Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Habib Bank AG Zurich

United Arab Emirates

Annual Report 2023

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Report of the Management

We are pleased to submit this report and the audited financial statements of Habib Bank AG Zurich, United Arab Emirates ("UAE") branches (the "Branches" or the "Bank") for the year ended 31 December 2023.

Incorporation and registered offices

The Bank has been operating in the United Arab Emirates since 1974. The Bank has eight branches across the country in the emirates of Dubai, Abu Dhabi and Sharjah. The registered address of the Bank is PO Box 3306, Dubai, United Arab Emirates.

The Head Office of the Bank is Habib Bank AG Zurich ("Head Office") incorporated in Switzerland.

Islamic Banking Window "SIRAT" of Habib Bank AG Zurich - UAE Branches

Subsequent to year end, the Internal Shari'ah Supervision Committee of Habib Bank AG Zurich, UAE Branches, has concluded with reasonable level of confidence, that the Islamic Window SIRAT's activities are in compliance with Islamic Shari'ah. Islamic Banking window SIRAT maintains a separate set of financial records to ensure that the accounts for the Islamic business are completely segregated from HBZ's conventional funds. The bank's financial statements include the results of Islamic Banking Window "SIRAT" and key figures are separately disclosed in the notes of the financial statements.

Financial position and results

The financial position and results of the Branches for the year ended 31 December 2023 are set out in the accompanying financial statements.

During the year ended 31 December 2023, the Branches recorded total operating income of AED 768,068 thousand (2022: AED 522,937 thousand) and net profit after taxation of AED 386,655 thousand (2022: AED 221,028 thousand).

Signed on behalf of the Management

Jamaluddin Alvi

Chief Executive Officer

Date: 27 March 2024

HBZ
Group Network

Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

With over 150 years of tradition in banking and commerce, Habib Bank AG Zurich continues to provide a highly personalised service through its growing international network of branches and subsidiaries.

Habib Bank AG Zurich - Switzerland | UAE | UK | Kenya
Habib Metropolitan Bank - Pakistan
HBZ Bank Limited - South Africa
Habib Canadian Bank - Canada
Habib Bank Zurich (Hong Kong) Limited - Hong Kong
Representative Office - China | Bangladesh | Turkiye

About us

Habib Bank AG Zurich ("HBZ", "Parent Bank") was incorporated in Switzerland in 1967 and is privately owned. The Habib family has been actively involved in banking for over 75 years. HBZ is the heir to a rich tradition of commerce and banking dating back to 1841. The international banking and financial community respects HBZ for its conservative approach and its emphasis on high liquidity. The excellent reputation that the bank enjoys today is mainly due to its long tradition, international experience and a team of dedicated professionals who offer personal, friendly and efficient service.

As a Swiss incorporated bank, we offer a high level of confidentiality and strict adherence to the rules and regulations of the FINMA and several other international banking regulators.

With over 90 years of banking tradition, HBZ is positioned as a leading international bank, providing business and personal financial services, with a focus on owner-operated enterprises across the globe. This is deeply rooted in its core values of trust, integrity, commitment, respect, responsibility and teamwork as well as in its vision and mission statements:

Vision

To be the most respected financial institution based on trust, service and commitment.

Mission

To be the 'Bank of Choice' for family enterprises across generations.

Our Motto

Service With Security.

With its Head Office in Zurich, the Bank has branch operations in the United Arab Emirates (including DIFC branch) and Kenya. The Bank has subsidiaries in Canada, Hong Kong, the United Kingdom, the United Arab Emirates, Pakistan, South Africa and Switzerland, in addition to having representative offices in China, Bangladesh and recently established in Turkiye. The Group's operations are supported by its own service companies. The Group is active in commercial banking, retail banking, trade finance and wealth management offered through both conventional and Islamic banking platforms.

Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Core Values

TRUST

RESPOSIBILITY

COMMITMENT

RESPECT

TEAMWORK

INTEGRITY

Our Values are our moral compass and guide our working practices & all interactions. Trust, Integrity & Respect are the most valuable assets that we offer to our customers and thus we are blessed with longstanding relationships.

We are deeply committed to serving the best interests of our customers & our inherent sense of responsibility is further demonstrated by our strict adherence to the regulations of FINMA.

Based on our principles of a conservative approach with high emphasis on liquidity, we are looking forward to the next 50 years of continuous excellence in banking.

Parent Bank

Bank has the following internal governing bodies:

- General Meeting of Shareholders
- Board of Directors (BoD)
- Management
- External Company Law Auditors.

As per Articles of Association, Board appoints and defines roles/responsibilities of the Audit, Risk and Control Committees. The management and supervision of the Bank's branch network's activities is ensured besides the Head Office by Country, Area, and Branch managers.

a. Major share ownership and voting rights

HBZ is incorporated in Switzerland as a Bank and Securities Dealer, duly regulated by the FINMA. The Bank is held through a Swiss holding company, Gefan Finanz AG ("Gefan"). All of the shares of Gefan are held by a trust, The Habib Bank AG Zurich Master Trust (the "Master Trust"). The Master Trust has 4 beneficiaries which are 4 family trusts. Credit Suisse Trust Limited, Guernsey, acts as trustee for all the trusts in the overall structure. The primary beneficiaries/protectors of the 4 family trusts are: Muhammad H. Habib, Zahida Habib, Rafiq M. Habib and Fatemah Habib Gokal.

The above trust structure has been reviewed and approved by the FINMA.

The members of BoD are responsible for the overall supervision of the Bank.

b. Parent Company Board of Directors

- **Elections and Terms of office**

  In accordance with the Articles of Association, all members of the BoD are elected individually at the Annual General Meeting. The members of the BoD are elected for a period of three years (the period from one ordinary Annual General Meeting to the next is considered to be one year). The members of the BoD may be re-elected. The BoD constitutes itself. It elects from among its members the Chairperson and one or several Vice-Chairpersons. The term of office for the Chairperson and Vice-Chairpersons coincides with the term of office as member of the BoD. The BoD appoints the members of the BoD committees, their respective chairpersons and the Group Company Secretary. At least one third of the members of the BoD must meet the independence criteria.

- **Organizational principles and structure**

  According to the Articles of Association and the Organizational Regulations, the members of BoD meet as often as business requires, but at least four times per year. At every BoD meeting, the President and the Group CEO provide the BoD with a business update, and each committee chairperson provides the members of BoD with an update on current activities of his or her committee as well as important committee issues. At least once per year, the BoD reviews its own performance as well as the performance of each of its committees. This review seeks to determine whether the BoD and its committees are functioning effectively. These committees assist the BoD in the performance of their duties.

» **Members of Board of Directors**

Name	Board of Directors	Audit Committee	Risk & Control Committee
Dr. Andreas Länzlinger	Chairman		Member
Urs W. Seiler	Vice-Chairman	Member	Member
Roland Müller-Ineichen	Member	Chairman	
Michael Schneebeli	Member	Member	
Ursula Suter	Member		Chairwoman

c. General Management

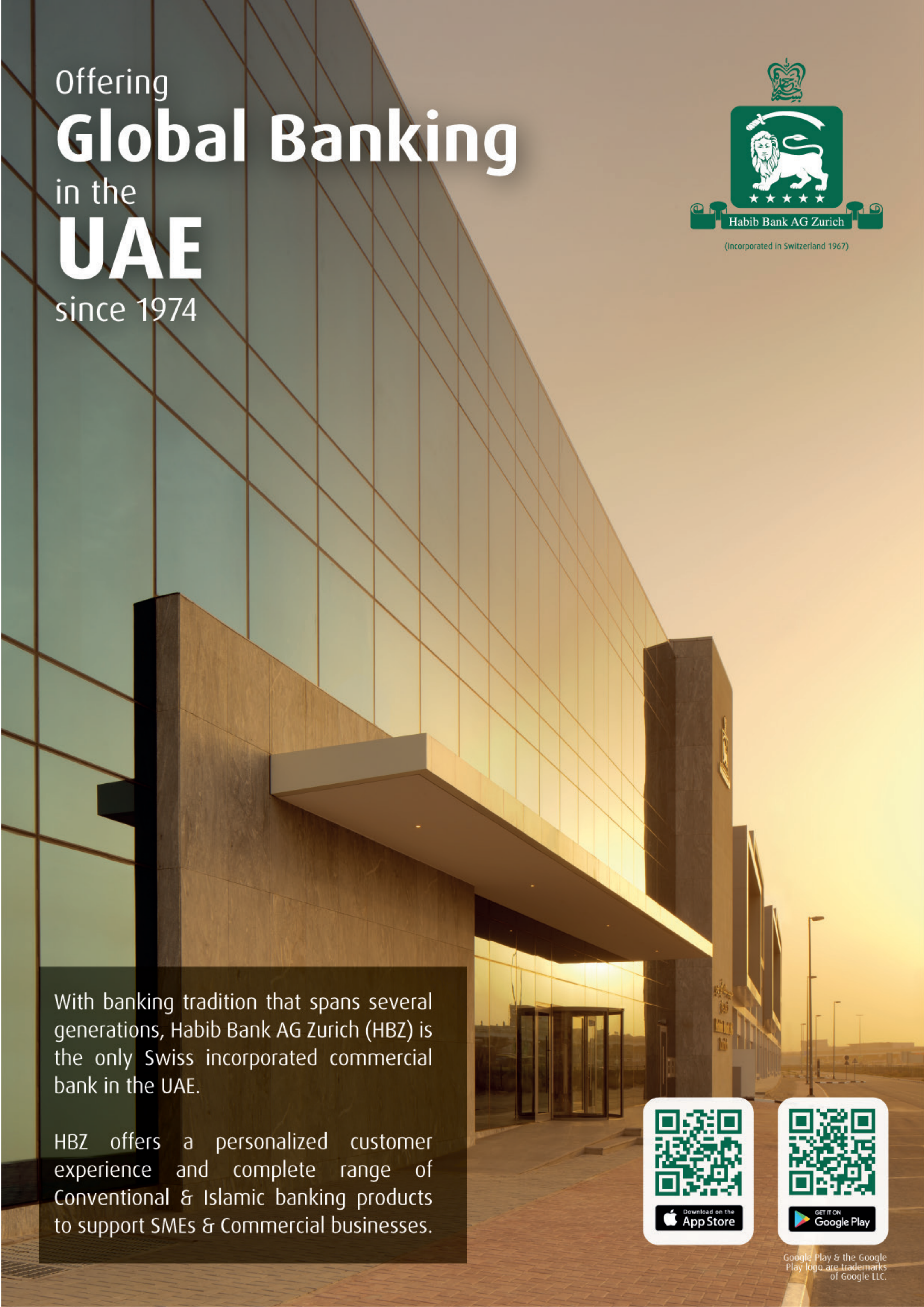
Habib Bank AG Zurich operates under a dual board structure, as mandated by Swiss banking law, which stipulates that no members of the BoD may be members of the General Management (GM). The BoD delegates the management of the business to GM that comprises of at least three members appointed by the BoD.

Under the leadership of the Group CEO, GM is entrusted with management and planning activities of the Group with respect to organization, business development and expansion. GM is responsible for the direction of day-to-day operations of the Group and bears overall responsibility for decisions and instructions issued in this regard.

» **Members of General Management**

GM consists of two members of the Habib family and four non-family members. The majority of the members of GM have residency in Switzerland.

Name	Function
Muhammad H. Habib	President
Mohamedali R. Habib	Group CEO
Rajat Garg	Member of General Management and Head of Developed Markets
Anjum Iqbal	Member of General Management and Head of Emerging Markets
Walter Mathis	Member of General Management and Head of Shared Services
Arif Usmani	Member of General Management and Group Chief Risk Officer



Offering
Global Banking
in the
UAE
since 1974
Habib Bank AG Zurich
(Incorporated in Switzerland 1967)
With banking tradition that spans several generations, Habib Bank AG Zurich (HBZ) is the only Swiss incorporated commercial bank in the UAE.
HBZ offers a personalized customer experience and complete range of Conventional & Islamic banking products to support SMEs & Commercial businesses.
Download on the App Store
GET IT ON Google Play
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UAE Operations

a. Network of branches

The Habib Bank AG Zurich, UAE Branch («HBZ-UAE» or «The Bank») has been licensed by the CBUAE to perform banking activities in the UAE and is in business since 1974. It operates eight (8) branches in the following locations:

- Dubai - 6
- Sharjah - 1
- Abu Dhabi - 1

b. Corporate Governance

Corporate Governance is the set of relationships between the management, Board, shareholders and other stakeholders of HBZ-UAE, which provides the structure through which the objectives of the Bank are set, and the means of attaining those objectives and monitoring performance. It helps define the way authority and responsibilities are allocated and how corporate decisions are made.

Corporate governance also provides the structure, through which, the objectives of the Bank are set, and the means of attaining those objectives and monitoring performance are determined. Effective corporate governance is not an end; it is a means to the proper functioning of a financial institution. HBZ's safety and soundness are key to its financial stability and the way it conducts its business; therefore, it is central to creating market confidence and business integrity.

HBZ-UAE strongly believes that good corporate governance complements and significantly helps its long-term business success. This success has been the direct outcome of the HBZ's key business strategies, including the commitment of the Local Management to the quality, integrity and transparency of its financial reports.

c. Governance framework

The corporate governance framework of HBZ-UAE is illustrated as follows:

COUNTRY MANAGER		
FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
COMMITTEES UAE BRANCH		INTERNAL AUDIT FUNCTION
BUSINESS LINE MANAGEMENT	COUNTRY FINANCIAL CONTROL FUNCTION	
	COUNTRY LEGAL & COMPLIANCE FUNCTION	
	COUNTRY RISK CONTROL FUNCTION	
	COUNTRY CREDIT FUNCTION	
	COUNTRY OPERATIONAL RISK FUNCTION	
	COUNTRY HUMAN RESOURCES FUNCTION	
ISLAMIC BANKING - WINDOW	SHARI'AH CONTROLLER	SHARI'AH AUDIT

d. Committee structure and description

HBZ–UAE has two (2) specialized committees at Senior Management level (i.e EXCO and ISSC) and five (5) committees as a part of its local governance structure. Committee meetings are held regularly, meeting the quorum requirements.

The structure of HBZ-UAE's committees are set forth as follows:

Committee Frequency / Roles		CEO	CRO	COO	CCO	CFO	ZCO	Head of HR	Head of Treasury	Head of Corp. Banking	Others
EXCO	Bi-monthly	Chair	Member	Member	Member	Member	Member	Member	Member	Member	Head of GIA (Member) Head of Distribution (Invitee) Branch Managers (Invitee)
CRMC	Quarterly	Member	Chair	Member	Member	Member	Member				
CLCC	Quarterly	Member	Member	Member			Chair			Member	Head of GLC (Member)
CALC	Quarterly	Member	Member		Member	Member			Chair		Head of Distribution (Invitee)
CHRC	Quarterly	Member		Member		Member	Member	Chair			
CCMC	Ad-hoc	Chair		Member	Member						Head of Distribution (Member) Branch Managers (Member)
ISSC	Quarterly	ISSC members and Key members of HBZ-UAE Senior Management.									

» **Chief Executive Officer**

CEO is assisted in his duties by a specialized and highly qualified team of Senior Executive Management, who are responsible and accountable for the sound and prudent day-to-day management of the Bank. The team, generally includes, but not limited to, the CEO, COO, CFO, CRO, ZCO and Internal Audit function. HBZ-UAE also considers its Branch Managers and selected departmental heads as Senior Management.

The CEO relies on a number of internal committees in the execution of his functions.

» **Country Executive Committee**

The EXCO comprises of the Senior Management of the UAE Operations and functions similar to the BoD, as mandated by the CBUAE under the Corporate Governance regulations.

The EXCO addresses topics / areas of management, structure, organization, communication and implementation of current and future strategies.

The purpose of the EXCO is to develop and implement strategies, operational plans, technology and Information Security related policies, procedures and budgets; monitor operational and financial performance; assessment and control of risk; prioritize and allocate resources; and monitor competition in each area of operation.

» **Country Risk Management Committee**

The CRMC's objective is to oversee the risk management framework, systems, practices and procedures to ensure that the inherent enterprise risk is in line with the risk appetite statement. Moreover, the Committee shall consider any matters relating to the identification, assessment, measurement, monitoring and control or management of risks associated with the operations of the Bank.

» **Country Legal and Compliance Committee**

The CLCC is primarily a decision-making body for executing the Compliance strategies of the Bank and managing the inherent risks within the defined risk appetite thresholds. Compliance Committee reviews all matters relating to the identification, assessment, measurement, monitoring and control or management of Compliance risks associated with the Bank, with a special focus on Money Laundering, Terrorist Financing and Financial Crime risk.

» **Country Asset and Liabilities Committee**

The CALC is responsible for monitoring all treasury activities, interest rate risk, liquidity, and foreign exchange risks across HBZ and reviews and recommends strategies, policies and procedures relating to assets & liabilities management across HBZ, including reporting to the EXCO, as and when required. The Committee is also responsible for ensuring compliance with treasury limits and ratios approved by the EXCO and required by the CBUAE.

» **Country Human Resource Committee**

The CHRC is responsible for employee hiring, career development, retention plan, HR Budget, employment policies, comply with the statutory and regulatory requirements, including Emiratization and staff training & development.

» **County Credit Management Committee**

The CCMC is primarily the decision-making body within the Country to review and approve types of credit facilities for single and group counterparties and includes all matters with regards to non-performing loans. The Committee has the authority to decide local policies, processes, guidelines, controls, system changes, staffing needs or actions needed to manage Credit Risk at the country level. At present there are three Credit Committees in the UAE, which are:

- Area Credit Committee
- Zonal Credit Committee -1
- Zonal Credit Committee -2

These Credit Committees function through the electronic work flow on HBZ-UAE's operating platform. For the electronic workflow, comments of the relevant member will count as the quorum requirement.

- **Internal Shari'ah Supervision Committee**

  ISSC comprises of scholars specialized in Islamic financial transactions, which independently supervises transactions, activities, and products of the Bank. ISSC also ensures that the Bank is in overall compliance with Islamic Shari'ah laws and regulations in all its relevant objectives, activities, operations and code of conduct.

