.

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments measured at fair value;
- Financial instruments measured at fair value and classified as either fair value through profit or loss or fair value through other comprehensive income; and
- Recognised assets and liabilities that are a hedged item in a fair value hedge transaction are measured at fair value in respect of the risk that is hedged.

The financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Branches, rounded to the nearest thousand except when otherwise stated.

The Bank presents its statement of financial position in order of liquidity based on the Bank’s intention and perceived ability to recover/settle the majority of assets/liabilities of the corresponding financial statement line item. An analysis regarding the regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 33 (b).

**2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS**

The Branches have consistently applied the accounting policies same as prior year except for the changes in accounting policies resulting from adoption of new standards and interpretation.

(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2022

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**

An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Group cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)**

*(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2022 (continued)*

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37 (continued)**

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labor and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments did not have a material impact on the Bank's financial statements.

**Reference to Conceptual Framework – Amendments to IFRS 3**

The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. In accordance with the transitional provisions, the Group applies the amendments prospectively, i.e., to business combinations occurring after the beginning of the annual reporting period in which it first applies the amendments (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

**Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases**

The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no material impact on the financial statements of the Bank.

**IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter**

The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Bank.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)**

*(a) New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2022 (continued)*

**IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Group applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments do not have a material impact on the financial statements of the Bank.

*(b) New/amended standards and interpretations issued but not yet effective*

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

**IFRS 17 Insurance Contracts**

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Bank.

**Amendments to IAS 1: Classification of Liabilities as Current or Non-Current**

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. These amendments are not applicable to the Bank.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)**

*(b) New/amended standards and interpretations issued but not yet effective (continued)*

**Definition of Accounting Estimates – Amendments to IAS 8**

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of ‘accounting estimates.’ The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

These amendments are not expected to have a material impact on the Bank’s financial statements.

**Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2**

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

**Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12**

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (provided that sufficient taxable profit is available) and a deferred tax liability should also be recognised for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Bank is currently assessing the impact of the amendments on its financial statements.

**2.3 SIGNIFICANT ACCOUNTING POLICIES**

**Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Branches and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 2 ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Recognition of income and expenses (continued)

###### *Interest income and expense*

Interest income and expense for all interest-bearing financial instruments are recognised using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases.

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

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

###### *Fee and commission income*

Fee and commission income is recognised at point in time when customer obtain controls over the related services as performed.

Fees and commission that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commissions are recognised over the period of service.

###### *Income from recoveries*

Recoveries in respect of defaulted loans are accounted for when recovery is virtually certain and amount can be measured reliably.

##### Contract balances

The following is recognised in the statement of financial position arising from revenue from contracts with customers:

- 'Unearned income' included under 'Other liabilities', which represent the Bank's obligation to transfer services to a customer for which the Bank has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made, or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Bank performs.

##### Taxation

Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the Emirates of Dubai, Abu Dhabi, Sharjah, and Ras al-Khaimah.

##### Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Deferred tax (continued)**

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date. Deferred taxes relating to items recognised directly in equity are also recognised in equity and not in the statement of comprehensive income.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Foreign currency translation**

*(a) Functional and presentation currency*

Items included in the financial statements of the Branches are measured in UAE Dirhams (AED) which is the functional and presentation currency of the Branches, rounded to the nearest thousand except when otherwise stated.

*(b) Transactions and balances*

Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the statement of comprehensive income.

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 to AED 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 statement of comprehensive income.

**Fair value measurement**

For those assets and liabilities carried at fair value, the Branches measure fair value at each reporting date. 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.

The fair value measurement of financial instruments is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

The principal or the most advantageous market must be accessible to the Branches. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of non-financial instruments (instruments other than financial instruments) 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 Branches use 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.

Fair values for financial instruments traded in active markets are based on closing bid prices. For all other financial instruments including instruments for which the market has become inactive, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the fair value derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exist, discounted cash flow method or other relevant valuation techniques commonly used by market participants.

Fair values of non financial instruments are measured based on valuation provided by independent valuers.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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, branch, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

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.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Branches determine whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Bank's Valuation Committee determines the policies and procedures for both recurring fair value measurement and unquoted financial assets. External valuers are involved for valuation of significant assets, such as unquoted financial assets, and significant liabilities, such as contingent consideration. At each reporting date, the Valuation Committee analyses the movements in the values of assets and liabilities which are required to be remeasured or reassessed as per the Bank's accounting policies. For this analysis, the Valuation Committee verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value measurement (continued)**

For the purpose of fair value disclosures, the Bank 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.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions notes
- Quantitative disclosures of fair value measurement hierarchy
- Investment in non-listed equity shares (discontinued operations)
- Financial instruments (including those carried at amortised cost)
- Contingent consideration

**Cash and cash equivalents**

Cash and cash equivalents as referred to in the statement of cash flows comprises cash on hand, non-restricted current accounts with the Central Bank and amounts due from (to) banks, including amounts due from (to) Head office and its branches abroad on demand or with an original maturity of three months or less.

**Financial instruments**

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

*Date of recognition*

All financial assets and liabilities are initially recognised on the trade date, i.e., the date that the Branches become a party to the contractual provisions of the instrument. This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

*Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss where transaction costs are charged off to the statement of comprehensive income.

**Financial assets**

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

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification of financial assets*

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including loans and advances and investments products, are measured at amortised cost if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 2 ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

##### Financial assets (continued)

##### *Classification of financial assets (continued)*

##### *Financial assets at amortised cost*

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at fair value through profit or loss - see below). They are subsequently measured at amortised cost using the effective interest method less any impairment (see below), with interest revenue recognised on an effective yield basis in interest income.

Subsequent to initial recognition, the Branches are required to reclassify debt instruments from amortised cost to fair value through profit or loss, if the objective of the business model changes so that the amortised cost criteria are no longer met.

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

The Branches may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at fair value through profit or loss, if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

##### *Financial assets at FVTOCI*

At initial recognition, the Branches can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

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

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not transferred to income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in income statement when the Branches' right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

##### *Financial assets at fair value through profit or loss (FVTPL)*

Debt instruments that do not meet the amortised cost criteria (as described above) are measured at FVTPL. In addition, debt instruments that meet the amortised cost criteria but are designated as at FVTPL are measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

***Classification of financial assets (continued)***

***Financial assets at fair value through profit or loss (FVTPL) (continued)***

Debt instruments are reclassified from amortised cost to FVTPL when the business model is changed such that the amortised cost criteria are no longer met. Reclassification of debt instruments that are designated as at FVTPL on initial recognition is not allowed.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on remeasurement recognised in the income statement. The net gain or loss is recognised in the income statement.

Interest income on debt instruments as at FVTPL is included in the net gain or loss described above and is included in the income statement.

Dividend income on investments in equity instruments at FVTPL is recognised in the income statement when the Branches' right to receive the dividends is established.

***Reclassification of financial assets***

The financial assets are required to be reclassified if the objective of the Branches' business model for managing those financial assets changes. Such changes are expected to be very infrequent. The Branches' management determine these changes as a result of external or internal changes and must be significant to the Branches' operations and demonstrable to external parties.

If the Branches reclassify financial assets, it shall apply the reclassification prospectively from the reclassification date. Any previously recognised gains, losses or interest are not required to be restated.

If the Branches reclassify a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in the income statement.

If the Branches reclassify a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount. The reclassification day is the first day of the first reporting period following the change in business model that results in an entity reclassifying financial assets.

***Impairment calculation in accordance with IFRS 9***

***(i) Overview of expected credit losses***

IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

All ECL calculations for the Branches are performed at Head Office level.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

***Impairment calculation in accordance with IFRS 9 (continued)***

*(i) Overview of expected credit losses (continued)*

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

- balances with central banks;
- due from banks and financial institutions;
- financial assets that are debt instruments;
- loans and advances;
- loan commitments issued; and
- financial guarantees contracts issued.

Equity instruments are not subject to impairment testing under IFRS 9.

The provision for credit losses is based on expected credit losses over the lifetime of the asset. If there is no significant change in credit risk from inception, the provision is based on the expected 12-month credit loss.

The expected credit loss weighted by the probability of default on credit exposure within 12 months is part of the expected credit loss on the lifetime of the asset arising from financial instrument deteriorations that may occur within 12 months of the reporting date.

The expected credit losses are calculated by the probability of default for the entire lifetime of the credit exposure or within 12 months of the credit exposure either on an individual or collective basis based on the nature of the portfolio of financial instruments.

The Bank has established a policy to periodically assess whether the credit risk of the financial instrument has increased significantly from the date of initial recognition, taking into account the change in the risk of default on the remaining life of the financial instruments.

Based on the above, the Bank classifies the financial instruments into three stages, stage (1), stage (2) and stage (3), as described below:

- Stage 1 – Upon initial recognition of financial instruments, the Bank records an allowance based on credit losses expected over the next 12 months. Stage 1 also includes financial assets which have been reclassified from Stage 2.
- Stage 2 – When a financial instrument experiences a significant increase in credit risk subsequent to origination, the Bank recognises an allowance for expected credit losses for the entire lifetime of the credit exposure. Stage 2 includes financial instruments which have seen an improvement in credit risk and have been reclassified from Stage 3.
- Stage 3 – Financial instruments that are considered to be impaired are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

The key inputs into the measurement of ECL are:

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

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

***Impairment calculation in accordance with IFRS 9 (continued)***

*(i) Overview of expected credit losses (continued)*

For financial assets where the Bank has no reasonable expectation of recovery, either for the full amount of the outstanding amount or part of it, the carrying amount of the financial asset is reduced. It is considered as a (partial) cancellation of the financial assets.

*The Bank's internal credit rating system:*

The Bank's credit review and evaluation process is governed by the credit rules and policies set out in the Credit Facility Policies. The credit rating of the borrower is a key element in the credit review and evaluation. Consequently, the Bank has developed an internal rating methodology "Arab Bank's Credit Rating System" whereby the customer is evaluated according to the customer's financial and non-financial criteria. In parallel, the Bank has also implemented the Moody's Risk Analysis System (MRA), a credit rating system issued by Moody's Credit Rating Company, which is based on financial and non-financial criteria for the evaluation of corporate customers and is equivalent to the Arab Bank Classification System. The system has been reviewed by a third party to ensure that the system outputs are properly aligned with the historical data of the bank's customers. Moody's rating system complements the Arab Bank's internal credit rating system and provides a mechanism consistent with Basel guidelines. The Moody's credit rating system is centrally managed by the Risk Management Department at Head Office level. The Corporate Business Department and the Credit Review Department represent the departments used by the system. The rating of customers' risks, whether by using the Arab Bank rating system or Moody's, is annually reviewed upon the annual review of each customer facility.

*(ii) Measurement of ECL*

The Bank calculates expected credit losses based on the weighted average of four scenarios to measure the expected cash deficit, discounted at an effective interest rate. The cash deficit is the difference between the cash flows due to the Bank in accordance with the contract and the expected cash flows.

The mechanism for calculating expected credit losses and key components is as follows:

- **Probability of default (PD):** The probability of default is an estimate of the probability of default over a certain period of time. Impairment may occur in a specified period during the valuation period.
- **Exposure at default (EAD):** The credit exposure at default is the estimate of the amount outstanding at a future date, taking into account expected changes to the amount after the reporting date, principal and interest, whether scheduled with a contract, expected withdrawals from facilities, or interest payable due to delayed payments.
- **Loss given default (LGD):** The loss given default is an estimate of the loss arising in a situation where the default occurs at a particular time. It represents the difference between the contractual cash flows due and the amount that the lender expects to collect from the existence of collateral. It is usually expressed as a percentage of credit exposure upon default.

In estimating the expected credit losses, the Bank took into account three scenarios (the base scenario, the upside scenario and the downside scenario), each with different probabilities of default, credit exposure at default, and loss given default. An additional severe downside scenario was used in the prior year to address the impact of Covid-19.

The multi-scenario assessment also includes how to recover non-performing loans, including the possibility of recovering non-performing loans and the amount of collaterals or amounts expected to be collected from the sale of collateral.



---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial assets (continued)**

***Impairment calculation in accordance with IFRS 9 (continued)***

*(ii) Measurement of ECL (continued)*

Except for credit cards and other revolving loans, the maximum period for which credit losses are determined is the contractual life of the financial instruments unless the Bank has the legal right to purchase them in advance.

The mechanisms for calculating expected credit losses are summarized as follows:

- **Stage 1** – The expected credit losses are calculated as the probability of default on the credit exposure within 12 months as part of the expected credit losses on the lifetime of the asset. Accordingly, the Bank calculates the provision for the probability of default of the financial instruments within 12 months after the reporting date. These 12-month defaults are applied to the amount of credit exposure at default multiplied by the loss rate given default, discounted at the effective interest rate. This calculation is made for each of the four scenarios, as described above.
- **Stage 2** – In the event of a significant increase in credit risk from the date of initial recognition, the Bank calculates an allowance for expected credit loss for the entire lifetime of the credit exposure. The calculation mechanism is similar to the method described above, including the use of different scenarios, but the probability of default and credit exposure at default are used for the entire lifetime of the financial instrument and the expected cash deficit amount is deducted at the effective interest rate.
- **Stage 3** – Financial instruments to which the concept of default applies, the Bank calculates the expected credit loss for the entire lifetime of the credit exposure. The calculation mechanism is similar to that used in stage 2. The probability of default is 100% and the loss rate is assumed to be greater than that applied in stages 1 and 2.
- **Loan commitment and letter of credit** – The ECL related to loan commitments and letters of credit are recognised in other liabilities. When estimating ECLs for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.
- **Financial guarantee contract** - The Branches' liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of comprehensive income, and the ECL provision. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the four scenarios. The ECLs related to financial guarantee contracts are recognised within other liabilities.

*(iii) Forward-looking Expected Credit Losses approach*

In the expected credit loss calculation model, the Bank relies on a wide range of future information used as inputs, for example:

- International oil prices
- Equity market indices

The inputs and models used to calculate expected credit losses may not include all market characteristics as at the date of the financial statements. As a result, qualitative adjustments are sometimes made as temporary modifications in case of significant differences.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)****2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)****Financial instruments (continued)****Financial assets (continued)*****Impairment calculation in accordance with IFRS 9 (continued)****(iv) Scenarios*

Weighted average ECL is calculated considering base case, upside, and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. The Bank updated the macroeconomic factors used for calculating ECL for the year ended 31 December 2022 in order to incorporate post-covid macroeconomic phenomenon. Further, management adopted a more conservative approach reducing the DPDs in stage 2 to 30 days instead of 45 days.

<i>Scenario (Corporate and Institutional Banking &amp; Treasury)</i>	<i>Assigned weighted average 31 December 2022</i>	<i>Assigned weighted average 31 December 2021</i>
Base case	45%	45%
Upside	20%	20%
Downside	35%	35%

<i>Scenario (Retail Banking)</i>	<i>Assigned weighted average 31 December 2022</i>	<i>Assigned weighted average 31 December 2021</i>
Base case	40%	40%
Upside	30%	30%
Downside	30%	30%

The most significant period-end assumptions used for ECL estimate as at 31 December 2022 are equity market indices, represented by Abu Dhabi Securities Market General Index (ADSMI) and international oil prices. The scenarios base case, upside and downside were used for Corporate and Institutional Banking and treasury portfolios keeping in view the following principal macroeconomic variables:

*Corporate and Institutional Banking & Treasury*

<i>Macroeconomic variables</i>	<i>Scenario</i>	<i>Assigned probabilities</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>Subsequent years</i>
ADX General Index (ADSMI)	Base case	45%	9,443	8,954	8,961	8,913	8,915
	Upside	20%	9,443	9,433	9,315	9,181	9,125
	Downside	35%	9,443	7,495	7,913	8,166	8,274
Oil prices (USD per barrel)	Base case	45%	90	76	67	66	67
	Upside	20%	90	74	67	66	67
	Downside	35%	90	67	58	64	65

*Retail Banking*

<i>Macroeconomic variables</i>	<i>Scenario</i>	<i>Assigned probabilities</i>	<i>2022</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>Subsequent years</i>
ADX General Index (ADSMI)	Base case	40%	90	76	67	66	67
	Upside	30%	90	74	67	66	67
	Downside	30%	90	67	58	64	65
Oil prices (USD per barrel)	Base case	40%	90	76	67	66	67
	Upside	30%	90	74	67	66	67
	Downside	30%	90	67	58	64	65

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 2 ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

##### Financial assets (continued)

##### *Impairment calculation in accordance with IFRS 9 (continued)*

##### (v) Sensitivity analysis

If the macroeconomic variables (defined above) were to change by the base case, upside and downside scenarios, the ECL under stages 1 and 2 will change as follows:

<i>Change in ECL due to change in macroeconomic variables</i>	<i>Base case</i>	<i>Upside</i>	<i>Downside</i>
Stage 1	(9.9%)	(13.1%)	23.6%
Stage 2	(0.6%)	(2.0%)	2.4%

There has been no significant sensitivity impact on stage 3 ECL.

##### *Collateral valuation*

To mitigate its credit risks on financial assets, the Branches seek to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories and other non-financial assets and credit enhancements such as netting agreements. The Branches' accounting policy for collateral assigned to it through its lending arrangements under IFRS 9 is the same it was under IAS 39. Collateral, unless foreclosed, is not recorded on the Branches' statement of financial position. However, the fair value of collateral is re-assessed periodically. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branches uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or independent valuers.

##### *Write-offs*

Financial assets are written off either partially or in their entirety only when the Branches has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

##### *Renegotiated loans and advances*

Where possible, the Branches seek to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the renegotiation of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

##### *Derecognition of financial assets*

The Branches derecognise a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Branches neither transfer nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Branches recognise its retained interest in the asset and an associated liability for amounts it may have to pay. If the Branches retain substantially all the risks and rewards of ownership of a transferred financial asset, the Branches continue to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in the income statement.

On derecognition of a financial asset that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment's revaluation reserve is not reclassified to the income statement, but is reclassified to retained earnings.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial liabilities**

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

*Financial liabilities at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired 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 Branches manage together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL 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 Branches' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of income.

*Other financial liabilities*

Other financial liabilities, include deposits and balances due to Head Office and its branches abroad, 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, with interest expense recognised on an effective interest rate.

