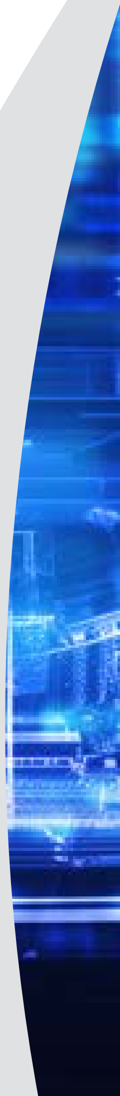
Financial Statements



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF EMIRATES DEVELOPMENT BANK PJSC

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Emirates Development Bank PJSC (the "Bank") and its subsidiary ("the Group") which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates ("UAE"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Key audit matter
Estimation uncertainty with respect to impairment allowance for financing assets measured at amortised cost
The Group's financing assets are carried in the statement of financial position at AED 7.4 billion as at 31 December 2023 *(2022: AED 6.8 billion)*. The expected credit loss (ECL) allowance was AED 325.1 million *(2022: AED 270.0 million)* as at this date, which comprised an allowance of AED 77.5 million *(2022: AED 63.1 million)* against Stage 1 and 2 exposures and an allowance of AED 247.7 million *(2022: AED 206.9 million)* against exposures classified under Stage 3. The audit of the impairment of credit facilities and financing assets is a key area of focus because of its size (representing 43.3% of total assets) and due to the significance of the estimates and judgments used in classifying credit facilities and financing assets into various stages, determining related allowance requirements and the complexity of the judgements, assumptions and estimates used in the ECL models. Refer to Note 3.3.7 to the consolidated financial statements for the accounting policy, Note 4 for critical judgements and estimates used by management and Note 5.2 for disclosures about credit risk. The Group recognizes allowances for ECLs at an amount equal to 12-month ECL (Stage 1) or full lifetime ECL (Stage 2). A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's effective interest rate. The Group employs statistical models for ECL calculations and the key variables used in these calculations are probability of default (PD), loss given default (LGD); and exposure at default (EAD), which are defined in Note 5.2 to the consolidated financial statements. The material portion of the corporate and SME, government entities and financial institutions portfolio of financing assets measured at amortised cost is assessed individually for the SICR and measurement of ECL. There is the risk that management does not capture all qualitative and quantitative reasonable and supportable forward-looking information while assessing SICR, or while assessing credit-impaired criteria for the exposure. Management bias may also be involved in manual staging override in accordance with the Group's policies. There is also the risk that judgements, assumptions, estimates, proxies and practical expedients implemented previously, are not consistently applied throughout the current reporting period or there are any unjustified movements in management overlays. The measurement of ECL amounts for the exposures classified as Stage 1 and Stage 2 are carried out by the models with limited manual intervention. It is important that models (PD, LGD, EAD and macroeconomic adjustments) are valid throughout the reporting period and went through a validation process. For further information on the accounting policies relating to impairment of financing assets measured at amortised cost as well as the Group's management of credit risk, refer to Note 5.2 to the consolidated financial statements.

Key audit matter (continued)

How our audit addressed the key audit matter

We obtained a detailed understanding of the financing origination process, credit risk management process and the estimation process of determining impairment allowances for financial assets measured at amortised cost and tested the design, implementation and operating effectiveness of relevant controls within these processes.

We understood and evaluated the theoretical soundness of the ECL models by involving our internal specialists to ensure its compliance with the requirements of IFRSs. We tested the mathematical integrity of the ECL models by performing recalculations on a sample of the financing assets measured at amortised cost and assessed the consistency of the various inputs and assumptions used by management to determine impairment.

For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's methodology to determine the allowance, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Group's determination of the significant increase in credit risk and the resultant basis for classification of exposures into various stages. For samples of exposures, we assessed the appropriateness of the Group's staging.

For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information.

On a sample basis, we selected individual samples and performed a detailed review of these exposures and challenged the Group's identification of SICR (Stage 2), the assessment of credit-impaired classification (Stage 3) and whether relevant impairment events had been identified in a timely manner. We challenged the assumptions, such as estimated future cash flows, collateral valuations and estimates of recovery, underlying the impairment allowance calculation. We evaluated controls over approval, accuracy and completeness of impairment allowances and governance controls, including assessing key management and committee meetings that form part of the approval process for the computation of impairment allowances for the financing assets measured at amortised cost.

We evaluated management overlays in order to assess the reasonableness of these adjustments. We further assessed the reasonableness of forward-looking information incorporated into the impairment calculations by involving our specialists to challenge the multiple economic scenarios chosen and weighting applied.

We evaluated methodology and framework designed and implemented by the Group as to whether the impairment models outcomes and stage allocations appear reasonable and reflective of the Group's forecasts of future economic conditions at the reporting date.

We assessed the adequacy of the disclosures in the consolidated financial statements against the requirements of IFRSs.

Key audit matter

Risk of inappropriate access or changes to information technology systems

We identified IT systems and controls over the Group's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Group and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of change to an application or underlying data. Therefore, we considered this area as key audit matter.

Overview

Strategic Review

Business Review

Governance

Financials

Key audit matter (continued)

How our audit addressed the key audit matter

Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over IT systems:

We obtained an understanding of the applications relevant to financial reporting and the infrastructure supporting these applications, including any changes in the key applications and system migrations during the year.

We tested IT general controls relevant to automated controls and computer-generated information covering access security, program changes, data centre and network operations.

We examined computer generated information used in financial reports from relevant applications and key controls over their report logics.

We performed testing on the key automated controls on significant IT systems relevant to business processes.

Key audit matter

Valuation of investment properties

The Group's investment property portfolio amounted to AED 480.0 million as at 31 December 2023 *(2022: AED 478.4 million)* and the net fair value loss recorded in the consolidated statement of profit or loss amounted to AED 0.5 million *(2022: AED 12.7 million)*. The Group measures its investment properties at fair value.

The determination of fair value of these investment properties is based on external valuations using an investment approach and market comparable approach.

The Group's undiscounted future cash flows analysis and the assessment of the expected remaining holding period and income projections on the existing operating assets requires management to make significant estimates and assumptions related to future rental rates, capitalisation rates and discount rates.

The valuation of the portfolio is a significant judgement area and is based on a number of assumptions. The existence of significant estimation uncertainty warrants specific audit focus in this area as any bias or error in determining the fair value could lead to a material misstatement in the consolidated financial statements.

In the event that the fair value of a real estate asset is higher or lower than its carrying amount, the Group will recognise a fair value adjustment in its consolidated statement of profit or loss.

We have identified the value of investment properties as a key audit matter as the fair value is determined based on level 3 valuation methodologies, which requires management to apply significant judgements in determining the fair value of investment property.

Refer to note 10 and 5.7 for disclosures relating to this matter.

How our audit addressed the key audit matter

We evaluated the design and implementation of controls in the determination of the fair value of investment properties.

We assessed the competence, independence and integrity of the independent valuers and read their terms of engagement with the Group to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations on their work.

Key audit matter (continued)
How our audit addressed the key audit matter (continued)
With the assistance of our internal specialists, we performed an understanding and reviewed the methodology and assumptions used in the valuation of investment properties. We held a meeting with the independent valuers to understand the valuation process adopted and to identify and challenge the critical judgment areas in the valuation model, including any changes made to the key assumptions during the year. We assessed whether the valuation approach is in accordance with appraisal and valuation standards suitable for use in determining the fair value in the consolidated statement of financial position in accordance with the requirements of IFRSs. We assessed the accuracy of the input data, on a sample basis, used by the independent valuers, such as rental income, occupancy rates, discount rate and terminal capitalisation rate, by agreeing them back to management's records and other supporting documents. We assessed the reasonableness of forecasted rental income and related expenses by comparing them against current year actual results and historical growth rates. We challenged the key assumptions used by the independent valuers, including discount rates and terminal capitalisation rates applied on income streams generated by the properties, by comparing the rates to those adopted in the previous year and the rates adopted by comparable entities. We assessed the adequacy of the disclosures in the consolidated financial statements against the requirements of IFRSs.

Other Information

The Board of Directors and management are responsible for the other information. The other information comprises the annual report of the Group but does not include the consolidated financial statements and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report. Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (7) of 2011, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Deloitte & Touche (M.E.)