  ISSC - Constitution:

Name	Function
Professor Jassim Al Shamsi	Chairman
Dr. Mohammed al-Hashimi	Member
Mufti Talha Saleem	Executive Member

- **Audit Committee**

  The BoD of HBZ has established an Audit Committee at the Head Office to study and review accounting procedures, financial reporting, internal audit and internal controls. The Audit Committee receives and considers internal and external audit reports, findings and recommendations for all group entities including the HBZ UAE branches (the Bank).

  The Audit Committee comprises of three Independent, Non-Executive Directors and meets at least twice in a year:

Name	Function
Roland Müller-Ineichen	Chairman
Urs W. Seiler	Member
Michael Schneebeli	Member

Members of Governance Committees

Members of the HBZ-UAE EXCO hold personal primary responsibility to comply with the regulatory requirements.

EXCO Members, as a group, have the necessary qualifications, skills and diversity to perform all duties and together possess financial literacy, experience in banking, risk management, legal and compliance matters relating to the financial industries, international experience, including experience of international financial matters, and knowledge of the duties of directors.

Individuals are considered for nomination as members of EXCO, on the basis of:

- Their experience (eg. banking, legal and compliance, risk management and international experience) relevant to the business of the Group;

- Their diversity of viewpoints, professional backgrounds and track records;
- The relevance of their expertise, skills, knowledge and experience to the work of the Committee to which they are appointed;
- The extent to which their judgment, character, expertise, knowledge and experience will interact with other members of EXCO to build an effective and complementary EXCO and, where relevant, with other members of a Committee to build an effective and complementary Committee;
- The ability and willingness to commit adequate time to EXCO matters; and
- Whether existing memberships or other positions held by a candidate could lead to a conflict of interest.

Executive Committee / Key Members of Senior Management

Jamaluddin Alvi

British, born 1962
Chief Executive Officer
Chairman of Country Executive Committee and Country Credit Management Committee

Professional history and education

Jamaluddin Alvi is a seasoned banker with over 34 years' experience having covered varied geographies and roles across Asia and Europe. He has been based in the UAE since 2005 with primary oversight of the SME/Commercial and Consumer/Retail segment across Risk and Business with leading Banks. Before his current assignment as CEO of Habib Bank AG Zurich UAE (since 2017), he was with Abu Dhabi Islamic Bank (2010-2017), Standard Chartered Bank (2005-2010) and Citibank (1994-2005).

This mix of experiences across Local and International Banks, Conventional and Islamic, SME/Commercial and Consumer/Retail and functions of Risk and Business - have helped gain insights into the SME environment and the desire to work with key stakeholders to help shape the future of the SME economy. He is a chartered accountant from Institute of Chartered Accountants of Pakistan (ICAP) and holds a bachelor degree in Commerce.

Saleh M Abubaker

Pakistan, born 1965
Chief Risk Officer
Chairman of the Country Risk Control Committee

Professional history and education

Saleh M Abubaker started his banking career with Habib American Bank (HAB) in New York in 1991 after completing his MBA. In 1997 he joined Habib Bank AG Zurich UAE as the Head of Financial Institutions. In his past 26 years with the Bank, he has also headed Operational Risk and Transactions Banking Unit.

He holds Masters in Business Administration (MBA) in Finance from the University of St. Thomas in Houston and Bachelor's degree from the University of Houston (Downtown), Houston.

Awais Hassan

Pakistan, born 1966
Chief Operating Officer

Professional history and education

Awais Hassan has 30 years of Banking experience. He is with Habib Bank AG Zurich UAE for over two decades and has worked at many senior management positions.

Prior to joining Habib Bank AG Zurich in UAE, he has worked with Faysal Bank Ltd (formerly Faysal Islamic Bank of Bahrain) in Pakistan. In Faysal Bank Ltd, his last assignment was Unit Head in Corporate Banking Group & a Member of Regional Risk Management Committee. He holds MBA from University of Management Sciences (LUMS), Pakistan and BSc in Mechanical Engineering from University of Engineering & Technology (UET), Pakistan.

Nauman Khan

Pakistan, born 1977
Chief Credit Officer
Member of the Country Credit Management Committee

Professional history and education

Nauman Khan has 21 years of banking experience. Prior to joining Habib Bank AG Zurich, he had worked at Abu Dhabi Islamic Bank as Head of Business Banking Risk and Barclays covering Credit Policy, Collections & Recoveries and Capital Management.

Earlier he was managing Credit Policy and Underwriting for Consumer & SME at Standard Chartered Bank and has worked in Corporate Banking at Citibank. He holds MBA from LUMS, Pakistan and Copenhagen Business School, Denmark. He also holds a Bachelor's degree in Chemical Engineering.

Sameer Mirza

Indian, born 1976
Head of Compliance & Legal
Chairman of the Country Legal & Compliance Committee

Professional history and education

Sameer Mirza has 23 years of banking experience, having worked in various disciplines primarily Regulatory Compliance, Financial Crime & Anti-Money Laundering including Financial Control & recently taking the responsibility of the Bank's Legal function. He is responsible for the oversight and implementation of the Corporate Governance framework of the Bank. He is designated as the Money Laundering Reporting Officer (MLRO) of the Bank with the CBUAE and the Securities & Commodities Authority (SCA) of the UAE.

He also acts as the Data Protection Officer of the Bank and is registered as the Responsible Officer (RO) of the Bank with the Internal Revenue Services, USA. Sameer Mirza studied Master of Laws from University of Middlesex, UK and Master of Business Administration (Finance) from University of Cardiff, UK. He is a Certified Anti-Money Laundering Specialist (CAMS) and Certified Compliance Officer from American Academy of Financial Management.

Vaibhav Thombre

Indian, born 1978
Chief Financial Officer

Professional history and education

Vaibhav Thombre has 21 years of banking experience, having lead Finance, Strategy and Internal Control areas. Vaibhav holds a Masters' Degree in Business Administration (MBA), having majored in Finance from Victoria University and CPA from Australia.

Hamza Habib

Swiss, born 1987
Head of Corporate Banking

Professional history and education

Hamza Habib is the Head of Corporate Banking at Habib Bank AG Zurich, UAE. He has 14 years of banking experience and has held various positions within the HBZ Group. He was formally the Head of Business and Alternate Chief Executive for HBZ-HK. He is a member of the BoD at HMB, Pakistan and HBZ-HK. Hamza Habib joined the Bank in 2011 in the UAE, prior to which he spent two years with Standard Chartered Bank (SCB) in Geneva and London as a credit analyst and client service officer, for SCB Private Bank.

Hamza Habib graduated from Babson College in Wellesley, Massachusetts (USA) in 2009, with a Bachelor of Science in Business Management. He is qualified as a Certified Director from the Pakistan Institute of Corporate Governance (2020).

Watfa Abdulkarim Mohammed

Emirati, born 1985
Head of Human Resources
Chairwomen of the Country Human Resources Committee

Professional history and education

Watfa Abdulkarim Mohammed has 16 years of experience. Prior to joining Habib Bank AG Zurich, she had worked at National Bank of Bahrain (NBB) as Head of HR and National Bank of Fujairah Heading Emiratization & HR Business Partnering. She holds Level 5 Chartered Institute of Personnel and Development from Pricewaterhouse Coopers Academy (PWC) and graduated of Science in Information System and Technology Management from The Higher College of Technology.

Sharjeel Hassan Vijdani

Pakistan, born 1970
Head of Treasury
Chairman of the Country Asset & Liability Committee

Professional history and education

Sharjeel Hassan Vijdani has 30 years of varied experience in the field of Treasury, Investments, Corporate Finance & Trade, Risk Management (credit) and Private banking. Prior to joining Habib Bank AG Zurich, he was with Bank of Punjab, Pakistan and United Arab Bank, Dubai covering relationship management, Credit & Trade Finance

Sharjeel holds a Masters' Degree in Business Administration (MBA) from Pak Aims, Pakistan and has completed his DAIBP banking diploma.

Haroon Ahmad

Pakistan, born 1975
Head of Group Internal Audit

Professional history and education

Haroon is Fellow member of the ICAP, Associate member of the ICAEW, recipient of the President of Pakistan Scholarship/Gold medal for Top position at the High School, and Gold Medal from the ICAP.

His international experience spans three decades with proven leadership proficiency in Internal Audit, Risk Management, AML/Due Diligence, Regulatory Compliance, Corporate Governance, and Strategic Business Planning. He is an active trainer and has spoken at various Forums as Subject Matter Expert on Internal Audit. Haroon started his journey with Habib Bank AG Zurich Group in 2003 and after holding various position in Pakistan and UAE, he was appointed by the BoD as SEVP/Head of Group Internal Audit in 2016 based in Dubai, UAE.

Internal Audit

The Group Internal Audit (GIA) function has been established by the BoD as an independent, objective assurance and consulting activity designed to add value to its operations, and to help the Group accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Head of GIA reports directly to the Chairman of the BoD and the Audit Committee of HBZ, who also acts as the Head of HBZ-UAE Internal Audit function, duly accepted by the CBUAE. The Head of GIA is a permanent attendee at the Audit Committee and a member by invitation at the HBZ-UAE's Executive Committee as part of its senior management.

Internal Audit is structured as a fit-for-purpose audit function to meet the size, complexity and risk profile of the Bank. The internal auditors have requisite skills, qualifications and expertise for conducting the Bank's internal audit activities including specialized audits of Information Technology, Information & Cyber Security, AML/ Due Diligence, Regulatory Compliance, Credit Risk Review, Trade Finance, General Banking Operations and Customer services. Internal audit also has a dedicated Shari'ah Internal Auditor as required by the Shari'ah Governance Framework issued by the CBUAE.

All internal auditors operate independently from the day-to-day operational business processes with an unlimited right of access, information and audit.

The compensation system for internal auditors does not include any incentives that could lead to conflicts of interest.

It is mandatory for all internal auditors to comply with the code of ethics of the Institute of Internal Auditors, USA (IIA). The code of ethics states the principles and expectations governing the behaviour of internal auditors in the conduct of internal auditing. It describes the requirements for conduct, and behavioural expectations rather than specific activities under the headings of integrity, objectivity, confidentiality and competency.

Internal Audit has been independently reviewed and certified by PriceWaterhouseCoopers Switzerland in January 2020 to 'Generally Confirm' to the relevant standards issued by the IIA. The external certification is repeated every five years.

Internal Audit Engagements performed during the year

An industry-standard risk-based audit approach is followed, whereby auditable entities with medium or high audit risks are audited each year, whereas entities with lower risks are audited once in 2 years.

As per the approved audit plan for the period April 2023 to March 2024, 19 internal audit engagements were planned of which 16 have been completed during the year. These include the audit of 3 branches and 16 Management Functions (including Centralized Operational & Transactions Processing functions, Financial Control, ICAP review, Wealth Management function, Compliance with the Information Security standards issued by the UAE's National Electronic Security Authority and compliance with the Consumer Protection Regulations and Standards issued by the Central Bank of UAE, Treasury and Investments, Loans and Advances and Anti-Money Laundering Measures. Audit of branches were conducted on a surprise basis. These engagements resulted in satisfactory audit conclusion and internal audit has not encountered any high-risk audit findings during these audits. Furthermore, 3 engagements i.e. Internal Controls over Financial Reporting, Access Controls review and Corporate Governance Regulation review are in progress for completion by the end of Q1-2024.

In addition, 5 special focus engagements were conducted during the year, 3 of these related to the Quarterly review of Basel Pillar III, 1 related to Independent validation of Compliance to the observations raised by CBUAE and the 5th one is on compliance review with FATCA requirements. These engagements resulted in satisfactory audit conclusion and the HBZ-UAE is in compliance with these requirements. Further, there are 2 additional special focus reviews, namely Model Risk Management and fourth quarter review of Basel Pillar III, planned for Q1-2024.

At the end of each audit, a formal internal audit report is issued and circulated to the Bank's Senior Management. Management actions on all audit findings are tracked for remediation and related summary updates are shared with the Bank's senior management on a periodic basis.

At least twice each year, the Audit Committee is presented with the overall status of the audit plan achievement, key audit findings and related actions.

Incentive and compensation policy

a. Compensation framework

The compensation framework is designed to be transparent and supports the Bank's business strategy. It allows the Bank to attract and retain key talent by maintaining a salary structure that is competitive towards the external job market while maintaining an internal equity ad consistency across the diverse functions of the Bank. It motivates staff to perform at the best of their competencies, abilities and skill sets, retain key talent, reward high performing staff members and provide the foundation for a performance-based pay culture.

The Bank's compensation framework is based on the following principles and rules:

» Cost management, affordability, market considerations, Bank performance and need for expertise shall be taken into account in establishing reward levels and spend.

» Overall compensation structure shall be determined based on country's market data, determined against a suitable peer group of banks and using well-established benchmarking tools as and when decided by the HR Committee.

» The pay system is merit-based, and pay increases and awards are allocated on the basis of demonstrated performance and tenure of service.

» Performance bonus payments, if applicable, shall be restricted to higher levels of individual performance based on individual objectives, Key Performance Indicators, organizational unit's performance and Bank's performance. All performance bonus payments shall have prior approval of GM on recommendation of CEO & Group Head HR, to be done transparently and tabulated on periodic intervals during the year.

» All reward and benefit arrangements shall fully comply with the UAE labour laws and applicable regulatory requirements.

b. Material Risk Takers

MRT are those senior management staff whose work is deemed to have significant impact on the overall Risk Profile of the Bank. Errors in decision-making by MRTs could have a potential impact on reputational and compliance risk of the Bank. List of MRTs include:

» Chief Executive Officer

» Head of Distribution

» Head of Corporate Banking

» Head of Legal & Compliance

» Chief Credit Officer

» Head of Treasury

» Chief Operating Officer

» Chief Risk Officer

» Chief Financial Officer

» Head of Human Resources

» Branch Managers

c. Salary structure

The standard salary structure across the Bank comprises of basic, allowances and three fixed payouts. Allowances are not considered to be part of the gross salary for computation of any other benefit and may be withdrawn in case of job assignment changes, subject to the UAE laws and regulations. Fixed payout equivalent to one basic salary is given as per management discretion thrice a year.

Variable bonus payout with a deferred portion is designed for MRTs only based on Performance ratings with a deferred payment plan over three years period.

d. Key Management compensations

	Amount (in AED)
Short term employment benefits	5,057,081
Post – employment benefits	198,624

The above compensation is for the CEO, CRO and CFO of HBZ-UAE for the Year 2023.

Risk exposures and Risk Management strategies

The core business of the Bank is long established, with risk levels easily identifiable and well known to the management. Comprehensive limits are established which are changed from time to time by Board resolutions. The overall risk position is evaluated at Head Office from the standard monthly reporting of the branches and compliance with Bank limits monitored on a regular basis. Measurement is based on compliance with limits and/ or by means of risk weightage as defined for capital adequacy purpose by the CBUAE and the BIS.

HBZ-UAE is exposed to the following risks:

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

The Bank engages in new, large-scale business operations only where the BoD has approved limits for such transactions. This approval will only be given after submission of a report by the management setting out the purpose and composition of the proposed product or transaction, together with a clear analysis of the anticipated profitability, resources required and the risks involved. Limits are set taking into account the BIS risk weightage and the guidelines of the CBUAE. The Board has also set discretionary limits for management below which level minor, non-recurring transactions may be made, or new products tested on a limited basis, without referral to the Board.

Kindly refer to Disclosure Note '32' of these Financial Statements for further details on 'Risk Management'

Related Party Transactions

Transactions with Related Parties are not undertaken on more favorable terms (e.g. credit assessments, tenor, interest rates, fees, amortization schedules, requirements for collateral, etc.) than corresponding transactions with non-related counterparties.

HBZ-UAE has in place policies and processes to identify both the individual and total exposures to transactions with Related Parties. HBZ-UAE monitors and reports these exposures via an independent credit review and / or audit process. All such transactions (including internal Group transactions) are conducted at arms-length. Transactions with Related Parties and the write-off of Related-Party exposures - exceeding specified thresholds or otherwise posing particular risks – are escalated to EXCO.

Kindly refer to Disclosure Note '28' of these Financial Statements for details on 'Related Party Transactions'.

Forward looking statements and foreseeable risk factors

An important component of our risk management approach is to ensure that top and emerging risks, as they evolve, are identified, managed, and incorporated into our existing risk management assessment, measurement, monitoring and escalation processes and addressed in our risk frameworks and policies. These practices are intended to ensure a forward-looking risk assessment is maintained by the management in the course of business development and as a part of the execution of ongoing risk oversight responsibilities.

Top and emerging risks are discussed by the senior management on a regular basis. These risks encompass those that could materially impact our financial results, financial and operational resilience, reputation, business model, or strategy, as well as those that could potentially materially impact us as the risks evolve. In our spectrum following represent our top and emerging risks:

» **Economic and Business Environment**

Our financial results may be affected to varying degrees by the general business and economic conditions in the geographic regions in which we operate. These conditions may include factors such as the level of business investment and the overall business sentiment, the level of government spending as well as fiscal and monetary policy, the levels of activity in the real estate sector, volatility of the financial markets, supply chain challenges and labor shortages affecting certain sectors, inflation, etc. During 2023 rapidly increasing interest rate environment to manage inflation was a challenge. It was effectively managed by close monitoring of the loan and investment portfolios. Going forward, the Bank expects decline in the interest rates and has made suitable risk-mitigation plans. Key economic events are reviewed on a regular basis by the relevant committees for any adjustment in the strategy, as and when required.

» **Information technology and cyber risks**

Information technology (IT) and cyber risks remain one of the top risks, not only for the financial services sector, but for other industries worldwide. Bank has deployed adequate measures to counter risks arising from cyberattacks, data breaches, cyber extortion and similar compromises. The Central Bank of the UAE plays an active role in coordinating with banks on potential cybersecurity threats by providing insight on the potential threats to combat cybercrimes. The Bank continues to remain fully compliant with NESA requirements.

- **Digital advancement and disruption**

  Demand for digital banking services has increased, and while this represents an opportunity for us to leverage our technological advantage, the need to meet the rapidly evolving requirements of clients and compete with non-traditional competitors has increased our strategic and reputational risks.

  We encounter additional risks as demographic trends, evolving client expectations, the increased power to analyze data and the emergence of disruptors are creating competitive pressures across a number of sectors. Moreover, established technology companies, newer competitors, and regulatory changes continue to foster new business models that could challenge traditional banks and financial products. In 2023, Bank was a participant in the pilot program of Aani, a payment platform introduced by the Central Bank of the UAE. This is a testimony of Banks commitment towards improving the landscape of digital banking within the country. We employ state of the art technologies to combat money laundering including trade-based money laundering risks.