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 effective interest rate 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.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 2 ACCOUNTING POLICIES (continued)

#### 2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

##### Financial instruments (continued)

##### Financial liabilities (continued)

###### *Derivative financial instruments*

The Branches enters into forward foreign exchange contracts to manage its exposure to fluctuations in exchange rates. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position. For derivatives, which do not qualify for hedge accounting and for “held for trading” derivatives, any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of comprehensive income.

###### *Financial guarantees*

Financial guarantee contracts issued by the Branches are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

###### *Hedge accounting*

As part of its asset and liability management, the Branches use derivatives for hedging purpose.

When derivatives are designated as hedges, the Branches classify 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.

###### *(i) 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 Branches’ 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 Branches will assess the effectiveness of the hedging relationship on an ongoing basis.

###### *(ii) Hedge effectiveness testing*

Hedge effectiveness is measured by the Bank on a prospective basis at inception, as well as retrospectively (where applicable) and prospectively over the term of the hedge relationship.

###### *(iii) Fair value hedge*

The changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments is recognised in the income statement.

###### *(iv) Cash flow hedge*

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 income statement.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Financial instruments (continued)**

**Financial liabilities (continued)**

***Hedge accounting (continued)***

*(v) 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 other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

*(vi) Derivatives 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 income statement for the period.

**Offsetting**

Financial assets and financial liabilities are only offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to set off the recognised amounts and the Branches intend to either settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

**Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a straight-line basis over the estimated useful lives of property and equipment. Capital work in progress is not depreciated. The estimated useful lives are as follows:

	<i>Years</i>
Buildings	25
Furniture, information systems and vehicles	3 - 6
Leasehold improvements	10 years or as per lease term (whichever is lower)

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount being the higher of their fair value less costs to sell and their value in use.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other operating income' in the statement of comprehensive income in the year the asset is derecognised.

**Right-of-use assets**

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Subsequent to initial recognition, Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Lease liabilities**

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Branch uses the incremental borrowing rate, as applicable, at the lease commencement date since the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

**Short-term leases and leases of low-value assets**

The Bank applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Bank has the option, under some of its leases to lease the assets for an additional term. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

**Assets held for sale**

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the asset or disposal Branch is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

Assets that are classified as held for sale are not depreciated or amortised.

**Impairment of non-financial assets**

At the end of each reporting period, the Branches review the carrying amounts of their non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Branches estimate 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 Bank of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 statement of comprehensive income.

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 statement of comprehensive income.



---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Provisions**

Provisions are recognised when the Branches have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Branches expect some or all of a provision to be reimbursed, for example, under an insurance contract or through a counter guarantee, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of comprehensive income net of any reimbursement.

**End of service benefits**

With respect to its national employees, the Branches make contributions to a pension fund established by the UAE General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Branches' obligations are limited to these contributions, which are expensed when due.

The Branches provide end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

**Contingencies**

Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

**2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the process of applying the Branches' accounting policies, which are described in Note 2.3, management is required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

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

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

**a) *Fair value of financial instruments not quoted in active markets***

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of unquoted financial instruments.

**b) *Classification and measurement of financial assets***

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial asset assessed. Management is satisfied that the Branches' investments in securities are appropriately classified and measured.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

**(c) Impairment of financial assets**

Key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Branches while determining the impact assessment, are:

**Assessment of Significant Increase in Credit Risk (SICR)**

As per IFRS 9, SICR can be assessed at a collective/portfolio level if common risk characteristics are shared. Any instruments that are assessed collectively must possess shared credit risk characteristics. The Branches has followed the following criteria to determine the ECL calculation at collective basis vs on individual basis as follow:

- Retail Portfolio: on collective basis based on the product level (Loans, Housing Loans, Car Loans, and Credit Cards)
- Corporate Portfolio: individual basis at customer/ facility level
- Financial Institutions: individual basis at Bank/ facility level.
- Debt instruments measured at amortized cost: individual level at instrument level.

To assess whether the credit risk on a financial asset has increased significantly since origination, the Branches compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Branches' existing risk management processes.

The Branches' assessment of significant increases in credit risk is performed periodically for each individual exposure based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument will be moved from Stage 1 to Stage 2:

1. Significant increases in credit risk based on movement in the customer's internal credit grade and the related PDs relative to initial recognition against established thresholds.
2. Restructuring and/or Rescheduling on the customers' accounts/ facilities during the assessment period is considered as indicator for SICR.
3. Instruments which are 90 days past due have experienced a significant increase in credit risk as per the Branches' policies. Central Bank of UAE in its instructions requested to apply 90 days past due for significant increase in credit risk.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39, as mentioned in the "Definition of default" below.

**Curing criteria – upward ECL stage movement**

The curing criteria is in line with UAE Central Bank IFRS 9 guidelines and is considered based on the combination of the following qualitative factors:

- DPD movement
- Probationary period
- Notches of ratings upward movement

**From Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL)**

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 2 to stage 1.
- DPD shall be  $\leq 30$  days over the last 12 months period; and / or
- Upward movement of risk ratings is reflected as per internally defined criteria.

**From Stage 3 (Lifetime ECL – credit impaired) to Stage 2 (Lifetime ECL – not credit impaired)**

- Where there is an evidence of a significant reduction in credit risk, financial instruments are monitored for a probationary period of 3 months to confirm if the risk of default has decreased sufficiently before upgrading such exposures from stage 3 to stage 2.
- DPD shall be  $<90$  days over the last 3 months period; and/or
- Upward movement of risk ratings is reflected as per internally defined criteria.

An exposure cannot be upgraded from Stage 3 to Stage 1 directly and should be upgraded to Stage 2 initially before upgrading to Stage 1 based on the above-mentioned criteria.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

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

***Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios***

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment in cooperation with international expert in this area.

PD, Loss Given Default (LGD) and Exposure At Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The base case scenario will be based on macroeconomic forecasts (e.g. stock exchange indices and international oil prices indices etc). Upside and downside scenarios will be set relative to our base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenarios will be probability-weighted according to the best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

***Definition of default***

The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Notwithstanding the above, the classification of credit facilities is governed by the Central Bank of UAE regulations.

The Branches has set out the definition of default where a default is considered to have occurred when either or both of the two following events have taken place:

- The obligor is considered unlikely to pay its credit obligations in full; and
- The obligor is past due for 90 days or more on any material credit obligation

***Expected Life***

When measuring ECL, the Branches must consider the maximum contractual period over which the Branches are exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Branches are exposed to credit risk and where the credit losses would not be mitigated by management actions.

**d) Useful lives of property and equipment**

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)**

**2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)**

**e) *Derivative financial instruments***

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

**f) *Tax liabilities and deferred tax assets***

Deductions for loan impairments for UAE tax purposes generally occur when the impaired loan is specifically approved for deduction by UAE tax authority, written off, or if earlier, when the impaired loan is sold. The tax deduction often occurs in periods subsequent to that in which the impairment is recognised for accounting purposes.

As a result, the amount of the associated deferred tax asset should generally move in line with the impairment allowance balance.

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Based on available evidence, it is assessed whether it is probable that all or a portion of the deferred tax assets will be realised, or will not be realised. The main factors which are considered include future earnings potential; cumulative losses in recent years; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset.

**g) *Employees end of service benefits***

The Branches' carried provision for employees end of service benefits based on applicable laws and regulations. The management has determined that provision for employees end of service benefits using actuarial valuation would not be significantly different than carrying amount as the net impact of increase in salaries and discount rate would not be material.

**h) *Determination of the lease term for lease contracts with renewal and termination options (Bank as a lessee)***

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**2 ACCOUNTING POLICIES (continued)****2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)****i) Estimating the incremental borrowing rate**

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

**j) Provisions and other contingent liabilities**

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation, arbitration and regulatory investigations and proceedings both in United Arab Emirates and in other jurisdictions, arising in the ordinary course of the Bank's business. When the Bank can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Bank records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed. However, when the Bank is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Bank does not include detailed, case-specific disclosures in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Bank takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

For further details on provisions and other contingent liabilities see Notes 21 and 25.

**k) Effective Interest Rate (EIR) method**

The Bank's EIR method recognises interest income using a rate of return, as explained in Note 2.3, that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to base rate and other fee income/expense that are integral parts of the instrument.

**3 INTEREST INCOME**

	<b>2022</b> <b>AED'000</b>	<b>2021</b> <b>AED'000</b>
<i>Interest income calculated using the effective interest method</i>		
Loans and advances to customers	<b>448,239</b>	378,235
Other financial assets – debt instruments	<b>67,766</b>	15,671
Due from banks and Certificates of Deposits with Central Bank of UAE	<b>40,623</b>	6,339
	<b>556,628</b>	400,245
<i>Other interest and similar income</i>		
Interest income from derivatives	<b>20,770</b>	9,903
Interest expense on derivatives	<b>(15,550)</b>	(11,103)
	<b>5,220</b>	(1,200)
	<b>561,848</b>	399,045

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**4 INTEREST EXPENSE**

	2022 AED'000	2021 AED'000
<i>Interest expense calculated using the effective interest method</i>		
Customers' and security deposits	124,204	117,876
Due to banks	12,932	4,779
Interest expense on lease contracts	312	303
	<u>137,448</u>	<u>122,958</u>

**5 OTHER OPERATING INCOME**

	2022 AED'000	2021 AED'000
<b>Fees and commission income</b>		
Over time	71,215	69,576
At a point in time	61,850	53,900
	<u>133,065</u>	<u>123,476</u>
Commission expense	(16,733)	(12,209)
	<u>116,332</u>	<u>111,267</u>
Net foreign currencies exchange income	45,237	44,799
Others	5,182	8,866
	<u>166,751</u>	<u>164,932</u>

**Disaggregated revenue information**

*For the year ended 31 December 2022  
In AED'000*

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Total</i>
<b>Fees and commission income</b>			
Fees and commission income earned from services that are provided over time:			
Loan commitment fees	1,180	14,461	15,641
Trade finance	2	55,572	55,574
	<u>1,182</u>	<u>70,033</u>	<u>71,215</u>
Fees and commission income from services that are provided at a point in time:			
Account services and maintenance	2,616	10,625	13,241
Loan commitment fees	6,975	11,115	18,090
Interchange fees	23,812	-	23,812
Other fees received	1,328	5,379	6,707
	<u>34,731</u>	<u>27,119</u>	<u>61,850</u>
Total revenue from contracts with customers	<u>35,913</u>	<u>97,152</u>	<u>133,065</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**5 OTHER OPERATING INCOME (continued)**

**Disaggregated revenue information (continued)**

	<i>For the year ended 31 December 2021 In AED'000</i>		
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Total</i>
<b>Fees and commission income</b>			
Fees and commission income earned from services that are provided over time:			
Loan commitment fees	-	18,212	18,212
Trade finance	4	51,360	51,364
	<u>4</u>	<u>69,572</u>	<u>69,576</u>
Fees and commission income from services that are provided at a point in time:			
Account services and maintenance	2,426	9,340	11,766
Loan commitment fees	6,325	11,874	18,199
Interchange fees	17,936	-	17,936
Other fees received	1,222	4,777	5,999
	<u>27,909</u>	<u>25,991</u>	<u>53,900</u>
Total revenue from contracts with customers	<u><u>27,913</u></u>	<u><u>95,563</u></u>	<u><u>123,476</u></u>

**6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS**

The charge for the net impairment allowances in the statement of comprehensive income comprises of the following:

	<i>2022 AED'000</i>	<i>2021 AED'000</i>
Provision for expected credit losses:		
Stage 3 (Specific, see i below)	<b>56,430</b>	507,835
Stage 1 and 2 (Collective, see ii below)	<b>46,806</b>	(27,961)
	<u><b>103,236</b></u>	<u>479,874</u>

*i) Provisions against impaired loans and advances, net - Stage 3/Specific provision*

	<i>2022 AED'000</i>	<i>2021 AED'000</i>
Charge for specific impairment allowance (see note 11(g) & 25(f))	<b>141,745</b>	558,026
Reversal upon recoveries (see note 11(g) & 25(f))	<b>(85,162)</b>	(49,778)
Recoveries from written off loans and advances	<b>(153)</b>	(413)
	<u><b>56,430</b></u>	<u>507,835</u>



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (continued)**

*ii) Provisions against impaired loans and advances, net - Stage 1 & 2/Collective provision*

	<b>2022</b> <b>AED'000</b>	<b>2021</b> <b>AED'000</b>
Charge for collective impairment allowance	<b>64,352</b>	23,432
Reversal upon recoveries	<b>(17,546)</b>	(51,393)
	<b>46,806</b>	(27,961)

*iii) Expected credit losses (Stage 1 and 2)*

	<b>2022</b> <b>AED'000</b>	<b>2021</b> <b>AED'000</b>
Loans and advances, net (note 11 (h))	<b>48,050</b>	(26,018)
Other financial assets, at amortised cost (note 11 (h))	<b>(1,780)</b>	2,211
Due from banks (note 11 (h))	<b>(126)</b>	(73)
Indirect facilities (note 11 (h))	<b>662</b>	(4,081)
	<b>46,806</b>	(27,961)

(iv) The table below shows the ECL charges on financial instruments for the year recorded in the income statement:

**31 December 2022**

**In AED'000**

	<b>Notes</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Due from banks	9(a)	<b>(126)</b>	-	-	<b>(126)</b>
Loans and advances to customers	11	<b>(4,007)</b>	<b>52,057</b>	<b>56,430</b>	<b>104,480</b>
Debt instruments measured at amortised cost	12	<b>(1,780)</b>	-	-	<b>(1,780)</b>
Financial guarantees	11	<b>124</b>	<b>(16)</b>	-	<b>108</b>
Letters of credit	11	<b>355</b>	<b>(17)</b>	-	<b>338</b>
Other undrawn commitments	11	<b>228</b>	<b>(12)</b>	-	<b>216</b>
<b>Total impairment loss</b>		<b>(5,206)</b>	<b>52,012</b>	<b>56,430</b>	<b>103,236</b>

**31 December 2021**

**In AED'000**

	<b>Notes</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
Due from banks	9(a)	(73)	-	-	(73)
Loans and advances to customers	11	(26,863)	845	507,835	481,817
Debt instruments measured at amortised cost	12	2,211	-	-	2,211
Financial guarantees	11	(1,107)	(102)	-	(1,209)
Letters of credit	11	(506)	(39)	-	(545)
Other undrawn commitments	11	(2,010)	(317)	-	(2,327)
<b>Total impairment loss</b>		<b>(28,348)</b>	<b>387</b>	<b>507,835</b>	<b>479,874</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**7 GENERAL AND ADMINISTRATIVE EXPENSES**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Salaries and related benefits	<b>112,421</b>	92,679
Services expenses (see note 7(a))	<b>22,401</b>	22,983
Head Office charges (see note 28)	<b>21,104</b>	30,104
IT services related expenses (see note 7(b))	<b>10,699</b>	10,632
Operating leases, utilities and related expenses	<b>8,665</b>	8,506
Others	<b>43,319</b>	37,485
	<b>218,609</b>	202,389

- a) Services expenses represent cost of transaction processing and back-office support activities recharged to the Branches by Arab Company for Shared Services FZ - LLC (a 100% owned subsidiary of the Head office) (see note 28).
- b) IT related expenses represent cost of IT support services recharged to the Branches by Arab Gulf-Tech for IT Services FZ-LLC (a 100% owned subsidiary of the Head office) (see note 28).
- c) The social contributions (including donations and charity) made during the year ended 31 December 2022 amount to AED Nil (2021: AED Nil).

**8 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Cash on hand	<b>83,385</b>	98,954
Balances with the Central Bank of UAE:		
- Current accounts	<b>17,493</b>	17,493
- Overnight deposits	<b>1,450,000</b>	1,380,000
- Statutory reserves (see note a)	<b>698,947</b>	664,737
	<b>2,249,825</b>	2,161,184

- a) Statutory reserves are not available for use in the Bank's day to day operations and cannot be withdrawn without the prior approval of the Central Bank of UAE. The level of reserves required changes periodically in accordance with the directives of the Central Bank of UAE.

Cash and balances with the Central Bank of UAE were classified as Stage 1 financial assets throughout the year.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**9 DUE FROM BANKS**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Current account	<b>643,581</b>	784,030
Time deposits	<b>1,340,592</b>	837,564
	<b>1,984,173</b>	1,621,594
Less: Provision for expected credit loss (see note a below)	<b>(168)</b>	(294)
	<b>1,984,005</b>	1,621,300

a) An analysis of the movement of provision for expected credit losses is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
At 1 January	<b>294</b>	367
Released during the year	<b>(126)</b>	(73)
At 31 December	<b>168</b>	294

b) Following is the geographical distribution of due from banks:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Banks in the U.A.E.	<b>477,925</b>	16,538
Banks abroad	<b>1,263,890</b>	1,259,696
Related parties – abroad	<b>242,190</b>	345,066
	<b>1,984,005</b>	1,621,300

c) As at 31 December 2022, there were no time deposits with an original maturity of more than 3 months (2021: Nil).

d) Gross exposure by credit rating (for due from banks) is as follows:

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's impairment assessment and measurement approach is set out in Note 2.3 and 33.

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Rated Aaa to Aa3	<b>250,553</b>	395,532
Rated A1 to A3	<b>1,411,234</b>	474,531
Rated Baa1 to Baa3	<b>79,526</b>	221,723
Rated below Baa3 and unrated - others	<b>242,860</b>	529,808
	<b>1,984,173</b>	1,621,594

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**9 DUE FROM BANKS (continued)**

e) Gross exposure by internal rating (of due from banks) is as follows:

The table below shows the credit quality and the maximum exposure to credit risk based on the Bank's internal credit rating system and year-end stage classification. The amounts presented are gross of allowance for ECL. Details of the Bank's internal grading system are explained in Note 33 (a) and the Bank's impairment assessment and measurement approach is set out in Note 2.3 and 33.