Obada AlKowatly
Registration Number 1056

Abu Dhabi
United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2023

	Notes	**2023 AED'000**	2022 AED'000
Assets			
Cash and balances with the UAE Central Bank	27	**65,143**	38,994
Balances and deposits with banks	6	**7,240,977**	4,589,133
Loans and advances to customers	7	**5,763,291**	4,949,629
Islamic finance	8	**1,661,324**	1,842,690
Investment securities	9	**1,698,267**	1,712,216
Derivative financial instruments	31	**37,820**	268
Investment properties	10	**480,027**	478,353
Assets held for sale	30	**-**	11,408
Property and equipment	12	**45,902**	47,152
Other assets	11	**152,977**	65,977
Total assets		**17,145,728**	13,735,820
Liabilities			
Due to banks		**-**	25,000
Derivative financial instruments	31	**37,820**	268
Deposits and funds	13	**5,340,409**	2,391,897
Term borrowings	14	**5,507,480**	5,505,928
Other liabilities	15	**265,216**	206,562
Total liabilities		**11,150,925**	8,129,655
Equity			
Paid up capital	16	**4,658,390**	4,608,390
Special reserve	17	**621,894**	589,032
Retained earnings		**649,769**	350,523
Investment revaluation reserve		**46,895**	40,365
Revaluation surplus		**17,855**	17,855
Total equity		**5,994,803**	5,606,165
Total liabilities and equity		**17,145,728**	13,735,820

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 31 December 2023

	Notes	**2023 AED'000**	2022 AED'000
Income			
Interest income	19	**698,399**	336,160
Interest expense	20	**(318,621)**	(165,995)
Net interest income		**379,778**	170,165
Profit from Islamic Finance		**117,718**	71,589
Net interest and profit income		**497,496**	241,754
Investment income	21	**16,299**	13,836
Fees and commission income – net	22	**35,712**	23,986
Other income	23	**36,416**	8,301
Total operating income		**585,923**	287,877
Expenses			
Salaries and employee benefits		**(125,099)**	(97,313)
Operating and administrative expenses	24	**(79,520)**	(57,158)
Impairment charge	25	**(53,678)**	(23,544)
Profit before fair value changes on investment properties and financial assets at fair value through profit or loss ("FVTPL")		**327,626**	109,862
Net fair value change on investment properties and financial assets at FVTPL	9, 10	**995**	(49,021)
Profit for the year		**328,621**	60,841

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023

	Notes	**2023 AED'000**	2022 AED'000
Profit for the year		**328,621**	60,841
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Fair value gain on investments in equity instruments designated at fair value through other comprehensive income ("FVTOCI")		**10,017**	34,748
Total other comprehensive income for the year		**338,638**	95,589

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

	Paid up capital AED'000	Special reserve AED'000	Retained earnings AED'000	Investment revaluation reserve AED'000	Revaluation surplus AED'000	Total equity AED'000
Balance at 1 January 2022	**4,558,390**	**582,948**	**270,074**	**31,309**	**17,855**	**5,460,576**
Increase in paid up capital	50,000	-	-	-	-	50,000
Transfer to special reserve	-	6,084	(6,084)	-	-	-
Profit for the year	-	-	60,841	-	-	60,841
Fair value gain on investments in equity instruments designated at FVTOCI	-	-	-	34,748	-	34,748
Total comprehensive income for the year	-	-	60,841	34,748	-	95,589
Fair value gain transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	-	-	25,692	(25,692)	-	-
Balance at 31 December 2022	**4,608,390**	**589,032**	**350,523**	**40,365**	**17,855**	**5,606,165**
Increase in paid up capital	50,000	-	-	-	-	50,000
Transfer to special reserve	-	32,862	(32,862)	-	-	-
Profit for the year	-	-	328,621	-	-	328,621
Fair value gain on investments in equity instruments designated at FVTOCI	-	-	-	10,017	-	10,017
Total comprehensive income for the year	-	-	328,621	10,017	-	338,638
Fair value gain transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	-	-	3,487	(3,487)	-	-
Balance at 31 December 2023	**4,658,390**	**621,894**	**649,769**	**46,895**	**17,855**	**5,994,803**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	Notes	**2023 AED'000**	2022 AED'000
Cash flows from operating activities			
Profit for the year		**328,621**	60,841
Adjustments for:			
Depreciation and amortisation	12	**10,725**	8,210
Fair value changes on financial assets at FVTPL	9	**(573)**	36,359
Fair value changes on investment properties	10	**464**	12,662
Dividend income	21	**(12,858)**	(13,715)
Amortisation of premium on investment securities	9	**(3,125)**	1,675
Amortisation of issuance cost – term borrowing		**1,552**	1,530
Provision for employees' end of service benefits		**3,688**	2,235
Provision for impairment on financial assets	25	**53,678**	23,544
Gain on sale of assets held for sale		**(25,808)**	-
Operating cash flow before changes in working capital		**356,364**	133,341
Working capital changes:			
Deposits with banks maturing after three months		**(4,274,085)**	1,760,000
Loans and advances to customers		**(840,520)**	(585,692)
Islamic Finance		**153,028**	(217,824)
Other assets		**(86,783)**	(7,300)
Due to banks		**(25,000)**	(3,000)
Deposits and funds		**2,948,512**	1,516,553
Other liabilities		**61,401**	(34,159)
Cash (used in) /generated from operating activities		**(1,707,083)**	2,561,919
Employees' end of service benefits paid		**(2,762)**	(1,013)
Net cash (used in) / generated from operating activities		**(1,709,845)**	2,560,906
Cash flows from investing activities			
Purchase of property and equipment	12	**(4,790)**	(20,891)
Proceeds from sale of assets held for sale	30	**37,216**	-
Investment properties additions	10	**(2,138)**	-
Dividend received		**10,838**	13,715
Investment securities purchased	9	**(122,635)**	(495,370)
Investment securities sold	9	**148,899**	360,115
Net cash generated from / (used in) investing activities		**67,390**	(142,431)
Cash flows from financing activities			
Increase in paid up capital	16	**50,000**	50,000
Repayment of lease liability		**(3,729)**	(3,892)
Net cash generated from financing activities		**46,271**	46,108
Net (decrease) / increase in cash and cash equivalents		**(1,596,184)**	2,464,583
Cash and cash equivalents at 1 January		**3,353,801**	889,218
Cash and cash equivalents at 31 December (note 27)		**1,757,617**	3,353,801
Non-cash transactions:			
Recognition of right-of-use asset	12	**4,686**	15,407
Recognition of lease liability		**4,686**	15,407

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

1 Legal status and principal activities

Emirates Development Bank ("EDB" or "the Bank"), was incorporated as a shareholding company, fully owned by the Federal Government of United Arab Emirates as per the decree issued by the President, Sheikh Khalifa bin Zayed Al Nahyan, Federal Law No. 7 (the "EDB Law") issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank ("EIB") and Real Estate Bank ("REB"), both existing Federal banks that were established under separate laws ("the merged banks"). The EDB Law became effective from 30 September 2011.

The main objectives of the Bank are to enable UAE's industrial development, accelerate the adoption of advanced technologies, empower the growth of SMEs in the UAE, encourage entrepreneurship and innovation and support UAE nationals in acquiring their homes.

The Bank, together with its subsidiary, Emirates Integrated Registries Company, (together referred to as the "Group") is engaged in providing industrial and real estate loans; and managing the integrated registries services in UAE.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, United Arab Emirates.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 February 2024.

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS Accounting Standards) (IFRSs), as issued by the International Accounting Standards Board (IASB), and the applicable requirements of the Federal Decree Law No. 7 issued on 18 September 2011.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the investment properties, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments which are carried at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are prepared and presented in United Arab Emirates Dirham ("AED"), which is the Group's functional and presentation currency. Amounts have been rounded to nearest thousand except where otherwise indicated.

2.4 Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.5 Basis of consolidation

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

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

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiary:

Legal Name	Country of incorporation	Year of incorporation	Holding %
Emirates Integrated Registries Company – Sole Proprietorship L.L.C.	United Arab Emirates	2018	100%

3 Summary of significant accounting policies

3.1 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs that are mandatorily effective for accounting periods that begins on or after 1 January 2023 have been adopted by the Group. The application of these revised IFRSs has not had any material impact on the disclosures or on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17
- Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 8 Definition of Accounting Estimates

3.2 Standards and Interpretations in issue but not yet effective and not early adopted

The Group has not early adopted the following new and revised IFRSs that have been issued but are not yet effective.

- Amendments to IAS 1 Classification of Liabilities as Current or Non-Current (effective from 1 January 2024).
- Amendments to IFRS 16 Lease Liability in a Sale and Leaseback (effective from 1 January 2024).
- Amendments to IAS 1 Non-current liabilities with covenants (effective from 1 January 2024).
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures - Supplier Finance Arrangements (effective from 1 January 2024).
- Amendments to IAS 21 Lack of Exchangeability (effective from 1 January 2025).
- IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information (effective from 1 January 2024).
- IFRS S2 - Climate-related Disclosures (effective from 1 January 2024).
- Amendments to IFRS 10 Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. (Effective date deferred indefinitely. Adoption is still permitted).

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

3.3 Financial Assets and Financial Liabilities

3.3.1 Recognition

The Group initially recognises loans and advances to customers, Islamic Finance, balances and deposits with banks and UAE Central Bank, investment securities, deposits and funds from governmental institutions, term borrowing and other financial assets and liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for other receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3.3.2 Classification and Initial Measurement

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

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI or FVTPL.

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

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

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

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

By default, all other financial assets are measured subsequently at FVTPL.

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

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

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Group's management;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

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.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration of the time value of money.

Amortised cost and effective interest method
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.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

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

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

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

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

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

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 recognized in OCI and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments 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.

Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

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

Islamic financing
Following terminologies in Islamic financing, classified under each of the financial instrument classification mentioned above, have been used in the preparation of these consolidated financial statements:

Estisnaa contracts represent financing for the construction of industrial civil works on a deferred payment basis. An Estisnaa contract is recognised when money is disbursed to the contractor for the construction of civil works for the borrower.

Other Estisnaa contracts are followed by Ijarah contract between the Bank and Emirates Real Estate Corporation, whereby Emirates Real Estate Corporation, based on an order from the Bank, undertakes to construct and subsequently lease the subject matter of the contract according to a specific price and method of payment.

Ijarah contracts are finance lease contracts. The Ijarah contract term constitutes the major part of the economic life of the asset, and the significant risks and rewards incidental to ownership, are substantially transferred to the lessee. Title may or may not eventually be transferred to the lessee.

Financial Liabilities
The Group has classified and measured its financial liabilities at amortised cost.