  Finally, while the adoption of new technologies, such as AI and machine learning, presents opportunities for us, it could result in new and complex strategic, reputational, operational, regulatory and compliance risks that would need to be manage effectively.

- **Geopolitical uncertainty**

  Trade and political tensions between leading economies of the world continue to affect the global economic growth. Ongoing regional and international conflicts are closely monitored and accordingly corrective measures will be put in place, if required, to offset the implications on our business and strategy.

- **Regulatory changes**

  Compliance with new and revised regulations on the Conventional and Islamic Banking remains the primary focus of the Bank. The new regulations covering Model Risk Management, Credit Risk Management, Anti-Money Laundering, Climate Change and Consumer Protection are expected to remain high on regulator’s agenda in 2024.

Islamic Banking

a. SIRAT Islamic banking window of HBZ-UAE

The Bank is authorized by the Higher Shari’ah Authority (HSA) of Central Bank of the UAE since 2016 to offer Islamic Banking business in the country through an Islamic window. The Islamic Banking business of the Bank (‘SIRAT’) is additionally governed by the fatwas, resolutions, standards, and regulations issued by the HSA and an independently appointed ISSC.

SIRAT’s Islamic banking activities are conducted in accordance with principles of Islamic Shari’ah as interpreted by an independent ISSC as well as the standards and resolutions issued by the HSA of the CBUAE. SIRAT’s activities are also supervised by the ISSC.

The ISSC is the final authority within the Bank regarding all Shari’ah-related matters. It operates in accordance with the resolutions, standards and guidelines issued by the HSA. As per the HSA resolution SIRAT follows Shari’ah Standards issued by the AAOIFI.

SIRAT's Shari'ah internal governance framework is based on a "three lines of defence" approach as set out in the standards and regulations issued by the CBUAE. While business acts as the first line of defence, an independent and separate Internal Shari'ah Control Department (ISCD) headed by the Head of ISCD is the second line of defence, and it implements and oversees the Shari'ah governance at SIRAT. A separate and independent Internal Shari'ah Audit Department headed by the Head of Internal Shari'ah Audit, being the third line of defence, undertakes the Shari'ah review and audit of the Islamic products and services offered by Bank through Islamic Banking window SIRAT.

b. Duties Fulfilled by the ISSC During the Financial Year

The ISSC conducted Shari'ah supervision of the HBZ-SIRAT UAE's Activities by reviewing and monitoring them through its in-house Internal Shari'ah Control Department and Internal Shari'ah Audit Department, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard.

The ISSC's activities included the following:

- Convening five (5) meetings during the year.
- Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.
- Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, and documentation submitted by the HBZ-SIRAT UAE to the ISSC for approval.
- Supervision through the Internal Shari'ah Control Department and Internal Shari'ah Audit Department of the HBZ-SIRAT UAE's Activities including supervision of executed transactions and adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
- Providing guidance to relevant parties in the HBZ-SIRAT UAE– to rectify (where possible) incidents cited in the reports prepared by Internal Shari'ah Control Department and Internal Shari'ah Audit Department – and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.
- Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
- Communicating with the EXCO and its subcommittees, and the senior management of the HBZ-SIRAT UAE (as needed) concerning the compliance with Islamic Shari'ah.

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

The ISSC confirms that it carried out all of its duties independently and with the support and cooperation of the senior management and the Country Management Committee of HBZ-UAE. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

Premised on information and explanations that were provided to ISSC with an aim to ascertain compliance with Islamic Shari'ah, the ISSC concluded with a reasonable level of confidence, that HBZ-SIRAT's Activities are in compliance with Islamic Shari'ah, except for the few observations, as highlighted in the relevant reports of the Internal Shari'ah Audit and Internal Shari'ah Control department.

Declaration

It is hereby confirmed that all internal policies required to ensure compliance with the CBUAE's Regulations and Standards on corporate governance, risk management, internal controls, compliance, internal audit, financial reporting, external audit and outsourcing have been implemented and reviewed for adequacy by the EXCO within the last year.

The corporate governance section of these Financial Statements is approved by the EXCO.

Chief Executive Officer

Abbreviations

AAOIFI	Accounting & Auditing Organization for Islamic Financial Institutions
BoD	Board of Directors
BIS	Bank for International Settlement
CALC	Country Asset and Liability Committee
CBUAE	Central Bank of the United Arab Emirates
CEO	Chief Executive Officer
CCO	Chief Credit Officer
CCMC	Country Credit Management Committee
CHRC	Country Human Resources (HR) Committee
CLCC	Country Legal & Compliance Committee
COO	Chief Operations Officer
CRO	Chief Risk Officer
CRMC	Country Risk Management Committee
EXCO	Country Executive Committee
FINMA	Swiss Financial Market Supervisory Authority
GM	General Management
GIA	Group Internal Audit
HBZ / Parent Bank	Habib Bank AG Zurich, Head Office, Switzerland
HBZ-UAE / the Bank	Habib Bank AG Zurich, UAE Operations
HBZ-HK	Habib Bank Zurich (Hong Kong) Limited, Hong Kong
HMB	Habib Metropolitan Bank Limited, Pakistan
HSA	Higher Shari’ah Authority
ISSC	Country Internal Shari’ah Supervision Committee
MRT	Material Risk Takers
NESA	The National Electronic Security Authority
ZCO	Zonal Compliance Officer (Head of Compliance)

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Independent auditors' report

To the Head Office of Habib Bank AG Zurich

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habib Bank AG Zurich - United Arab Emirates Branches (the "Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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 Matter

The financial statements of the Bank as at and for the year ended 31 December 2022, were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 March 2023.

Other Information

Management is responsible for the other information. The other information comprises the Report of the Management set out on page 1.

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.

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 IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 and for such internal control as management determines is necessary to enable the preparation of 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 Bank's internal control.

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

Auditors' 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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Bank's financial statements, including the disclosures, and whether the Bank's 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 UAE Federal Decree Law No. 32 of 2021, we report that for the year ended 31 December 2023:

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

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

iii) the Bank has maintained proper books of account;

iv) as disclosed in note 9 to the financial statements, the Bank has not purchased any shares during the year ended 31 December 2023;

v) note 28 to the financial statements discloses material related party transactions and the terms under which they were conducted; and

vi) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2023 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, which would materially affect its activities or It's financial position as at 31 December 2023.

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

KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates

Date: 28 MAR 2024

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	*2023 AED 000*	*2022 AED 000*
ASSETS			
Cash and balances with the Central Bank of UAE	6	**3,011,569**	3,054,198
Due from banks, net	7	**2,078,502**	2,831,217
Due from related parties, net	28	**44,716**	141,765
Loans and Islamic financing receivables, net	8	**3,472,949**	3,480,491
Investments, net	9	**5,612,126**	3,782,875
Property and equipment	10	**38,539**	45,503
Right-of-use assets	11	**73,929**	89,848
Customers' indebtedness for acceptances		**66,455**	60,121
Deferred tax assets	12	**73,667**	96,090
Other assets	13	**224,540**	78,274
Total assets		**14,696,992**	13,660,382
LIABILITIES			
Deposits from customers	14	**12,244,234**	11,753,827
Due to banks	15	**167,661**	68,556
Due to related parties	28	**12,749**	35,864
Liabilities under acceptances		**66,455**	60,121
Other liabilities	16	**316,398**	171,039
Lease liabilities	11	**47,385**	63,437
Total liabilities		**12,854,882**	12,152,844
CAPITAL AND RESERVES			
Allocated capital	17	**500,000**	500,000
Legal reserve	18	**50,000**	50,000
Retained earnings		**1,360,610**	1,083,377
Revaluation reserve		**(68,500)**	(125,839)
Total capital and reserves		**1,842,110**	1,507,538
Total liabilities, capital and reserves		**14,696,992**	13,660,382
CONTINGENT LIABILITIES AND OTHER COMMITMENTS	19	**729,880**	579,870

These financial statements were approved and authorized for issue on 27 March 2024 by

Chief Executive Officer

The attached notes 1 to 36 form part of these financial statements.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	***2023 AED 000***	*2022 AED 000*
Interest income and income from Islamic financing	20	**663,997**	366,367
Interest expense and distribution to Islamic depositors	21	**(68,801)**	(14,752)
Net interest income and income from Islamic financing		**595,196**	351,615
Fee and commission income (net)	22	**82,756**	81,041
Other income	23	**90,116**	90,281
Operating income		**768,068**	522,937
Credit loss reversal on financial assets (net)	25	**14,274**	11,741
Net operating income		**782,342**	534,678
General and administrative expenses	24	**(306,000)**	(260,878)
Profit for the year before taxation		**476,342**	273,800
Income tax expense	26	**(89,687)**	(52,772)
Net profit for the year after taxation		**386,655**	221,028
Other comprehensive income			
Items that will be subsequently reclassified to profit or loss:			
Net changes in fair values of debt investments classified as FVOCI		**74,421**	(174,163)
Changes in allowance for expected credit losses on debt investments classified as FVOCI	9 (a)	**(2,747)**	(230)
Income tax related to the above	12 (b)	**(14,335)**	34,879
Other comprehensive income/ (loss) for the year, net of tax		**57,339**	(139,515)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**443,994**	81,513

The attached notes 1 to 36 form part of these financial statements.

STATEMENT OF CHANGES IN HEAD OFFICE CAPITAL AND RESERVES

For the year ended 31 December 2023

	Allocated capital AED 000	*Legal/ Statutory reserve AED 000*	*Retained earnings AED 000*	*Impairment reserve AED 000*	*Revaluation reserve AED 000*	*Total AED 000*
As at 1 January 2022	100,000	50,000	1,379,562	310	13,676	1,543,548
Repatriation to Head Office *	-	-	(117,523)	-	-	(117,523)
Transfer from impairment reserve (Note 32 a)	-	-	310	(310)	-	-
Transfer from retained earnings	400,000	-	(400,000)	-	-	-
Profit for the year	-	-	221,028	-	-	221,028
Other comprehensive income	-	-	-	-	(139,515)	(139,515)
Total comprehensive income	-	-	221,028	-	(139,515)	81,513
As at 31 December 2022	500,000	50,000	1,083,377	-	(125,839)	1,507,538
Repatriation to Head Office *	-	-	(109,422)	-	-	(109,422)
Profit for the year	-	-	386,655	-	-	386,655
Other comprehensive income	-	-	-	-	57,339	57,339
Total comprehensive income	-	-	386,655	-	57,339	443,994
As at 31 December 2023	**500,000**	**50,000**	**1,360,610**	**-**	**(68,500)**	**1,842,110**

* During the year, the Bank repatriated AED 109,422 thousand (2022: AED 117,523 thousand) after obtaining approval from the Central Bank of UAE.

The attached notes 1 to 36 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	***2023 AED 000***	*2022 AED 000*
Operating activities			
Profit for the year before taxation		**476,342**	273,800
Adjustments for:			
Impairment allowance on loans and Islamic financing receivables	25	**(10,368)**	(12,180)
Charge/ (reversal) of impairment allowance on other assets	25	**8,739**	(818)
Reversal of impairment allowance on investments	25	**(3,353)**	(136)
Reversal of impairment allowance on due from banks	25	**(6,386)**	(158)
(Reversal) /Charge of impairment allowance on off balance-sheet	25	**(2,906)**	1,551
Depreciation on right-of-use assets	11	**16,859**	17,273
Depreciation on property and equipment	10	**8,469**	9,112
Finance cost on lease liabilities	11	**1,716**	2,176
Realized gain on sale of investments (net)	9	**12,457**	2,588
Amortization of premium on Investments (net)	9	**18,464**	22,167
Gain on disposal of property and equipment (net)		**(135)**	(186)
Operating profit before changes in net operating assets		**519,898**	315,189
Change in UAE Central Bank certificates of deposit with maturity over three months	33	**(410,000)**	(115,000)
Change in statutory reserve with UAE Central Bank	33	**(285,775)**	(127,975)
Change in bank placements with maturity over three months	33	**637,880**	158,360
Change in loans and receivables	7	**17,909**	33,727
Change in other assets	8	**(155,005)**	(2,042)
Change in deposits from customers	13	**490,407**	815,802
Change in other liabilities	15	**110,096**	(18,986)
Net cash generated from operations		**925,411**	1,059,075
Income tax paid		**(43,430)**	(23,001)
Net cash generated from operating activities		**881,981**	1,036,074
Investing activities			
Purchase of property and equipment	10	**(1,557)**	(1,798)
Sale proceeds from disposal of property and equipment		**187**	195
Net proceeds from sale/redemption of investments	9	**411,037**	1,292,416
Purchase of investments	9	**(2,196,181)**	(803,594)
Net cash (used in) / generated from investing activities		**(1,786,514)**	487,219
Financing activities			
Profits remitted to Head Office		**(109,422)**	(117,523)
Repayment of lease liabilities	11	**(18,708)**	(18,155)
Net cash used in financing activities		**(128,130)**	(135,678)
(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(1,032,664)**	1,387,615
Balance at 1 January		**4,239,494**	2,851,879
BALANCE AT 31 DECEMBER	33	**3,206,830**	4,239,494

The attached notes 1 to 36 form part of these financial statements.

1 LEGAL STATUS AND ACTIVITIES

Habib Bank AG Zurich, UAE Branches (the "Bank") operates in the Emirates of Abu Dhabi, Dubai and Sharjah under a full commercial banking license issued by the Central Bank of the United Arab Emirates. The Head Office of the Bank is Habib Bank AG Zurich (the "Head Office") incorporated in Switzerland. The registered address of the Bank is PO Box 3306, Dubai, United Arab Emirates.

These financial statements represent the combined financial position and results of the eight branches of the Bank in the United Arab Emirates. The Bank is not a separate legal entity but meets the definition of a reporting entity under IFRS under the Conceptual Framework for IFRS. IFRS defines a reporting entity as an entity that is required, or chooses, to prepare financial statements.

The Bank is owned by the Head Office and is in the business of providing retail, commercial and Islamic banking services in United Arab Emirates, which represent its economic activities. All the operating activities of the Bank are clearly defined and separately managed from the other businesses of the Head Office and accounting records are maintained on this basis. The assets of the Bank are used solely by the Bank and are registered in the name of the Bank. The liabilities relate to the activities of the Bank.

It is important to note whilst the reporting boundary is defined above, the assets and liabilities presented within the reporting boundary remain the assets and liabilities of the Head Office and are not legally separable from the Head Offices' other assets and liabilities. As such legally, the assets of the reporting entity may be available to the other claims of the Head Office.

2 BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Branches have been prepared on going concern basis and 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 the UAE.

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

- Derivative financial instruments measured at fair value; and
- Financial instruments classified as fair value through other comprehensive income.

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 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 32 (c).

2.2 Functional and presentation currency

These financial statements are presented in United Arab Emirates Dirhams ("AED") which is the Bank's functional and presentation currency. Except as otherwise indicated, financial information presented in AED has been rounded to the nearest thousand.

3 MATERIAL ACCOUNTING POLICIES

Foreign currency translation
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 profit or loss and other 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 profit or loss and other 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

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 valuators.

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.

3 MATERIAL ACCOUNTING POLICIES (continued)

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

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on unobservable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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.

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

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 profit or loss and other comprehensive income.

If the transaction price differs from fair value at initial recognition, the bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in statement of profit or loss on initial recognition (i.e. day 1 profit or loss); and
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability). After initial recognition, the deferred gain or loss will be released to statement of profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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

- The stated policies and objectives for the business and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;

- How the performance of the portfolio and the financial asset held within the portfolio is evaluated and reported to the management;

- The risks that affect the performance of the portfolio and, in particular, the way in which those risks are managed;

- How the managers of the business are compensated;

- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised; and

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

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Bank's claim to cash from specified assets; and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

The Bank holds a portfolio of long-term fixed-rate loans for which the Bank has the option to propose to revise the interest rate at periodic reset dates. These reset rights are limited to the market rate at the time of revision. The Bank has determined that the contractual cash flows of these loans are SPPI because the interest rate varies in a way that is consideration for the time value of money, credit risk, other basic lending risks and costs associated with the principal amount outstanding.

Financial assets at amortised cost
Debt instruments meeting above 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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

Financial assets at FVTOCI (continued)
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 investment revaluation reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the investment 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.

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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Expected credit losses

(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.

The Bank recognizes 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 recognizes 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)

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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Expected credit losses (continued)

(i) Overview of expected credit losses (continued)

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 whereby the customer is evaluated according to the customer's financial and non-financial criteria.

(ii) Measurement of ECL
The Bank calculates expected credit losses based on the weighted average estimate of 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 takes into account three scenarios (the base scenario, the upside scenario, the downside scenario), each with different probabilities of default, credit exposure at default, and loss given default.

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.

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.

- **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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Expected credit losses (continued)

(ii) Measurement of ECL (continued)

- **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 included in expected credit losses relating to loans and advances. 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 recognized less cumulative amortization recognized in the statement of profit or loss and other 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 three scenarios. The ECLs related to financial guarantee contracts are recognized 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. The transition from the first-generation (Gen-1) to the second-generation (Gen-2) model in expected credit loss (ECL) calculations involves a shift in the input factors utilized. In the Gen-1 model used for the year ended 31 December 2022, parameters used were:

- International oil prices
- Gross domestic product (GDP)

Whereas, in the Gen-2 model used for the year ended 31 December 2023, emphasis is placed on inputs such as:

- Revenue
- Nominal Gross Fixed Capital Formation
- Nominal Change in Inventories

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.

(iv) Scenarios

Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the input stage for reflection of the ECL impact in the books of accounts. The management has assessed the impact of recent development and the global economic situations, on the scenarios considered and based on its portfolio assessment concluded that the given scenarios remain appropriate. In Gen-1 model the most significant period-end assumptions used for ECL estimate as at 31 December 2022 were Gross Domestic Product (GDP) of United Arab Emirates (UAE) and international oil prices whereas in Gen-2 model the most significant period-end assumptions used for ECL estimate as at 31 December 2023 were revenue, nominal gross fixed capital formation, and nominal change in inventories. The scenarios base case, upside and downside were used for all portfolios keeping in view the following principal macroeconomic variables.