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Internal rating grade</b>				
<b>Performing</b>				
1	-	-	-	-
2	250,553	-	-	250,553
3	1,411,234	-	-	1,411,234
4	79,526	-	-	79,526
5	-	-	-	-
6	-	-	-	-
7	-	-	-	-
Unrated	242,860	-	-	242,860
<b>At 31 December 2022</b>	<b>1,984,173</b>	<b>-</b>	<b>-</b>	<b>1,984,173</b>
<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Internal rating grade</b>				
<b>Performing</b>				
1	-	-	-	-
2	395,532	-	-	395,532
3	474,531	-	-	474,531
4	221,723	-	-	221,723
5	176,806	-	-	176,806
6	-	-	-	-
7	-	-	-	-
Unrated	353,002	-	-	353,002
<b>At 31 December 2021</b>	<b>1,621,594</b>	<b>-</b>	<b>-</b>	<b>1,621,594</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**9 DUE FROM BANKS (continued)**

f) A reconciliation of changes in gross carrying amount and corresponding ECL allowances by stage for due from banks is, as follows:

*In AED'000*

	<i>Stage 1</i>		<i>Stage 2</i>		<i>Stage 3</i>		<i>Total</i>	
	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>
1 January 2022	1,621,594	294	-	-	-	-	1,621,594	294
New assets originated or purchased	48,000,846	(126)	-	-	-	-	48,000,846	(126)
Payments and assets derecognised	(47,638,267)	-	-	-	-	-	(47,638,267)	-
<b>At 31 December 2022</b>	<b>1,984,173</b>	<b>168</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,984,173</b>	<b>168</b>

*In AED'000*

	<i>Stage 1</i>		<i>Stage 2</i>		<i>Stage 3</i>		<i>Total</i>	
	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>
1 January 2021	2,860,242	367	-	-	-	-	2,860,242	367
New assets originated or purchased	77,048,277	(73)	-	-	-	-	77,048,277	(73)
Payments and assets derecognised	(78,286,925)	-	-	-	-	-	(78,286,925)	-
<b>At 31 December 2021</b>	<b>1,621,594</b>	<b>294</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,621,594</b>	<b>294</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**10 DUE FROM HEAD OFFICE AND ITS BRANCHES ABROAD**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Current accounts	<b>36,729</b>	48,238
Time deposits	<b>69,778</b>	138,320
	<b>106,507</b>	186,558

Due from Head Office and its branches abroad are classified as Stage 1 financial assets, with no provision.

**11 LOANS AND ADVANCES, NET**

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

a) By type:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Overdrafts	<b>2,727,880</b>	2,525,627
Loans	<b>8,311,724</b>	8,413,828
Bills discounted	<b>343,928</b>	178,031
Credit cards	<b>45,428</b>	41,135
Loans and advances, gross	<b>11,428,960</b>	11,158,621
Less: Interest in suspense (see note g)	<b>(308,059)</b>	(255,960)
Specific provisions for impairment (Stage 3) (see note g)	<b>(1,485,097)</b>	(1,638,756)
ECL collective impairment provision for on-balance sheet (Stage 1 and 2) (see note h)	<b>(92,574)</b>	(52,705)
<b>Loans and advances, net</b>	<b>9,543,230</b>	9,211,200

b) By economic sector (Gross):

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Trading	<b>2,112,005</b>	1,992,467
Retail loans	<b>1,825,202</b>	1,638,363
Construction	<b>1,695,382</b>	1,535,132
Manufacturing	<b>1,474,460</b>	1,480,343
Services	<b>1,390,545</b>	1,529,692
Real estate	<b>876,206</b>	1,310,332
Government	<b>806,561</b>	806,650
Transportation, storing and communication	<b>358,834</b>	511,710
Others	<b>889,765</b>	353,932
	<b>11,428,960</b>	11,158,621

c) By classification (Gross):

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Corporate	<b>9,603,758</b>	9,520,258
Retail	<b>1,825,202</b>	1,638,363
	<b>11,428,960</b>	11,158,621

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**11 LOANS AND ADVANCES, NET (continued)**

- d) As at 31 December 2022, the total value of non-performing loans and advances, for which interest has been suspended amounted to AED 1,857 million (2021: AED 2,019 million) (see note 33a).
- e) As at 31 December 2022, loans and advances include AED 371 million (2021: AED 263 million) of loans and advances that are past due but not impaired.
- f) The Branches do not hold any significant loans and advances outside the Middle East region.
- g) Loans and advances are stated net of interest in suspense and allowance for expected credit loss (stage 1, 2 & 3). The movements for interest in suspense and allowance for expected credit loss (stage 3) are as follows:

	<i>31 December 2022</i>		<i>31 December 2021</i>	
	<i>Interest in suspense AED'000</i>	<i>Allowance for expected credit loss (stage 3) AED'000</i>	<i>Interest in suspense AED'000</i>	<i>Allowance for expected credit loss (stage 3) AED'000</i>
At 1 January	255,960	1,638,756	214,454	1,172,087
Suspended/provided during the year (see note 6)	111,757	111,575	105,996	557,626
Reversal upon recoveries (see note 6)	-	(79,930)	(2,139)	(49,377)
Amounts written off during the year	(59,658)	(193,485)	(62,351)	(114,827)
Transfers from other stages	-	8,181	-	73,247
At 31 December	<u>308,059</u>	<u>1,485,097</u>	<u>255,960</u>	<u>1,638,756</u>

- h) The movement in the allowance for ECL for stage 1 & 2 is as follows:

	<i>Loans &amp; Advances AED'000 (note 11 (a))</i>	<i>Off-Balance Sheet AED'000 (note 20)</i>	<i>Other financial assets AED'000 (notes 9 &amp; 12)</i>	<i>Total AED'000</i>
At 1 January 2022	52,705	3,112	3,251	59,068
Provided during the year, net (see note 6)	62,245	2,107	-	64,352
Released during the year	(14,195)	(1,445)	(1,906)	(17,546)
Transfers to stage 3 (see note k below)	(8,181)	-	-	(8,181)
At 31 December 2022	<u>92,574</u>	<u>3,774</u>	<u>1,345</u>	<u>97,693</u>

	<i>Loans &amp; Advances AED'000 (note 11 (a))</i>	<i>Off-Balance Sheet AED'000 (note 20)</i>	<i>Other financial assets AED'000 (notes 9 &amp; 12)</i>	<i>Total AED'000</i>
At 1 January 2021	151,971	7,198	1,113	160,282
Provided during the year, net (see note 6)	19,760	1,461	2,211	23,432
Released during the year	(45,778)	(5,542)	(73)	(51,393)
Transfers to stage 3 (see note k below)	(73,248)	(5)	-	(73,253)
At 31 December 2021	<u>52,705</u>	<u>3,112</u>	<u>3,251</u>	<u>59,068</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**11 LOANS AND ADVANCES, NET (continued)**

i) The movement in impairment reserve against specific provision and collective provision is as follows:

	<i>Specific provision AED'000</i>	<i>Collective provision AED'000</i>	<i>Total AED'000</i>
As at 1 January 2022	-	127,247	127,247
Excess transferred to retained earnings	-	(31,562)	(31,562)
At 31 December 2022 (see note 33(a))	-	95,685	95,685

	<i>Specific provision AED'000</i>	<i>Collective provision AED'000</i>	<i>Total AED'000</i>
As at 1 January 2021	-	59,179	59,179
Shortfall transferred from retained earnings	-	68,068	68,068
At 31 December 2021 (see note 33(a))	-	127,247	127,247

j) An analysis of changes in the gross carrying amount in relation to loans and advances is as follows:

	<b>2022</b>			
<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2022	8,242,627	896,855	2,019,139	11,158,621
New assets originated	2,083,652	-	129,310	2,212,962
Assets derecognised or repaid (excluding write offs)	(1,531,312)	(87,775)	(75,890)	(1,694,977)
Transfers to Stage 1	419,749	(419,749)	-	-
Transfers to Stage 2	(148,345)	148,345	-	-
Transfers to Stage 3	(32)	(32,210)	32,242	-
Amounts written off	-	-	(247,646)	(247,646)
At 31 December 2022	9,066,339	505,466	1,857,155	11,428,960

	<b>2021</b>			
<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2021	9,457,957	1,025,109	1,890,564	12,373,630
New assets originated	1,459,300	6,849	204,609	1,670,758
Assets derecognised or repaid (excluding write offs)	(2,319,765)	(339,958)	(48,868)	(2,708,591)
Transfers to Stage 1	230,793	(230,793)	-	-
Transfers to Stage 2	(538,249)	538,249	-	-
Transfers to Stage 3	(47,409)	(102,601)	150,010	-
Amounts written off	-	-	(177,176)	(177,176)
At 31 December 2021	8,242,627	896,855	2,019,139	11,158,621



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**11 LOANS AND ADVANCES, NET (continued)**

k) An analysis of movement in the provision for impairment for loans and advances is as follows:

<i>In AED'000</i>	<b>2022</b>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2022	25,971	26,734	1,638,756	1,691,461
Net charge for the year	5,633	56,612	111,575	173,820
Recoveries from repaid / derecognized facilities	(9,472)	(4,723)	(79,930)	(94,125)
Transfers to Stage 1	667	(667)	-	-
Transfers to Stage 2	(835)	835	-	-
Transfers to Stage 3	-	(8,181)	8,181	-
Amounts written off	-	-	(193,485)	(193,485)
At 31 December 2022	21,964	70,610	1,485,097	1,577,671

<i>In AED'000</i>	<b>2021</b>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2021	54,960	97,012	1,172,087	1,324,059
Net charge for the year	7,750	6,233	557,626	571,609
Recoveries from repaid / derecognized facilities	(34,613)	(5,389)	(49,378)	(89,380)
Transfers to Stage 1	1,107	(1,107)	-	-
Transfers to Stage 2	(3,116)	3,116	-	-
Transfers to Stage 3	(117)	(73,131)	73,248	-
Amounts written off	-	-	(114,827)	(114,827)
At 31 December 2021	25,971	26,734	1,638,756	1,691,461

l) Set out below is an analysis of the loans and advances portfolio as per internal rating grade:

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Internal rating grade</b>				
<b>Performing</b>				
1	-	-	-	-
2	81,561	-	-	81,561
3	953,489	-	-	953,489
4	4,647,955	11,719	-	4,659,674
5	1,500,049	94,266	-	1,594,315
6	36,711	120,051	-	156,762
7	-	239,946	-	239,946
Unrated	1,846,574	39,484	138,727	2,024,785
<b>Non-performing</b>				
Individually impaired	-	-	1,718,428	1,718,428
At 31 December 2022	9,066,339	505,466	1,857,155	11,428,960

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**11 LOANS AND ADVANCES, NET (continued)**

1) Set out below is an analysis of the loans and advances portfolio as per internal rating grade: (continued)

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Internal rating grade				
Performing				
1	1,147	-	-	1,147
2	81,649	-	-	81,649
3	578,406	-	-	578,406
4	4,829,247	166,735	-	4,995,982
5	1,218,910	270,622	-	1,489,532
6	48,910	323,113	-	372,023
7	9	88,492	-	88,501
Unrated	1,484,349	47,891	115,585	1,647,825
Non-performing				
Individually impaired	-	-	1,903,556	1,903,556
At 31 December 2021	8,242,627	896,853	2,019,141	11,158,621

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

11 LOANS AND ADVANCES, NET (continued)

m) Set out below is an analysis of the loans and advances portfolio and provision migrations during the year:

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Exposure	Impairment Allowance	Exposure	Impairment Allowance	Exposure	Impairment Allowance	Exposure	Impairment Allowance
Retail banking loans								
As at 1 January 2022	1,474,888	6,511	47,891	5,818	115,584	79,138	1,638,363	91,467
Other movements	172,104	(735)	(8,410)	(737)	23,400	9,923	187,094	8,451
Written-off	-	-	-	-	(255)	(157)	(255)	(157)
Total Retail	1,646,992	5,776	39,481	5,081	138,729	88,904	1,825,202	99,761
Corporate & Institutional Banking loans:								
As at 1 January 2022	6,767,739	19,460	848,964	20,916	1,903,555	1,559,618	9,520,258	1,599,994
Transfers from stage 1 to stage 2	(148,345)	(835)	148,345	835	-	-	-	-
Transfers from stage 2 to stage 1	419,749	667	(419,749)	(667)	-	-	-	-
Transfers from 1&2 to stage 3	(32)	-	(32,210)	(8,181)	32,242	8,181	-	-
Other movements	380,236	(3,104)	(79,365)	52,626	30,020	21,721	330,891	71,243
Written-off	-	-	-	-	(247,391)	(193,327)	(247,391)	(193,327)
Total Corporate & Institutional Banking	7,419,347	16,188	465,985	65,529	1,718,426	1,396,193	9,603,758	1,477,910
As at 31 December 2022	9,066,339	21,964	505,466	70,610	1,857,155	1,485,097	11,428,960	1,577,671

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**11 LOANS AND ADVANCES, NET (continued)**

m) Set out below is an analysis of the loans and advances portfolio and provision migrations during the year: (continued)

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Exposure	Impairment Allowance	Exposure	Impairment Allowance	Exposure	Impairment Allowance	Exposure	Impairment Allowance
Retail banking loans								
As at 1 January 2021	1,390,230	7,701	41,042	4,207	130,544	92,368	1,561,816	104,276
Other movements	84,658	(1,190)	6,849	1,611	19,069	7,246	110,576	7,667
Written-off	-	-	-	-	(34,029)	(20,476)	(34,029)	(20,476)
Total Retail	1,474,888	6,511	47,891	5,818	115,584	79,138	1,638,363	91,467
Corporate & Institutional Banking loans:								
As at 1 January 2021	8,067,728	47,258	984,067	92,805	1,760,020	1,079,719	10,811,814	1,219,782
Transfers from stage 1 to stage 2	(538,249)	(3,116)	538,249	3,116	-	-	-	-
Transfers from stage 2 to stage 1	230,793	1,107	(230,793)	(1,107)	-	-	-	-
Transfers from 1&2 to stage 3	(47,409)	(116)	(102,601)	(73,131)	150,010	73,247	-	-
Other movements	(945,123)	(25,673)	(339,958)	(767)	136,670	501,004	(1,148,411)	474,564
Written-off	-	-	-	-	(143,145)	(94,352)	(143,145)	(94,352)
Total Corporate & Institutional Banking	6,767,739	19,460	848,964	20,916	1,903,555	1,559,618	9,520,258	1,599,994
As at 31 December 2021	8,242,627	25,971	896,855	26,734	2,019,139	1,638,756	11,158,621	1,691,461

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**11 LOANS AND ADVANCES, NET (continued)**

n) The tables below summarise the ageing of stage 2 and stage 3 corporate loans respectively, as follows:

- Stage 2 – loans less than 30 days past due (dpd) and loans greater than 30 dpd irrespective of the criteria that triggered their classification in Stage 2).
- Stage 3 – loans less than 90 dpd and loans greater than 90 dpd, thus presenting the loans classified as stage 3 due to ageing and those identified at an earlier stage due to other criteria. Stage 3 exposures are further analysed to indicate those which are no longer credit impaired but in cure period that precedes transfer to stage 2.

<i>In AED'000</i> 31 December 2022	<i>Stage 2</i>		<i>Stage3</i>		<i>Total</i>	
	<i>Gross carrying amount</i>	<i>ECL</i>	<i>Gross carrying amount</i>	<i>ECL</i>	<i>Gross carrying amount</i>	<i>ECL</i>
<b>Less than:</b>						
30 dpd (for stage 2)	456,080	57,847	-	-	456,080	57,847
<b>More than:</b>						
30 dpd (for stage 2)	49,386	12,763	-	-	49,386	12,763
90 dpd (for stage 3)	-	-	1,857,155	1,485,097	1,857,155	1,485,097
<b>Total</b>	<b>505,466</b>	<b>70,610</b>	<b>1,857,155</b>	<b>1,485,097</b>	<b>2,362,621</b>	<b>1,555,707</b>

Breakdown of stage 3 exposures:

No longer impaired but in cure period

Other

-  
1,857,155

-  
1,485,097

Total

1,857,155  
1,485,097

<i>In AED'000</i> 31 December 2021	<i>Stage 2</i>		<i>Stage3</i>		<i>Total</i>	
	<i>Gross carrying amount</i>	<i>ECL</i>	<i>Gross carrying amount</i>	<i>ECL</i>	<i>Gross carrying amount</i>	<i>ECL</i>
<b>Less than:</b>						
30 dpd (for stage 2)	803,251	17,534	-	-	803,251	17,534
<b>More than:</b>						
30 dpd (for stage 2)	93,604	9,200	-	-	93,604	9,200
90 dpd (for stage 3)	-	-	2,019,139	1,638,363	2,019,139	1,638,363
<b>Total</b>	<b>896,855</b>	<b>26,734</b>	<b>2,019,139</b>	<b>1,638,363</b>	<b>2,915,994</b>	<b>1,665,097</b>

Breakdown of stage 3 exposures:

No longer impaired but in cure period

Other

-  
2,019,139

-  
1,638,363

Total

2,019,139  
1,638,363

# Arab Bank PLC, United Arab Emirates Branches

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 11 LOANS AND ADVANCES, NET (continued)

o) Set out below is an analysis of the loans and advances ECL coverage ratio per segment and geographic distribution:

31 December 2022

In AED '000s

	Gross carrying amount				Allowance for ECL				ECL Coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Loans and advances to customers</b>												
<b>Retail Banking</b>												
Credit Cards	33,978	324	11,126	45,428	314	82	5,578	5,974	1%	25%	50%	13%
Housing Loans	1,064,928	25,186	53,346	1,143,460	605	279	23,528	24,412	0%	1%	44%	2%
Personal Loans	480,280	13,410	71,576	565,266	4,651	4,647	57,796	67,094	1%	35%	81%	12%
Auto Loans	45,768	561	2,615	48,944	206	73	1,936	2,215	0%	13%	74%	5%
Others	22,038	-	66	22,104	-	-	66	66	0%	0%	100%	0%
<b>Total</b>	<b>1,646,992</b>	<b>39,481</b>	<b>138,729</b>	<b>1,825,202</b>	<b>5,776</b>	<b>5,081</b>	<b>88,904</b>	<b>99,761</b>	<b>0%</b>	<b>13%</b>	<b>64%</b>	<b>5%</b>
<b>Corporate and Institutional Banking:</b>												
Emirates												
Governments	1,095,000	-	-	1,095,000	882	-	-	882	0%	0%	0%	0%
GREs	170,720	-	-	170,720	56	-	-	56	0%	0%	0%	0%
Other Corporates	5,074,096	342,113	1,462,798	6,879,007	13,706	56,360	1,176,922	1,246,988	0%	16%	80%	18%
High Net Worth												
Individuals	503,739	32,393	5,340	541,472	496	6,400	4,260	11,156	0%	20%	80%	2%
SMEs	575,792	91,479	250,288	917,559	1,048	2,769	215,011	218,828	0%	3%	86%	24%
<b>Total</b>	<b>7,419,347</b>	<b>465,985</b>	<b>1,718,426</b>	<b>9,603,758</b>	<b>16,188</b>	<b>65,529</b>	<b>1,396,193</b>	<b>1,477,910</b>	<b>0%</b>	<b>14%</b>	<b>81%</b>	<b>15%</b>
<b>Grand Total</b>	<b>9,066,339</b>	<b>505,466</b>	<b>1,857,155</b>	<b>11,428,960</b>	<b>21,964</b>	<b>70,610</b>	<b>1,485,097</b>	<b>1,577,671</b>	<b>0%</b>	<b>14%</b>	<b>80%</b>	<b>14%</b>
<b>Per region</b>												
UAE	9,037,900	493,753	1,857,155	11,388,808	21,714	70,595	1,485,097	1,577,406	0%	14%	80%	14%
GCC countries	28,439	-	-	28,439	250	-	-	250	1%	0%	0%	1%
Other Arab countries	-	11,713	-	11,713	-	15	-	15	0%	0%	0%	0%
<b>Total</b>	<b>9,066,339</b>	<b>505,466</b>	<b>1,857,155</b>	<b>11,428,960</b>	<b>21,964</b>	<b>70,610</b>	<b>1,485,097</b>	<b>1,577,671</b>	<b>0%</b>	<b>14%</b>	<b>80%</b>	<b>14%</b>

# Arab Bank PLC, United Arab Emirates Branches

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 11 LOANS AND ADVANCES, NET (continued)

o) Set out below is an analysis of the loans and advances ECL coverage ratio per segment and geographic distribution: (continued)

31 December 2021

In AED '000s

	Gross carrying amount				Allowance for ECL				ECL Coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers												
Retail Banking												
Credit Cards	31,756	342	9,037	41,135	2,735	-	5,502	8,237	9%	0%	61%	20%
Housing Loans	915,760	26,913	46,521	989,194	204	486	23,030	23,720	0%	2%	50%	2%
Personal Loans	475,378	19,508	57,463	552,349	3,361	5,199	48,882	57,442	1%	27%	85%	10%
Auto Loans	39,338	1,128	2,524	42,990	211	133	1,688	2,032	1%	12%	67%	5%
Others	12,656	-	39	12,695	-	-	36	36	0%	0%	92%	0%
Total	1,474,888	47,891	115,584	1,638,363	6,511	5,818	79,138	91,467	0%	12%	68%	6%
Corporate and Institutional Banking:												
Emirates												
Governments	1,095,000	-	-	1,095,000	1,415	-	-	1,415	0%	0%	0%	0%
GREs	100,184	-	-	100,184	33	-	-	33	0%	0%	0%	0%
Other Corporates	4,329,557	678,175	1,615,828	6,623,560	15,138	18,476	1,360,175	1,393,789	0%	3%	84%	21%
High Net Worth												
Individuals	633,286	31,123	5,150	669,559	1,899	470	4,360	6,729	0%	2%	85%	1%
SMEs	609,712	139,666	282,577	1,031,955	975	1,970	195,083	198,028	0%	1%	69%	19%
Total	6,767,739	848,964	1,903,555	9,520,258	19,460	20,916	1,559,618	1,599,994	0%	2%	82%	17%
Grand Total	8,242,627	896,855	2,019,139	11,158,621	25,971	26,734	1,638,756	1,691,461	0%	3%	81%	15%
Per region												
UAE	8,218,932	896,855	2,019,139	11,134,926	25,891	26,734	1,638,756	1,691,381	0%	3%	81%	15%
GCC countries	23,695	-	-	23,695	80	-	-	80	0%	0%	0%	0%
Grand Total	8,242,627	896,855	2,019,139	11,158,621	25,971	26,734	1,638,756	1,691,461	0%	3%	81%	15%

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**12 OTHER FINANCIAL ASSETS**

The analysis of the Branches' other financial assets as at 31 December is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
<b>Measured at FVTOCI</b>		
Unquoted equities	2,622	2,641
<b>Measured at amortised cost</b>		
Quoted bonds	1,517,050	1,672,737
<b>Measured at amortised cost</b>		
Treasury bills	2,993,485	2,288,818
	<u>4,513,157</u>	<u>3,964,196</u>
Less: ECL collective provision	(1,176)	(2,956)
	<u><u>4,511,981</u></u>	<u><u>3,961,240</u></u>

a) An analysis of the movement in the provision for expected credit losses is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
At 1 January	2,956	745
Provided during the year	-	2,211
Released during the year	(1,780)	-
	<u>1,176</u>	<u>2,956</u>
At 31 December	<u><u>1,176</u></u>	<u><u>2,956</u></u>

Other financial assets were classified as Stage 1 financial assets throughout the year.

b) By geographical area (Gross):

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Within UAE	4,125,695	3,031,450
Outside UAE	387,462	932,746
	<u>4,513,157</u>	<u>3,964,196</u>
Less: ECL collective provision	(1,176)	(2,956)
	<u><u>4,511,981</u></u>	<u><u>3,961,240</u></u>

c) By economic sector:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Government and public sector	3,404,831	2,843,632
Trade and business sector	131,160	131,179
Financial institutions	977,166	989,385
	<u>4,513,157</u>	<u>3,964,196</u>
Less: ECL collective provision	(1,176)	(2,956)
	<u><u>4,511,981</u></u>	<u><u>3,961,240</u></u>



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**12 OTHER FINANCIAL ASSETS (continued)**

d) By credit rating (for debt securities) (Gross):

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Rated Aaa to Aa3	<b>3,625,366</b>	2,508,772
Rated A1 to A3	<b>743,699</b>	832,185
Rated Baa1 to Baa3	<b>141,470</b>	65,784
Rated below Baa3 and unrated - Government	<b>-</b>	554,814
	<b>4,510,535</b>	3,961,555
Less: ECL collective provision	<b>(1,176)</b>	(2,956)
	<b>4,509,359</b>	3,958,599

The above represents approved rating from External Credit Assessment Institutions (ECAI) as per Basel III Pillar 3 guidelines.

e) Movement in gross carrying value of other financial assets:

<i>31 December 2022</i>	<i>Measured at amortised cost AED'000</i>	<i>Measured at FVTPL AED'000</i>	<i>Measured at FVTOCI AED'000</i>	<i>Total AED'000</i>
At 1 January 2022	<b>3,961,555</b>	-	<b>2,641</b>	<b>3,964,196</b>
Purchases during the year	<b>9,835,588</b>	-	-	<b>9,835,588</b>
Matured during the year	<b>(9,237,805)</b>	-	-	<b>(9,237,805)</b>
Change in fair value	-	-	<b>(19)</b>	<b>(19)</b>
Accrued interest and amortisation	<b>(48,803)</b>	-	-	<b>(48,803)</b>
	<b>4,510,535</b>	-	<b>2,622</b>	<b>4,513,157</b>
Less: ECL collective provision	<b>(1,176)</b>	-	-	<b>(1,176)</b>
<b>At 31 December 2022</b>	<b>4,509,359</b>	-	<b>2,622</b>	<b>4,511,981</b>

<i>31 December 2021</i>	<i>Measured at amortised cost AED'000</i>	<i>Measured at FVTPL AED'000</i>	<i>Measured at FVTOCI AED'000</i>	<i>Total AED'000</i>
At 1 January 2021	830,482	-	2,648	833,130
Purchases during the year	10,672,217	-	-	10,672,217
Matured during the year	(7,525,493)	-	-	(7,525,493)
Change in fair value	-	-	<b>(7)</b>	<b>(7)</b>
Accrued interest and amortisation	(15,651)	-	-	(15,651)
	3,961,555	-	2,641	3,964,196
Less: ECL collective provision	(2,956)	-	-	(2,956)
At 31 December 2021	3,958,599	-	2,641	3,961,240

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**13 OTHER ASSETS**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Interest receivable	<b>44,582</b>	41,532
Bankers' acceptances (notes 20 and 25(d))	<b>380,939</b>	325,779
Prepayments	<b>8,963</b>	6,439
Derivative financial assets (note 26)	<b>2,803</b>	5,944
Other receivables	<b>31,732</b>	20,123
	<hr/> <b>469,019</b> <hr/>	<hr/> 399,817 <hr/>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**14 DEFERRED TAX ASSETS**

Tax authorities in UAE review the tax calculation of the Branches on a periodic basis. As a result of the review, tax authorities do not allow certain allowances for expected credit losses/impairment against financial assets as tax deductible, based on their assessment. These disallowed amounts create a temporary difference in the tax base resulting in deferred tax assets, which will be utilised when tax authorities accept to allow the before mentioned allowances as tax deductible for purpose of taxable profit.

Following is the movement in each of the non-deductible items resulting in temporary differences:

<i>AED'000</i>	<i>31 December 2022</i>					<i>31 December 2021</i>				
	<i>Impairment allowance for loans and advances to customers (Stage 3)</i>	<i>Allowance for ECL collective provision (stage 1 &amp; 2)</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>	<i>Impairment allowance for loans and advances to customers (Stage 3)</i>	<i>Allowance for ECL collective provision (stage 1 &amp; 2)</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>
As at 1 January	1,512,485	59,068	246,476	12,031	1,830,060	1,143,275	160,282	197,254	1,138	1,501,949
Additions	141,749	64,352	109,753	-	315,854	459,205	23,432	106,158	10,893	599,688
Release	(85,161)	(17,546)	-	-	(102,707)	(49,778)	(51,393)	(2,492)	-	(103,663)
Write-offs	(151,397)	-	(54,952)	-	(206,349)	(114,589)	-	(53,325)	-	(167,914)
Other adjustments	-	-	-	-	-	1,119	-	(1,119)	-	-
Transfers to/from other stages	8,181	(8,181)	-	-	-	73,253	(73,253)	-	-	-
As at 31 December	<u>1,425,857</u>	<u>97,693</u>	<u>301,277</u>	<u>12,031</u>	<u>1,836,858</u>	<u>1,512,485</u>	<u>59,068</u>	<u>246,476</u>	<u>12,031</u>	<u>1,830,060</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**14 DEFERRED TAX ASSETS (continued)**

<i>AED'000</i>	<i>31 December 2022</i>					<i>31 December 2021</i>				
<i>Deferred tax movement</i>	<i>Impairment allowance for loans and advances to customers</i>	<i>Allowance for ECL collective provision</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>	<i>Impairment allowance for loans and advances to customers</i>	<i>Allowance for ECL collective provision</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>
As at 1 January	302,501	11,813	49,296	2,406	366,016	228,658	32,056	39,451	228	300,393
Transferred to statement of income for the year (note 21 (b))	(18,962)	9,358	10,960	-	1,356	58,968	(5,592)	10,069	2,178	65,623
Other adjustments	-	-	-	-	-	224	-	(224)	-	-
Transfers between stages	1,636	(1,636)	-	-	-	14,651	(14,651)	-	-	-
As at 31 December	285,175	19,535	60,256	2,406	367,372	302,501	11,813	49,296	2,406	366,016

The deferred tax assets are calculated using effective tax rate of 20% on the above allowances, which are considered as temporary differences for tax purposes.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**15 PROPERTY AND EQUIPMENT**

	<i>Furniture, information systems and vehicles AED'000</i>	<i>Leasehold improvements AED'000</i>	<i>Total AED'000</i>
Cost:			
At 1 January 2021	26,525	28,866	55,391
Additions	1,613	557	2,170
Disposals	(334)	-	(334)
	<hr/>	<hr/>	<hr/>
At 31 December 2021	27,804	29,423	57,227
Additions	1,049	84	1,133
Disposals	(978)	-	(978)
	<hr/>	<hr/>	<hr/>
At 31 December 2022	<b>27,875</b>	<b>29,507</b>	<b>57,382</b>
	<hr/>	<hr/>	<hr/>
Depreciation:			
At 1 January 2021	21,028	24,307	45,335
Charge for the year	2,793	1,582	4,375
Disposals	(334)	-	(334)
	<hr/>	<hr/>	<hr/>
At 31 December 2021	23,487	25,889	49,376
Charge for the year	2,404	1,334	3,738
Disposals	(978)	-	(978)
	<hr/>	<hr/>	<hr/>
At 31 December 2022	<b>24,913</b>	<b>27,223</b>	<b>52,136</b>
	<hr/>	<hr/>	<hr/>
<i>Net carrying amounts:</i>			
<b>At 31 December 2022</b>	<b>2,962</b>	<b>2,284</b>	<b>5,246</b>
	<hr/>	<hr/>	<hr/>
At 31 December 2021	4,317	3,534	7,851
	<hr/>	<hr/>	<hr/>

**16 DUE TO BANKS**

	<i>2022 AED'000</i>	<i>2021 AED'000</i>
Related parties - abroad	<b>119,450</b>	47,954
Due to Central Bank – UAE	<b>20,487</b>	8,099
Banks abroad	<b>16,690</b>	16,031
	<hr/>	<hr/>
	<b>156,627</b>	72,084
	<hr/>	<hr/>

The above balance is classified as current account.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**17 DUE TO HEAD OFFICE AND ITS BRANCHES ABROAD**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Time deposits	<b>112,000</b>	75,000
Current accounts	<b>24,296</b>	46,035
	<b>136,296</b>	121,035

**18 CUSTOMERS' DEPOSITS**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Time deposits	<b>8,121,406</b>	6,748,639
Current accounts	<b>5,144,495</b>	5,508,251
Saving accounts	<b>1,344,530</b>	1,195,626
Call deposits	<b>163,789</b>	292,157
	<b>14,774,220</b>	13,744,673

**19 SECURITY DEPOSITS FROM CUSTOMERS**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Security deposits against direct facilities	<b>842,756</b>	951,615
Security deposits against indirect facilities	<b>285,346</b>	258,795
Other security deposits	<b>850</b>	688
	<b>1,128,952</b>	1,211,098

**20 OTHER LIABILITIES**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Interest payable	<b>50,642</b>	37,615
Bankers' acceptances (notes 13 and 25 (d))	<b>380,939</b>	325,779
Derivative financial liabilities (note 26)	-	8
Collected bills	<b>31,241</b>	102,030
Unearned income	<b>9,429</b>	10,613
ECL Stage 3 provisions for off-balance sheet (note 25 (f))	<b>25,119</b>	181
ECL Stage 1 and 2 provisions for off-balance sheet (note 11 (h) and 25 (f))	<b>3,774</b>	3,112
Other payables	<b>41,443</b>	35,146
	<b>542,587</b>	514,484

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**21 PROVISIONS**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Income tax (see notes a, b and c)	<b>52,452</b>	13,191
Employees' end of service benefits (see note d)	<b>18,493</b>	16,914
	<u><b>70,945</b></u>	<u>30,105</u>

a) Movements in the provision for income tax is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
At 1 January	<b>13,191</b>	68,898
Charge for the year	<b>52,739</b>	13,193
Payments made during the year	<b>(13,478)</b>	(68,900)
At 31 December	<u><b>52,452</b></u>	<u>13,191</u>

b) Taxation is provided at 20% (2021: 20%) on the profit, adjusted for taxation purposes, attributable to the operations of the Branches in each of the respective Emirates in which the Branches operate, where tax is applicable. The Branches have filed annually the tax return for Dubai, Abu Dhabi, Sharjah, and Ras Al Khaimah Branches up to 31 December 2021 and settled tax due. The tax assessments up to 31 December 2021 have been agreed with the taxation authorities for Dubai & Sharjah and up to 31 December 2018 have been agreed with the taxation authority of Ras Al Khaimah. Tax assessed by the tax authorities for the prior assessment years was within the amount of tax provision maintained by the Branches. However, to date, the tax authorities for Abu Dhabi Branches have not raised final tax assessments.

The components of income tax expense for the year ended 31 December are:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Current income tax at 20%	<b>52,452</b>	15,176
Prior year income tax adjustments	<b>287</b>	(1,985)
Total income tax	<u><b>52,739</b></u>	<u>13,191</u>
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences (see note 14)	<u><b>(1,356)</b></u>	<u>(65,622)</u>
<b>Total income tax expense / (reversal)</b> <b>(At effective tax rate of 20.06% (2021: 19.68%))</b>	<u><b>51,383</b></u>	<u>(52,431)</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**21 PROVISIONS (continued)**

- c) Reconciliation between the taxation expenses and accounting profit multiplied by the Branches' statutory tax rate is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Net profit / (loss) for the year before taxation	<b>254,772</b>	(256,297)
Less: Provisions for impairment and IIS on loans disallowed in the previous years written back/off during the year upon recoveries/write offs	<b>(309,077)</b>	(253,437)
Add: Items that are not deductible in determining taxable profit	<b>316,741</b>	592,694
Other adjustments	-	(7,078)
Net taxable profit	<b>262,436</b>	75,882

- d) Movement in the provision for employees' end of service benefits is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
At 1 January	<b>16,914</b>	16,292
Charge for the year	<b>3,050</b>	2,699
Payments made during the year	<b>(1,471)</b>	(2,077)
At 31 December	<b>18,493</b>	16,914

**22 SUBORDINATED LOAN**

Subordinated loan represents a long-term loan provided by Head Office to support the Branches' capital requirements. The details of subordinated loan are as follows:

				<i>31 December</i>	
<i>Type</i>	<i>Grant date</i>	<i>Maturity date</i>	<i>USD'000</i>	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Subordinated loan	30 September 2008	30 September 2023	102,000	<b>374,595</b>	374,595

During 2017, the Head Office extended the maturity of the subordinated loan by one year till 30 September 2023. The average interest rate on subordinated loan during the year was 3.90% (2021: 1.17% per annum), calculated based on 3 months LIBOR rate +1%.