3.3.3 Derecognition

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

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 profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

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

3.3.4 Modification of financial assets and liabilities

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

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and

- other fees are included in profit or loss as part of the gain or loss on derecognition.

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

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

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

Financial Liabilities
The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3.3.5 Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

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

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. Further information on the carrying amounts of these assets and the sensitivity of those amounts to changes in unobservable inputs are provided in note 5.7.1.

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

- Financial assets that are debt instruments; and
- Loan commitments and financial guarantee contracts.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

No impairment loss is recognised on equity instruments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on financial instruments that are possible with the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1".

Life-time ECL are the ECL that results from all possible default events over the expected life of the financial instruments. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as "Stage 2".

Impairment and ECL are used interchangeably throughout these consolidated financial statements.

Measurement of ECL
ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- *Financial assets that are not credit-impaired at the reporting date:* as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *Financial assets that are credit-impaired at the reporting date:* as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments:* as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *Financial guarantee contracts:* the expected payments to reimburse the holder less any amounts that the Group expects to recover.

For more details in relation to ECL measurement, please refer to note 5.2.6.

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

– If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

– If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit impaired. Credit-impaired financial assets are referred to as "Stage 3". A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

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

– *financial assets measured at amortized cost:* as a deduction from the gross carrying amount of the assets;

– *loan commitments and financial guarantee contracts:* generally, as a provision; and

– *debt instruments measured at FVTOCI:* no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

3.3.8 Write-off
Loans and debt securities shall be written off (either partially or in full) when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Recoveries of amounts previously written off are included in 'Impairment charge' in the consolidated statement of profit or loss.

3.4 Provision for staff end of service benefits
Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. 7, 1999 for Pension and Social Security. The provision for staff end of service benefits, a defined benefit scheme, is calculated as per the approved Group staff regulations.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the date of the consolidated statement of financial position. Provision is also made for the end of service benefits due to employees in accordance with the UAE Labour Law and the Group's policy and internal regulations for their periods of service up to the date of the consolidated statement of financial position.

An actuarial valuation has not been performed on employees' end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.5 Cash and cash equivalents
Cash and cash equivalents comprise cash in hand, balances with the UAE Central Bank, money in call accounts, placements and balances and deposits with banks with original maturities of less than three months.

3.6 Balances and deposits with banks
Balances and deposits with banks are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Balances and deposits with banks are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, these are stated at amortised cost less any allowance for impairment.

3.7 Investment properties
Investment properties principally comprise of commercial lands and buildings held by the Group for long term rental yields or for capital appreciation or both. Such properties are measured initially at cost including all transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Changes in fair values are recorded in the consolidated statement of profit or loss in the period in which they arise. When the use of a property changes such that it is transferred from investment property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair value of the Group's investment property has been arrived at on the basis of a valuation carried out at the end of reporting period by the independent valuers engaged by the Group. The valuation conforms to Royal Institution of Chartered Surveyors Valuation – Global Standards. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and investment approach that is determined through the analysis of income flow and projected expenditures of the property.

Investment properties is derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains or losses arising from the retirement or disposal of investment properties, calculated as the difference between the net disposal proceeds and the carrying amount are included in the consolidated statement of profit or loss in the period in which the property is derecognised.

The Group shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. If an owner-occupied property becomes an investment property that will be carried at fair value, the Bank shall apply IAS 16 for owned property up to the date of change in use. Any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value shall be treated in the same way as a revaluation in accordance with IAS 16.

Investment properties under development
Investment properties under development that are being constructed or developed for future use as investment property, are measured initially at cost, including including all direct costs attributable to the design and construction of the property including related staff costs. Upon completion of construction or development, such properties are transferred to completed investment properties. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated statement of profit or loss in the period in which they arise.

3.8 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Group at the spot exchange rates at the date of the transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI is recognised as part of consolidated statement of other comprehensive income.

3.9 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

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

3.10 Assets held for sale

Assets held for sale comprise of properties whose carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Such properties are initially measured and recognized at the lower of fair value less cost to sell and the carrying amount of the property. Any subsequent write-down of the acquired properties to fair value less cost to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less cost to sell, to the extent this does not exceed the cumulative impairment loss, is recognized in the consolidated statement of profit or loss.

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on straight-line basis so as to write down the cost of assets over its useful life. Lands granted from the Federal Government (shareholder) are not depreciated and are measured at nominal amount of AED 1.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognized within other income in the consolidated statement of profit or loss.

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

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

The Group annually reviews the useful life estimates for all major asset categories and revises these to align them with reassessed expected useful lives, if required.

Asset class	Estimated useful life
Buildings	40 years
Furniture, fixtures and motor vehicles	4 years
Computer hardware and software	3 to 5 years

3.12 Impairment of non-financial assets

At the end of each reporting date, the Group reviews the carrying amounts of its assets in order to assess 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.13 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Group acting as a lessee
The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of- use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the consolidated statement of financial position.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group acting as a lessor
When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Subsequent to initial recognition, the Group regularly reviews the estimated unguaranteed residual value and applies the impairment requirements of IFRS 9, recognising an allowance for ECL on the receivables.

3.14 Deposits and funds
Deposits and funds from Sheikh Zayed Housing Program, Mohammad Bin Rashid Innovation Fund and the Ministry of Finance vested with and managed by the Group are accounted for within the financial liabilities of the Group (note 13).

3.15 Term borrowings
Term borrowings consist of debt securities and are the Group's sources of debt funding. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Debt securities in issue are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method.

3.16 Dividend distribution
Dividend distribution to the Bank's shareholder is recognised as a liability in the Group's consolidated financial statement in the period in which the dividends are approved by the shareholder.

3.17 Revenue and expense recognition

Interest income and expense
Interest income and expense for financial instruments are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the consolidated statement of profit or loss using the effective interest method.

The interest income or expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any expected credit loss allowance), or to the amortised cost of financial liabilities. For credit-impaired financial assets the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for expected credit losses (ECLs)). For financial assets originated or purchased credit-impaired (POCI), the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

Profit from Islamic Finance
Profit on Islamic Finance are recognised on accrual basis and time-apportioned using the effective profit rate method.

Dividend income
Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

Fees and commission income and expense
Fee and commission income and expense include fees other than those that are an integral part of EIR. The fees included in this part of the Group's consolidated statement of profit or loss include among other things fees charged for providing a transaction service, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement and others.

Fee and commission expenses with regards to services are accounted for as the services are received.

Rental income
Rent arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is presented as part of 'Other income' in consolidated statement of profit or loss.

Fair value gain / (loss) on investment properties and financial assets at FVTPL
Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in the consolidated statement of profit or loss to the extent they are not part of a designated hedging relationship.

Gains or losses arising from changes in the fair value of investment property are included in the consolidated statement of profit or loss in the period in which they arise.

3.18 Financial guarantees and loan commitments
'Financial guarantees' are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable. Financial guarantees and commitments to provide a loan at a below- market interest rate are included within other liabilities.

3.19 Derivative financial instruments

Classification
The Group enters into derivative financial instruments such as interest rate cap and interest rate swap, obtained in capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVTPL – financial assets held for trading"

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

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. The negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

Gains and losses on subsequent measurement
The gains or losses from derivative financial instruments classified as FVTPL are taken to the consolidated statement of profit or loss.

4 Critical accounting estimates and judgments
The preparation of the consolidated financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Following are the estimates and judgements which are applicable:

Impairment charge on financial assets
a) Significant increase in credit risk

As explained in note 5.2.6, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

b) Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Classification and measurement of investment securities
The classification and measurement of the financial assets depends on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group's investment in securities are appropriately classified and measured. Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Financial assets that are measured at FVTOCI are investments in equity instruments that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

For more details on the valuation of investment securities, refer note 5.7.

Fair valuation of investment securities
Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in assumptions about these factors could affect the reported fair value of the investment securities.

Valuation techniques used to calculate fair values are discussed in note 5.7.1.

Fair valuation of investment properties
The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on the comparable method of valuation, the investment valuation method and the residual valuation method, refer to note 10 for more details.

Discounting of lease payments
The lease payments are discounted using the Group's incremental borrowing rate. Management has applied judgments and estimates to determine the incremental borrowing rate at the commencement of lease by using its average cost of borrowing as a reference yield.

5 Risk management

5.1 Overview

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. Below are the type of risks the Group is exposed to:

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

The Group has management committees to oversee the risk management process. The Board Risk & Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks. The Group also has a Credit Risk function, which independently reviews adherence to all risk management policies and procedures. The Group's internal audit function, which is part of risk framework, primarily evaluates the effectiveness of the controls addressing operational risk.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group's management regularly reviews the risk management policies and systems to reflect changes in markets, products and emerging best practice.

5.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investment securities.

Credit risk also arises through the downgrading of counterparties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the Group.

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

The credit policy provides the development of a systematic and consistent approach to identifying and managing borrower and counter party risks.

The credit risk function in addition to the credit team are responsible for the recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the Group's credit policy. The Group manages limits and controls concentration of credit risk wherever they are identified, in particular, to individual counterparties and groups, and to industries.

The Group manages credit risk through diversification of investment activities to avoid undue concentrations of risks in specific locations or industry segments. The Group also monitors credit exposures by limiting transactions with specific counterparties, and continually assesses the creditworthiness of counterparties.

The carrying amount of financial assets represents the maximum credit exposure.

For risk management purposes, credit risk arising on financial assets at fair value through profit or loss is managed independently, and reported as a component of market risk exposure.