Gen-2 Model used for the year ended 31 December 2023

Macroeconomic variables	*Scenario*	*Assigned probabilities*	*2022*	*2023*	*2024*	*2025*
General Government Finance: **Revenue**	Base	60%	566.74	541.34	565.96	565.77
National Accounts: **Nominal Gross Fixed Capital Formation**	Base	60%	364.60	368.59	367.93	369.63
National Accounts: **Nominal Change in Inventories**	Base	60%	100.35	101.93	77.93	58.38

Macroeconomic variables	*Scenario*	*Assigned probabilities*	*2022*	*2023*	*2024*	*2025*
Revenue (Base Variable / No Transformation)	Base	60%	566.74	541.34	565.96	565.77
	Upside	10%	657.60	647.59	678.56	685.60
	Downside	30%	475.89	435.08	453.36	445.94
Nominal Gross Fixed Capital Formation (Lag of order 2 of Year on Year change)	Base	60%	-0.08	0.28	0.10	0.01
	Upside	10%	0.13	0.49	0.31	0.22
	Downside	30%	-0.29	0.07	-0.12	-0.20
Nominal Change in Inventories (Lag of order 3 of Year on Year change)	Base	60%	-0.20	-0.89	-3.15	6.50
	Upside	10%	1.09	0.36	-1.88	8.12
	Downside	30%	-1.49	-2.14	-4.42	4.88

Gen-1 Model used for the year ended 31 December 2022

Macroeconomic variables	*Scenario*	*Assigned probabilities*	*2022*	*2023*	*2024*	*Subsequent years*
GDP of UAE	Base case	67.0%	1,495.12	1,493.8	1,587.8	1,638.8
	Upside	17.1%	1,547.1	1,628.0	1,719.0	1,806.8
	Downside	15.9%	1,442.1	1,453.0	1,472.1	1,492.9
Oil prices (USD per barrel)	Base case	67.0%	72.0	73.1	75.5	70.9
	Upside	17.1%	81.0	81.2	89.0	80.6
	Downside	15.9%	64.9	66.3	51.0	56.3

(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 between -10% to +15% among 3 scenarios.

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

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Credit-impaired financial assets / definition of default:
At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

Assets classified under this category are obligors which are unlikely to repay their contractual obligations, on a timely basis and are considered as defaulted obligors. The default definition used by the Bank is captured by the 'For Adjustment Purpose ("FAP")' tagging which in turn is triggered by the qualitative and quantitative criteria listed below:

- **Days Past Due (DPD):** Corporate / SME / Retail accounts is identified as default if the contractual payment is more than or equal to 90 days past due. For Investments & FI portfolios account is identified as default if the contractual coupon payment is more than 30 days past due. Additionally, for overdraft exposures, any excess over limit or forced debit will be treated similar to days past due i.e., an overdraft account showing excess over limit for 90 days will become a Stage 3 exposure. The days past due will be calculated and applied in line with the credit risk policy as applicable to the bank (and will be reflected in FAP tagging).

- **Non-Performing Loans ('For Adjustment Purpose (FAP)' Tagging):** The tagging of exposures to the Non-performing Loans ("NPL") category or Default FAP (2 or worse) based on the overdue status or qualitative information available with the Bank will trigger transfer of credit exposures to Stage 3.

- **Credit Rating Downgrade:** Under Investments & FI portfolios for Investment Grade ("IG") exposures, a downgrade of more than 2 notches from IG to Non-Investment Grade ("NIG") will trigger transfer to Stage 3. Whereas for exposures within the NIG, a 3 notch downgrade will trigger transfer to Stage 3.

- **Cross-Product Default:** For Corporate / SME or Retail portfolio whenever a credit exposure is marked NPL or Default FAP (2 or worse), all related exposures within the same entity / counterparty (all facilities and credit exposure from all product areas) are marked NPL or Overdue / Default FAP. The tagging of credit exposures as NPL or Default FAP (2 or worse) will trigger transfer to stage 3.

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 modification 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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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 (equity instrument) that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to the income statement, but is reclassified to retained earnings.

On derecognition of a financial asset (debt instrument) that is classified as FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to the income statement.

Modification of financial assets
Restructuring a credit facility, based on urgent request from the client, enables the client to continue servicing interest and amortization payments. Without restructuring the client would not be able anymore to meet the conditions of the contract. A restructuring therefore can be defined as the inability of the borrower to continue servicing the debt without any relief in the terms and conditions.

Restructuring is not referring to a normal - business as usual – rescheduling request by the client to amend credit facilities according to the changing economic environment. This could be due to expansion of the business or reallocation of resources and therefore changing financing needs in view of a different expectation of the future economic environment.

In certain cases, there might be a subtle line between the two above described cases. However, whenever all credit facilities of various banks need to be re-negotiated or a syndicated loan needs re-negotiation, this is most likely due to a breach of contract. If a private client is asking for re-negotiation, the Bank's judgment should be dependent on the financial flexibility of the client. An over-leveraged home loan where the Loan-to-value (LTV) is over 100% and the client asks for re-negotiation but has no additional financial resources (which he possibly could bring in) is also to be treated as a breach of contract.

Restructured cases need to be flagged as "restructured" from the start. This flagging is an additional earmark besides the classification. The ECL numbers for stage 2 exposures will be computed over the lifetime of the facility based on residual maturity / tenor of the facility.

3 MATERIAL 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 profit or loss and other comprehensive income.

3 MATERIAL ACCOUNTING POLICIES (continued)

Financial guarantee contracts
A financial guarantee contract is a contract that requires the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

The amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Loan commitments
Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Commitments to provide a loan at a below-market interest rate are initially measured at their fair values and, if not designated as at FVPL, are subsequently measured as follows:

At the higher of the amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Derivative financial instruments
The Bank enters into derivative instruments that comprise forward foreign exchange contracts and interest rate swaps. Derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Derivatives with positive market values (unrealised gains) are included in other assets and derivatives with negative market values (unrealised losses) are included in other liabilities in the statement of financial position.

Investments
The 'investments' caption in the statement of financial position includes:

- Debt investment securities measured at amortised cost: These are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- Debt and equity investment securities measured at FVPL or designated as at FVPL: These are at fair value with changes recognised immediately in profit or loss;
- Debt securities measured at FVOCI; and
- Equity investment securities designated as FVOCI.

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

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

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

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

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

3 MATERIAL ACCOUNTING POLICIES (continued)

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and impairment allowance, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Depreciation is charged for all property and equipment items (except land) at rates calculated to write off the cost of each asset over its expected useful life. Where the carrying value of the asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal are taken into account in determining net income.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. The estimated useful lives for the various types of assets are as follows:

Buildings	25 years
Furniture and office equipment	4 to 7 years
Computer systems	4 years
Motor vehicles	5 years

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.

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).

3 MATERIAL ACCOUNTING POLICIES (continued)

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 profit or loss and other 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.

Customer deposits and Islamic customer deposits
Customer deposits are initially recognised at fair value, being the fair value of the consideration received.

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

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

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

Wakala
An agreement between Bank and third party whereby one party (Muwakil) provides certain amount of funds which the other party (Wakil) would invest according to the terms and conditions of Wakala in return for a certain fee. The Wakil is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle, wakala profit is distributed on declaration/distribution by the Wakil.

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

Staff terminal benefits
With respect to the Bank’s national employees, the Bank contribute to the pension scheme for UAE nationals under the UAE pension and social security law. This is a defined contribution pension plan and the Bank contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Bank have an obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

The Bank provide for end of services benefits to other employees based on applicable laws and regulations which is based on period of service and basic salaries.

3 MATERIAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents consist of cash in hand and unrestricted cash balances with the UAE Central Bank, deposits and other balances due from/to banks, Head Office and other branches with original maturity of three months or less from the acquisition date, which are subject to insignificant credit risk, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost.

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

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

Offsetting
Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Revenue recognition and expense
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:

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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Revenue recognition and expense (continued)

Income from Islamic financing and distributions to depositors
Income from Islamic financing is recognised in the statement of profit or loss using the effective profit method.

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

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

Fees for custodian services
The Bank provides custodian services to various clients. Fees for custodian services are calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on a monthly basis.

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

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

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

‘Commission received in advance’ 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.

Income tax
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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.

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.

3 MATERIAL ACCOUNTING POLICIES (continued)

Deferred tax (continued)
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 profit or loss and other 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.

4 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS "IFRS"

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

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

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

Relevant new and revised IFRS issued but not yet effective

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

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

5 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Branches' accounting policies, which are described in Note 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.

5 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

a) 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.

b) 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, 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:

5 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

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

b) Impairment of financial assets (continued)

- 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.
- Debt instruments measured at fair value through other comprehensive income: individual level at instrument level.

To assess whether the credit risk of 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 increase 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.

The Branches also consider other qualitative and quantitative reasonable and supportable forward-looking information to firm its assessment of 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 ≤ 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 or 3 installments, whichever is longer, 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.

5 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

b) Impairment of financial assets (continued)

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.

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 considers 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.

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 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.: GDP growth rate and international oil prices indices). Upside and downside scenarios will be set relative to 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.

5 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

b) Impairment of financial assets (continued)

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.

c) 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.

d) Tax liabilities and deferred tax assets
The deferred tax asset relating to the Branches' operations in the UAE primarily reflected the deductible temporary differences in respect of impairment allowances on loans and advances and interest in suspense and changes in fair value of investments carried at fair value through other comprehensive income.

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 realized, 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.

5 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

e) 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).

f) 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.

g) Effective Interest Rate (EIR) method
The Bank’s EIR method recognises interest income using a rate of return 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.

For further details on provisions and other contingencies see Notes 16 and 19.

6 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2023 AED 000	*2022 AED 000*
Cash in hand	**42,691**	46,361
Balances with the Central Bank of UAE:		
- Other balances	**1,061,331**	1,626,065
- Statutory reserve	**1,152,547**	866,772
- Islamic commodity murabaha	**755,000**	515,000
	3,011,569	3,054,198

6 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE (continued)

The statutory reserve represents mandatory interest free reserve deposits, which are not available to finance 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 period.

7 DUE FROM BANKS

	2023 AED 000	*2022 AED 000*
Time	**1,897,830**	2,634,235
Demand	**182,126**	204,822
	2,079,956	2,839,057
Less: Allowance for expected credit losses (see note a below)	**(1,454)**	(7,840)
	2,078,502	2,831,217

a) An analysis of change in the ECL allowance related to due from banks is as follows:

	Stage 1 AED 000	***Stage 2 AED 000***	***Stage 3 AED 000***	***Total AED 000***
ECL allowance at 1 January 2023	7,840	**-**	**-**	7,840
Net reversal (Note 25 (iii))	(7,358)	972	-	(6,386)
ECL allowance at 31 December 2023	**482**	**972**	**-**	**1,454**

	Stage 1 AED 000	*Stage 2 AED 000*	*Stage 3 AED 000*	*Total AED 000*
ECL allowance at 1 January 2022	7,998	-	-	7,998
Net reversal (Note 25 (iii))	(158)	-	-	(158)
ECL allowance at 31 December 2022	7,840	-	-	7,840

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

	2023 AED'000	*2022 AED'000*
Banks in the U.A.E.	**277,673**	809,254
Banks abroad	**1,802,283**	2,029,803
Less: Allowance for expected credit losses	**(1,454)**	(7,840)
	2,078,502	2,831,217

c) As at 31 December 2023, there were time deposits with an original maturity of more than 3 months of AED 70 million (2022: AED 701.5 million)

7 DUE FROM BANKS (continued)

d) 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.

In AED'000s
As at 31 December 2023

Internal rating grade	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing				
High grade	**1,214,198**	**-**	**-**	**1,214,198**
Standard grade	**733,123**	**30,858**	**-**	**763,981**
Sub-standard grade	**9,944**	**-**	**-**	**9,944**
Low grade	**80,859**	**10,974**	**-**	**91,833**
Non-performing				
Individually impaired	**-**	**-**	**-**	**-**
Total	**2,038,124**	**41,832**	**-**	**2,079,956**

In AED'000s
As at 31 December 2022

Internal rating grade	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing				
High grade	1,860,925	-	-	1,860,925
Standard grade	841,178	-	-	841,178
Sub-standard grade	74,505	-	-	74,505
Low grade	62,449	-	-	62,449
Non-performing				
Individually impaired	-	-	-	-
Total	2,839,057	-	-	2,839,057

8 LOANS AND ISLAMIC FINANCING RECEIVABLES

(a) The composition of the loans and Islamic financing receivables portfolio is as follows:

		2023			*2022*	
	UAE AED 000	***Others AED 000***	***Total AED 000***	*UAE AED 000*	*Others AED 000*	*Total AED 000*
Trade	**1,628,006**	**-**	**1,628,006**	1,757,452	-	1,757,452
Other commercial & business sector	**1,511,887**	**136,435**	**1,648,322**	1,436,155	138,248	1,574,403
Personal	**473,071**	**6,215**	**479,286**	446,953	12,344	459,297
Gross receivables	**3,612,964**	**142,650**	**3,755,614**	3,640,560	150,592	3,791,152
Allowance for impairment						
- Stage 3			**(102,837)**			(118,107)
- Stage 1 & 2			**(179,828)**			(192,554)
Net receivables			**3,472,949**			3,480,491

8 LOANS AND ISLAMIC FINANCING RECEIVABLES (continued)

(b) The composition of the loans and Islamic financing receivables portfolio is as follows: (continued)

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for corporate lending is, as follows:

In AED 000	***Stage 1***		***Stage 2***		***Stage 3***		***Total***	
	Gross carrying amount	***ECL***	***Gross carrying amount***	***ECL***	***Gross carrying amount***	***ECL***	***Gross carrying amount***	***ECL***
1 January 2023	**2,613,525**	**83,427**	**1,054,865**	**109,127**	**122,762**	**118,107**	**3,791,152**	**310,661**
Transfers to stage 1	**73,138**	**2,042**	**(73,138)**	**(2,042)**	**-**	**-**	**-**	**-**
Transfers to stage 2	**(155,169)**	**(2,959)**	**155,169**	**2,959**	**-**	**-**	**-**	**-**
Transfers to stage 3	**-**	**-**	**(29,154)**	**(6,258)**	**29,154**	**6,258**	**-**	**-**
Net additions /recoveries	**206,493**	**(28,291)**	**(201,885)**	**21,823**	**(18,967)**	**(3,902)**	**(14,359)**	**(10,370)**
Interest in suspense*	**-**	**-**	**-**	**-**	**(17,626)**	**(17,626)**	**(17,626)**	**(17,626)**
Amounts written off	**-**	**-**	**-**	**-**	**(3,552)**		**(3,552)**	**-**
At 31 December 2023	**2,737,987**	**54,219**	**905,857**	**125,609**	**111,771**	**102,837**	**3,755,615**	**282,665**

In AED 000	*Stage 1*		*Stage 2*		*Stage 3*		*Total*	
	Gross carrying amount	*ECL*	*Gross carrying amount*	*ECL*	*Gross carrying amount*	*ECL*	*Gross carrying amount*	*Gross carrying ECL*
1 January 2022	2,441,371	73,629	1,211,524	132,105	185,065	130,188	3,837,960	335,922
Transfers to stage 1	17,809	414	(17,809)	(414)	-	-	-	-
Transfers to stage 2	(66,941)	(1,392)	66,982	1,433	(41)	(41)	-	-
Transfers to stage 3	(86)	-	(8,899)	(4,168)	8,985	4,168	-	-
Net additions /recoveries	221,372	10,776	(196,933)	(19,829)	(63,405)	(3,126)	(38,966)	(12,179)
Interest in suspense*	-	-	-	-	5,240	-	5,240	-
Amounts written off	-	-	-	-	(13,082)	(13,082)	(13,082)	(13,082)
At 31 December 2022	2,613,525	83,427	1,054,865	109,127	122,762	118,107	3,791,152	310,661

8 LOANS AND ISLAMIC FINANCING RECEIVABLES (continued)

(c) The composition of the loans and Islamic financing receivables portfolio is as follows: (continued)

*The movement represents the charge of interest on loans and advance classified under stage 3 (previously reported as interest in suspense) and the balance as of 31 December 2023 of such interest (previously reported as interest in suspense) is AED 24,734 thousand (2022: AED 21,182 thousand)

An analysis of risk concentration in gross carrying amounts and corresponding ECL in the loans portfolio by type of lending, industry and geographical location is presented below:

31 December 2023 ***In AED '000***	***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												
Corporate lending	1,618,932	415,862	60,377	2,095,171	48,930	31,291	60,139	140,360	3.0%	7.5%	99.6%	6.7%
Small business lending	845,380	295,443	40,335	1,181,158	4,592	42,316	39,839	86,747	0.5%	14.3%	98.8%	7.3%
Consumer lending	69,266	167	148	69,581	242	487	147	876	0.3%	291.6%	99.3%	1.3%
Residential mortgages	204,409	194,385	10,911	409,705	455	51,515	2,712	54,682	0.2%	26.5%	24.9%	13.3%
Total	**2,737,987**	**905,857**	**111,771**	**3,755,615**	**54,219**	**125,609**	**102,837**	**282,665**	**2.0%**	**13.9%**	**92.0%**	**7.5%**

31 December 2022 *In AED '000*	*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												
Corporate lending	1,895,485	562,197	72,392	2,530,074	76,018	44,790	72,510	193,318	4.0%	8.0%	100.2%	7.6%
Small business lending	474,671	281,675	45,436	801,782	4,814	29,511	43,253	77,578	1.0%	10.5%	95.2%	9.7%
Consumer lending	89,062	1,375	452	90,889	1,981	105	452	2,538	2.2%	7.6%	100.0%	2.8%
Residential mortgages	154,307	209,618	4,482	368,407	614	34,721	1,892	37,227	0.4%	16.6%	42.2%	10.1%
Total	2,613,525	1,054,865	122,762	3,791,152	83,427	109,127	118,107	310,661	3.2%	10.3%	96.2%	8.2%

8 LOANS AND ISLAMIC FINANCING RECEIVABLES (continued)

Loans and Islamic financing receivables include Mudaraba financing activities amounting to AED 1.47 million (2022: AED 89.61 million) provided through a Shari'a compliant Islamic window.

The provision for expected credit losses of AED 282,665 thousand (2022: AED 310,661 thousand) is after consideration of post-model adjustments (both positive and negative) and management overlays, in relation to data and model limitations as a result of early warning procedures of the Bank and the significant uncertainty as a consequence of the recent economic and global conditions. The adjustments resulting in overlays of AED 81,641 thousand (2022: AED 68,276 thousand), are based on a combination of industry portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level after considering the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes / segments, such as energy, aviation and hospitality.