**23 DESIGNATED SHARE CAPITAL**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Designated capital	<b>620,704</b>	620,704



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 24 RESERVES

#### a) Statutory reserve

In accordance with the UAE Company's Law and Regulations, the Branches have established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equalled 50% of the designated share capital. No transfers to statutory reserve were made during 2022 and 2021 as the statutory reserve had reached the limit of 50% of designated share capital. The statutory reserve is not available for distribution except under the circumstances stipulated by the relevant law.

#### b) Other reserve

The general reserve is established in accordance with the Head Office instructions and can be used for the purposes determined by the Head Office.

#### c) Impairment reserve

The impairment reserve was created in compliance with the Guidance note on implementation of IFRS 9 issued by the Central Bank of United Arab Emirates (CB UAE). The guidance note requires the Bank to maintain the impairment reserve in equity for an amount of shortfall in provision for expected credit losses as calculated under IFRS 9 compared to the amount of general provision if calculated as of 31 December 2022 per requirements of circular 28/2010 of CB UAE. The Bank assessed such shortfall to be AED 95,685 thousand (2021: AED 127,247 thousand), which is retained as impairment reserve as of 31 December 2022. The impairment reserve is not available for payment of dividend.

### 25 CONTINGENT LIABILITIES AND COMMITMENTS

In order to meet the financial needs of customers, the Branches enter into various revocable and irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Although these obligations may not be recognised on the statement of financial position, they contain credit risk and are therefore part of the overall risk of the Branches.

By virtue of issued letters of credit and guarantees, the Branches enter into commitments to make payments on behalf of their customers concerning certain business activities mainly for import and export purposes. These letters of credit and guarantees contain credit risk similar to those associated with loans.

- a) Contractual commitments are set out by category in the following table. The amounts reflected in the table represent the maximum loss that can be recognised as of the reporting date if counterparties fail to meet the contractual terms.

	2022 AED'000	2021 AED'000
<i>Contingent liabilities:</i>		
Guarantees	5,780,060	5,684,250
Letters of credit	695,849	481,672
<b>Total (see note c)</b>	<b>6,475,909</b>	<b>6,165,922</b>
	2022 AED'000	2021 AED'000
Foreign currency forward contracts	1,827,639	2,060,209
Interest rate and cross currency swap contracts	2,163,500	1,835,496
Options	311,846	3,275
<b>Total</b>	<b>4,302,985</b>	<b>3,898,980</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

- b) At any time the Branches have outstanding commitments to extend credit. These commitments are in the form of approved loans facilities. The amounts reflected in the table below for commitments assume that amounts are fully made available.

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Loan commitments*	<b>2,492,824</b>	2,565,904
Capital contracts commitments	<b>4,728</b>	1,768
Total	<b><u>2,497,552</u></b>	<u>2,567,672</u>

\* For the year ended 31 December 2022, an amount of AED 370 million (2021: AED 83 million) represent irrevocable loan commitments.

- c) The maturity profile of the Branches' contingent liabilities were as follows:

<i>31 December 2022</i>	<i>Less than</i> <i>1 year</i> <i>AED'000</i>	<i>More than</i> <i>1 year</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Guarantees	<b>949,693</b>	<b>4,830,367</b>	<b>5,780,060</b>
Letters of credit	<b>695,849</b>	-	<b>695,849</b>
<b>Total</b>	<b><u>1,645,542</u></b>	<b><u>4,830,367</u></b>	<b><u>6,475,909</u></b>

<i>31 December 2021</i>	<i>Less than</i> <i>1 year</i> <i>AED'000</i>	<i>More than</i> <i>1 year</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Guarantees	687,815	4,996,435	5,684,250
Letters of credit	481,672	-	481,672
Total	<u>1,169,487</u>	<u>4,996,435</u>	<u>6,165,922</u>

- d) Acceptances are recognised on balance sheet with a corresponding liability. Accordingly, these are not contingent liabilities (see notes 13 and 20).

- e) An analysis of changes in the gross balance of off-balance sheet exposures (including acceptances) is as follows:

	<i>2022</i>			
<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January	<b>8,832,606</b>	<b>60,441</b>	<b>164,558</b>	<b>9,057,605</b>
Additions during the year	<b>2,028,208</b>	<b>2,059</b>	-	<b>2,030,267</b>
Repaid / derecognized facilities	<b>(1,625,912)</b>	<b>(15,889)</b>	<b>(96,399)</b>	<b>(1,738,200)</b>
Transfers to Stage 1	<b>21,441</b>	<b>(21,441)</b>	-	-
Transfers to Stage 2	<b>(6,921)</b>	<b>6,921</b>	-	-
At 31 December 2022	<b><u>9,249,422</u></b>	<b><u>32,091</u></b>	<b><u>68,159</u></b>	<b><u>9,349,672</u></b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

- e) An analysis of changes in the gross balance of off-balance sheet exposures (including acceptances) is as follows (continued):

<i>In AED'000</i>	<i>2021</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January	8,922,655	123,760	210,099	9,256,514
Additions during the year	2,064,380	13,720	50,523	2,128,623
Repaid / derecognized facilities	(2,003,101)	(224,843)	(99,588)	(2,327,532)
Transfers to Stage 1	32,311	(32,311)	-	-
Transfers to Stage 2	(114,914)	114,914	-	-
Transfers to Stage 3	(3,524)	-	3,524	-
Adjustments during the period	(65,201)	65,201	-	-
At 31 December 2021	<u>8,832,606</u>	<u>60,441</u>	<u>164,558</u>	<u>9,057,605</u>

- f) An analysis of changes in the provision for impairment of off-balance sheet exposures is as follows:

<i>In AED'000</i>	<i>2022</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January	<b>3,002</b>	<b>110</b>	<b>181</b>	<b>3,293</b>
Net charge for the year	<b>1,234</b>	<b>72</b>	<b>30,170</b>	<b>31,476</b>
Recoveries during the year	<b>(566)</b>	<b>(78)</b>	<b>(5,232)</b>	<b>(5,876)</b>
Transfers to Stage 1	<b>14</b>	<b>(14)</b>	-	-
Transfers to Stage 2	<b>(1)</b>	<b>1</b>	-	-
At 31 December 2022	<u><b>3,683</b></u>	<u><b>91</b></u>	<u><b>25,119</b></u>	<u><b>28,893</b></u>

<i>In AED'000</i>	<i>2021</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January	6,658	540	176	7,374
Net charge for the year	865	56	400	1,321
Recoveries during the year	(4,488)	(513)	(401)	(5,402)
Transfers to Stage 2	(27)	27	-	-
Transfers to Stage 3	(6)	-	6	-
At 31 December 2021	<u>3,002</u>	<u>110</u>	<u>181</u>	<u>3,293</u>

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)**

- g) Set out below is an analysis of the gross balance of off-balance sheet exposures (including acceptances) as per internal rating grade:

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Internal rating grade</b>				
<b>Performing</b>				
1	2,366	-	-	2,366
2	103,151	-	-	103,151
3	1,554,390	16,984	-	1,571,374
4	4,508,963	316	-	4,509,279
5	1,454,475	6,765	-	1,461,240
6	79,881	6,046	-	85,927
7	-	1,981	-	1,981
Unrated	1,546,195	-	-	1,546,195
<b>Non-performing</b>				
Individually impaired	-	-	68,159	68,159
<b>At 31 December 2022</b>	<b>9,249,421</b>	<b>32,092</b>	<b>68,159</b>	<b>9,349,672</b>

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Internal rating grade</b>				
<b>Performing</b>				
1	12,634	-	-	12,634
2	-	-	-	-
3	1,208,296	19,537	-	1,227,833
4	4,511,438	10,593	-	4,522,031
5	1,432,972	21,627	-	1,454,599
6	99,702	8,684	-	108,386
7	48,051	-	-	48,051
Unrated	1,519,513	-	-	1,519,513
<b>Non-performing</b>				
Individually impaired	-	-	164,558	164,558
<b>At 31 December 2021</b>	<b>8,832,606</b>	<b>60,441</b>	<b>164,558</b>	<b>9,057,605</b>

**26 DERIVATIVES**

In the ordinary course of business, the Branches enter into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options. During the year, the Branches entered into forward foreign exchange and swaps (cross currency and interest rate).

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

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

## 26 DERIVATIVES (continued)

	Positive fair value AED'000 (note 13)	Negative fair value AED'000 (note 20)	Notional amount AED'000	Notional amounts by term to maturity Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
Foreign exchange forward contracts	674	-	1,827,639	1,172,065	449,900	205,674
Cross currency & interest rate swaps	2,129	-	2,163,500	146,653	678,320	1,338,527
Options	-	-	311,846	80,923	80,923	150,000
<b>At 31 December 2022</b>	<b>2,803</b>	<b>-</b>	<b>4,302,985</b>	<b>1,399,641</b>	<b>1,209,143</b>	<b>1,694,201</b>
Foreign exchange forward contracts	3,447	-	2,060,209	988,033	1,072,176	-
Cross currency & interest rate swaps	2,497	-	1,835,496	7,346	285,280	1,542,870
Options	-	(8)	3,275	3,275	-	-
<b>At 31 December 2021</b>	<b>5,944</b>	<b>(8)</b>	<b>3,898,980</b>	<b>998,654</b>	<b>1,357,456</b>	<b>1,542,870</b>

31 December 2022

In AED'000

	Carrying value assets	Carrying value liabilities	Notional amount
<b>Derivatives held for trading</b>			
Foreign exchange contracts	914,292	913,347	1,827,639
Cross currency & interest rate swaps	610,315	610,315	1,220,630
Trading	150,000	161,846	311,846
	<b>1,674,607</b>	<b>1,685,508</b>	<b>3,360,115</b>
<b>Derivatives used as fair value hedges</b>			
Cross currency & interest rate swaps	441,435	501,435	942,870
	<b>441,435</b>	<b>501,435</b>	<b>942,870</b>
<b>Total derivative financial instruments</b>	<b>2,116,042</b>	<b>2,186,943</b>	<b>4,302,985</b>
<b>31 December 2021</b>			
<b>In AED '000s</b>			
<b>Derivatives held for trading</b>			
Foreign exchange contracts	1,031,910	1,028,299	2,060,209
Interest rate swaps	360,000	360,000	720,000
Trading	1,639	1,636	3,275
	<b>1,393,549</b>	<b>1,389,935</b>	<b>2,783,484</b>
<b>Derivatives used as fair value hedges</b>			
Cross currency & interest rate swaps	557,728	557,768	1,115,496
	<b>557,728</b>	<b>557,768</b>	<b>1,115,496</b>
<b>Total derivative financial instruments</b>	<b>1,951,277</b>	<b>1,947,703</b>	<b>3,898,980</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**27 CASH AND CASH EQUIVALENTS**

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Cash and balances with the Central Bank of UAE (see note 8)	<b>2,249,825</b>	2,161,184
Due from banks (see note 9)	<b>1,984,173</b>	1,621,594
Due from the Head Office and its branches abroad (see note 10)	<b>106,507</b>	186,558
Due to banks (see note 16)	<b>(156,627)</b>	(72,084)
Due to Head Office and its branches abroad (see note 17)	<b>(136,296)</b>	(121,035)
	<b>4,047,582</b>	3,776,217
Less: ECL collective provision (see note 9)	<b>(168)</b>	(294)
	<b>4,047,414</b>	3,775,923
Less: Statutory deposits with Central Bank of UAE (see note 8)	<b>(698,947)</b>	(664,737)
Less: Treasury bills with Central Bank with an original maturity of more than 3 months	<b>(2,380,000)</b>	(1,750,000)
	<b>968,467</b>	1,361,186

**28 RELATED PARTY TRANSACTIONS AND BALANCES**

The Branches enter into transactions with parties that fall within the definition of a related party in accordance with International Accounting Standard 24: Related Party Disclosures. Related parties comprise the Head Office and its branches abroad. Pricing policies terms and conditions of these transactions are approved by the Branches' management.

Details of outstanding balances due from/due to related parties are set out in notes 9, 10, 16, 17 and 22.

The above-mentioned outstanding balances arose from the ordinary course of business. There have been no guarantees provided or received for any related party receivables or payables. Outstanding balances at year end are unsecured. For the year ended 31 December 2022, the Branches have not made any provision for doubtful debts relating to amounts owed by related parties (2021: nil).

a) The following table shows the transactions with related parties for the relevant financial year:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
<i>Interest income</i>		
Head Office and branches abroad	<b>1,136</b>	588
Other related parties	<b>5,640</b>	2,646
	<b>6,776</b>	3,234
<i>Interest expense</i>		
Head Office and branches abroad	<b>1,522</b>	7
Other related parties	<b>732</b>	1,847
	<b>2,254</b>	1,854

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

a) The following table shows the transactions with related parties for the relevant financial year: (continued)

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
<i>Commission income</i>		
Other related parties	<b>943</b>	936
Head Office charges (see note 7)	<b>21,104</b>	30,104
Services expenses (see note 7 (a))	<b>22,401</b>	22,983
IT services related expenses (see note 7 (b))	<b>10,699</b>	10,632
Acceptances	<b>39,363</b>	4,051
<i>Contingent liabilities</i>		
Letters of credit	<b>36,383</b>	14,506
Guarantees	<b>52,034</b>	54,133
	<b>88,417</b>	68,639

b) Compensation of key management personnel is as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
Salaries, bonuses and other benefits	<b>9,991</b>	12,181

**29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES**

The table below sets out the Branches' classification of each class of financial assets and liabilities and their carrying amounts (net of ECL) as at 31 December:

<i>31 December 2022</i>	<i>Financial assets at FVTPL AED'000</i>	<i>Financial assets at FVTOCI AED'000</i>	<i>Financial assets at amortised cost AED'000</i>	<i>Other financial liabilities at amortised cost AED'000</i>	<i>Financial liabilities at FVTPL AED'000</i>	<i>Total AED'000</i>
<i>Financial assets</i>						
Cash and balances with the Central Bank of UAE	-	-	2,249,825	-	-	2,249,825
Due from banks	-	-	1,984,005	-	-	1,984,005
Due from the Head Office and branches abroad	-	-	106,507	-	-	106,507
Loans and advances, net	-	-	9,543,230	-	-	9,543,230
Other financial assets	-	2,622	4,509,359	-	-	4,511,981
Other assets	2,803	-	457,253	-	-	460,056
<b>Total financial assets</b>	<b>2,803</b>	<b>2,622</b>	<b>18,850,179</b>	<b>-</b>	<b>-</b>	<b>18,855,604</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

31 December 2022	Financial assets at FVTPL AED'000	Financial assets at FVTOCI AED'000	Financial assets at amortised cost AED'000	Other financial liabilities at amortised cost AED'000	Financial liabilities at FVTPL AED'000	Total AED'000
<b>Financial liabilities</b>						
Due to banks	-	-	-	156,627	-	156,627
Due to the Head Office and branches abroad	-	-	-	136,296	-	136,296
Customers' deposits	-	-	-	14,774,220	-	14,774,220
Security deposits from customers	-	-	-	1,128,952	-	1,128,952
Other liabilities	-	-	-	542,587	-	542,587
Subordinated loan	-	-	-	374,595	-	374,595
Lease contract liability	-	-	-	11,122	-	11,122
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17,124,399</b>	<b>-</b>	<b>17,124,399</b>
<b>31 December 2021</b>	<b>Financial assets at FVTPL AED'000</b>	<b>Financial assets at FVTOCI AED'000</b>	<b>Financial assets at amortised cost AED'000</b>	<b>Other financial liabilities at amortised cost AED'000</b>	<b>Financial liabilities at FVTPL AED'000</b>	<b>Total AED'000</b>
<b>Financial assets</b>						
Cash and balances with the Central Bank of UAE	-	-	2,161,184	-	-	2,161,184
Due from banks	-	-	1,621,300	-	-	1,621,300
Due from the Head Office and branches abroad	-	-	186,558	-	-	186,558
Loans and advances, net	-	-	9,211,200	-	-	9,211,200
Other financial assets	-	2,606	3,958,634	-	-	3,961,240
Other assets	5,944	-	387,434	-	-	393,378
<b>Total financial assets</b>	<b>5,944</b>	<b>2,606</b>	<b>17,526,310</b>	<b>-</b>	<b>-</b>	<b>17,534,860</b>
<b>Financial liabilities</b>						
Due to banks	-	-	-	72,084	-	72,084
Due to the Head Office and branches abroad	-	-	-	121,035	-	121,035
Customers' deposits	-	-	-	13,744,673	-	13,744,673
Security deposits from customers	-	-	-	1,211,098	-	1,211,098
Other liabilities	-	-	-	514,476	8	514,484
Subordinated loan	-	-	-	374,595	-	374,595
Lease contract liability	-	-	-	19,418	-	19,418
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,057,379</b>	<b>8</b>	<b>16,057,387</b>



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

## 30 CONCENTRATIONS OF ASSETS AND LIABILITIES

	31 December 2022			31 December 2021		
	<i>Assets</i>	<i>Liabilities and</i>	<i>Off-balance</i>	<i>Assets</i>	<i>Liabilities and</i>	<i>Off-balance</i>
	<i>AED'000</i>	<i>Head Office</i>	<i>sheet items</i>	<i>AED'000</i>	<i>Head Office</i>	<i>sheet items</i>
		<i>equity</i>	<i>AED'000</i>		<i>equity</i>	<i>AED'000</i>
		<i>AED'000</i>			<i>AED'000</i>	
<i>Geographic regions</i>						
United Arab Emirates	17,126,709	14,996,990	9,882,122	15,156,010	14,389,330	10,036,118
Middle East and other countries	2,123,796	2,198,524	3,239,596	2,783,272	1,698,338	2,594,688
<b>Total</b>	<b>19,250,505</b>	<b>17,195,514</b>	<b>13,121,718</b>	<b>17,939,282</b>	<b>16,087,668</b>	<b>12,630,806</b>
<i>Economic sectors</i>						
Government and Public Sector	6,545,546	71,888	-	5,646,369	120,443	102,015
Trading and commercial	6,430,698	7,209,788	8,609,566	6,373,223	6,797,277	8,307,923
Retail	1,803,322	8,621,497	-	1,638,363	8,038,049	-
Financial institutions	3,610,817	303,677	4,512,152	3,483,528	287,050	4,220,868
Others	860,122	988,664	-	797,799	844,849	-
<b>Total</b>	<b>19,250,505</b>	<b>17,195,514</b>	<b>13,121,718</b>	<b>17,939,282</b>	<b>16,087,668</b>	<b>12,630,806</b>

## 31 FAIR VALUE OF FINANCIAL INSTRUMENTS

*Investments held at fair value through profit and loss*

Investments held for trading or designated at fair value through profit and loss represent loans and advances that provide the Branches with opportunity for returns through interest income, trading gains and capital appreciation. Included in these investments are unlisted loans and advances for which the fair values are derived from external valuation performed based on pricing done from an independent source adjusted for any additional consideration by the Bank's risk management team.