The Group's credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Credit Manager, the Head of Credit, Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing all credit exposures 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 concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investments).
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of ten grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/ committee as appropriate. Risk grades are subject to regular reviews.
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Group manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure. In certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk. Credit risk in respect of derivative financial instruments, if any, is limited to those with positive fair values.

5.2.1 Collateral and other credit enhancements

Collateral risk
The Group obtains collateral and other credit enhancements in ordinary course of business from counterparties. Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

On an overall basis, during the year there was no material deterioration in the quality of collateral held by the Group. In addition, there were no changes in collateral policies of the Group.

As at 31 December 2023, the Group held credit risk mitigants with an estimated value of AED 80,270 thousand *(2022: AED 80,210 thousand)* against watch list and credit impaired receivables from Loans and advances to customers, Islamic Finance and investments in the form of real estate collateral, other securities over assets, cash deposits and guarantees. The Group accepts sovereign guarantees and guarantees from well-reputed local or international banks, well-established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against placements with banks and other financial institutions, and no such collateral was held at 31 December 2023 or 31 December 2022.

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

	2023 AED'000	2022 AED'000
LTV ratio		
Less than 50%	**16,012**	16,503
51 – 70%	**41,287**	45,035
71 – 90%	**393,542**	431,390
91 – 100%	**2,721,488**	2,873,941
At 31 December	**3,172,329**	3,366,869

5.2.2 Maximum exposure to credit risk before collateral held or other credit enhancements

The gross exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon.

	2023 AED'000	2022 AED'000
Cash and balances with the UAE Central Bank	**65,143**	38,994
Balances and deposits with banks	**7,241,559**	4,589,807
Loans and advances	**6,038,941**	5,198,522
Islamic Finance	**1,710,822**	1,863,849
Investment securities – debt securities	**1,414,615**	1,432,926
Derivative financial instruments	**37,820**	268
Other assets – interest receivable	**136,301**	58,250
At 31 December	**16,645,201**	13,182,616
Off-balance sheet – credit guarantees	**264,632**	465,3504

The above table represents the maximum exposure of credit risk for amortised cost financial instruments and off-balance sheet financial instruments as at 31 December 2023 and 31 December 2022, without taking into account any collateral held or other credit enhancements attached.

5.2.3 Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.

An analysis of concentration of credit risk at the reporting date by sectors is shown below.

	Public Sector AED'000	Financial Sector AED'000	Private / retail Sector AED'000	Total AED'000
31 December 2023				
Cash and balances with UAE Central Bank	**65,143**	**-**	**-**	**65,143**
Balances and deposits with banks	**-**	**7,240,977**	**-**	**7,240,977**
Loans and advances to customers	**2,940,070**	**6,749**	**2,816,472**	**5,763,291**
Islamic Finance	**-**	**-**	**1,661,324**	**1,661,324**
Investment securities - debt instruments	**823,296**	**510,042**	**79,299**	**1,412,637**
Derivative financial instruments	**-**	**-**	**37,820**	**37,820**
Other assets - interest receivable	**8,539**	**98,760**	**29,002**	**136,301**
	3,837,048	**7,856,528**	**4,623,917**	**16,317,493**
31 December 2022				
Cash and balances with UAE Central Bank	38,994	-	-	38,994
Balances and deposits with banks	-	4,589,133	-	4,589,133
Loans and advances to customers	2,624,360	10,956	2,314,313	4,949,629
Islamic Finance	-	-	1,842,690	1,842,690
Investment securities – debt instruments	830,460	522,385	79,503	1,432,348
Derivative financial instruments	-	-	268	268
Other assets – interest receivable	8,663	32,401	17,186	58,250
	3,502,477	5,154,875	4,253,960	12,911,312

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentration of credit risk at the reporting date by geographical location is shown below.

	UAE AED'000	GCC AED'000	Total AED'000
31 December 2023			
Cash and balances with UAE Central Bank	**65,143**	**-**	**65,143**
Balances and deposits with banks	**7,240,977**	**-**	**7,240,977**
Loans and advances to customers	**5,758,705**	**4,586**	**5,763,291**
Islamic Finance	**1,661,324**	**-**	**1,661,324**
Investment securities - debt instruments	**969,698**	**442,939**	**1,412,637**
Derivative financial instruments	**37,820**	**-**	**37,820**
Other assets - interest receivable	**133,047**	**3,254**	**136,301**
	15,866,714	**450,779**	**16,317,493**
31 December 2022			
Cash and balances with UAE Central Bank	38,994	-	38,994
Balances and deposits with banks	4,589,133	-	4,589,133
Loans and advances to customers	4,945,043	4,586	4,949,629
Islamic Finance	1,842,690	-	1,842,690
Investment securities – debt instruments	1,034,064	398,284	1,432,348
Derivative financial instruments	268	-	268
Other assets – interest receivable	55,372	2,878	58,250
	12,505,564	405,748	12,911,312

5.2.4 Credit quality

The Group has management committees to oversee the risk management process. The Board Risk & Credit Committee, under delegation from the Board of Directors defines policies, processes, and systems to manage and monitor credit, market and operational risks.

The Group maintains a risk grading system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading system consists of ten grades reflecting various degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews.

Balances and deposits with banks

As at 31 December 2023, the Group's money market placements and balances in current and call accounts with banks, with gross amounts amounting to AED 7,242 thousand (2022: AED 4,590 thousand) are deposited only in banks that are directly, or comparably with the peer institutions, rated as investment grade (i.e. ranges from 'BBB+' to 'A') by a global external rating agency. Accordingly, placements in these banks are considered to be low credit risk investments and are classified as Stage 1. These are carried at amortised cost less allowance for impairment.

Loans and advances to customers and Islamic finance

The following table sets out information about loans and advances to customers and Islamic finance. These are carried at amortised cost.

	2023			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	**7,242,384**	**-**	**-**	**7,242,384**
Watch list	**-**	**195,650**	**-**	**195,650**
Doubtful	**-**	**-**	**105,342**	**105,342**
Loss	**-**	**-**	**206,387**	**206,387**
	7,242,384	**195,650**	**311,729**	**7,749,763**
Less: Allowance for impairment	**(40,319)**	**(37,147)**	**(247,682)**	**(325,148)**
Carrying amount	**7,202,065**	**158,503**	**64,047**	**7,424,615**
	2022			
Low risk	6,657,751	-	-	6,657,751
Watch list	-	145,774	-	145,774
Doubtful	-	-	109,549	109,549
Loss	-	-	149,297	149,297
	6,657,751	145,774	258,846	7,062,371
Less: Allowance for impairment	(51,486)	(11,659)	(206,907)	(270,052)
Carrying amount	6,606,265	134,115	51,939	6,792,319

Following table sets out information about the movement in gross exposures by stages of loans and advances to customers, Islamic finance.

	2023			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January	**6,657,751**	**145,774**	**258,846**	**7,062,371**
Transfer to Stage 1	**64,217**	**(64,217)**	**-**	**-**
Transfer to Stage 2	**(137,597)**	**141,221**	**(3,624)**	**-**
Transfer to Stage 3	**(30,533)**	**(28,867)**	**59,400**	**-**
New financial assets originated	**2,286,124**	**20,057**	**5,565**	**2,311,746**
De-recognition of financial assets	**(874,825)**	**(12,987)**	**(747)**	**(888,559)**
Other movements within the same stage	**(722,753)**	**(5,331)**	**(7,711)**	**(735,795)**
Balance as at 31 December	**7,242,384**	**195,650**	**311,729**	**7,749,763**
	2022			
Balance as at 1 January	5,889,804	112,450	256,601	6,258,855
Transfer to Stage 1	74,385	(73,190)	(1,195)	-
Transfer to Stage 2	(98,323)	105,989	(7,666)	-
Transfer to Stage 3	(17,611)	(1,059)	18,670	-
New financial assets originated	1,949,300	7,163	8,239	1,964,702
De-recognition of financial assets	(722,543)	(3,387)	(4,123)	(730,053)
Other movements within the same stage	(417,261)	(2,192)	(11,680)	(431,133)
Balance as at 31 December	6,657,751	145,774	258,846	7,062,371

Investment securities
The following table sets out information about debt investment securities which are carried at amortised cost:

	2023			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	**1,276,372**	**-**	**-**	**1,276,372**
Less: Allowance for impairment	**(1,978)**	**-**	**-**	**(1,978)**
Carrying amount	**1,274,394**	**-**	**-**	**1,274,394**
	2022			
Low risk	1,295,257	-	-	1,295,257
Less: Allowance for impairment	(578)	-	-	(578)
Carrying amount	1,294,679	-	-	1,294,679

During the year, no transfers to other stages occurred in the gross exposures of debt securities carried at amortised cost. Movement within the same stage (Stage 1) is disclosed in note 9.