9 INVESTMENTS

	2023	*2022*
	AED 000	*AED 000*
At fair value through other comprehensive income		
Equities - unquoted	**-**	1,197
Bonds - quoted (refer note 9(a)) *	**2,474,386**	2,336,172
At amortized cost		
Bonds - quoted (refer note 9(b)) *	**268,980**	323,244
CB UAE Treasury bills (refer note 9(b))	**2,829,047**	1,122,262
T Sukuk (refer note 9(b))	**39,713**	-
	5,612,126	3,782,875

* The above investments include bonds guaranteed by foreign governments, other corporates including international banks and financial institutions, denominated in USD and UAE Dirhams.

Income from investment taken to the statement of profit or loss and other comprehensive income is as follows:

	2023	*2022*
	AED 000	*AED 000*
Interest income and income from Islamic financing (Note 20)	**202,377**	90,938
Realised gain on bonds designated at fair value through OCI	**(12,457)**	(2,588)

(a) Investments at fair value through OCI

The table below sets out the investment securities at their fair values:

Bonds – quoted

	2023	*2022*
	AED 000	*AED 000*
Opening balance	**2,339,938**	2,157,801
Acquired during the year	**449,396**	803,594
Sold / redeemed during the year	**(362,670)**	(428,151)
Amortisation of premium	**(15,314)**	(16,325)
Realized gain	**(7,619)**	(2,588)
Fair value movement *	**71,674**	(174,393)
	2,475,405	2,339,938
Allowances for expected credit losses	**(1,019)**	(3,766)
Closing balance	**2,474,386**	2,336,172

* Fair value movement is after netting reversal of expected credit losses of AED 2,747 thousand during the year ended 31 December 2023 (2022: charge of expected credit losses of AED 230 thousand).

9 INVESTMENTS (continued)

(b) Investments at amortised costs

The table below sets out the investment securities at their carrying values:

Bonds – FV & OCI

	2023 ***AED 000***	*2022* *AED 000*
Opening balance	**1,446,315**	2,316,422
Acquired during the year	**40,000**	-
CBUAE m-bills movement during the year	**1,706,785**	(860,591)
Redeemed during the year (other than CBUAE m-bills)	**(47,170)**	(3,673)
Amortisation of premium/discount, net	**(3,149)**	(5,843)
Realized losses	**(4,838)**	-
	3,137,943	1,446,315
Allowances for expected credit losses	**(203)**	(809)
Closing balance	**3,137,740**	1,445,506

(c) An analysis of change in the gross carrying amount and the corresponding ECL allowance is as follows:

	Stage 1 ***AED 000***	***Stage 2*** ***AED 000***	***Stage 3*** ***AED 000***	***Total*** ***AED 000***
Gross exposure at 1 January 2023	**3,738,475**	**48,975**	**-**	**3,787,450**
Net additions / (disposals)	**1,874,873**	**(48,975)**	**-**	**1,825,898**
At 31 December 2023	**5,613,348**	**-**	**-**	**5,613,348**

	Stage 1 ***AED 000***	***Stage 2*** ***AED 000***	***Stage 3*** ***AED 000***	***Total*** ***AED 000***
ECL allowance at 1 January 2023	**4,093**	**482**	**-**	**4,575**
Net charge / (reversals)	**(2,871)**	**(482)**	**-**	**(3,353)**
Total ECL on investments	**1,222**	**-**	**-**	**1,222**

Represented for:

ECL on FVOCI bonds	**1,019**	**-**	**-**	**1,019**
ECL on amortised cost bonds	**203**	**-**	**-**	**203**
Total ECL on investments	**1,222**	**-**	**-**	**1,222**

9 INVESTMENTS (continued)

(c) An analysis of change in the gross carrying amount and the corresponding ECL allowance is as follows: (continued)

	Stage 1 AED 000	*Stage 2 AED 000*	*Stage 3 AED 000*	*Total AED 000*
Gross exposure at 1 January 2022	4,464,253	11,167	-	4,475,420
Net additions / (disposals)	(725,778)	37,808	-	(687,970)
At 31 December 2022	3,738,475	48,975	-	3,787,450

	Stage 1 AED 000	*Stage 2 AED 000*	*Stage 3 AED 000*	*Total AED 000*
ECL allowance at 1 January 2022	4,285	426	-	4,711
Net charge / (reversals)	(192)	56	-	(136)
Total ECL on investments	4,093	482	-	4,575
Represented for:				
ECL on FVOCI bonds	3,466	300	-	3,766
ECL on amortised cost bonds	627	182	-	809
Total ECL on investments	4,093	482	-	4,575

By geographical area (Gross):

	2023 AED'000	*2022 AED'000*
Within UAE	**2,912,740**	1,166,913
Outside UAE	**2,700,608**	2,620,537
	5,613,348	3,787,450
Less: Expected credit losses	**(1,222)**	(4,575)
	5,612,126	3,782,875

d) By economic sector:

	2023 AED'000	*2022 AED'000*
Government and public sector	**3,104,120**	1,122,262
Trade and business sector	**1,276,985**	1,355,705
Financial institutions	**1,221,307**	1,298,602
Governmental related enterprises - Commercial	**10,936**	10,881
	5,613,348	3,787,450
Less: Expected credit losses	**(1,222)**	(4,575)
	5,612,126	3,782,875

9 INVESTMENTS (continued)

d) By economic sector: (continued)

By credit rating (for debt securities) (Net):

	2023 AED'000	*2022 AED'000*
Rated AAA to A-	**4,694,236**	2,604,376
Rated BBB+ to B-	**917,890**	1,177,302
Unrated	**-**	1,197
	5,612,126	3,782,875

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

10 PROPERTY AND EQUIPMENT

	Buildings AED 000	*Furniture and office equipment AED 000*	*Computer system AED 000*	*Motor vehicles AED 000*	*Total AED 000*
Cost					
At 1 January 2022	49,953	41,905	7,831	8,835	108,524
Additions	-	822	431	545	1,798
Disposals and write-offs	-	(1,783)	(117)	(1,057)	(2,957)
At 31 December 2022	49,953	40,944	8,145	8,323	107,365
At 1 January 2023	49,953	40,944	8,145	8,323	107,365
Additions	-	1,134	227	196	1,557
Disposals and write-offs	-	(214)	(186)	(321)	(721)
At 31 December 2023	**49,953**	**41,864**	**8,186**	**8,198**	**108,201**
Accumulated depreciation					
At 1 January 2022	19,891	22,497	6,582	6,728	55,698
Charge for the year	2,026	5,727	661	698	9,112
Disposals and write-offs	-	(1,774)	(117)	(1,057)	(2,948)
At 31 December 2022	21,917	26,450	7,126	6,369	61,862
At 1 January 2023	21,917	26,450	7,126	6,369	61,862
Charge for the year	2,026	5,267	584	592	8,469
Disposals and write-offs	-	(214)	(134)	(321)	(669)
At 31 December 2023	**23,943**	**31,503**	**7,576**	**6,640**	**69,662**
Net book value					
At 31 December 2023	**26,010**	**10,361**	**610**	**1,558**	**38,539**
At 31 December 2022	28,036	14,494	1,018	1,954	45,503

11 LEASES

The Bank has lease contracts for branches, ATM and CDM used in its operations. Leases of branches generally have lease terms between 5 and 30 years, CDM have lease term of 7 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.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year ended 31 December 2023:

	2023	*2022*
	AED'000	*AED'000*
Right-of-use assets		
As at 1 January 2023	**89,848**	105,448
Add/ (Less): Lease modification adjustments	**940**	(649)
Post modification balance	**90,788**	104,799
Additions	**-**	2,322
Depreciation expense	**(16,859)**	(17,273)
	73,929	89,848

Set out below are the carrying amounts of lease liabilities and the movements during the year ended 31 December 2023:

	2023	*2022*
	AED'000	*AED'000*
Lease Liabilities		
As at 1 January 2023	**63,437**	77,743
Add/ (Less): Lease modification adjustments	**940**	(649)
Post modification balance	**64,377**	77,094
Accretion of interest (Note 21)	**1,716**	2,176
Additions	**-**	2,322
Payments during the year	**(18,708)**	(18,155)
As at 31 December 2023	**47,385**	63,437

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

The following are the amounts recognised in profit or loss:

	2023	*2022*
	AED'000	*AED'000*
Depreciation expense of right-of-use assets	**16,859**	17,273
Interest expense on lease liabilities	**1,716**	2,176
Total amount recognised in profit or loss	**18,575**	19,449

The Bank had total cash outflows for leases of AED 18,708 thousand (2022: AED 18,155 thousand) in 2023.

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.

12 DEFERRED TAX

a) Deferred tax assets are attributable to the following:

	2023 AED 000	*2022 AED 000*
Allowances for expected credit losses	**56,541**	62,380
Fair value reserve movement relating to investments carried at FVOCI	**17,125**	31,460
Others	**1**	2,250
	73,667	96,090

b) Movements in temporary differences during the year are as follows:

	Opening balance AED 000	***Recognized in assets AED 000***	***Recognised in profit or loss AED 000***	***Recognised in OCI/ equity AED 000***	***Closing balance AED 000***
2023					
Allowances for loan losses	**62,380**	**41**	**(5,880)**	**-**	**56,541**
Fair value reserve movement relating to investments carried at FVOCI	**31,460**	**-**	**-**	**(14,335)**	**17,125**
Others	**2,250**	**-**	**(2,249)**	**-**	**1**
	96,090	**41**	**(8,129)**	**(14,335)**	**73,667**

	Opening balance AED 000	*Recognized in assets AED 000*	*Recognised in profit or loss AED 000*	*Recognised in OCI/ equity AED 000*	*Closing balance AED 000*
2022					
Allowances for loan losses	69,068	219	(6,907)	-	62,380
Fair value reserve movement relating to investments carried at FVOCI	-	-	-	31,460	31,460
Others	4,665	(2,398)	(17)	-	2,250
	73,733	(2,179)	(6,924)	31,460	96,090

13 OTHER ASSETS

	2023 AED 000	*2022 AED 000*
Accrued interest receivable	**66,425**	52,387
Custodian collection	**140,160**	10,326
Prepayments and deposits	**11,176**	9,750
Precious metal - Gold	**4,287**	3,853
Derivatives financial assets	**70**	1
Others	**2,422**	1,957
	224,540	78,274

14 DEPOSITS FROM CUSTOMERS

	2023	*2022*
	AED 000	*AED 000*
Business accounts		
Demand deposits	**5,165,695**	5,205,002
Time deposits	**1,175,129**	919,093
Call deposits	**535,814**	526,640
Margin deposits	**180,339**	135,354
Savings deposits	**67,273**	70,548
	7,124,250	6,856,637
Individual customers		
Demand	**2,075,573**	2,028,085
Time deposits	**1,754,855**	1,386,417
Savings deposits	**987,464**	1,191,568
Call deposits	**296,314**	281,335
Margin deposits	**5,778**	9,785
	5,119,984	4,897,190
Total	**12,244,234**	11,753,827

Deposits from customers include Islamic customer deposits amounting to AED 867.7 million (2022: AED 688.2 million) undertaken through a Sharia'a compliant Islamic window.

15 DUE TO BANKS

	2023	*2022*
	AED 000	*AED 000*
Demand deposits (current)	**167,661**	68,556

There is no interest paid on balances due to banks during the years ended 31 December 2023 and 2022.

16 OTHER LIABILTIES

	2023	*2022*
	AED 000	*AED 000*
Bills payable	**109,855**	45,485
Tax payable	**81,540**	43,430
Staff terminal benefits	**47,222**	39,235
Accrued expenses payable	**17,485**	8,406
Provision – off balance sheet items	**5,425**	8,331
Accrued interest payable	**26,053**	7,349
Commission received in advance	**4,509**	1,895
Negative fair value of derivatives	**162**	61
Others	**24,147**	16,846
	316,398	171,038

Others included overdue bills and other payables of AED 9,495 thousand (2022: AED 10,598 thousand) remained unclaimed by the counterparties.

17 ALLOCATED CAPITAL

	2023	*2022*
	AED 000	*AED 000*
Share capital	**500,000**	500,000

18 LEGAL / STATUTORY RESERVE

Legal/ Statutory reserve is not available for appropriation of dividend.

19 CONTINGENT LIABILITIES AND OTHER COMMITMENTS

The contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

		2023	*2022*
		AED 000	*AED 000*
a)	Direct credit substitutes including general guarantees of indebtedness and standby letters of credit serving as financial guarantees for loans and securities	**202,606**	201,071
b)	Transaction-related contingencies including performance bonds, bid bonds and standby letters of credit related to particular transactions	**91,600**	98,211
c)	Short-term self-liquidating trade-related contingencies arising from the movement of goods, such as documentary credits where the underlying shipment is used as security	**435,674**	280,588
		729,880	579,870

19 CONTINGENT LIABILITIES AND OTHER COMMITMENTS (continued)

a) An analysis of changes in the gross balance of off-balance sheet exposures is as follows:

In AED '000

	Stage 1		***Stage 2***		***Stage 3***		***Total***	
	Outstanding exposure	***ECL***	***Outstanding exposure***	***ECL***	***Outstanding exposure***	***ECL***	***Outstanding exposure***	***ECL***
1 January 2023	**495,836**	**1,621**	**81,973**	**4,753**	**2,061**	**1,957**	**579,870**	**8,331**
Transfers to Stage 1	14,505	7	(14,505)	(7)	-	-	-	-
Transfers to Stage 2	(25,821)	(116)	25,821	116	-	-	-	-
Other movements	130,797	(302)	19,213	(2,604)	-	-	150,010	(2,906)
At 31 December 2023	**615,317**	**1,210**	**112,502**	**2,258**	**2,061**	**1,957**	**729,880**	**5,425**

In AED '000

	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Outstanding exposure	*ECL*	*Outstanding exposure*	*ECL*	*Outstanding exposure*	*ECL*	*Outstanding exposure*	*ECL*
1 January 2022	531,866	2,867	77,336	1,956	2,629	1,957	611,831	6,780
Transfers to Stage 1	7,096	1	(7,096)	(1)	-	-	-	-
Transfers to Stage 2	(20,701)	(73)	20,701	73	-	-	-	-
Other movements	(22,425)	(1,174)	(8,968)	2,725	(568)	-	(31,961)	1,551
At 31 December 2022	495,836	1,621	81,973	4,753	2,061	1,957	579,870	8,331

20 INTEREST INCOME AND INCOME FROM ISLAMIC FINANCING

	2023	*2022*
	AED 000	*AED 000*
Interest income calculated using the effective interest method		
Loans and receivables	**272,896**	204,386
Investment securities	**202,377**	90,938
Due from Banks	**105,093**	43,407
Certificates of deposits with U.A.E. Central Bank	**82,887**	27,390
Due from Head Office, branches abroad and associates	**744**	246
	663,997	366,367

This includes income from Islamic financing amounting to AED 52.2 million (2022: AED 17.2 million) for the year ended 31 December 2023.

21 INTEREST EXPENSE AND DISTRIBUTION TO ISLAMIC DEPOSITORS

	2023	*2022*
	AED 000	*AED 000*
Interest expense calculated using the effective interest method		
Deposit from customers	**66,738**	11,197
Finance cost on lease liabilities (Note 11)	**1,716**	2,176
Due to banks	**162**	842
Due to Head Office, branches abroad and associates	**185**	537
	68,801	14,752

This includes distribution to Islamic depositors amounting to AED 7 million (2022: AED 0.59 million) for the year ended 31 December 2023.

22 FEE AND COMMISSION INCOME (NET)

	2023	*2022*
	AED 000	*AED 000*
Commission income	**86,774**	84,693
Commission expense	**(4,018)**	(3,652)
	82,756	81,041

23 OTHER INCOME

	2023	*2022*
	AED 000	*AED 000*
Foreign exchange income	**58,117**	50,905
Telex charges recovery	**24,210**	23,513
Courier charges recovery	**9,227**	8,276
Insurance charges recovery	**179**	144
Realized investment losses	**(12,457)**	(2,588)
Other miscellaneous income	**11,777**	10,664
Commission expense	**(937)**	(633)
	90,116	90,281

24 GENERAL AND ADMINISTRATIVE EXPENSES

	2023	*2022*
	AED 000	*AED 000*
Staff salaries and benefits	**185,694**	157,751
Depreciation on right-of-use assets (Note 11)	**16,859**	17,273
Head office charges	**17,899**	14,188
Depreciation on property and equipment (Note 10)	**8,469**	9,112
Telephone, telex and courier expenses	**7,470**	7,576
Repairs and maintenance	**4,659**	4,238
Insurance and travel	**2,877**	2,328
Operating leases	**1,630**	1,630
Printing and stationery	**1,023**	892
Operational (recovery)/ losses	**(1,053)**	8
Other miscellaneous expenses	**60,473**	45,882
	306,000	260,878

The total number of employees as at 31 December 2023 were 494 (2022: 479) of which 141 (2022: 126) were UAE Nationals.