*Unquoted investments held at fair value through other comprehensive income*

The financial statements include holdings in unquoted securities amounting to AED 2.62 million (2021: AED 2.64 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

*Fair value of financial instruments carried at amortised cost*

Except as stated below, the management consider the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements to approximate their fair values:

	<i>Carrying amount</i>	<i>Fair value</i>
	<i>AED'000</i>	<i>AED'000</i>
<b>2022</b>		
Financial assets at amortised cost (Quoted bonds, gross – note 12)	4,510,535	4,475,935
<b>2021</b>		
Financial assets at amortised cost (Quoted bonds, gross – note 12)	3,961,555	3,968,522

The fair value for other financial assets measured at amortised cost is based on market prices.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)*****Fair value measurements recognised in the statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value. They are ranked into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices, including over-the-counter quoted prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<b>31 December 2022</b>	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>	<b>Total AED'000</b>
<b><i>Financial assets at FVTPL</i></b>				
- Derivative financial assets	-	2,803	-	2,803
<b><i>Financial assets at FVTOCI</i></b>				
- Unquoted equity instrument	-	-	2,622	2,622
<b><i>Financial liabilities at FVTPL</i></b>				
Derivative financial liabilities	-	-	-	-
<b>31 December 2021</b>	<b>Level 1 AED'000</b>	<b>Level 2 AED'000</b>	<b>Level 3 AED'000</b>	<b>Total AED'000</b>
<b><i>Financial assets at FVTPL</i></b>				
- Derivative financial assets	-	5,944	-	5,944
<b><i>Financial assets at FVTOCI</i></b>				
- Unquoted equity instrument	-	-	2,641	2,641
<b><i>Financial liabilities at FVTPL</i></b>				
Derivative financial liabilities	-	8	-	8

- a) There were no transfers between Level 2 and Level 3 during the current year.
- b) The fair value of all other financial assets and liabilities which are carried at amortized cost approximate their carrying value as at the balance sheet date and would qualify for a level 2 disclosure under IFRS.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 32 CAPITAL MANAGEMENT

#### a) *Regulatory capital*

The Central Bank of UAE (CB UAE) sets, supervises and monitors capital requirements for the Branches as a whole.

Effective from 2017, the capital is computed using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CB UAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

#### *Minimum Capital Requirements*

The CB UAE 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.

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%.

CCB is required to be kept at 2.5% of the Capital base. CCyB is in effect and is not applicable on the Bank.

#### *Regulatory Capital*

The Bank'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, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and 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.
- T2 capital comprises qualifying subordinated debt and undisclosed reserve

The Branches' RWA are weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Branches are following the standardized measurement approach for credit, market and operational risk, as per Pillar 1 of Basel III.

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
<b>Tier 1 Capital</b>		
Designated share capital	<b>620,704</b>	620,704
Statutory reserve	<b>310,352</b>	310,352
General reserve	<b>23,000</b>	23,000
Retained earnings	<b>1,004,559</b>	769,608
Accumulated other comprehensive income	<b>309</b>	316
	<b>1,958,924</b>	1,723,980
<b>Deductions from Tier 1</b>	<b>(176,391)</b>	(199,366)
<b>Total Tier 1 capital [A]</b>	<b>1,782,533</b>	1,524,614

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

## 32 CAPITAL MANAGEMENT (continued)

## a) Regulatory capital (continued)

			2022 AED'000	2021 AED'000
<b>Tier 2 Capital</b>				
Qualifying subordinated liabilities after amortization (Subordinated loan) (see note 22)			56,186	131,105
Provision for expected credit losses (stage 1 and 2)/general provision, including impairment reserve (up to 1.25% of credit risk weighted assets)			161,098	155,262
<b>Total Tier 2 capital [B]</b>			217,284	286,367
<b>Total regulatory capital [C = A + B]</b>			1,999,817	1,810,981
			2022 AED'000	2021 AED'000
Credit Risk			12,887,847	12,420,985
Market Risk			32,453	12,135
Operational Risk			1,021,299	1,151,295
<b>Total risk-weighted assets [D]</b>			13,941,599	13,584,415
<b>Total capital ratio</b>			14.34%	13.33%
<b>Tier 1 ratio</b>			12.79%	11.22%
<b>CET1 ratio</b>			12.79%	11.22%
	Actual 2022	Limits 2022	Actual 2021	Limits 2021
<b>In AED '000</b>				
Tier 1 capital	1,782,533	1,534,643	1,524,614	1,494,286
Other Tier 2 capital instruments	217,284	279,026	286,367	271,688
<b>Total capital</b>	1,999,817	1,813,669	1,810,981	1,765,974

## a) Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for these operations and activities, by finance department and risk management of the Branches, and is subject to review by the Assets and Liabilities Committee (ALCO) as appropriate.

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

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 33 RISK MANAGEMENT

The Branches' management has set up a strong risk management infrastructure supported by adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of its day-to-day operations:

- a) Credit risk management
- b) Liquidity risk management
- c) Market risk
  - (i) Trading book
  - (ii) Non-trading book
  - (iii) Interest rate risk management
  - (iv) Foreign currency risk management
- d) Operational risk management

The Branches' management has overall responsibility for the oversight of the risk management framework. It has established detailed policies and procedures in this regard along with high powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the Branches.

The Credit Policy Committee, Assets and Liabilities Committee and Investment Committee work under the mandate of the management to set up risk limits and manage the overall risk in the Branches. These committees approve risk management policies of the Branches developed by the Risk Management group.

The Head Office Audit, Risk and Compliance Committee (ARCC) is an independent Branch which is responsible to review the risk policies, risk exposures and the risk managing and monitoring framework.

#### a) Credit risk management

Risk management policies relating to credit are reviewed and approved by the Branches' Credit Policy Committee (CPC) based on policies established in the Credit Policy Manual. Credit and Marketing functions are segregated. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Branches further limit risk through diversification of their assets by industry sectors.

All credit facilities are administered and monitored by the Credit Administration Department. Periodic reviews are conducted by Credit Examination teams from the Risk Management Department, facilities are risk graded based on criterion established in the Credit Policy Manual.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Branches' CPC and are monitored by the Credit Risk Management Division. CPC is responsible for setting credit policy of the Branches. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

Different credit underwriting procedures are followed for retail and corporate/institutional lending as described below.

##### (i) Retail lending

Each retail credit application is considered for approval according to a product program, which is in accordance with guidelines set out in the product policy approved by the Branches' CPC. All approval authorities are delegated by the CPC or by the Head Office. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs.

Each product program contains detailed credit criteria (such as customer demographics, income eligibility, etc) and regulatory, compliance and documentation requirements, as well as other requirements.

Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product program) to Level 5 (the highest level where CPC approval of the specific credit application is necessary).

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

*(ii) Corporate lending*

All credit applications for corporate lending are subject to the Branches' credit policies, underwriting standards and industry caps (if any) and to regulatory requirements.

The Branches do not lend to companies operating in industries that are considered by the Branches inherently risky and where industry knowledge specialized is required. In addition, the Branches set credit limits for all customers based on an evaluation of their credit worthiness.

All credit lines and facilities extended by the Branches are made subject to prior approval pursuant to a set of delegated credit authority limits under full supervision by CPC or Head Office.

The Branches have established limits for dealings with foreign financial institutions in order to mitigate risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Branches' credit risk management and periodically by the CPC.

*(iii) Credit review procedures and loan classification*

The Branches' Credit Review Division (the CRD) subjects the Branches' risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE and Branches' internal policies in order to assist in the early identification of accrual and potential performance problems. The CRD validates the risk ratings of all commercial customers, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Branches.

All commercial/institutional loan facilities of Branches are assigned one of ten risk ratings of the performing grades where grades 1-7 are for performing loans depending on their risk, with more severely classified exposures graded 8-10 for impaired loans. The Branches' internal rating system, which has been developed using historical loss data and customer behavioral scores, is also continually updated and strengthened in order to provide a statistically validated underpinning to customer ratings consistent with Basel III IRB guidelines.

Specific allowance for impairment of classified assets is made based on recoverability of the outstanding balance and credit risk ratings of the assets.

The Branches write off retail unpaid advances when evidences for being uncollectable are established, approval is passed based on study cases and the management approval on case-by-case basis.

The Branches also comply with IFRS, in accordance with which they assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan using original effective interest rate. As required by Central Bank of the UAE guidelines, the Branches take the higher of the loan loss provisions required under IFRS and Central Bank of UAE regulations.

*(iv) Impaired loans and advances*

Impaired loans and advances for which the Branches determine that it is probable that they will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 8, 9 or 10 in the Branches' internal credit risk grading system which are classified as Stage 3 under IFRS 9.

*(v) Past due but not impaired loans*

Loans and advances where contractual interest or principal payments are past due but the Branches believe that impairment is not appropriate on the basis of the level of security/ collateral available and/or the stage of collection of amounts owed to the Branches.

*(vi) Allowances for impairment*

The Branches establish an allowance for impairment losses that represents their estimate of expected credit losses in its financial assets. The main components of this allowance are a specific loss component that relates to individually significant exposures (stage 3), expected credit losses on unimpaired financial assets (stage 1 and 2), a collective loan loss allowance established for a group of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)****a) Credit risk management (continued)***(vii) Write-off policy*

The Branches write off a loan (and any related allowances for impairment losses) when the Branches' credit administration determines that the loans are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower financial position such that the borrower can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

In certain cases, the Branches continue to carry classified doubtful debts and delinquent accounts on its books even after making 100% provision for impairment. Interest is accrued on most of those accounts for litigation purposes only and accordingly not taken to statement of comprehensive income. Accounts are written off only when all legal and other avenues for recovery or settlement are exhausted.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

	<i>Due from banks*</i>		<i>Loans and advances</i>		<i>Investments in securities and other assets</i>	
	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>	<i>2022</i>	<i>2021</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
<b>Stage 3</b>						
Impaired and not past due	-	-	-	-	-	-
Gross amount	-	-	-	-	-	-
Substandard	-	-	4,033	66,554	-	-
Doubtful	-	-	20,206	7,494	-	-
Loss	-	-	1,832,916	1,945,091	-	-
<b>Gross amount (note 11(d))</b>	-	-	1,857,155	2,019,139	-	-
Interest suspended	-	-	(305,245)	(254,639)	-	-
Allowance for specific impairment	-	-	(1,485,097)	(1,638,756)	-	-
<b>Net exposure</b>	-	-	66,813	125,744	-	-
<b>Stage 2</b>						
Gross amount	-	-	505,466	896,855	-	-
Interest suspended	-	-	505,466	896,855	-	-
ECL allowance for collective impairment	-	-	-	(5)	-	-
<b>Total</b>	-	-	(70,610)	(26,734)	-	-
<b>Stage 1</b>						
Gross amount	4,257,120	3,870,382	9,066,339	8,242,627	4,513,157	3,964,196
Interest suspended	-	-	(2,814)	(1,316)	-	-
ECL allowance for collective impairment	(168)	(294)	(21,964)	(25,971)	(1,176)	(2,956)
<b>Carrying amount</b>	4,256,952	3,870,088	9,041,561	8,215,340	4,511,981	3,961,240

\*Including balances with Central Bank of UAE and due from the head office and its branches abroad.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(vii) *Write-off policy (continued)*

The following tables outline the impact of multiple scenarios on the allowance. This table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to the ECL that would have resulted from applying a 100% weighting to the base case scenario:

**31 December 2022**

<b>In AED '000s</b>	<i>Due from banks</i>	<i>Debt instruments at FVOCI</i>	<i>Debt instruments at amortised cost</i>	<i>Corporate lending</i>	<i>Small &amp; Medium business lending</i>	<i>Consumer lending</i>	<i>Retail mortgages</i>	<i>Financial guarantees</i>	<i>Letters of credit</i>	<i>Undrawn commitments to lend</i>	<i>Total</i>
Upside (20%)	34	-	157	15,212	835	-	-	118	97	467	16,920
Base case (45%)	76	-	347	34,448	1,903	-	-	273	238	1,077	38,362
Downside (35%)	59	-	672	27,708	1,608	-	-	241	285	978	31,551
<b>Total Corporate and Institutional Banking</b>	<b>169</b>	<b>-</b>	<b>1,176</b>	<b>77,368</b>	<b>4,346</b>	<b>-</b>	<b>-</b>	<b>632</b>	<b>620</b>	<b>2,522</b>	<b>86,833</b>
Upside (30%)	-	-	-	-	-	2,492	182	-	-	-	2,674
Base case (40%)	-	-	-	-	-	4,156	268	-	-	-	4,424
Downside (30%)	-	-	-	-	-	4,992	241	-	-	-	5,233
<b>Total Consumer Lending</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,640</b>	<b>691</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,331</b>
<b>Grand Total</b>	<b>169</b>	<b>-</b>	<b>1,176</b>	<b>77,368</b>	<b>4,346</b>	<b>11,640</b>	<b>691</b>	<b>632</b>	<b>620</b>	<b>2,522</b>	<b>99,164</b>
<b>Effect of multiple economic scenarios</b>	<b>93</b>	<b>-</b>	<b>828</b>	<b>42,921</b>	<b>2,443</b>	<b>7,484</b>	<b>422</b>	<b>359</b>	<b>382</b>	<b>1,444</b>	<b>56,376</b>



NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(vii) *Write-off policy (continued)*

31 December 2021

In AED '000s	<i>Due from banks</i>	<i>Debt instruments at FVOCI</i>	<i>Debt instruments at amortised cost</i>	<i>Corporate lending</i>	<i>Small &amp; Medium business lending</i>	<i>Consumer lending</i>	<i>Retail mortgages</i>	<i>Financial guarantees</i>	<i>Letters of credit</i>	<i>Undrawn commitments to lend</i>	<i>Total</i>
Upside (20%)	59	-	474	6,207	514	-	-	64	55	335	7,708
Base case (45%)	132	-	1,139	15,097	1,276	-	-	157	124	855	18,780
Downside (35%)	103	-	1,342	15,922	1,360	-	-	184	102	1,236	20,249
Total Corporate and Institutional Banking	294	-	2,955	37,226	3,150	-	-	405	281	2,426	46,737
Upside (30%)	-	-	-	-	-	2,492	182	-	-	-	2,674
Base case (40%)	-	-	-	-	-	4,156	268	-	-	-	4,424
Downside (30%)	-	-	-	-	-	4,991	241	-	-	-	5,232
Total Consumer Lending	-	-	-	-	-	11,639	691	-	-	-	12,330
Grand Total	294	-	2,955	37,226	3,150	11,639	691	405	281	2,426	59,067
Effect of multiple economic scenarios	162	-	1,816	22,129	1,874	7,483	423	248	157	1,571	35,863

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**
**a) Credit risk management (continued)**

(vii) *Write-off policy (continued)*

This table shows both the contribution to total ECL of each probability weighted scenario in addition to the total incremental effect on ECL of applying multiple economic scenarios compared to the ECL that would have resulted from applying a 100% weighting to the base case scenario.