Credit Guarantees
The following table sets out information about financial guarantees issued by bank:

	2023			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Low risk	**258,882**	**-**	**-**	**258,882**
Watchlist	**-**	**5,750**	**-**	**5,750**
Loss	**-**	**-**	**3,400**	**3,400**
Less: Allowance for impairment	**(2,546)**	**(102)**	**(3,400)**	**(6,048)**
Carrying amount	**256,336**	**5,648**	**-**	**261,984**
	2022			
Low risk	465,350	-	-	465,350
	-	-	1,598	1,598
Less: Allowance for impairment	(7,277)	-	(1,598)	(8,875)
Carrying amount	458,073	-	-	458,073

5.2.5 Inputs, assumptions and techniques used for estimating impairment
a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience and forward-looking information. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure. The Group uses three criteria for determining whether there has been a significant increase in credit risk:

– quantitative test based on movement in PD;
– qualitative indicators; and
– a backstop of 30 days past due.

b) Credit risk grades

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

c) Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyze the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has exposures.

d) Renegotiated financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Facilities which are restructured due to credit reasons in past 12 months are classified under Stage 2. A borrower would need to demonstrate consistently good payment history over a period of time before the exposure is upgraded to Stage 1.

e) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

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

- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group;
- qualitative - e.g. borrowers' cooperation and the clarity and availability of the information requested; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

f) Curing

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period of 12 months, defined by the Group. An account shall move from Stage 3 to Stage 2 when objective evidence of impairment fails to exist, post which it shall follow the curing period of 12 months before it can be transferred to Stage 1. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

g) Incorporation of forward-looking information

The Group employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the above macro - economic parameters are statistically significant or the results of forecasted PDs deviate from the present forecast of the economic conditions, qualitative PD overlays are used by management after analyzing the portfolio.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. The Group uses mathematical function, which links the credit cycle index (CCI) with PD as a key input to ECL. These economic variables and their associated impact on the PD, EAD and

LGD vary by financial instrument. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of instrument, a mean reversion approach has been used.

Scenarios are incorporated through the forward looking factors selected which are CCI factors that are conditioned and then used as an input to the various ECL components. The CCI calculation is derived through the construction of suitable credit cycles based on economic variables that can be used as proxy to describe credit activities within each country of operation. CCI can be derived from a number of historical factors, such as risky yields, credit growth, credit spreads, default or NPL rates data. Interdependency exists between macro-economic factors such as GDP 2.2 % to 3.1% and the CCI, given its integral part in driving the economic or business cycles.

h) Measurement of ECL

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

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

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

PD constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

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

- credit risk grading;
- product type; and
- geographic location of the borrower.

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

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

i) Credit risk monitoring

For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Group's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

j) Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables and vehicles.

Collaterals are revalued regularly as per the bank's credit policy. In addition, ad hoc 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. Security structures and legal covenants are also subject to regular review.

5.2.6 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

Balances and deposits with banks

	2023			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
Balance as at 1 January	**674**	**-**	**-**	**674**
New financial assets originated	**582**	**-**	**-**	**582**
De-recognition of financial assets	**(674)**	**-**	**-**	**(674)**
Balance as at 31 December	**582**	**-**	**-**	**582**
	2022			
Balance as at 1 January	1,345	-	-	1,345
New financial assets originated	674	-	-	674
De-recognition of financial assets	(1,345)	-	-	(1,345)
Balance as at 31 December	674	-	-	674

Loans and advances to customers and Islamic finance

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
		2023		
Balance as at 1 January	**51,486**	**11,659**	**206,907**	**270,052**
Transfers to Stage 1	**607**	**(607)**	**-**	**-**
Transfers to Stage 2	**(22,155)**	**22,594**	**(439)**	**-**
Transfers to Stage 3	**(17,751)**	**(15,959)**	**33,710**	**-**
Net re-measurement of loss allowance	**28,804**	**14,146**	**4,110**	**47,060**
New financial assets originated	**7,242**	**6,274**	**4,141**	**17,657**
De-recognition of financial assets	**(7,914)**	**(960)**	**(747)**	**(9,621)**
Balance as at 31 December	**40,319**	**37,147**	**247,682**	**325,148**
		2022		
Balance as at 1 January	56,313	6,936	189,762	253,011
Transfers to Stage 1	538	(524)	(14)	-
Transfers to Stage 2	(7,820)	8,565	(745)	-
Transfers to Stage 3	(6,489)	(617)	7,106	-
Net re-measurement of loss allowance	2,380	(2,946)	11,420	10,854
New financial assets originated	10,641	642	1,374	12,657
De-recognition of financial assets	(4,077)	(397)	(1,996)	(6,470)
Balance as at 31 December	51,486	11,659	206,907	270,052

For the impairment of loans and advances to customers and Islamic finance, the Bank maintains a management overlay to capture the characteristics of the market and associated risks which are not captured in the existing ECL model. As at 31 December 2023, management overlay amounted to AED 15.1 million *(2022: AED 13.4 million)*.

Investment securities (Debt instruments)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total ECL AED'000
		2023		
Balance as at 1 January	**578**	**-**	**-**	**578**
Net remeasurement of loss allowance	**1,098**	**-**	**-**	**1,098**
New financial assets originated	**323**	**-**	**-**	**323**
De-recognition of financial assets	**(21)**	**-**	**-**	**(21)**
Balance as at 31 December	**1,978**	**-**	**-**	**1,978**
		2022		
Balance as at 1 January	480	-	-	480
Net remeasurement of loss allowance	(65)	-	-	(65)
New financial assets originated	189	-	-	189
De-recognition of financial assets	(26)	-	-	(26)
Balance as at 31 December	578	-	-	578

Credit Guarantees

	2023			
	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total ECL AED'000**
Balance as at 1 January	**7,277**	**-**	**1,598**	**8,875**
Transfers to Stage 2	**(100)**	**100**	**-**	**-**
Transfers to Stage 3	**(1,802)**	**-**	**1,802**	**-**
Net re-measurement of loss allowance	**(2,553)**	**-**	**-**	**(2,553)**
New financial assets originated	**772**	**3**	**-**	**775**
De-recognition of financial assets	**(1,049)**	**-**	**-**	**(1,049)**
Balance as at 31 December	**2,545**	**103**	**3,400**	**6,048**
		2022		
Balance as at 1 January	1,799		-	1,799
Net re-measurement of loss allowance	(201)		1,598	1,397
New financial assets originated	6,677		-	6,677
De-recognition of financial assets	(998)		-	(998)
Balance as at 31 December	7,277	-	1,598	8,875

5.3 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices. Management of the Group meet on a regular basis to monitor and manage market risks.

Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position at fair value through other comprehensive income. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the management.

The table below summarizes the impact of a 10% increase / decrease of the prices of this portfolio, on the Group's results and equity for the year ended 31 December 2023 and 2022. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Group's investments moved according to the historical correlation of the relevant index.

	Impact on equity of the Group	
	2023 AED'000	2022 AED'000
+/-10 % change in equity prices	**+/-28,563**	+/-27,987

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's management monitors interest rates on a regular basis.

Interest sensitivity of assets and liabilities

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements.

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

A portion of the Group's assets and liabilities are re-priced within three months. Accordingly, there is a limited exposure to interest rate risk in this regard.

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

The following table sets out the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 3 months AED'000	3 to 12 months AED'000	Non-interest sensitive AED'000	Total AED'000
At 31 December 2023				
Assets				
Cash and balances with the UAE Central Bank	**-**	**-**	**65,143**	**65,143**
Balances and deposits with banks	**5,573,545**	**1,631,958**	**35,474**	**7,240,977**
Loans and advances to customers	**1,583,057**	**4,180,234**	**-**	**5,763,291**
Islamic Finance	**670,629**	**990,695**	**-**	**1,661,324**
Investment securities	**40,665**	**1,371,972**	**285,630**	**1,698,267**
Derivative financial instruments	**-**	**-**	**37,820**	**37,820**
Other assets – interest receivable	**-**	**-**	**136,301**	**136,301**
	7,867,896	**8,174,859**	**560,368**	**16,603,123**
Liabilities				
Due to banks	**-**	**-**	**-**	**-**
Deposits and funds	**1,641,980**	**2,749,520**	**948,909**	**5,340,409**
Term borrowings	**2,754,750**	**2,752,730**	**-**	**5,507,480**
Derivative financial instruments	**-**	**-**	**37,820**	**37,820**
Other liabilities	**-**	**-**	**265,216**	**265,216**
	4,396,730	**5,502,250**	**1,251,945**	**11,150,925**
Net gap	**3,471,166**	**2,672,609**	**(691,577)**	**5,452,198**
At 31 December 2022				
Assets				
Cash and balances with the UAE Central Bank	-	-	38,994	38,994
Balances and deposits with banks	4,114,392	449,934	24,807	4,589,133
Loans and advances to customers	1,021,039	3,928,590	-	4,949,629
Islamic Finance	697,368	1,145,322	-	1,842,690
Investment securities	44,927	1,387,421	279,868	1,712,216
Derivative financial instruments	-	-	268	268
Other assets – Interest receivable	-	-	58,250	58,250
	5,877,726	6,911,267	402,187	13,191,180
Liabilities				
Due to banks	25,000	-	-	25,000
Deposits and funds	1,442,297	-	949,600	2,391,897
Term borrowings	-	-	5,505,928	5,505,928
Derivative financial instruments	-	-	268	268
Other liabilities	-	-	206,562	206,562
	1,467,297	-	6,662,358	8,129,655
Net gap	4,410,429	6,911,267	(6,260,171)	5,061,525

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in EIBOR rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date, with all other variables held constant:

	2023 AED'000	2022 AED'000
Effect of a +/- 25 bps change in EIBOR gain or loss	**+/-10,980**	+/-14,332

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 12,289 million *(2022: AED 8,752 million)* interest bearing assets and AED 7,146 million *(2022: AED 1,467 million)* interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure.

As at 31 December 2023, the Group had exposures denominated in US Dollars amounting to net short exposures of AED 1,346 million *(2022: net short exposure of AED 4,077 million)*. As AED is pegged against US Dollar, the Group's risk exposure to this currency is limited.