25 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

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

	2023	*2022*
	AED'000	*AED'000*
Provision for expected credit losses:		
Specific (Stage 3) - see i below	**2,357**	1,000
12 moths ECL (Stage 1) and Lifetime ECL (Stage 2) - see ii and iii below	**(16,631)**	(12,741)
	(14,274)	(11,741)

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

	2023	*2022*
	AED'000	*AED'000*
Charge for specific impairment allowance – loans and advances	**2,357**	1,000
	2,357	1,000

ii) *Provisions against loans and advances, net (12 moths ECL (Stage 1) & Lifetime ECL (Stage 2))*

	2023	*2022*
	AED'000	*AED'000*
Reversal for impairment allowance – loans and advances	**(12,725)**	(13,180)

25 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (continued)

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

	2023 AED'000	*2022 AED'000*
Investments (Note 9 (c))	**(3,353)**	(136)
Due from banks (Note 7 (a))	**(6,386)**	(158)
Reversal / (charge) for specific impairment allowance - other assets	**8,739**	(818)
Indirect facilities	**(2,906)**	1,551
	(3,906)	439

The table below shows the ECL charges on financial instruments for the year recorded in the statement of profit or loss and other comprehensive income:

2023 **In AED '000s**	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Due from banks	(7,358)	972	-	(6,386)
Loans and advances to customers	(28,290)	15,565	2,357	(10,368)
Debt instruments measured at FVOCI	(2,447)	(300)	-	(2,747)
Debt instruments measured at amortised cost	(424)	(182)	-	(606)
Other assets	8,739	-	-	8,739
Indirect facilities	(411)	(2,495)	-	(2,906)
Total Impairment loss	**(30,191)**	**13,560**	**2,357**	**(14,274)**

2022 In AED '000s	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Due from banks	(158)	-	-	(158)
Loans and advances to customers	10,775	(19,829)	1,000	(12,180)
Debt instruments measured at FVOCI	(104)	(126)	-	(230)
Debt instruments measured at amortised cost	(88)	182	-	94
Other assets	(818)	-	-	(818)
Indirect facilities	(1,246)	2,797	-	1,551
Total Impairment loss	8,361	(21,102)	1,000	(11,741)

26 TAXATION

Provision is made for tax in the Emirates of Abu Dhabi, Dubai (except for Jebel Ali which is a tax-free zone) and Sharjah in accordance with the respective tax legislation in these Emirates. Tax expense for the year comprises:

	2023 AED 000	*2022 AED 000*
Current tax expense	**83,725**	45,827
Prior year income tax adjustments	**18**	21
Deferred tax expense		
Relating to origination and reversal of temporary differences	**5,944**	6,924
Total income tax expense	**89,687**	52,772

26 TAXATION (continued)

The Bank recognises deferred tax asset/liability for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

Reconciliation of effective tax rate:

	2023	*2022*
	AED 000	*AED 000*
Profit for the year before taxation	**476,342**	273,800
Tax calculated using UAE tax rates (20%)	**95,268**	54,760
Tax exempt income	**(6,334)**	(3,613)
Non-deductible expenses	**735**	1,604
Prior year income tax adjustments	**18**	21
Total tax expense in statement of profit or loss and other comprehensive income	**89,687**	52,772
Effective tax rate	**18.83%**	19.27%

27 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.

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.

				Notional amounts by term to maturity		
At 31 December 2023	***Positive fair value AED'000 (Note 13)***	***Negative fair value AED'000 (Note 16)***	***Notional amount AED'000***	***Within 3 months AED'000***	***3-12 months AED'000***	***1-5 years AED'000***
Foreign exchange forward contracts	**70**	**162**	**416,528**	**416,528**	**-**	**-**

				Notional amounts by term to maturity		
At 31 December 2022	*Positive fair value AED'000 (Note 13)*	*Negative fair value AED'000 (Note 16)*	*Notional amount AED'000*	*Within 3 months AED'000*	*3-12 months AED'000*	*1-5 years AED'000*
Foreign exchange forward contracts	1	61	259,099	259,099	-	-

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

28 RELATED PARTY TRANSACTIONS

In the case of the Bank, related parties, as defined under the International Accounting Standard 24, include Head Office, branches abroad, subsidiaries and associates of Habib Bank AG Zurich outside the United Arab Emirates.

In the normal course of business, the Bank enters into various transactions with related parties. The Bank's management believes that all such transactions with related parties are carried out on mutually agreed terms.

Key management personnel are those persons, having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly.

The balances and income/expense arising from transactions with Head Office, branches abroad and subsidiaries are set out below:

	2023	*2022*
	AED 000	*AED 000*
Due from		
- Head office	**18,055**	115,147
- Subsidiaries of Habib Group	**26,661**	26,618
	44,716	141,765
Due to		
- Head office	**4,852**	24,938
- Subsidiaries of Habib Group	**7,624**	10,552
- Branches (other than UAE)	**273**	374
	12,749	35,864
Loan to HBZ Services LLC	**20,457**	21,896
Deposit from HBZ Services LLC	**26,478**	15,690

Due from Head Office and its branches abroad are classified as Stage 1 financial assets. No allowance for impairment has been recognized in respect of due from related parties, including loans and Islamic financing receivables from related parties (2022: nil).

Transactions with Related Parties

	2023	*2022*
	AED 000	*AED 000*
Interest income (including on loan to HBZ Services LLC)	**1,814**	1,674
Interest expense	**185**	537
Head office charges	**17,899**	14,188
Expenses reimbursed to HBZ Services LLC	**35,522**	30,359
Centralized expenses reimbursed to UK	**384**	285

28 RELATED PARTY TRANSACTIONS (continued)

Deposits from related parties

	2023	*2022*
	AED 000	*AED 000*
Deposits at 1 January	**187,493**	175,411
Deposits received and interest rollover during the year	**676,440**	252,400
Deposits repaid during the year	**(633,180)**	(240,318)
Deposits at 31 December	**230,753**	187,493
Interest expense for the Bank during the year	**3,341**	740

Key management compensations

	2023	*2022*
	AED 000	*AED 000*
Short term employment benefits	**5,057**	4,190
Post-employment benefits	**199**	276

28.1 Under an outsourcing agreement, HBZ Services LLC provides back office and support services to the Bank including transaction banking, information technology and internal audit.

Collateral given by related parties
Related parties have provided collaterals in form of cash against loan facilities.

29 GEOGRAPHICAL CONCENTRATION OF ASSETS

	Loans AED 000	*Debt securities AED 000*	*Total funded AED 000*	*OTC derivatives AED 000*	*Other off balance sheet exposures AED 000*	*Total non funded AED 000*	*Total AED 000*
31 December 2023							
UAE	3,330,607	2,912,538	9,906,715	379,829	680,723	1,060,552	10,967,267
GCC excluding UAE	6	17,263	64,631	-	-	-	64,631
Arab League (Excluding GCC)	-	-	-	-	-	-	-
Asia	102,983	505,001	1,251,687	-	23,214	23,214	1,274,901
Africa	2,718	-	37,711	-	24,259	24,259	61,970
North America	8,472	1,740,860	1,878,807	-	-	-	1,878,807
Caribbean	28,155	-	28,155	-	1,464	1,464	29,619
Europe	8	360,780	1,444,190	36,699	137	36,836	1,481,026
Australia	-	75,684	85,096	-	83	83	85,179
Others	-	-	-	-	-	-	-
Total	**3,472,949**	**5,612,126**	**14,696,992**	**416,528**	**729,880**	**1,146,408**	**15,843,400**

29 GEOGRAPHICAL CONCENTRATION OF ASSETS (continued)

	Loans *AED 000*	*Debt securities* *AED 000*	*Total funded* *AED 000*	*OTC derivatives* *AED 000*	*Other off balance sheet exposures* *AED 000*	*Total non funded* *AED 000*	*Total* *AED 000*
31 December 2022							
UAE	3,419,524	1,166,103	8,791,493	185,656	533,851	719,507	9,511,000
GCC excluding UAE	12	16,781	89,245	-	400	400	89,645
Arab League (Excluding GCC)	-	-	-	-	-	-	-
Asia	23,608	563,055	1,456,056	-	41,533	41,533	1,497,589
Africa	4,197	-	49,063	-	1,082	1,082	50,145
North America	5,445	1,499,463	1,548,532	-	-	-	1,548,532
Caribbean	27,659	-	27,659	-	2,309	2,309	29,968
Europe	41	462,831	1,611,626	73,443	612	74,055	1,685,681
Australia	5	74,642	86,708	-	83	83	86,791
Total	3,480,491	3,782,875	13,660,382	259,099	579,870	838,969	14,499,351

30 FINANCIAL ASSETS AND LIABILITIES

The table below set out the Bank's classification of financial assets and liabilities and the carrying and fair value as at 31 December:

At 31 December 2023

	Fair value through profit or loss AED 000	***Fair value through other comprehensive income AED 000***	***Amortised cost AED 000***	***Total carrying amount AED 000***	***Fair value AED 000***
Cash and balances with UAE Central Bank	-	-	3,011,569	3,011,569	3,011,569
Due from banks	-	-	2,078,502	2,078,502	2,078,502
Due from Head office, Branches abroad and associates	-	-	44,716	44,716	44,716
Loans and receivables	-	-	3,472,949	3,472,949	3,472,949
Customers' indebtedness for acceptances	-	-	66,455	66,455	66,455
Investments	-	2,474,386	3,137,740	5,612,126	5,603,712
Other assets	70	-	217,933	218,003	218,003
	70	**2,474,386**	**12,029,864**	**14,504,320**	**14,495,906**
Liabilities, capital and reserves					
Deposits from customers	-	-	12,244,234	12,244,234	12,244,234
Due to banks	-	-	167,661	167,661	167,661
Due to Head office, Branches abroad and associates	-	-	12,749	12,749	12,749
Liabilities under acceptances	-	-	66,455	66,455	66,455
Lease liabilities	-	-	47,385	47,385	47,385
Other liabilities	162	-	182,965	183,127	183,127
	162	**-**	**12,721,449**	**12,721,611**	**12,721,611**

The table below set out the Bank's classification of financial assets and liabilities and the carrying and fair value as at 31 December:

At 31 December 2022

	Fair value through profit or loss AED 000	*Fair value through other comprehensive income AED 000*	*Amortised cost AED 000*	*Total carrying amount AED 000*	*Fair value AED 000*
Cash and balances with UAE Central Bank	-	-	3,054,198	3,054,198	3,054,198
Due from banks	-	-	2,831,217	2,831,217	2,831,217
Due from Head office, Branches abroad and associates	-	-	141,765	141,765	141,765
Loans and receivables	-	-	3,480,491	3,480,491	3,480,491
Customers' indebtedness for acceptances	-	-	60,121	60,121	60,121
Investments	-	2,337,369	1,445,506	3,782,875	3,762,772
Other assets	1	-	73,175	73,176	73,176
	1	2,337,369	11,086,473	13,423,843	13,403,740

30 FINANCIAL ASSETS AND LIABILITIES (continued)

At 31 December 2022

	Fair value through profit or loss AED 000	*Fair value through other comprehensive income AED 000*	*Amortised cost AED 000*	*Total carrying amount AED 000*	*Fair value AED 000*
Liabilities, capital and reserves					
Deposits from customers	-	-	11,753,827	11,753,827	11,753,827
Due to banks	-	-	68,556	68,556	68,556
Due to Head office, Branches abroad and associates	-	-	35,864	35,864	35,864
Liabilities under acceptances	-	-	60,121	60,121	60,121
Lease liabilities	-	-	63,437	63,437	63,437
Other liabilities	61	-	86,417	86,478	86,478
	61	-	12,068,222	12,068,283	12,068,283

31 FAIR VALUE HIERARCHY

Fair value hierarchy

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

	Level 1 AED 000	***Level 2 AED 000***	***Level 3 AED 000***	***Total AED 000***
At 31 December 2023				
Financial assets				
Investments	2,336,825	137,561	-	2,474,386
Derivatives financial assets (Forward foreign exchange contracts)	-	70	-	70
	2,336,825	**237,631**	**-**	**2,474,456**
Financial liabilities				
Derivatives financial liabilities (Forward foreign exchange contracts)	-	162	-	162
	-	**162**	**-**	**162**
At 31 December 2022				
Financial assets				
Investments	2,336,172	-	1,197	2,337,369
Derivatives financial assets (Forward foreign exchange contracts)	-	1	-	1
	2,336,172	1	1,197	2,337,370
Financial liabilities				
Derivatives financial liabilities (Forward foreign exchange contracts)	-	61	-	61
	-	61	-	61

31 FAIR VALUE HIERARCHY (continued)

Fair value hierarchy (continued)

The following table sets out the fair values of financial instruments measured at amortised cost and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized.

At 31 December 2023	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Fair value AED'000*	*Carrying amount AED'000*
Financial assets					
Investments	**2,991,766**	**137,561**	**-**	**3,129,327**	**3,098,027**

At 31 December 2022	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Fair value AED'000*	*Carrying amount AED'000*
Investments	1,425,404	-	-	1,425,404	1,445,506

Fair values of all others financial assets and liabilities approximates their carrying value based on the following:

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.

- Financing to customers are fair valued based on DCF which takes into account original underlying cash borrower credit grading and expected prepayments. These features are used to estimate expected cash flows and discounted at risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted discount rate, and different assumptions and inputs would yield different results.

- Fair values of customer deposits and due to banks is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

32 RISK MANAGEMENT

The Bank is exposed to the following risks from its use of financial instruments:

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

The core business of the Bank is long established, with risk levels easily identifiable and well known to the management. Comprehensive limits are established which are changed from time to time by Board resolutions. The overall risk position is evaluated at Head Office from the standard monthly reporting of the branches and compliance with Bank limits monitored on a regular basis. Measurement is based on compliance with limits and/ or by means of risk weightage as defined for capital adequacy purpose by the Central Bank of UAE and the Bank for International Settlement ('BIS').

The Bank engages in new, large-scale business operations only where limits for such transactions have been approved by the Board of Directors ('the Board'). This approval will only be given after submission of a report by the management setting out the purpose and composition of the proposed product or transaction, together with a clear analysis of the anticipated profitability, resources required and the risks involved. Limits are set taking into account the BIS risk weightage and the guidelines of the Central Bank of UAE. The Board has also set discretionary limits for management below which level minor, non-recurring transactions may be made, or new products tested on a limited basis, without referral to the Board.

32 RISK MANAGEMENT (continued)

(a) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's lending and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees.

The Bank's primary exposure to credit risk arises through its loans and Islamic Financing receivables to customers. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credit and guarantees issued.

The Bank is further exposed to credit risk on various other financial assets, including derivative instruments and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. Investment securities are those guaranteed by investment grade banks in order to keep credit risks to a minimum. Should an investment fall outside this category prior to maturity, an immediate report is made to General Management at Head Office with proposals for rectifying the situation.

The responsibility for management of credit risk lies with Zonal Credit Committee, Branch Credit committee and Credit Risk Management department. The Credit risk management department is responsible for the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various credit committees. Larger facilities require approval by management as appropriate;
- Reviewing and assessing credit risk: Credit Risk Management department assesses all credit exposure in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentration of exposure to counterparties, geographies and industries
- Developing and maintaining the risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risk; the risk grading system is used in determining where impairment provisions may be required against specific credit exposures. Risk grades are subject to regular reviews; and
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

Transaction and position limits by instrument and/or by counterparty are set by General Management based in Head Office, within the overall limits set by the Board. These limits are subject to annual review. Comprehensive reporting is to be made to the Board at Head office prior to such review.

Credit risk of individual counterparties or issuers are checked and monitored by management in accordance with internal rules.

Regular audits of business units and credit processes are undertaken by Internal Audit.

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Exposure to credit risk

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

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
At 31 December 2023				
Due from banks				
Performing	2,038,124	41,832	-	2,079,956
Allowance for impairment losses	(482)	(972)	-	(1,454)
Net carrying amount	**2,037,642**	**40,860**	**-**	**2,078,502**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Loans and advances				
Performing	2,737,986	905,857	-	3,643,843
Non-performing	-	-	111,771	111,771
Allowance for impairment losses	(54,219)	(125,609)	(102,837)	(282,665)
Net carrying amount	**2,683,768**	**780,248**	**8,934**	**3,472,949**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Debt securities				
Performing	5,613,348	-	-	5,613,348
Non-performing	-	-	-	-
Allowance for impairment losses				
- Investment carried at amortised cost	(203)	-	-	(203)
- Investment carried at FVOCI	(1,019)	-	-	(1,019)
Net carrying amount	**5,612,126**	**-**	**-**	**5,612,126**

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
At 31 December 2022				
Due from banks				
Performing	2,839,057	-	-	2,839,057
Allowance for impairment losses	(7,840)	-	-	(7,840)
Net carrying amount	2,831,217	-	-	2,831,217

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Loans and advances				
Performing	2,613,525	1,054,865	-	3,668,390
Non-performing	-	-	122,762	122,762
Allowance for impairment losses	(83,427)	(109,127)	(118,107)	(310,661)
Net carrying amount	2,530,098	945,738	4,655	3,480,491

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Debt securities				
Performing	3,738,175	49,275	-	3,787,450
Non-performing	-	-	-	-
Allowance for impairment losses				
- Investment carried at amortised cost	(627)	(182)	-	(809)
- Investment carried at FVOCI	(3,466)	(300)	-	(3,766)
Net carrying amount	3,734,082	48,793	-	3,782,875

Based on internal processes, loans and advances are subject to FAP tagging based on their performance. Performing loans and advances are tagged as FAP ‘0’ and classified under stage 1. Loans with increase in significant credit risks are tagged as FAP ‘1’ and classed under Sage 2. Credit impaired loans and advances are tagged as FAP ‘2’, ‘3’ or ‘4’ (corresponds to substandard, doubtful and loss respectively) and classified as stage 3.

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Set out below is an analysis of the gross amounts of impaired loans and advances by FAP tagging:

	2023	*2022*
	AED'000	*AED'000*
Substandard (FAP '2')	**15,006**	5,004
Doubtful (FAP '3)	**27,394**	47,749
Loss (FAP '4')	**69,371**	70,009
Total	**111,771**	122,762

Credit risk exposure of the Bank's investment portfolio as per the external risk rating is as follows:

	S&P equivalent rating	***2023***	*2022*
		AED 000	*AED 000*
Low risk	AAA to A-	**4,694,236**	2,604,376
Fair risk	BBB+ to B-	**917,890**	1,177,302
High risk	CCC+ to D	**-**	-
	Unrated	**-**	1,197
		5,612,126	3,782,875

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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

AED'000	***31 December 2023***				*31 December 2022*			
	Collective 12-month ECL	***Lifetime ECL not credit-impaired***	***Lifetime ECL credit-impaired***	***Total***	*Collective 12-month ECL*	*Lifetime ECL not credit-impaired*	*Lifetime ECL credit-impaired*	*Total*
As at 1 January	**101,019**	**114,360**	**120,064**	**335,443**	96,753	134,486	132,145	363,384
Allowances for impairment made during the year	**(30,192)**	**19,820**	**(3,902)**	**(14,274)**	8,362	(16,977)	(3,126)	(11,741)
Amounts written-off during the year	**(1,197)**	**-**	**(17,626)**	**(18,823)**	(3,118)	-	(13,082)	(16,200)
Transfers to Stage 1	**2,042**	**(2,042)**	**-**	**-**	414	(414)	-	-
Transfers to Stage 2	**(2,959)**	**2,959**	**-**	**-**	(1,392)	1,433	(41)	-
Transfers to Stage 3	**-**	**(6,258)**	**6,258**	**-**	-	(4,168)	4,168	-
As at 31 December	**68,713**	**128,839**	**104,794**	**302,346**	101,019	114,360	120,064	335,443

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impact on modelled ECL allowance
The Bank's models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the Bank operates could not be reliably modelled for the time being. As a consequence, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are needed. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments will be applied for the foreseeable future.