The following tables outline the impact on ECL from applying a 100% weighting to each scenario:

**31 December 2022**

In AED '000s	Due from banks	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Small business lending	Consumer lending	Retail mortgages	Financial guarantees	Letters of credit	Undrawn commitments to lend	Total
<b>ECL</b>											
<b>Corporate and Institutional Banking</b>											
Upside (20%)	169	-	784	76,059	4,173	-	-	592	485	2,334	84,596
Base case (45%)	169	-	772	76,550	4,229	-	-	606	528	2,394	85,248
Downside (35%)	169	-	1,919	79,169	4,595	-	-	687	815	2,793	90,147
<b>Consumer Lending</b>											
Upside (30%)	-	-	-	-	-	8,307	605	-	-	-	8,912
Base case (40%)	-	-	-	-	-	10,391	671	-	-	-	11,062
Downside (30%)	-	-	-	-	-	16,638	802	-	-	-	17,440
<b>Proportion of ECL in stage 2 (%) Corporate and Institutional Banking</b>											
Upside (20%)	0%	0%	0%	16%	15%	0%	0%	1%	1%	1%	15%
Base case (45%)	0%	0%	0%	37%	34%	0%	0%	1%	1%	1%	35%
Downside (35%)	0%	0%	0%	28%	26%	0%	0%	1%	1%	1%	26%
<b>Consumer Lending</b>											
Upside (30%)	0%	0%	0%	0%	0%	52%	74%	0%	0%	0%	53%
Base case (40%)	0%	0%	0%	0%	0%	50%	71%	0%	0%	0%	51%
Downside (30%)	0%	0%	0%	0%	0%	39%	67%	0%	0%	0%	41%

Under current and forecasted economic conditions stage 3 instruments are not expected to be materially sensitive to changes in macroeconomic assumptions and therefore have not been included in this sensitivity analysis. Instead ECL on stage 3 instruments is more sensitive to idiosyncratic obligor-specific factors and recovery strategies that are independent of macroeconomic factors.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(vii) *Write-off policy (continued)*

The following tables outline the impact on ECL from applying a 100% weighting to each scenario:

31 December 2021

In AED '000s	<i>Due from Banks</i>	<i>Debt instruments at FVOCI</i>	<i>Debt instruments at amortised cost</i>	<i>Corporate lending</i>	<i>Small business lending</i>	<i>Consumer lending</i>	<i>Retail mortgages</i>	<i>Financial guarantees</i>	<i>Letters of credit</i>	<i>Undrawn commitments to lend</i>	<i>Total</i>
<b>ECL</b>											
<b>Corporate and Institutional Banking</b>											
Upside (20%)	295	-	2,372	31,034	2,568	-	-	319	274	1,675	38,537
Base case (45%)	295	-	2,532	33,548	2,835	-	-	349	277	1,900	41,736
Downside (35%)	295	-	3,834	45,490	3,887	-	-	524	290	3,532	57,852
<b>Consumer Lending</b>											
Upside (30%)	-	-	-	-	-	8,307	605	-	-	-	8,912
Base case (40%)	-	-	-	-	-	10,391	671	-	-	-	11,062
Downside (30%)	-	-	-	-	-	16,638	802	-	-	-	17,440
<b>Proportion of ECL in stage 2 (%) Corporate and Institutional Banking</b>											
Upside (20%)	0%	0%	0%	11%	14%	0%	0%	2%	2%	1%	7%
Base case (45%)	0%	0%	0%	25%	31%	0%	0%	4%	4%	1%	17%
Downside (35%)	0%	0%	0%	16%	22%	0%	0%	3%	3%	1%	8%
<b>Consumer Lending</b>											
Upside (30%)	0%	0%	0%	0%	0%	52%	74%	0%	0%	0%	53%
Base case (40%)	0%	0%	0%	0%	0%	50%	71%	0%	0%	0%	51%
Downside (30%)	0%	0%	0%	0%	0%	39%	67%	0%	0%	0%	41%

Under current and forecasted economic conditions stage 3 instruments are not expected to be materially sensitive to changes in macroeconomic assumptions and therefore have not been included in this sensitivity analysis. Instead ECL on stage 3 instruments is more sensitive to idiosyncratic obligor-specific factors and recovery strategies that are independent of macroeconomic factors.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(vii) *Write-off policy (continued)*

Set out below is an analysis of the overall provision movement during the year

**AED'000**

	<b>31 December 2022</b>				<b>31 December 2021</b>			
	<i>Collective 12-month ECL</i>	<i>Lifetime ECL not credit- impaired</i>	<i>Lifetime ECL credit- impaired</i>	<i>Total</i>	<i>Collective 12-month ECL</i>	<i>Lifetime ECL not credit- impaired</i>	<i>Lifetime ECL credit- impaired</i>	<i>Total</i>
As at 1 January	32,224	26,844	1,638,937	1,698,005	62,729	97,553	1,172,263	1,332,545
Allowances for impairment made during the year	7,347	57,005	141,745	206,097	14,199	9,233	558,026	581,458
Write back/ recoveries made during the year	(12,425)	(5,121)	(85,162)	(102,708)	(42,547)	(8,846)	(49,778)	(101,171)
Amounts written-off during the year	-	-	(193,485)	(193,485)	-	-	(114,827)	(114,827)
Transfers to Stage 1	681	(681)	-	-	1,108	(1,108)	-	-
Transfers to Stage 2	(836)	836	-	-	(3,143)	3,143	-	-
Transfers to Stage 3	-	(8,181)	8,181	-	(122)	(73,131)	73,253	-
As at 31 December	26,991	70,702	1,510,216	1,607,909	32,224	26,844	1,638,937	1,698,005

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)****a) Credit risk management (continued)***(vii) Write-off policy (continued)***Impairment reserve under the Central Bank of UAE (CBUAE) guidance**

The CBUAE issued its IFRS 9 guidance on 30 April 2021 via Notice No. CBUAE/BSD/2019/458 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:

	2022 AED'000	2021 AED'000
<b>Impairment reserve: Stage 1 and 2 / Collective</b>		
Minimum required by Collective provisions under Circular 28/2010 of CBUAE	<b>193,378</b>	186,315
Less: Expected credit loss (Stage 1 & 2) (note 11 (h))	<b>(97,693)</b>	(59,068)
	<u><b>95,685</b></u>	<u>127,247</u>
Collective provision maintained as impairment reserve* (note 11 (i))		
<b>Impairment reserve: Stage 3 / Specific</b>		
Specific provisions under Circular 28/2010 of CBUAE	<b>1,485,097</b>	1,638,756
Less: Stage 3 provisions under IFRS 9 (note 11 (g))	<b>(1,485,097)</b>	(1,638,756)
	<u><b>-</b></u>	<u>-</u>
Specific provision maintained as impairment reserve*		
<b>Total provision maintained as impairment reserve</b>	<u><b>95,685</b></u>	<u>127,247</u>

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

*(viii) Collaterals held (Corporate)*

The Branches hold collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and subsequently are reviewed periodically and specifically when the loan is individually assessed as impaired. For all tangible securities with the exception of real estate, collaterals are reviewed at least once a year. In the case of real estate property, collaterals are reviewed every three years or when there is material adverse changes in the real estate markets that may affect the value and liquidity of the real estate markets or financial condition of the borrowers and/or material changes in the terms of the facility. When the facilities are classified as non-performing, the property is evaluated by an independent valuer, who is a member of the approved panel. In the case of cash, stocks, shares and bonds, the valuation is performed weekly. Collaterals generally are not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

*(ix) Collaterals held (Retail)*

The Branches hold collaterals against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collaterals generally are not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collaterals usually are not held against investment in securities.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

*(ix) Collaterals held (Retail) (continued)*

At 31 December, the fair values of collaterals held were as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
<i>Against individually assessed loans and advances</i>		
Property	<b>1,968,366</b>	2,200,929
Equipment and vehicles	<b>137,689</b>	168,515
Cash	<b>385,816</b>	478,516
Others	<b>173,075</b>	386,195
	<b>2,664,946</b>	3,234,155
<i>Against collectively assessed loans and advances</i>		
Property	<b>1,143,460</b>	989,194
Cash	<b>98,105</b>	93,554
	<b>1,241,565</b>	1,082,748
<b>Total</b>	<b>3,906,511</b>	4,316,903

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**
**a) Credit risk management (continued)**
*(ix) Collaterals held (Retail) (continued)*

The tables below summarise the Bank's collateral for loans and advances:

31 December 2022 In AED '000s	Gross carrying amount			Collateral			Net exposure		
	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3	Total	Stage 2	Stage 3
<b>Retail Banking</b>									
Credit Cards	45,428	324	11,126	-	-	-	45,428	324	11,126
Housing Loans	1,143,460	25,186	53,346	1,143,460	-	10,517	-	25,186	42,829
Personal Loans	565,266	13,410	71,576	98,105	-	-	467,161	13,410	71,576
Auto Loans	48,944	562	2,614	-	-	-	48,944	562	2,614
Others	22,104	-	66	-	-	-	22,104	-	66
<b>Total</b>	<b>1,825,202</b>	<b>39,482</b>	<b>138,728</b>	<b>1,241,565</b>	<b>-</b>	<b>10,517</b>	<b>583,637</b>	<b>39,482</b>	<b>128,211</b>
<b>Corporate &amp; Institutional Banking</b>									
Federal Government	-	-	-	-	-	-	-	-	-
Emirates Governments	1,095,000	-	-	-	-	-	1,095,000	-	-
GREs (Gov ownership >50%)	170,720	-	-	-	-	-	170,720	-	-
Other Corporates	6,898,292	342,113	1,462,798	1,766,226	225,993	140,862	5,132,066	116,120	1,321,936
High Net Worth Individuals	541,472	32,393	5,340	485,144	32,393	-	56,328	-	5,340
SMEs	898,274	91,478	250,289	413,576	64,492	1	484,698	26,986	250,288
<b>Total</b>	<b>9,603,758</b>	<b>465,984</b>	<b>1,718,427</b>	<b>2,664,946</b>	<b>322,878</b>	<b>140,863</b>	<b>6,938,812</b>	<b>143,106</b>	<b>1,577,564</b>
<b>Grand Total</b>	<b>11,428,960</b>	<b>505,466</b>	<b>1,857,155</b>	<b>3,906,511</b>	<b>322,878</b>	<b>151,380</b>	<b>7,522,449</b>	<b>182,588</b>	<b>1,705,775</b>

# Arab Bank PLC, United Arab Emirates Branches

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 33 RISK MANAGEMENT (continued)

#### a) Credit risk management (continued)

31 December 2021 In AED '000s	<i>Gross carrying amount</i>			<i>Collateral</i>			<i>Net exposure</i>		
	<i>Total</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 2</i>	<i>Stage 3</i>
Retail Banking									
Credit Cards	41,135	342	9,037	-	-	-	41,135	342	9,037
Housing Loans	989,194	26,913	46,521	989,194	-	8,248	-	26,913	38,273
Personal Loans	552,349	19,508	57,463	93,554	-	-	458,795	19,508	57,463
Auto Loans	42,990	1,128	2,524	-	-	-	42,990	1,128	2,524
Others	12,695	-	39	-	-	-	12,695	-	39
Total	1,638,363	47,891	115,584	1,082,748	-	8,248	555,615	47,891	107,336
Corporate & Institutional Banking									
Emirates Governments	1,095,000	-	-	-	-	-	1,095,000	-	-
GREs (Gov ownership >50%)	100,184	-	-	-	-	-	100,184	-	-
Other Corporates	6,640,301	678,175	1,615,828	2,167,090	388,153	259,821	4,473,211	290,022	1,356,007
High Net Worth Individuals	669,559	31,123	5,150	618,401	31,123	-	51,158	-	5,150
SMEs	1,015,214	139,666	282,577	448,664	116,840	2,935	566,550	22,826	279,642
Total	9,520,258	848,964	1,903,555	3,234,155	536,116	262,756	6,286,103	312,848	1,640,799
Grand Total	11,158,621	896,855	2,019,139	4,316,903	536,116	271,004	6,841,718	360,739	1,748,135



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)****a) Credit risk management (continued)***(x) Geographical concentration*

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	<i>U.A.E. AED'000</i>	<i>Total AED'000</i>
<b>2022</b>		
Impaired loans – Gross (see note 33 (a))	<b>1,857,155</b>	<b>1,857,155</b>
Interest suspended	<b>308,059</b>	<b>308,059</b>
Stage 3 provision (Specific)	<b>1,485,097</b>	<b>1,485,097</b>
Stage 1 and 2 provision (Collective)	<b>92,574</b>	<b>92,574</b>
	<i>U.A.E. AED'000</i>	<i>Total AED'000</i>
<b>2021</b>		
Impaired loans – Gross (see note 33 (a))	2,019,139	2,019,139
Interest suspended	255,960	255,960
Stage 3 provision (Specific)	1,638,756	1,638,756
Stage 1 and 2 provision (Collective)	52,705	52,705

*(xi) Concentration of credit risk by industry*

The following table breaks down the Bank's main credit exposures on loans and advances, due from other banks and due from related parties and off balance sheet items categorised by industry as of 31 December 2022 and 2021.

For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM)s.

	<i>On balance sheet items</i>					
	<i>Loans and advances AED'000</i>	<i>Amounts due from other banks and group entities AED'000</i>	<i>Other financial assets at amortised cost AED'000</i>	<i>Total funded AED'000</i>	<i>Off balance sheet items AED'000</i>	<i>Total AED'000</i>
<b>31 December 2022</b>						
Mining and manufacturing	1,608,629	-	-	1,608,629	1,738,066	3,346,695
Construction	1,695,382	-	-	1,695,382	3,609,665	5,305,047
Real estate	876,206	-	-	876,206	228,447	1,104,653
Telecommunication and transportation	358,834	-	-	358,834	80,077	438,911
Financial institutions	197,013	4,257,120	4,510,535	8,964,668	3,538,140	12,502,808
Governmental	806,561	-	-	806,561	-	806,561
Individuals	1,825,202	-	-	1,825,202	-	1,825,202
Services	4,061,133	-	-	4,061,133	3,927,323	7,988,456
	<b>11,428,960</b>	<b>4,257,120</b>	<b>4,510,535</b>	<b>20,196,615</b>	<b>13,121,718</b>	<b>33,318,333</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(xi) Concentration of credit risk by industry (continued)

	<i>On balance sheet items</i>					
	<i>Loans and advances</i>	<i>Amounts due from other banks and group entities</i>	<i>Other financial assets at amortised cost</i>	<i>Total funded</i>	<i>Off balance sheet items</i>	<i>Total</i>
<i>31 December 2021</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Mining and manufacturing	1,503,403	-	-	1,503,403	1,622,175	3,125,578
Construction	1,535,132	-	-	1,535,132	3,489,852	5,024,984
Real Estate	1,310,332	-	-	1,310,332	122,796	1,433,128
Telecommunication and transportation	511,710	-	-	511,710	320,179	831,889
Financial institutions	9,449	3,870,383	3,961,555	7,841,387	3,475,751	11,317,138
Governmental	806,650	-	-	806,650	-	806,650
Individuals	1,638,363	-	-	1,638,363	-	1,638,363
Services	3,843,582	-	-	3,843,582	3,600,053	7,443,635
	<u>11,158,621</u>	<u>3,870,383</u>	<u>3,961,555</u>	<u>18,990,559</u>	<u>12,630,806</u>	<u>31,621,365</u>

The analysis of the Bank's portfolio stage wise is given below:

<b>31 December 2022</b>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>In AED'000</i>				
Due from Central Bank	<b>2,166,440</b>	-	-	<b>2,166,440</b>
Debt instruments at amortised cost	<b>4,510,535</b>	-	-	<b>4,510,535</b>
Due from banks	<b>1,984,173</b>	-	-	<b>1,984,173</b>
Due from the Head Office and branches abroad	<b>106,507</b>	-	-	<b>106,507</b>
Loans and advances	<b>9,066,338</b>	<b>505,465</b>	<b>1,857,157</b>	<b>11,428,960</b>
<i>Corporate lending</i>	<b>6,725,338</b>	<b>354,827</b>	<b>1,461,790</b>	<b>8,541,955</b>
<i>Small &amp; Medium Entities</i>	<b>694,007</b>	<b>111,156</b>	<b>256,639</b>	<b>1,061,802</b>
<i>Consumer lending</i>	<b>582,065</b>	<b>14,296</b>	<b>85,382</b>	<b>681,743</b>
<i>Residential mortgages</i>	<b>1,064,928</b>	<b>25,186</b>	<b>53,346</b>	<b>1,143,460</b>
Financial guarantees	<b>5,683,591</b>	<b>28,308</b>	<b>68,161</b>	<b>5,780,060</b>
Letters of credit	<b>694,857</b>	<b>992</b>	-	<b>695,849</b>
Undrawn commitments to lend	<b>2,490,781</b>	<b>2,043</b>	-	<b>2,492,824</b>
Derivative contracts	<b>4,152,985</b>	-	-	<b>4,152,985</b>
	<u><b>30,856,207</b></u>	<u><b>536,808</b></u>	<u><b>1,925,318</b></u>	<u><b>33,318,333</b></u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(xi) Concentration of credit risk by industry (continued)

<b>31 December 2022</b> <i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<b>Per industry segment (*)</b>				
Industry and mining	2,926,666	166,400	253,629	3,346,695
Construction	4,620,559	16,589	667,899	5,305,047
Real estate	1,072,218	32,435	-	1,104,653
Telecommunication and transportation	183,408	96,685	158,818	438,911
Financial institutions	12,502,809	-	-	12,502,809
Governmental	806,561	-	-	806,561
Individuals	1,646,992	39,482	138,728	1,825,202
Services	7,096,994	185,217	706,244	7,988,455
	<b>30,856,207</b>	<b>536,808</b>	<b>1,925,318</b>	<b>33,318,333</b>
<b>Per region</b>				
UAE	25,307,070	536,808	1,925,318	27,769,196
GCC countries	3,445,336	-	-	3,445,336
Other Arab countries	230,788	-	-	230,788
Asia	471,466	-	-	471,466
Europe	610,717	-	-	610,717
Africa	92,913	-	-	92,913
America	457,888	-	-	457,888
Other	240,029	-	-	240,029
	<b>30,856,207</b>	<b>536,808</b>	<b>1,925,318</b>	<b>33,318,333</b>

(\*) Includes financial assets measured at FVOCI and also financial assets measured amortised cost.

The analysis of the Bank's portfolio stage wise is given below:

<b>31 December 2021</b> <i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Due from Central Bank	2,062,230	-	-	2,062,230
Debt instruments at amortised cost	3,961,555	-	-	3,961,555
Due from banks	1,621,594	-	-	1,621,594
Due from the Head Office and branches abroad	186,558	-	-	186,558
Loans and advances	8,242,627	896,853	2,019,141	11,158,621
<i>Corporate lending</i>	6,000,517	688,621	1,614,740	8,303,878
<i>Small &amp; Medium Entities</i>	767,222	160,341	288,816	1,216,379
<i>Consumer lending</i>	559,128	20,978	69,064	649,170
<i>Residential mortgages</i>	915,760	26,913	46,521	989,194
Financial guarantees	5,475,868	43,824	164,558	5,684,250
Letters of credit	476,758	4,914	-	481,672
Undrawn commitments to lend	2,558,429	7,476	-	2,565,905
Derivative contracts	3,898,980	-	-	3,898,980
	<b>28,484,599</b>	<b>953,067</b>	<b>2,183,699</b>	<b>31,621,365</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

*(xi) Concentration of credit risk by industry (continued)*

31 December 2021 In AED'000	Stage 1	Stage 2	Stage 3	Total
Per industry segment (*)				
Industry and mining	2,670,410	185,893	269,275	3,125,578
Construction	4,207,473	45,884	771,627	5,024,984
Real estate	1,400,586	32,542	-	1,433,128
Telecommunication and transportation	388,937	258,451	184,501	831,889
Financial institutions	11,317,137	-	-	11,317,137
Governmental	806,650	-	-	806,650
Individuals	1,474,887	47,891	115,585	1,638,363
Services	6,218,519	382,406	842,711	7,443,636
	<u>28,484,599</u>	<u>953,067</u>	<u>2,183,699</u>	<u>31,621,365</u>
Per region				
UAE	22,484,267	953,067	2,183,699	25,621,033
GCC countries	3,989,459	-	-	3,989,459
Other Arab countries	461,782	-	-	461,782
Asia	450,219	-	-	450,219
Europe	353,163	-	-	353,163
Africa	92,896	-	-	92,896
America	406,980	-	-	406,980
Other	245,833	-	-	245,833
	<u>28,484,599</u>	<u>953,067</u>	<u>2,183,699</u>	<u>31,621,365</u>

(\*) Includes financial assets measured at FVOCI and financial assets measured at amortised cost.

**b) Liquidity risk management**

Liquidity risk is the risk that the Branches will encounter difficulties in meeting obligations from its financial liabilities at a point of time.