Management of market risks
Overall authority for market risk is vested in ALCO, which sets up limits for each type of risk in aggregate and for portfolios. Management is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

5.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to fulfil commitments to lend. The Group's liquidity risk monitoring process is performed by Group's management.

The following table analyses the Group's assets and liabilities into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contracted maturity date:

	Up to 12 months AED'000	Over 12 months AED'000	Unspecified maturity AED'000	Total AED'000
At 31 December 2023				
Assets				
Cash and balances with the UAE Central Bank	**65,143**	**-**	**-**	**65,143**
Balances and deposits with banks	**7,240,977**	**-**	**-**	**7,240,977**
Loans and advances	**1,189,111**	**4,574,180**	**-**	**5,763,291**
Islamic Finance	**38,246**	**1,623,078**	**-**	**1,661,324**
Investment securities	**270,554**	**1,142,083**	**285,630**	**1,698,267**
Derivative financial instruments	**46**	**37,774**	**-**	**37,820**
Other assets - Interest receivable	**136,301**	**-**	**-**	**136,301**
	8,940,378	**7,377,115**	**285,630**	**16,603,123**
Liabilities				
Due to banks	**-**	**-**	**-**	**-**
Deposits and funds	**5,340,409**	**-**	**-**	**5,340,409**
Term borrowings	**2,754,750**	**2,752,730**	**-**	**5,507,480**
Derivative financial instruments	**46**	**37,774**	**-**	**37,820**
Other liabilities	**257,902**	**-**	**7,314**	**265,216**
	8,353,107	**2,790,504**	**7,314**	**11,150,925**
Net liquidity availability	**587,271**	**4,586,611**	**278,316**	**5,452,198**
At 31 December 2022				
Assets				
Cash and balances with the UAE Central Bank	38,994	-	-	38,994
Balances and deposits with banks	4,589,133	-	-	4,589,133
Loans and advances	893,037	4,056,592	-	4,949,629
Islamic Finance	28,127	1,814,563	-	1,842,690
Investment securities	144,731	1,287,617	279,868	1,712,216
Derivative financial instruments	-	268	-	268
Other assets – Interest receivable	58,250	-	-	58,250
	5,752,272	7,159,040	279,868	13,191,180
Liabilities				
Due to banks	25,000	-	-	25,000
Deposits and funds	2,391,897	-	-	2,391,897
Term borrowings	-	5,505,928	-	5,505,928
Derivative financial instruments	-	268	-	268
Other liabilities	190,718	7,277	8,567	206,562
	2,607,615	5,513,473	8,567	8,129,655
Net liquidity availability	3,144,657	1,645,567	271,301	5,061,525

Maturity of assets and liabilities is determined on the basis of the remaining period from the date of the consolidated statement of financial position to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

5.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Management is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

5.6 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not exposed to capital risk due to the availability of surplus funds.

5.7 Fair value hierarchy

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are measured at fair value by reference to published price quotations in an active market.

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

The Group has adopted the amendment to IFRS 7 for financial instruments that are measured in the consolidated statement of financial position at fair value; this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included within level 1 that are observable for asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Group measures the fair values of its quoted financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss using the quoted market price (unadjusted) in active market for an identical instrument (Level 1). For the unquoted securities, the Group measures its fair value based on Level 3, using a market comparison technique which is mainly based on market multiples derived from financial information of companies comparable to the investee and the expected EBITDA of the investee, among others. The estimate is adjusted for the effect of non-marketability of the equity securities.

The fair values of balance with the UAE Central Bank, balances and deposits with banks, deposits from governmental authorities and corporate customers, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their carrying amount. The Group estimates that the fair value of its conventional housing portfolio and Ijarah and Estisnaa portfolios not to be materially different from its carrying amount since all of these balances carry floating market rates of interest and are re-priced on semiannual basis.

As at 31 December 2023, the fair values of the financial investments measured at amortised cost amounted to AED 1.2 billion *(2022: AED 1.2 billion)*. As at 31 December 2023, the fair values of the term borrowings amounted to AED 5.3 billion *(2022: AED 5.2 billion)*.

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

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2023				
Financial assets at FVTPL	**138,242**	**-**	**-**	**138,242**
Financial assets at FVTOCI	**188,322**	**-**	**97,308**	**285,630**
Derivative financial instruments	**-**	**37,820**	**-**	**37,820**
	326,564	**37,820**	**97,308**	**461,692**
At 31 December 2022				
Financial assets at FVTPL	137,669	-	-	137,669
Financial assets at FVTOCI	164,568	-	115,300	279,868
Derivative financial instruments	-	268	-	268
	302,237	268	115,300	417,805

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

5.7.1 Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Unquoted Equities	*Market comparison technique* The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee and the expected EBITDA of the investee. The estimate is adjusted for the effect of non-marketability of the equity securities.	EBITDA / Forecasted EBITDA Marketability discounts *(ranges from 10% to 25% for 2024 and 2023)* Performance discounts *(ranges from 10% to 25% for 2024 as compared to 5% to 25% for 2023)* Financial multiples of comparable entities: – EV/EBITDA *(ranges from 8.1x to 13.8x)* – EV/Revenue *(ranges from 0.4x to 1.3x)* – P/BV *(ranges from 0.7x to 1x)* – Average P/E *(ranges from 8.5x to 9.4x) (2022: 8.0x to 8.8x)* – EV/LTM EBITDA *(ranges from 8.0x to 15.2x) (2022: 8.3x to 15.8x)* – EV/Average EBITDA (ranges from 7.7x to *10.7x) (2022: 7.6x to 13x)*	The estimated fair value would increase (decrease): – if the EBITDA margin were higher (lower) – if the marketability discounts were lower (higher) – if the performance discounts were lower (higher) – if the financial multiples of comparable entities were higher (lower) Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.
	NAV approach This is based on the assumption that the value of the business equates to the sum of its underlying assets, and that no rational investor will pay more for the business than the cost of procuring assets of similar economic utility.	Marketability discounts *(ranges from 10% to 25% for both years)* Net assets	The estimated fair value would increase (decrease): – if the marketability discounts were lower (higher) – the net assets were higher (lower)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Investment properties	*Comparable evidence approach* Fair value of the subject property was calculated by adopting comparable market transaction information where available, current asking prices and compares the subject property's characteristics with those comparable properties which have recently been marketed in similar transactions in the market.	Comparable sales price of office and land plots (ranges from 57.5 to 250 per sq./ft.) and apartment building (ranges from AED 811 to 1273 per sq/ft) (2023: Comparable sales price of office and land plots (ranges from 54.0 to 250 per sq./ft.) and apartment building (ranges from AED 929 to 1,006 per sq/ft)	The estimated fair value would increase (decrease) if the comparable sales prices were higher (lower).
	Investment approach The market value of the Property has been determined through analysis of the income flow achievable for the investment property and takes into account the projected annual expenditure	Capitalisation rate (8.5% to 8.25%) (2023: 8.25% to 8.50%) *Rental income (ranges from AED 80 to 150 per sq./ft. for 2024 and 2023)*	An increase in the capitalisation rate used would result in a decrease in fair value, and vice versa. An increase in the market rent used would result in an increase in fair value, and vice versa. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

5.7.2 Reconciliation of Level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2023 AED'000	2022 AED'000
Investment properties		
Balance as at 1 January	**478,353**	491,015
Title deed cost	**2,138**	-
Net fair value change during the year	**(464)**	(12,662)
Balance as at 31 December	**480,027**	478,353
Financial assets at FVTOCI		
Balance as at 1 January	**115,300**	117,144
Net fair value change during the year	**(17,992)**	(1,844)
Balance as at 31 December	**97,308**	115,300

6 Balances and deposits with banks

	2023 AED'000	2022 AED'000
Money market placements	**7,206,085**	4,565,000
Current and call accounts	**35,474**	24,807
	7,241,559	4,589,807
Less: allowance for impairment	**(582)**	(674)
	7,240,977	4,589,133

7 Loans and advances to customers

	2023 AED'000	2022 AED'000
Loans to government entities	**2,940,070**	2,624,360
Loans to corporates and SMEs	**1,532,022**	961,593
Loans to financial institutions	**105,342**	109,549
Housing loans	**1,461,507**	1,503,020
Gross loans and advances to customers	**6,038,941**	5,198,522
Less: allowance for impairment	**(275,650)**	(248,893)
	5,763,291	4,949,629

Loans to financial institutions originally represent placements with two financial institutions, which are impaired and for which the Group holds no related collateral. These loans have been renegotiated in 2014. The provision accumulated on these loans amounted to AED 99 million *(31 December 2022: AED 99 million)*.

The total non-performing loans amounted to AED 272 million *(31 December 2022: AED 252 million)*. The specific provisions held against those loans amounted to AED 224 million *(31 December 2022: AED 203 million)*.