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

Since stage 1 and stage 2 ECL held by the bank is higher than the general provision as per the requirements of CBUAE, hence no general impairment reserve is created since 1 January 2022. Whereas, based on individual comparison of stage 3 ECL as per IFRS 9 and specific provision as required by the CBUAE, the Bank is not required to maintain specific impairment reserve as at 31 December 2023.

Impairment assessment
The asset portfolio is reviewed at least quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately risk graded as per the credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at least on quarterly intervals to the Board sub committees.

Corporate loans: The Bank determines the impairment appropriate for each individually significant loan or advance on an individual basis in line with Central Bank of the UAE and IFRS requirements. The Bank classifies those accounts where recovery is considered doubtful and ensures provisions are made accordingly. The impairment losses are evaluated on an ongoing basis. Credit exposures are classified by exercising mature judgment in line with Central Bank of the UAE regulations and IFRS requirements. Specific impairment is assessed when it shows a significant perceived decline in the credit quality or when an obligation is past due or over-limit for more than 90 days. Delinquent accounts are broadly classified as Substandard, Doubtful or Loss. The following general guidelines are followed for account classification into non-impaired and impaired:

- Loans and advances which bear normal banking risk, whereby information available to the bank assures repayment as agreed are classified as normal loans;
- Loans and advances which show some weaknesses in the borrower's financial condition and credit worthiness, requiring more than normal attention but not allocation of provisions are classified as Watch list loans;
- Those accounts where adverse factors may hinder repayment or weaken security or lead to some loss are classified as "Substandard accounts". In general these are credit exposures where agreed payments of principal and/or interest are more than 90 consecutive days in arrears;
- Those accounts where full recovery of interest and principal seems doubtful on the basis of information available, leading generally to a loss of part of these loans are classified as "Doubtful accounts"; and
- Those accounts where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing shall be recovered are classified as "Loss accounts".

All accounts classified as "Sub Standard", "Doubtful" and "Loss" constitute "Non- Performing Accounts"

During IFRS 9 implementation, the Bank formed a Steering Committee comprising of the appropriate Bank representatives to oversee the process of IFRS 9 implementation.

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Impairment assessment (continued)
Post implementation of IFRS 9, the Bank established principles for ongoing IFRS 9 governance to ensure effective oversight of IFRS 9 processes. An effective IFRS 9 governance structure incorporates Credit, Risk and Finance departments as central support functions for each component of IFRS 9, defines clear process owners and reviewing functions and utilizes the three lines of defense to ensure an effective framework.

Under the IFRS 9 Governance Structure of the Bank, below are the three lines of defense for the key IFRS 9 processes i.e. classification and measurement, staging, impairment and disclosures:

- The process owners i.e. Credit, Financial Control and Treasury form the first line of defense;
- The reviewing/approving functions i.e. Chief Executive Officer, Head of Financial Control, Country Credit Management Committee and Country Asset and Liability Committee form the second line of defense; and
- The independent review functions i.e. Internal Audit and the Audit Committee of the BOD form the third line of defense.

To develop an effective governance framework, roles and responsibilities of the relevant stakeholders are defined to ensure appropriate segregation of duties and accountability.

The CCMC and Head of Credit will be responsible for review of the directive. The directive is subject to amendments if necessary as the Bank's business practice changes, the IFRS 9 standard evolves, market practices develop and regulatory directives are updated / introduced. The roles and responsibilities are updated in the appropriate committee charters and policies of the Bank.

Write offs
Corporate: Facilities where partial loss of principal is expected and full recovery of interest and fees is not expected or which are overdue for 180 days or more are transferred on a case-by-case basis to the Specialised Loans Bank for specialised remedial management and, where appropriate, written off as approved by the Management.

Consumer: Consumer loans are written off in the event of a compromise settlement agreed between the Bank and the customer.

The Bank generally waits until all legal and other remedies are exhausted before writing-off fully provisioned loans.

Collateral Management
Credit risk assessment identifies the primary sources of repayment which are the obligor's normal business cash flows and/ or normal personal income. Where credit facilities are secured by collateral, the Bank seeks to ensure the enforceability of the collateral.

Acceptable collateral includes deposits marked with lien, mortgages over land and property, movable assets including inventory, securities, investment grade bonds, gold and guarantees. The maximum lending value and the valuation

Collaterals are revalued as a general rule as per the Bank's credit policy. However, adhoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Collaterals and guarantees are effectively used as mitigating tools by the Bank. The quality of collateral is continuously monitored and assessed.

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis by economic activity:
The Bank monitors concentrations of credit risk by economic activity sector. The analysis on significant credit risk by economic activity is as follows:

	2023			*2022*		
	Loans and receivables AED 000	***Banks & investment AED 000***	***Other Off-balance Sheet exposures AED 000***	*Loans and receivables AED 000*	*Banks & investment AED 000*	*Other Off-balance Sheet exposures AED 000*
Manufacturing	**587,356**	**-**	**143,472**	605,194	-	130,977
Construction & Real Estate	**882,755**	**-**	**26,832**	781,524	-	28,667
Trade	**1,606,564**	**-**	**418,500**	1,712,430	-	282,799
Transport and communication	**13,970**	**-**	**12,266**	19,424	-	9,011
Other Services	**93,200**	**-**	**25,883**	95,092	-	21,799
Sovereign	**243**	**2,868,760**	**-**	89,477	1,122,262	-
Personal	**494,768**	**-**	**11,251**	485,094	-	13,427
Banks & other financial institutions	**101,493**	**3,549,143**	**91,676**	24,099	4,152,306	93,190
Others	**-**	**1,275,966**	**-**	-	1,351,939	-
Total gross assets	**3,780,349**	**7,693,869**	**729,880**	3,812,334	6,626,507	579,870

Impairment
The Bank's past due loans and advances (including interest in suspense) by industry segment and geographical location at 31 December 2023, as defined by the Central Bank of the UAE are as follows:

	Past Due but not impaired AED 000	***Individually impaired AED 000***	***Total AED 000***	***ECL AED 000***	***Net impaired assets AED 000***
As at 31 December 2023					
Industry Segment					
Manufacturing	-	12,702	12,702	(12,702)	-
Construction & Real Estate	31,466	75,374	106,840	(75,575)	31,265
Trade	5,990	32,726	38,716	(31,861)	6,855
Transport and Communication	30	244	274	(244)	30
Other Services	-	4,036	4,036	(3,966)	70
Sovereign	-	-	-	-	-
Personal	73,813	11,423	85,236	(3,223)	82,013
Banks & Other Financial Institutions	-	-	-	-	-
Total	**111,299**	**136,505**	**247,804**	**(127,571)**	**120,233**

	Past Due but not impaired AED 000	***Individually impaired AED 000***	***Total AED 000***	***ECL AED 000***	***Net impaired assets AED 000***
Concentration by Geography					
United Arab Emirates	111,299	136,440	247,739	(127,506)	120,233
Non UAE	-	65	65	(65)	-
Total	**111,299**	**136,505**	**247,804**	**(127,571)**	**120,233**
As at 31 December 2022	115,520	143,949	259,469	(139,288)	120,181

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Collateral

The Bank holds collateral against loans and Islamic financing receivables in the form of cash, guarantees, mortgages and liens over properties or other securities over assets. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are subsequently monitored on a periodic basis.

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

	2023 AED'000	*2022 AED'000*
Against loans and advances - Stage 3		
Pledged deposits	**44**	2,044
Property	**36,199**	37,285
Vehicles	**1,583**	4,108
Total	**37,826**	43,437

	2023 AED'000	*2022 AED'000*
Against loans and advances - Stage 1 and 2		
Pledged deposits	**704,593**	690,605
Debt / Equity securities	**66,702**	101,342
Property	**1,591,975**	1,710,386
Vehicles	**54,150**	70,043
Bank guarantees	**5,000**	7,000
Others	**457**	610
Total	**2,422,877**	2,579,986

The collateral value represents actual value as of the reporting date, irrespective of customer exposures/outstanding balances.

Analysis of the Bank's exposure at 31 December 2023 based on BASEL III standardised approach is as follows:

		Credit risk mitigation ("CRM")			***Risk weighted assets***
Assets classes	***On & Off Balance sheet gross outstanding AED 000***	***Exposure before CRM AED 000***	***CRM AED 000***	***After CRM AED 000***	***Total AED 000***
As at 31 December 2023					
Claims on sovereign	6,073,240	6,073,240	-	6,073,240	243
Claims on (PSEs)	10,936	10,936	-	10,936	2,187
Claims on banks	3,326,512	3,326,512	(199)	3,298,215	1,295,182
Claims on securities Firm	-	-	-	-	
Claims on corporate	5,920,703	5,920,703	(583,820)	3,885,465	2,656,302
Claims included in retail portfolio	331,417	331,417	(186,092)	312,464	102,139
Claims secured by residential property	596,105	596,105	(2,057)	596,105	375,180
Claims secured by commercial real estate	605,318	605,318	-	605,318	605,318
Past due loans	251,632	122,103	(6,349)	122,103	115,881
Other assets	454,720	453,367	-	453,367	516,888
Total	**17,570,583**	**17,439,701**	**(778,517)**	**15,357,213**	**5,669,320**

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Collateral (continued)

Assets classes	*On & Off Balance sheet gross outstanding AED 000*	*Credit risk mitigation ("CRM") Exposure before CRM AED 000*	*CRM AED 000*	*After CRM AED 000*	*Risk weighted assets Total AED 000*
As at 31 December 2022					
Claims on sovereign	4,219,576	4,219,576	-	4,219,576	98,695
Claims on (PSEs)	10,881	10,881	-	10,881	2,176
Claims on banks	4,132,405	4,132,405	(10,179)	4,113,275	1,642,013
Claims on securities Firm	-	-	-	-	-
Claims on corporate	5,688,698	5,688,698	(625,457)	4,079,335	2,844,919
Claims included in retail portfolio	311,889	311,889	(140,812)	295,737	131,412
Claims secured by residential property	595,410	595,410	(146)	595,410	414,467
Claims secured by commercial real estate	458,050	458,050	-	458,050	458,050
Past due loans	263,201	121,955	(6,887)	121,955	115,070
Other assets	355,079	353,891	-	353,891	444,535
Total	16,035,189	15,892,755	(783,481)	14,248,110	6,151,337

Risk weighted capital requirement
The Bank has adopted the standardised approach for credit risk, market risk and operational risk for regulatory reporting purposes. The Bank's risk weighted capital requirement for credit, market and operation risk are given below:

Risk weights for credit risk
The Bank has a diversified funded and unfunded credit portfolio. The exposures are classified as per the Standard Portfolio approach mentioned under the Central Bank of UAE Basel III Capital Adequacy Framework covering the standardised approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Funded exposure

Claims on sovereigns
These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable External Credit Assessment Institutions ('ECAIs'), except that, for all Gulf Cooperation Council ('GCC') sovereigns a 0% weight has been applied.

Claims on non-commercial public sector entities (PSEs)
Domestic currency claims on GCC non-commercial PSE were treated as claims on GCC sovereign if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE were treated one grade less favourable than its sovereign i.e. 20% risk weight were applied. Claims on other foreign non-commercial PSE were treated one grade less favourable than its sovereign.

Claims on multilateral development banks (MDBs)
All MDBs are risk weighted in accordance with each bank's credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks
Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency were assigned more favourable risk weighting.

No claim on an unrated bank would receive a risk weight lower than that applied to claims on its sovereign of incorporation.

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Risk weighted capital requirement (continued)

Funded exposure (continued)

Claims on corporate portfolio and government related entities portfolio
Claims on corporate and government related entities portfolio (entities with greater than 50% government ownership) are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate and government related entities' claims are assigned at 100%.

Claims on regulatory retail exposures
Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75% (except for past due loans), if they meet the criteria mentioned in the Central Bank of UAE BASEL-III guidelines.

Claims secured by residential property
A preferential risk weight of 35% was applied on claims that did not exceed AED 10 million to a single borrower and the claim was secured by residential property with LTV of up to 85%. Other claims secured on residential property were risk weighted 100%.

Claims secured by commercial property
100% risk weight was applied on claims secured by commercial property.

Past due exposures
The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:
- 150% risk weight when specific provisions are less than 20% of the outstanding amount of the loan; and
- 100% risk weight when specific provisions are greater than 20% of the outstanding amount of the loan.

Other exposures
These are risk weighted at 100%.

Unfunded exposure
For credit-related contingent items, the nominal value is converted to an exposure through the application of Credit Conversions Factors (CCF). The CCF is at 20%, 50% or 100% depending on the type of contingent item and is used to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

Undrawn commitments to extend credit represent commitments that have not been drawn down or utilised at the reporting date. The nominal amount provides the calculation base to which the CCF is applied for calculating the exposure. CCF range between 20% and 50% for commitment with original maturity of up to one year and over one year respectively and 0% CCF is applicable for commitments which can be unconditionally cancelled at any time.

Unfunded exposure (continued)
The Bank's exposure and credit risk mitigation at 31 December 2023 is summarised as follows:

	2023	*2022*
	AED'000	*AED'000*
Gross exposure prior to credit risk mitigation	**16,135,730**	14,258,289
Less: exposure covered by eligible financial collateral	**(778,318)**	(773,302)
Less: exposure covered by guarantees	**(199)**	(10,179)
Net exposure after credit risk mitigation	**15,357,213**	13,474,808
Risk Weighted Assets	**5,669,320**	6,151,337

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Migration during the year

	Non-credit impaired				*Credit Impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Exposure	*Impairment*	*Exposure*	*Impairment allowance*	*Exposure*	*Impairment allowance*	*Exposure*	*Impairment allowance*
Retail banking loans								
As at 1 Jan 2023	243,369	2,595	210,993	34,825	5,518	2,928	459,880	40,348
Transfers from stage 1 to stage 2	(57)	(4)	57	4	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	-	-	(8,136)	(2,034)	8,136	2,034	-	-
Other movements	30,363	(1,894)	(8,362)	19,208	(2,231)	(2,103)	19,770	15,211
As of 31 Dec 2023	273,675	697	194,552	52,003	11,423	2,859	479,650	55,559
Wholesale banking loans:								
As of 1 Jan 2023	2,370,156	80,832	843,872	74,302	138,426	115,179	3,352,454	270,313
Transfers from stage 1 to stage 2	(155,112)	(2,955)	155,112	2,955	-	-	-	-
Transfers from stage 2 to stage 1	73,138	2,042	(73,138)	(2,042)	-	-	-	-
Transfers from 1&2 to stage 3	-	-	(21,018)	(4,224)	21,018	4,224	-	-
Other movements	176,130	(26,397)	(193,523)	2,615	(34,362)	(19,425)	(51,755)	(43,207)
As of 31 Dec 2023	2,464,312	53,522	711,305	73,606	125,082	99,978	3,300,699	227,106

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Migration during the year

	Non-credit impaired				*Credit Impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Exposure	*Impairment*	*Exposure*	*Impairment allowance*	*Exposure*	*Impairment allowance*	*Exposure*	*Impairment allowance*
Retail banking loans								
As at 1 Jan 2022	386,507	2,412	249,852	32,849	41,964	15,097	678,323	50,358
Transfers from stage 1 to stage 2	-	(5)	-	5	-	-	-	-
Transfers from stage 2 to stage 1	-	-	-	-	-	-	-	-
Transfers from 1&2 to stage 3	(86)	-	(3,397)	(854)	3,483	854	-	-
Other movements	(143,052)	188	(35,462)	2,825	(39,929)	(13,023)	(218,443)	(10,010)
As of 31 Dec 2022	243,369	2,595	210,993	34,825	5,518	2,928	459,880	40,348
Wholesale banking loans:								
As of 1 Jan 2022	2,054,864	71,217	961,672	99,256	169,523	115,091	3,186,059	285,564
Transfers from stage 1 to stage 2	(66,941)	(1,387)	66,941	1,387	-	-	-	-
Transfers from stage 2 to stage 1	17,809	414	(17,809)	(414)	-	-	-	-
Transfers from 1&2 to stage 3	-	-	(5,502)	(3,314)	5,502	3,314	-	-
Other movements	364,424	10,588	(161,471)	(22,654)	(36,558)	(3,185)	166,395	(15,251)
As of 31 Dec 2022	2,370,156	80,832	843,831	74,261	138,467	115,220	3,352,454	270,313

32 RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Change in ECL allowance by industry sector for UAE Corporate and Institutional banking customers
Below is an analysis of change in ECL allowance by industry sector since 31 December 2021 on UAE Corporate and Institutional banking customers benefiting from payment deferrals:

	Non-credit impaired		*Credit Impaired*	
AED '000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Retail banking loans:				
ECL allowance as of start of year	2,595	34,825	2,928	40,348
Credit Cards	(754)	(13)	(5)	(772)
Housing Loans	(160)	17,208	239	17,287
Personal Loans	36	9	(6)	39
Auto Loans	(11)	(1)	-	(12)
Others	(1,009)	(25)	(297)	(1,331)
ECL allowance as of end of year	697	52,003	2,859	55,559
Wholesale banking loans:				
ECL allowance as of start of year	80,832	74,302	115,179	270,313
Federal Government	(2,533)	-	-	(2,533)
Emirates Governments				
GREs (Gov ownership >50%)	-	-	(12,317)	(12,317)
Corporate with Govt ownership <50%	-	-	-	-
Other Corporates	(22,685)	(13,593)	19,443	(16,835)
High Net Worth Individuals	(1,869)	92	-	(1,777)
SMEs	(222)	12,805	(18,087)	(5,504)
Banks	-	-	-	-
NBFI	(1)	-	(4,240)	(4,241)
Others	-	-	-	-
ECL allowance as of end of year 2023	53,522	73,606	99,978	227,106

(b) Market risk

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

Market risks are managed on a continuing basis by Area Management based on limits set by the Board and General Management at Head Office. Aggregation at the total Bank level is carried out on a monthly basis as part of the normal month-end reporting procedures.

32 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk
The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposure gives rise to foreign currency gains and losses that are recognised in the statement of profit or loss and other comprehensive income. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the measurement currency of the Bank. The Bank ensures that its foreign currency exposure is kept at an acceptable level by buying and selling foreign currencies at spot rates when appropriate.