The Branches manage liquidity to ensure, as far as possible, that they will always have sufficient liquidity to meet their liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branches' reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Branches as a whole.

When a branch is subject to a liquidity limit imposed by its local regulator, the branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance with local regulatory limits on a daily basis.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

The liquidity position is monitored daily and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

ALCO has a broad range of authority delegated by the Head Office to manage the Branches' asset and liability structure and funding strategy. ALCO meets on a monthly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rates and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the Branches' operation. The Branches use interest rates stimulation forms to measure and monitor interest rate sensitivity and prospective fluctuation.

The key measure used by the Branches for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as cash and cash equivalents and investment in an active and liquid market less any deposits from banks, debit notes issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Branches' compliance with the liquidity limit established by the Branches' lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of funds to stable resources and stress testing of liquid funds vs unexpected withdrawal of liabilities. For all the measures, benchmarks are set and reviewed by ALCO on regular basis.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

The residual maturities of assets, liabilities and Head Office equity as at 31 December is as follows:

<i>31 December 2022</i>	<i>Within 3 months AED'000</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
<b>Assets</b>						
Cash and balances with Central Bank of UAE	1,450,000	-	-	-	799,825	2,249,825
Deposits and balances due from banks, net	1,333,396	-	-	-	650,609	1,984,005
Deposits and balances due from Head Office and branches abroad	69,778	-	-	-	36,729	106,507
Loans and advances, net	3,976,547	820,800	801,355	3,944,528	-	9,543,230
Other financial assets	1,613,805	1,464,004	748,738	682,812	2,622	4,511,981
Other assets	-	-	-	-	469,019	469,019
Right-of-use assets	-	-	-	13,320	-	13,320
Deferred tax assets	-	-	-	-	367,372	367,372
Property and equipment	-	-	-	-	5,246	5,246
<b>Total assets</b>	<b>8,443,526</b>	<b>2,284,804</b>	<b>1,550,093</b>	<b>4,640,660</b>	<b>2,331,422</b>	<b>19,250,505</b>
<b>Liabilities and Head Office equity</b>						
Due to banks	-	-	-	-	156,627	156,627
Due to Head Office and branches abroad	112,000	-	-	-	24,296	136,296
Customers' deposits	5,882,627	897,352	2,629,268	257,668	5,107,305	14,774,220
Security deposits from customers	614,815	197,519	202,919	113,699	-	1,128,952
Other liabilities	-	-	-	-	542,757	542,757
Lease liability	6,656	533	-	3,933	-	11,122
Provisions	-	-	-	-	70,945	70,945
Subordinated loan	-	-	-	374,595	-	374,595
Head Office equity	-	-	-	-	2,054,991	2,054,991
<b>Total liabilities and Head Office equity</b>	<b>6,616,098</b>	<b>1,095,404</b>	<b>2,832,187</b>	<b>749,895</b>	<b>7,956,921</b>	<b>19,250,505</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

31 December 2021

	<i>Within 3 months AED'000</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
Assets						
Cash and balances with Central Bank of UAE	1,380,000	-	-	-	781,184	2,161,184
Deposits and balances due from banks	837,427	-	-	-	783,873	1,621,300
Deposits and balances due from Head Office and branches abroad	138,320	-	-	-	48,238	186,558
Loans and advances, net	3,546,638	702,581	743,347	4,218,634	-	9,211,200
Other financial assets	1,961,460	871,984	132,218	994,117	1,461	3,961,240
Other assets	-	-	-	-	399,817	399,817
Right-of-use assets	-	-	-	24,116	-	24,116
Deferred tax assets	-	-	-	-	366,016	366,016
Property and equipment	-	-	-	-	7,851	7,851
Total assets	<u>7,863,845</u>	<u>1,574,565</u>	<u>875,565</u>	<u>5,236,867</u>	<u>2,388,440</u>	<u>17,939,282</u>
Liabilities and Head Office equity						
Due to banks	-	-	-	-	72,084	72,084
Due to Head Office and branches abroad	75,000	-	-	-	46,035	121,035
Customers' deposits	4,699,506	1,376,311	1,960,830	237,921	5,470,105	13,744,673
Security deposits from customers	618,778	207,638	263,004	121,678	-	1,211,098
Other liabilities	-	-	-	-	514,660	514,660
Lease liability	2,886	2,886	5,772	7,874	-	19,418
Provisions	-	-	-	-	30,105	30,105
Subordinated loan	-	-	-	374,595	-	374,595
Head Office equity	-	-	-	-	1,851,614	1,851,614
Total liabilities and Head Office equity	<u>5,396,170</u>	<u>1,586,835</u>	<u>2,229,606</u>	<u>742,068</u>	<u>7,984,603</u>	<u>17,939,282</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

The tables below show undiscounted contractual cash flows on the Branches' financial liabilities:

<i>31 December 2022</i>	<i>Within 3 months AED'00</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
Due to banks	-	-	-	-	156,627	156,627
Due to Head Office and branches abroad	112,000	-	-	-	24,606	136,606
Customers' deposits	5,989,662	913,680	2,677,108	262,357	5,200,352	15,043,159
Security deposits from customers	629,355	202,190	207,717	116,389	-	1,155,651
Other liabilities	-	-	-	-	492,117	492,117
Lease liability	6,656	533	-	3,933	-	11,122
Subordinated loan	-	-	-	375,664	-	375,664
<b>Total financial liabilities</b>	<b>6,737,673</b>	<b>1,116,403</b>	<b>2,884,825</b>	<b>758,343</b>	<b>5,873,702</b>	<b>17,370,946</b>

<i>31 December 2021</i>	<i>Within 3 months AED'00</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
Due to banks	-	-	-	-	72,084	72,084
Due to Head Office and branches abroad	75,001	-	-	-	46,036	121,037
Customers' deposits	4,791,419	1,403,229	1,999,180	242,574	5,577,089	14,013,491
Security deposits from customers	632,420	212,215	268,802	124,361	-	1,237,798
Other liabilities	-	-	-	-	477,045	477,045
Lease liability	2,948	2,948	5,897	7,625	-	19,418
Subordinated loan	-	-	-	375,664	-	375,664
<b>Total financial liabilities</b>	<b>5,501,788</b>	<b>1,618,392</b>	<b>2,273,879</b>	<b>750,224</b>	<b>6,172,254</b>	<b>16,316,537</b>



## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)****c) Market risk management**

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and bonds and shares prices. The Branches classify exposures to market risk into either trading or non-trading or banking books.

*(i) Market risk - trading books*

The Branches have set limits for the acceptable level of risks in managing the trading book. In order to manage the market risk in trading book, the Branches periodically assess the market risk positions held and also to estimate the potential economic loss based on a set of assumptions and changes in market conditions.

The Branches are exposed to fluctuations in equity price risk. The table summarises the impact on profit and loss and equity from changes in prices by +/-10%. The below analysis assumes that all equities move in parallel.

	<b>2022</b> <b>AED'000</b>	<b>2021</b> <b>AED'000</b>
Other financial assets measured at FVTOCI	<b>262</b>	<b>264</b>

*(ii) Market risk - non-trading or banking books*

Market risk on non-trading or banking positions mainly arises from the interest rate and foreign currency exposures.

*(iii) Market risk - interest rate risk management*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Branches are exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Branches use simulation-modeling tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by ALCO. Since most of the Branches' assets and liabilities are at floating rates, deposits and loans generally reprice simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced during the year, thereby further limiting interest rate risk.

The following table depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of comprehensive income or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at reporting date, including the effect of hedging instruments. The sensitivity of equity is analyzed by maturity of the assets or swaps. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**
**c) Market risk management (continued)**
*(iii) Market risk - interest rate risk management (continued)*

The interest rate risk as at 31 December is as follows:

<i>31 December 2022</i>	<i>Less than 3 months AED'000</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Non-interest sensitive AED'000</i>	<i>Total AED'000</i>
<b>Assets</b>						
Cash and balances with Central Bank	1,450,000	-	-	-	799,825	2,249,825
Deposits due from banks	1,333,396	-	-	-	650,609	1,984,005
Deposits and balances due from Head Office and branches abroad	69,778	-	-	-	36,729	106,507
Loans and advances, net	7,763,379	140,688	148,958	1,490,205	-	9,543,230
Other financial assets	2,072,588	1,188,913	565,045	682,813	2,622	4,511,981
Other assets	-	-	-	-	469,019	469,019
Right-of-use assets	-	-	-	-	13,320	13,320
Deferred tax assets	-	-	-	-	367,372	367,372
Property and equipment	-	-	-	-	5,246	5,246
<b>Total assets</b>	<b>12,689,141</b>	<b>1,329,601</b>	<b>714,003</b>	<b>2,173,018</b>	<b>2,344,742</b>	<b>19,250,505</b>
Customers' deposits	6,266,990	690,835	2,404,506	304,585	5,107,304	14,774,220
Security deposits from customers	310,682	171,396	202,659	117,490	326,725	1,128,952
Due to banks	-	-	-	-	156,627	156,627
Due to Head Office and branches abroad	112,000	-	-	-	24,296	136,296
Other liabilities	-	-	-	-	542,757	542,757
Lease liability	6,656	533	-	3,933	-	11,122
Provisions	-	-	-	-	70,945	70,945
Subordinated loan	-	374,595	-	-	-	374,595
Head Office equity	-	-	-	-	2,054,991	2,054,991
<b>Total liabilities and Head Office equity</b>	<b>6,696,328</b>	<b>1,237,359</b>	<b>2,607,165</b>	<b>426,008</b>	<b>8,283,645</b>	<b>19,250,505</b>
<b>On Balance Sheet gap</b>	<b>5,992,813</b>	<b>92,242</b>	<b>(1,893,162)</b>	<b>1,747,010</b>	<b>(5,938,903)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>5,992,813</b>	<b>6,085,055</b>	<b>4,191,893</b>	<b>5,938,903</b>	<b>-</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

(iii) *Market risk - interest rate risk management (continued)*

31 December 2021

	<i>Less than 3 months AED'000</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Non-interest sensitive AED'000</i>	<i>Total AED'000</i>
Assets						
Cash and balances with Central Bank	1,380,000	-	-	-	781,184	2,161,184
Deposits due from banks	837,427	-	-	-	783,873	1,621,300
Deposits and balances due from Head Office and branches abroad	138,320	-	-	-	48,238	186,558
Loans and advances, net	7,566,016	138,386	132,443	1,374,355	-	9,211,200
Other financial assets	1,961,458	871,984	132,218	994,119	1,461	3,961,240
Other assets	-	-	-	-	399,817	399,817
Right-of-use assets	-	-	-	-	24,116	24,116
Deferred tax assets	-	-	-	-	366,016	366,016
Property and equipment	-	-	-	-	7,851	7,851
<b>Total assets</b>	<b>11,883,221</b>	<b>1,010,370</b>	<b>264,661</b>	<b>2,368,474</b>	<b>2,412,556</b>	<b>17,939,282</b>
Customers' deposits	4,924,246	1,313,231	1,761,915	275,176	5,470,105	13,744,673
Security deposits from customers	252,415	295,728	247,244	124,153	291,558	1,211,098
Due to banks	-	-	-	-	72,084	72,084
Due to Head Office and branches abroad	75,000	-	-	-	46,035	121,035
Other liabilities	-	-	-	-	514,660	514,660
Lease liability	2,886	2,886	5,772	7,874	-	19,418
Provisions	-	-	-	-	30,105	30,105
Subordinated loan	-	374,595	-	-	-	374,595
Head Office equity	-	-	-	-	1,851,614	1,851,614
<b>Total liabilities and Head Office equity</b>	<b>5,254,547</b>	<b>1,986,440</b>	<b>2,014,931</b>	<b>407,203</b>	<b>8,276,161</b>	<b>17,939,282</b>
<b>On Balance Sheet gap</b>	<b>6,628,674</b>	<b>(976,070)</b>	<b>(1,750,270)</b>	<b>1,961,271</b>	<b>(5,863,605)</b>	<b>-</b>
<b>Cumulative interest rate sensitivity gap</b>	<b>6,628,674</b>	<b>5,652,604</b>	<b>3,902,334</b>	<b>5,863,605</b>	<b>-</b>	<b>-</b>

---

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)**

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

*(iii) Market risk - interest rate risk management (continued)*

The impact of 1% sudden movement in benchmark interest rate on net interest income over a 12-month period as on 31 December 2022 would have been an/(a) increase/decrease in net interest income by AED 4.2 million (2021: AED 2.8 million).

The average effective interest rate on bank placements was 1.25% % (2021: 0.23%), certificates of deposits with central bank was nil % (2021: 0.12%), on loans and advances 3.92% (2021: 3.16%), on customer's deposits 0.85% (2021: 0.64%) and on bank borrowings 2.82% (2021: 1.04%).

*(iv) IBOR Reforms*

A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates - RFR (referred to as 'IBOR reform'). The Bank has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiatives. The Bank has established a cross-functional IBOR Transition Working Group (referred to as 'IBOR Working Group') to manage its transition to alternative RFRs.

The Bank has continued to maintain its momentum in tracking its exposure to IBOR, restricting the use of IBOR indexes in its products, preparing its IT systems to accommodate the incoming RFRs, amending contracts / addendums and communicating progress with the regulators and clients.

The Bank has set up a methodical framework to monitor the progress of transition from IBORs to new benchmark rates by reviewing its exposure and contracts on a regular basis. The Bank considers that a contract is not yet transitioned to an alternative benchmark rate when interest under the contract is indexed to a benchmark rate that is still subject to IBOR reform, even if it includes a fall back clause that deals with the cessation of the existing IBOR.

The Bank holds derivatives for risk management purposes. Derivatives held for risk management purposes are designated in hedging relationships. The interest rate swaps have floating legs that are indexed to various IBORs. The Bank's derivative instruments are governed by ISDA definitions, and the Bank adheres to the ISDA 2020 IBOR fall back protocol and supplement.

Further, the Bank evaluated the extent to which its fair value hedging relationships are subject to uncertainty driven by IBOR reform as at the reporting date. The Bank's hedged items and hedging instruments continue to be indexed to IBOR benchmark rates, mainly USD 3 months LIBOR Index. The Bank monitors closely the developments occurring the transitioning IBOR rates and the RFRs. These IBOR benchmark rates are quoted regularly and IBOR cash flows are exchanged with its counterparties as usual.

The Bank has achieved readiness to transition the relevant portion of its IBOR exposure to RFRs and has in place detailed plans, processes and procedures to support the transition of the IBOR exposures prior to the its cessation. The Bank continues to communicate to the impacted customers with necessary information and price revision letters based on RFR effective 01 January 2022. Since 01 January 2022, RFR including SOFR are being used in the Bank's systems and for customer pricing.

**d) Foreign currency risk management**

Foreign currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The management has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branches manage exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its reporting and cash flows. The management sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

**33 RISK MANAGEMENT (continued)****d) Foreign currency risk management (continued)**

The Branches' net material risks from foreign currencies are as follows:

	<i>2022</i> <i>AED'000</i>	<i>2021</i> <i>AED'000</i>
USD	(5,877)	4,606
Sterling Pounds	(1,073)	(1,052)
Euro	(3,689)	2,355
Japanese Yen	(69)	1,980
Qatari Riyal	(1,052)	595
Other	16,024	(5,144)
<b>Net risk</b>	<b>4,264</b>	<b>3,340</b>

The Branches' management sets policies and limits for foreign currencies transactions and periodically monitors foreign currency risks.

The analysis below calculates the effect of a possible movement of the currency rate against AED, with all other variables held constant, on the income statement (due to the fair value of the currency sensitive non-trading monetary assets and liabilities) and equity (due to change in fair value of currency swaps and forward foreign exchange contracts used as fair value hedges). A positive effect shows a potential increase in income statement or equity; whereas a negative effect shows a potential net reduction in income statement or equity.

Currency exposure as at 31 December:

**31 December 2022**

	<i>Increase/decrease of 5%</i>	<i>Effect on profit</i>
		<i>AED'000</i>
Sterling Pounds	±5%	(3)
Japanese Yen	±5%	16
Euro	±5%	35
Others	±5%	(17)

**31 December 2021**

	<i>Increase/decrease of 5%</i>	<i>Effect on profit</i>
		<i>AED'000</i>
Sterling Pounds	±5%	(5)
Japanese Yen	±5%	19
Euro	±5%	35
Others	±5%	(30)

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 34 LEASES

The Bank has lease contracts for branches and ATM locations used in its operations. Leases of branches generally have lease terms between 3 and 5 years, while ATM locations generally have shorter lease terms between 1 and 2 years. The Bank's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Bank is restricted from assigning and subleasing the leased assets. There are several lease contracts that include extension and termination options, which are further discussed below.

The Bank also has certain leases for ATM locations with lease terms of 12 months or less and with low value. The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	2022 AED'000	2021 AED'000
<b>Right-of-use assets</b>		
As at 1 January (modified retrospective approach) (post modification)	24,116	27,962
Additions	-	6,832
Depreciation expense	(10,796)	(10,678)
<b>As at 31 December</b>	<b>13,320</b>	<b>24,116</b>

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022 AED'000	2021 AED'000
<b>Lease Liabilities</b>		
As at 1 January (modified retrospective approach) (post modification)	19,418	23,579
Additions	-	6,792
Accretion of interest	312	303
Payments during the year	(8,608)	(11,256)
<b>As at 31 December</b>	<b>11,122</b>	<b>19,418</b>

The maturity analysis of lease liabilities are disclosed under Liquidity risk management note.

The following are the amounts recognised in profit or loss:

	2022 AED'000	2021 AED'000
Depreciation expense of right-of-use assets	10,796	10,678
Interest expense on lease liabilities	312	303
Expense relating to leases of short-term and low-value assets (included in rent expenses)	8,665	8,506
<b>Total amount recognised in profit or loss</b>	<b>19,773</b>	<b>19,487</b>

The Bank had total cash outflows for leases of AED 8,296 thousand in 2022 (AED 10,953 thousand in 2021).

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised.

## NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2022

### 35 TAXATION

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

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

The Bank is currently in the process of assessing the possible impact on financial statements, both from current and deferred tax perspective, once the critical cabinet decisions are issued.