Movement in provision for impairment of loans:

	2023 AED'000	2022 AED'000
Balance at 1 January	**248,893**	237,502
Loss allowance – Stage 1 and 2	**5,575**	(4,402)
Loss allowance – Stage 3	**21,182**	17,789
Write off and write backs	**-**	(1,996)
Balance at 31 December	**275,650**	248,893

By industrial economic sector:

	2023 AED'000	2022 AED'000
Real estate	**4,401,578**	4,127,380
Construction material	**175,979**	162,841
Food and beverages	**148,456**	174,335
Financial services	**105,342**	109,549
Education	**53,773**	102,302
Medical products and services	**120,249**	120,547
Information technology	**187,317**	107,823
Paper products	**108,366**	95,613
Metals	**138,799**	95,187
Plastic products	**17,214**	26,743
Transport and logistics	**9,376**	6,077
Waste management services	**-**	13,683
Other	**572,492**	56,442
	6,038,941	5,198,522
Less: allowance for impairment	**(275,650)**	(248,893)
Balance at 31 December	**5,763,291**	4,949,629

8 Islamic Finance

	2023 AED'000	2022 AED'000
Islamic home finance	**1,710,822**	1,863,849
Less: allowance for impairment	**(49,498)**	(21,159)
Net Islamic Finance	**1,661,324**	1,842,690

Islamic home finance take the form of Ijara and Estisnaa contracts. These are granted to UAE nationals for the purpose of purchasing or construction of their home.

	2023 AED'000	2022 AED'000
Gross investment in Ijarah	**1,639,354**	2,031,255
Less: deferred Ijarah profits	**(775,513)**	(991,435)
	863,841	1,039,820

At 31 December, the future minimum Ijarah payments were payable as follows:

	31 December 2023	
	Minimum Ijarah payments AED'000	**Present value of minimum Ijarah payments AED'000**
Within one year	**84,750**	**24,013**
Two years to five years	**335,871**	**111,905**
More than five years	**1,218,732**	**727,922**
	1,639,354	**863,841**

	31 December 2022	
	Minimum Ijarah payments AED'000	Present value of minimum Ijarah payments AED'000
Within one year	81,375	20,495
Two years to five years	324,739	92,723
More than five years	1,625,141	926,602
	2,031,255	1,039,820

The total gross non-performing Islamic finance amounted to AED 39.2 million *(31 December 2022: AED 7.1 million)*. The specific provisions held against those finance amounted to AED 23.5 million *(31 December 2022: AED 3.9 million)*.

	2023 AED'000	2022 AED'000
Movement in provision for impairment:		
Balance at 1 January	**21,159**	15,509
Loss allowance – Stage 1 and 2	**8,746**	4,297
Loss allowance – Stage 3	**19,593**	1,353
	49,498	21,159

	2023 AED'000	2022 AED'000
By economic sector:		
Real estate	**1,710,822**	1,863,849
Less: allowance for impairment	**(49,498)**	(21,159)
	1,661,324	1,842,690

9 Investment securities

	2023 AED'000	2022 AED'000
Financial assets at FVTPL	**138,242**	137,669
Financial assets at FVTOCI	**285,630**	279,868
Financial assets at amortised cost	**1,274,395**	1,294,679
	1,698,267	1,712,216

The financial assets at fair value through profit or loss comprises of the following:

	2023 AED'000	2022 AED'000
Perpetual sukuk instruments	**138,242**	137,669
	138,242	137,669

Movement in financial assets at fair value through profit or loss:

	2023 AED'000	2022 AED'000
Balance as at 1 January	**137,669**	339,407
Securities purchased	**-**	30,490
Securities sold	**-**	(195,869)
Changes in fair value	**573**	(36,359)
Balance as at 31 December	**138,242**	137,669

The financial assets at fair value through other comprehensive income are denominated in UAE Dirhams and comprises of the following:

	2023 AED'000	2022 AED'000
Quoted local equity shares	**188,322**	164,568
Un-quoted local equity shares	**97,308**	115,300
	285,630	279,868

Movement in financial investments at fair value through other comprehensive income:

	2023 AED'000	2022 AED'000
Balance as at 1 January	**279,868**	279,124
Securities sold	**(4,255)**	(34,004)
Changes in fair value	**10,017**	34,748
Balance as at 31 December	**285,630**	279,868

During the year, the Group disposed of FVTOCI equity investments fair valued at AED 4,255 thousand as at 31 December 2023 *(2022: AED 27,218 thousand as at 31 December 2021)*, with accumulated fair value gain transferred to retained earnings of AED 3,487 thousand *(2022: gain of AED 25,692 thousand)* upon disposal.

Movement in financial assets measured at amortised cost:

	2023 AED'000	2022 AED'000
Balance as at 1 January	**1,294,679**	**961,814**
Securities purchased	**122,635**	**464,880**
Securities matured	**(144,644)**	**(130,242)**
Net amortisation of premium and discount	**3,125**	**(1,675)**
Allowance for impairment	**(1,400)**	**(98)**
Balance as at 31 December	**1,274,395**	**1,294,679**

Investments measured at amortised cost consist of US Dollar denominated bonds that carry coupon rates between 1.38% to 6.25% p.a. with maturities between 22 January 2024 to 13 July 2031 *(2022: coupon rates between 1.38% to 6.00% p.a. with maturities between 13 March 2023 to 13 July 2031).*

10 Investment properties

Investment properties comprise of the following:

	Land AED'000	Buildings AED'000	Properties under development AED'000	Total AED'000
At 1 January 2022	88,795	315,820	86,400	491,015
Change in fair value during the year	1,260	(12,322)	(1,600)	(12,662)
At 31 December 2022	90,055	303,498	84,800	478,353
Additions	2,138	-	-	2,138
Change in fair value during the year	3,602	(5,666)	1,600	(464)
At 31 December 2023	**95,795**	**297,832**	**86,400**	**480,027**

The above investment properties are located in various Emirates within the UAE as follows:

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land	**32,300**	**61,395**	**2,100**	**95,795**
Properties under development	**-**	**86,400**	**-**	**86,400**
Buildings	**177,000**	**120,832**	**-**	**297,832**
At 31 December 2023	**209,300**	**268,627**	**2,100**	**480,027**
Land	28,860	59,095	2,100	90,055
Properties under development	-	84,800	-	84,800
Buildings	179,470	124,028	-	303,498
At 31 December 2022	208,330	267,923	2,100	478,353

Investment properties are stated at fair value, which have been determined based on valuations performed by an independent industry specialist as at 31 December 2023 and 2022.

The valuation, conforms with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards ("RICS") and the relevant statements of the International Valuations Standards, was arrived at by using recognised valuation methods comprising the comparable method of valuation, the investment valuation method and the residual valuation method.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property.

Investment properties under development value includes, an amount of AED 34.9 million (*2022: AED 34.9 million)* being costs incurred to date on foundation and earthworks. Based on the latest valuation, an increase in fair value of AED 1.6 million *(2022: decrease of AED 1.6 million)* has been recognised against this project.

Income from investment properties – net:

	2023 AED'000	2022 AED'000
Rental income	**11,216**	14,693
Service charges	**(6,934)**	(6,599)
	4,282	8,094

Rental income from investment properties are disclosed as other operating income (note 23).

11 Other assets

	2023 AED'000	2022 AED'000
Interest receivable	**136,301**	58,250
Prepayments and other assets	**16,676**	7,727
	152,977	65,977

12 Property and equipment

	Land & buildings AED'000	Furniture & fixtures AED'000	Computers AED'000	Software & Licenses AED'000	Motor vehicles AED'000	Right of use assets AED'000	Work-in-progress AED'000	Total AED'000
Cost								
At 1 January 2022	52,947	12,357	12,829	32,180	430	-	2,790	113,533
Additions	12,671	-	606	3,280	-	15,407	4,334	36,298
Transfers	-	-	-	2,507	-	-	(2,507)	-
Transfer to assets held for sale (note 30)	(33,600)	-	-	-	-	-	-	(33,600)
At 31 December 2022	32,018	12,357	13,435	37,967	430	15,407	4,617	116,231
Additions	508	109	651	-	-	4,685	3,522	9,475
Transfers	-	-	-	3,061	-	-	(3,061)	-
Deletion / Transfer	-	-	-	-	-	-	-	-
At 31 December 2023	**32,526**	**12,466**	**14,086**	**41,028**	**430**	**20,092**	**5,078**	**125,706**
Accumulated depreciation								
At 1 January 2022	34,166	12,289	11,462	24,768	376	-	-	83,061
Charge for the year	1,189	23	1,040	2,861	54	3,043	-	8,210
Transfer to assets held for sale (note 30)	(22,192)	-	-	-	-	-	-	(22,192)
At 31 December 2022	13,163	12,312	12,502	27,629	430	3,043	-	69,079
Charge for the year	2,771	31	605	3,338	-	3,980	-	10,725
At 31 December 2023	**15,934**	**12,343**	**13,107**	**30,967**	**430**	**7,023**	**-**	**79,804**
Net book value								
At 31 December 2023	**16,592**	**123**	**979**	**10,061**	**-**	**13,069**	**5,078**	**45,902**
At 31 December 2022	18,855	45	933	10,338	-	12,364	4,617	47,152

The Group's building in Dubai is constructed on a land granted by the government of Dubai in the year 2000 for no consideration. The book value of this land is booked at nominal amount of AED 1. As at 31 December 2023, the carrying amount of the land and building amounted to AED 7.0 million *(2022: AED 7.3 million)*. The Group carried a valuation by an external valuer on its Dubai building including the land as of 31 December 2023. The property is designated partly as investment property and partly as property and equipment. The fair value of the portion of the building classified as property and equipment amounted to AED 12.1 million *(2022: AED 12.2 million)*.

Valuations of the Group's buildings and lands constructed thereon are based on the investment valuation method, and are classified as level 3 under the fair value hierarchy.

In 2001, the government of Ras Al Khaimah granted the Group a plot of land in Ras Al Khaimah for no consideration, subject to constructing a branch. The book value of this land is booked at nominal amount of AED 1. The fair value determined by the external valuer as at 31 December 2023 amounted to AED 3.8 million *(2022: AED 3.8 million)*.