	AED	***USD***	***GBP***	***Others***	***Total***
	AED 000	***AED 000***	***AED 000***	***AED 000***	***AED 000***
Assets					
Cash and balances with UAE Central Bank	3,010,999	570	-	-	3,011,569
Due from banks	346,299	1,227,956	269,462	234,785	2,078,502
Due from Head Office and branches	-	8,842	4,139	31,735	44,716
Loans and receivables	3,300,975	62,222	-	109,752	3,472,949
Investments	2,868,761	2,743,365	-	-	5,612,126
Property and equipment	38,539	-	-	-	38,539
Right-of-use assets	73,929				73,929
Customers' indebtedness for acceptances	-	63,452	-	3,003	66,455
Deferred tax assets	73,667	-	-	-	73,667
Other assets	60,554	159,416	28	4,542	224,540
Total assets	**9,773,723**	**4,265,823**	**273,629**	**383,817**	**14,696,992**

	AED	***USD***	***GBP***	***Others***	***Total***
	AED 000	***AED 000***	***AED 000***	***AED 000***	***AED 000***
Liabilities					
Deposits from customers	8,008,265	3,638,989	273,454	323,526	12,244,234
Due to banks	1,915	165,307	-	439	167,661
Due to Head Office and branches	12,674	53	22	-	12,749
Liabilities under acceptances	-	63,452	-	3,003	66,455
Lease liabilities	47,385				47,385
Deferred tax liabilities	-	-	-	-	-
Other liabilities	311,076	4,158	50	1,114	316,398
Total liabilities	**8,381,315**	**3,871,959**	**273,526**	**328,082**	**12,854,882**
Capital & Reserves					
Allocated Capital	500,000	-	-	-	500,000
Legal reserve	50,000	-	-	-	50,000
Retained earnings	1,360,610	-	-	-	1,360,610
Revaluation reserves	-	(68,500)	-	-	(68,500)
Impairment reserves	-	-	-	-	-
Total capital and reserves	**1,910,610**	**(68,500)**	**-**	**-**	**1,842,110**
Total liabilities, capital and reserves	**10,291,924**	**3,803,459**	**273,526**	**328,082**	**14,696,992**
Net balance sheet position	(518,202)	462,364	103	55,735	-

32 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Foreign currency risk (continued)

	AED *AED 000*	*USD* *AED 000*	*GBP* *AED 000*	*Others* *AED 000*	*Total* *AED 000*
At 31 December 2022					
Total assets	8,844,314	4,113,685	315,610	386,773	13,660,382
Total liabilities, capital and reserves	9,319,285	3,647,005	315,573	378,519	13,660,382
Net balance sheet position	(474,971)	466,680	37	8,254	-

The Bank's functional currency is the UAE Dirham. The Bank is exposed to currency risk through transactions in spot and forward contracts. Forward transactions are done to accommodate customer requirements and not for any speculative purposes. At 31 December, the Bank had the following net exposures denominated in foreign currencies.

	Net spot position 2023 AED 000	***Forward position 2023 AED 000***	***Net exposure 2023 AED 000***	*Net exposure 2022 AED 000*
Currency				
US Dollar	**462,364**	**(317,345)**	**145,019**	211,681
GBP	**103**	**-**	**103**	37
Others	**55,735**	**(49,590)**	**6,144**	6,204

Interest rate risk
The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in different amounts. In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with Bank's business strategies. The interest sensitivity of the Bank can be illustrated as follows:

Shift in yield curve	***2023 AED 000***	*2022 AED 000*
+200 b.p.	**157,783**	155,418
-200 b.p.	**(157,783)**	(155,418)

A substantial portion of the Bank's assets and liabilities are re-priced within one year. Accordingly there is limited exposure to interest rate risk. The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on AED 12.7 billion of monthly average interest bearing assets and AED 4.8 billion of monthly average interest bearing liabilities (31 Dec 2022: AED 12.4 billion of monthly average interest bearing assets and AED 4.6 billion average interest bearing liabilities.) The sensitivity does not incorporate actions that could be taken by the management to mitigate the effect of interest rate movements.

32 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate risk (continued)
A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

As at 31 December 2023	*Up to 3 months AED 000*	*3 – 12 months AED 000*	*1 – 5 year AED 000*	*Over 5 years AED 000*	*Non interest bearing AED 000*	*Carrying amount AED 000*
Assets						
Cash and balances with UAE Central Bank	1,380,000	425,000	-	-	1,206,569	3,011,569
Due from banks	1,686,687	209,689	-	-	182,126	2,078,502
Due from Head Office, branches abroad and Associates	1,362	-	-	-	43,354	44,716
Loans and receivables	2,452,480	70,325	145,701	780,674	23,769	3,472,949
Investments	1,777,363	1,708,945	2,125,818	-	-	5,612,126
Property and equipment	-	-	-	-	38,539	38,539
Right-of-use assets	-	-	-	-	73,929	73,929
Customers' indebtedness for acceptances	-	-	-	-	66,455	66,455
Deferred tax assets	-	-	-	-	73,667	73,667
Other assets	-	-	-	-	224,540	224,540
Total assets	**7,297,892**	**2,413,959**	**2,271,519**	**780,674**	**1,932,948**	**14,696,992**
Liabilities, capital and reserves						
Deposits from customers	2,767,415	1,210,735	55,929	-	8,210,155	12,244,234
Due to banks	-	-	-	-	167,661	167,661
Due to Head Office, branches abroad and Associates	100	-	-	-	12,649	12,749
Liabilities under acceptances	-	-	-	-	66,455	66,455
Lease liabilities	2,717	14,183	29,036	1,449	-	47,385
Other liabilities	-	-	-	-	316,398	316,398
Deferred tax liabilities	-	-	-	-	-	-
Capital and reserves	-	-	-	-	1,842,110	1,842,110
Total liabilities and capital and reserves	**2,770,232**	**1,224,918**	**84,965**	**1,449**	**10,615,428**	**14,696,992**
Interest rate sensitivity gap						
2023	**4,527,660**	**1,189,041**	**2,186,554**	**779,225**	**(8,682,480)**	**-**
2022	5,384,966	534,463	2,218,651	258,695	(8,396,775)	-
Cumulative interest rate sensitivity gap						
2023	**4,527,660**	**5,716,701**	**7,903,255**	**8,682,480**	**-**	**-**
2022	5,384,966	5,919,429	8,138,080	8,396,775	-	-

Repricing of assets and liabilities has been determined on the basis of contractual pricing or maturity dates, whichever is earlier. Lease liabilities have been discounted at an incremental borrowing rate of 3% (2022: 3%).

Liquidity risk is the risk that a bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset at close to its fair value. The Asset Liability Committee of the Bank meets regularly and monitors the liquidity requirements. The Bank's liquidity management policies are designed to ensure that even under adverse conditions the Bank should be in a position to meet its obligations.

32 RISK MANAGEMENT (continued)

(b) Market risk (continued)

Interest rate risk (continued)

The Bank's conservative lending policy and risk averse approach to funding has resulted in a significant mitigation of the Liquidity Risk on the Bank's books, thereby justifying enough liquidity and Capital Adequacy.

Daily liquidity management is carried out through comprehensive reporting by Finance Department and Treasury Department that gives relevant information to the Bank's Management regarding liquidity risk. Excess funds after meeting customer advances and other requirements are placed with Central Bank of the UAE and other good quality internationally rated banks to maintain an optimal short and medium term liquidity position.

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 it's 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.

(c) Liquidity risk

The following table shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

	Carrying amount AED 000	*inflow / (outflow) AED 000*	*0 – 3 months AED 000*	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*
At 31 December 2023					
Financial Liabilities					
Deposits from customers	12,244,234	(12,270,902)	(10,995,654)	(1,218,924)	(56,324)
Due to banks	167,661	(167,661)	(167,661)	-	-
Due to Head Office, branches abroad and Associates	12,749	(12,749)	(12,749)	-	-
Lease liabilities	47,385	(48,468)	(2,717)	(14,183)	(31,568)
Other liabilities	182,965	(182,965)			(182,965)
	12,654,994	**(12,682,746)**	**(11,178,781)**	**(1,233,107)**	**(270,857)**
Unrecognised loan commitments	**729,880**	**729,880**	**503,561**	**204,197**	**22,122**

32 RISK MANAGEMENT (continued)

	Carrying amount AED 000	*inflow / (outflow) AED 000*	*0 – 3 months AED 000*	*3 months to 1 year AED 000*	*1 year to 5 years AED 000*
At 31 December 2022					
Financial Liabilities					
Deposits from customers	11,753,827	(11,761,737)	(10,712,204)	(903,632)	(145,902)
Due to banks	68,556	(68,556)	(68,556)	-	-
Due to Head Office, branches abroad and Associates	35,864	(35,864)	(35,864)	-	-
Lease liabilities	63,437	(64,284)	(4,040)	(12,121)	(48,123)
Other liabilities	86,417	(86,417)	-	-	(86,417)
	12,008,101	(12,016,858)	(10,820,664)	(915,753)	(280,442)
Unrecognised loan commitments	579,870	579,870	360,386	192,209	27,275

The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The table below summarises the residual maturity profile of the Bank's assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31 December 2023	***Up to 3 months AED 000***	***3 – 12 months AED 000***	***1 – 5 year AED 000***	***Over 5 years AED 000***	***No maturity AED 000***	***Total amount AED 000***
Assets						
Cash and balances with UAE Central Bank	1,380,000	425,000	-	-	1,206,569	3,011,569
Due from banks	1,686,687	209,689	-	-	182,126	2,078,502
Due from related parties	1,362	-	-	-	43,354	44,716
Loans and receivables	1,309,983	462,943	196,826	1,242,008	261,188	3,472,949
Investments	1,777,363	1,609,231	2,225,532	-	-	5,612,126
Property and equipment	-	-	-	-	38,539	38,539
Right-of-use assets	-	-	-	-	73,929	73,929
Customers' indebtedness for acceptances	66,455	-	-	-	-	66,455
Deferred tax assets	-	-	-	-	73,667	73,667
Other assets	-	-	-	-	224,540	224,540
Total assets	**6,221,851**	**2,706,863**	**2,422,358**	**1,242,008**	**2,103,912**	**14,696,992**
Liabilities, capital and reserves						
Deposits from customers	2,681,565	1,210,735	55,929	-	8,296,005	12,244,234
Due to banks	-	-	-	-	167,661	167,661
Due to related parties	100	-	-	-	12,649	12,749
Liabilities under acceptances	66,455	-	-	-	-	66,455
Lease liabilities-	2,717	14,183	29,036	1,449	-	47,385
Other liabilities	-	-	-	-	316,398	316,398
Deferred tax liabilities	-	-	-	-	-	-
Capital and reserves	-	-	-	-	1,842,110	1,842,110
Total liabilities and capital and reserves	**2,750,837**	**1,224,918**	**84,965**	**1,449**	**10,634,823**	**14,696,992**
Maturity gap 2023	**3,471,014**	**1,481,945**	**2,337,393**	**1,240,559**	**(8,530,912)**	**-**

32 RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

As at 31 December 2022	*Up to 3 months AED 000*	*3 – 12 months AED 000*	*1 – 5 year AED 000*	*Over 5 years AED 000*	*No maturity AED 000*	*Total amount AED 000*
Assets						
Cash and balances with UAE Central Bank	2,055,000	20,000	-	-	979,198	3,054,198
Due from banks	2,204,958	421,437	-	-	204,822	2,831,217
Due from related parties	107,471	-	-	-	34,294	141,765
Loans and receivables	1,464,367	452,297	309,518	963,567	290,742	3,480,491
Investments	711,808	725,399	2,345,668	-	-	3,782,875
Property and equipment	-	-	-	-	45,503	45,503
Right-of-use assets	-	-	-	-	89,848	89,848
Customers' indebtedness for acceptances	60,121	-	-	-	-	60,121
Deferred tax assets	-	-	-	-	96,090	96,090
Other assets	-	-	-	-	78,274	78,274
Total assets	6,603,725	1,619,133	2,655,186	963,567	1,818,771	13,660,382
Liabilities, capital and reserves						
Deposits from customers	2,211,583	901,524	145,517	-	8,495,203	11,753,827
Due to banks	-	-	-	-	68,556	68,556
Due to related parties	22,250	-	-	-	13,614	35,864
Liabilities under acceptances	60,121	-	-	-	-	60,121
Lease liabilities	4,040	12,121	45,022	2,254	-	63,437
Other liabilities	-	-	-	-	171,038	171,038
Deferred tax liabilities	-	-	-	-	-	-
Capital and reserves	-	-	-	-	1,507,539	1,507,539
Total liabilities and capital and reserves	2,297,994	913,645	190,539	2,254	10,255,950	13,660,382
Maturity gap 2022	4,305,731	705,488	2,464,647	961,313	(8,437,179)	-

(d) Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition comprises legal risk including regulatory fines and settlements, but excludes strategic and reputation risk.

The Bank has an Independent Department in charge of the management of operational risks. This function is responsible for the development of strategies for the identification, assessment, monitoring, control and mitigation of operational risks. The function is also responsible for the development and implementation of a method to assess and report operational risks and systematically collecting the operational risk data relevant for the Bank's operations.

The operational risk department is an integral part of the overall risk management strategy of the Bank. The Bank has sound documentation of all the standard procedures, policies and standardised approaches for all the generic and key processes. Majority of the coverage as to the Management of Operational Risk at the Bank is also effected through system controls.

32 RISK MANAGEMENT (continued)

(e) Capital risk management

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

The Bank's objectives when managing capital are as follows:

- Safeguarding the Bank's ability to continue as a going concern and increase return for shareholders; and
- Comply with regulatory capital set by Central Bank of UAE.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk/ Economic Capital requirements within its integrated Internal Capital Adequacy Process ("ICAAP") Framework.

Risks such as Interest Rate Risk in the Banking Book, Concentration Risk, Strategic Risk, Legal and Compliance Risk, Stress Risk, Insurance Risk and Reputational Risk are all part of the ICAAP.

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 CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Bank's regulatory capital is analysed into two tiers:

- CET1 capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets.

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.
The minimum capital adequacy requirements as set out by the Central Bank are as follows:
- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

Additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced over and above the minimum CET1 requirement of 7%.

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

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

32 RISK MANAGEMENT (continued)

(e) Capital risk management (continued)

Capital allocation (continued)
As at 31 December 2023 and 2022, the Bank's regulatory capital position is as follows:

	2023 ***AED'000***	*2022* *AED'000*
Common Equity Tier 1 (CET 1) CAPITAL		
Share capital	**500,000**	500,000
Legal reserves	**50,000**	50,000
Retained earnings*	**973,955**	971,616
Fair value reserve	**(69,519)**	(129,604)
Total CET 1 capital	**1,454,436**	1,392,012
Regulatory adjustments	**-**	-
Total tier 1 capital	**1,454,436**	1,392,012
TIER 2 CAPITAL		
General provisions	**70,891**	76,906
Total tier 2 capital	**70,891**	76,906
Total regulatory capital (Sum of tier 1 and 2 capital)	**1,525,327**	1,468,918

	2023 ***AED'000***	*2022* *AED'000*
RISK WEIGHTED ASSETS		
Credit risk	**5,671,265**	6,152,443
Market risk	**6,403**	10,236
Operational risk	**1,049,599**	803,268
Total risk weighted assets (RWA)	**6,727,267**	6,965,947
Total CET 1 capital expressed as % of RWA	**21.62%**	19.99%
Total tier 1 capital expressed as % of RWA	**21.62%**	19.99%
Total regulatory capital expressed as % of RWA	**22.67%**	21.09%

*Habib Bank AG Zurich Head Office had proposed the Bank for 100% profit repatriation. This amount is excluded from the retained earnings as at 31 December 2023 for calculation of CET 1 capital.

Risk weights for market risk
Capital requirement for market risk is calculated using standardised approach. The capital requirement for market risk is analysed into capital requirement for interest rate risk, equity risk, foreign exchange risk and option risk.

Risk weight for operation risk
Capital requirement for operation risk is calculated using basic indicator approach. This capital change was computed using basic indicator approach by multiplying the three years' average gross income by a predefined beta factor.

33 CASH AND CASH EQUIVALENTS

Analysis of the balances of cash and cash equivalent items:

	2023 ***AED 000***	*2022* *AED 000*	***Net change in year*** ***AED 000***
Cash and deposits with UAE Central Bank	**3,011,569**	3,054,198	(42,629)
Less: Certificates of deposit and Islamic commodity murabaha with maturity of over 3 months	**(525,000)**	(115,000)	(410,000)
Less: Statutory reserve	**(1,152,547)**	(866,772)	(285,775)
Due from banks	**2,078,502**	2,831,217	(752,715)
Less: Bank placements with maturity of over 3 months	**(70,000)**	(701,494)	631,494
Due from Head Office, branches abroad and associates	**44,716**	141,765	(97,049)
Due to banks including CB	**(167,661)**	(68,556)	(99,105)
Due to Head Office, branches abroad and associates	**(12,749)**	(35,864)	23,115
	3,206,830	4,239,494	(1,032,664)

34 LEGAL PROCEEDINGS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, no provision for any liability has been made in these financial statements.

35 CUSTODY ACCOUNTS

The Bank provides custody, trustee and administration services to third parties in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the reporting date, the Bank has investment custody accounts aggregating to approximately AED 1,210 million (2022: AED 898 million). The income related to custody account of AED 4,742 thousand (2022: AED 4,549 thousand) is included in the fee and commission income in the statement of profit or loss and other comprehensive income.

36 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.

The Cabinet of Ministers Decision No.116/2022 effective from January 2023, has confirmed the threshold of income over which the 9% tax rate would apply, and the Law is considered to be substantively enacted. A rate of 9% will apply to taxable income exceeding AED 375.000, a rate of 0% will apply to taxable income not exceeding AED 375,000. For the bank, current taxes shall be accounted for as appropriate in the financial statements for the period beginning 1 January 2024. In accordance with IAS 12 Income Taxes, the related deferred tax accounting impact has been considered for current period financial statements. The bank has assessed the deferred tax implications and, after considering its interpretations of applicable tax law, official pronouncements, cabinet decisions and ministerial decisions (especially with regard to transition rules), it has been concluded that it is not expected to be material.

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