Property and equipment included fully depreciated and still in use items with cost amounting to AED 52.3 million as of 31 December 2023 *(2022: AED 56.8 million)*.

13 Deposits and funds

	2023 AED'000	2022 AED'000
Time deposits from governmental institutions		
Mohammad Bin Rashid Innovation Fund	**3,725,485**	405,994
Funds from governmental institutions		
Sheikh Zayed Housing Program	**846,294**	838,296
Mohammad Bin Rashid Innovation Fund	**1,352**	1,352
Corporate deposits		
Time deposits	**666,015**	1,036,303
Other deposits	**101,263**	109,952
	5,340,409	2,391,897

As at 31 December 2023, time deposits range from a term of 12 to 362 days, with interest rate of 4.5% to 5.85% per annum *(2022: term of 30 to 186 days, with interest rate of 2.8% to 4.45% per annum)*.

Sheikh Zayed Housing Program

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Program ("the Program") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Program signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

This agreement lays out specific services that are to be provided by the Bank to the Program, the terms and conditions of the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Program's rights and responsibilities and details of the fees that are to be charged by the Bank to the Program in exchange.

The services to be provided include receiving funds pertaining to the Program and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally, the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Group with the UAE Central Bank. The Program earns interest on the funds invested with the Group as per the agreement signed.

The substantial risk and rewards associated with the Program's funds rest with the Group. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Group. The Program loans, however, do not carry any risk to the Bank and therefore are not included in the Group's consolidated statement of financial position.

Ministry of Finance - Sheikh Mohammed bin Rashid Innovation Fund

The Mohammed Bin Rashid Innovation Fund ("the Fund") is a government initiative created by the United Arab Emirates Prime Minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, as a fund to finance and foster innovation. The Ministry of Finance ("MoF") was appointed to be responsible for its implementation. EDB was subsequently appointed by the MoF to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the Fund, MoF, and the Bank).

The scope of the Bank's responsibilities includes review and comment on the Fund's policy, guidelines, and terms and conditions, host and collaborate the development of the Fund's operating Manual, support in the sourcing and contracting of the Decision and Advisory Committee experts, support in the contracting of strategic partners, promoting and marketing the Fund, manage and oversee the operations team performance, manage the Fund account, manage the annual report, host and maintain the Fund's website, and oversee the operations team's performance.

The Fund's annual expenses budget is to be prepared by the Bank and submitted to the MoF, which will in turn pay the Bank on a monthly basis as per the annually agreed expenses budget.

14 Term borrowings

	2023 AED'000	2022 AED'000
USD senior bonds	**5,509,500**	5,509,500
Less: Issuance cost	**(2,020)**	(3,572)
	5,507,480	5,505,928

In February 2019, the Bank established a Euro Medium Term Note Programme for USD 3,000 million (the "Programme"). As part of the Programme, the first issuance amounted to USD 750 million (AED 2,755 million) and was listed on Nasdaq Dubai on 6 March 2019. The bond is due in March 2024 and carries a coupon rate of 3.516% per annum, payable semi-annually.

The second issuance under the Programme amounted to USD 750 million bond (AED 2,755 million) and was listed in Nasdaq Dubai on 15 June 2022. The bond is due in June 2026 and carries a coupon rate of 1.639% per annum, payable semi-annually.

15 Other liabilities

	2023 AED'000	2022 AED'000
Customer settlement account	**33,245**	32,833
Customer deposits towards reserving residence	**3,032**	7,133
Interest payable against term borrowings	**32,947**	32,947
Accrued expenses	**39,379**	43,639
Accrual for staff costs and others	**53,084**	35,655
Deferred rent income	**2,418**	1,787
Accrual for directors' remuneration	**1,750**	2,250
Impairment allowance on credit guarantees	**2,648**	7,277
Interest payable against deposits and funds	**59,702**	11,787
Lease liability	**12,823**	11,867
Others	**24,188**	19,387
	265,216	206,562

16 Paid up capital

As per the EDB Law, the authorized share capital is 10 billion shares at AED 1 each with paid up capital of AED 5 billion required to be fully paid by the Federal Government. The issued share capital at 31 December 2023 comprises of 5,000,000 thousand ordinary shares of AED 1 each *(31 December 2022: 5,000,000 thousand ordinary shares of AED 1 each)*. As at 31 December 2023, the shares are not yet fully paid-up.

During the year, additional capital was injected by the Federal Government amounting to AED 50,000 thousand *(2022: AED 50,000 thousand)*.

Article (27) of Law No. (1) of 1981 relating to the incorporation of the Real Estate Bank specified that the responsibilities and authority of the National Housing Council, which were established by virtue of Law No. (6) for the year 1979 and its principle responsibilities relating to granting loans to UAE nationals for constructing residential properties, shall be transferred to the Bank. Furthermore, the article stated that the responsibilities, authorities and rights of the Settlement Committee, which relates to the settlement of real estate loans given to the UAE Nationals by commercial banks within the UAE as per the Ministerial Decree No. (2) of 1980 Concerning Settlement of Real Estate Loans, shall be transferred to the Real Estate Bank. Thus, these amounts were recognized as a liability until a resolution from the Bank's Board on their treatment and recognition was passed. During 2017, the liability mentioned above was approved to be recognized as paid up capital and there has been a transfer from other liabilities to proposed capital injection amounting to AED 10.7 million. This amount has been added to share capital after ratification of the Board decision by the UAE Cabinet

17 Special reserve

The special reserve is created based on Article 241 of Federal Law No. 32 of 2021 on Commercial Companies Law, wherein 10% of the Bank's profit for the year shall be transferred to the special reserve until it reaches 50% of the nominal value of the paid up share capital.

18 Commitments and contingent liabilities

	2023 AED'000	2022 AED'000
Unwithdrawn credit commitments – revocable	**931,952**	369,653
Guarantees	**277,154**	479,383

Revocable unwithdrawn credit commitments represent contractual commitments to provide loans and credit facilities which can be cancelled by the Bank unconditionally without any contractual obligations. These commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

Credit guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. In 2022, the Bank entered into an agreement with local banks ("lenders") to provide credit guarantees to the lender's SME customers. As at 31 December 2023, related credit guarantees amounted to AED 264.6 million *(2022: AED 465.3 million)*. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

The Group has issued financial guarantees in favour of other lending banks who have granted loans to the customers of Mohammad Bin Rashid Innovation Fund. The Group also have a reciprocal arrangement with Ministry of Finance to claim the guarantee amount in case of any default by the customer. As at 31 December 2023, MBRIF-related guarantees amounted to AED 12.5 million *(2022: AED 14.0 million).*

There are no other contingencies and commitments as at year-end.

19 Interest income

	2023 AED'000	2022 AED'000
Loans and advances	**299,597**	191,835
Balances and deposits with banks	**287,842**	87,603
Fixed income securities	**54,672**	50,881
Cash and balances with the UAE Central Bank	**56,288**	5,841
	698,399	336,160

20 Interest expense

	2023 AED'000	2022 AED'000
Term borrowings	**143,610**	143,564
Deposits and funds from government institutions	**107,951**	5,355
Due to banks and corporate deposits	**63,110**	14,358
Others	**3,950**	2,718
	318,621	165,995

21 Investment income

	2023 AED'000	2022 AED'000
Dividend income	**12,858**	13,715
Others	**3,441**	121
	16,299	13,836

22 Fees and commission income – net

	2023 AED'000	2022 AED'000
Fee from Sheikh Zayed Housing Program	**15,000**	14,000
Fee from Emirates Integrated Registries Company	**3,020**	2,535
Fee from guarantees	**4,923**	2,752
Other Fees – net	**12,769**	4,699
	35,712	23,986

23 Other income

	2023 AED'000	2022 AED'000
Rental income on investment properties (note 10)	**11,216**	14,693
Service charges (note 10)	**(6,934)**	(6,599)
Gain on sale of assets held for sale	**25,739**	-
Other income	**6,395**	207
	36,416	8,301

24 Operating and administrative expenses

	2023 AED'000	2022 AED'000
General and administrative expenses	**68,795**	48,948
Depreciation and amortisation	**10,725**	8,210
	79,520	57,158

25 Impairment charge

	2023 AED'000	2022 AED'000
Allowance for impairment losses (reversal of) on:		
– Loans and advances to customers	**26,757**	13,387
– Islamic Finance	**28,339**	5,650
– Credit guarantees	**(2,827)**	7,076
– Balances and deposits with banks	**(92)**	(671)
– Investment securities at amortised cost	**1,400**	98
Write backs and recoveries	**-**	(1,996)
Write-off	**101**	-
	53,678	23,544

26 Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Group had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the Group's management.

The Group carries out various transactions in the normal course of business with its shareholder, directors and officers and investee companies. These are conducted at terms agreed by the Directors and management.

Significant balances and transactions with related parties during the year were as follows:

	2023 AED'000	2022 AED'000
a) Related parties' balances		
Cash balances with UAE Central Bank	**1,222,143**	678,994
Loans and advances	**2,940,070**	2,624,360
Deposits from governmental institutions	**(3,725,485)**	(405,994)
Funds from governmental institutions	**(847,646)**	(839,648)
Corporate time deposits	**(205,871)**	(700,000)
b) Related parties' transactions during the year		
Key management compensation	**(11,049)**	(14,785)
Directors' remuneration	**(1,950)**	(1,950)
Interest income from loans and deposits	**118,165**	86,593
Fee income	**15,000**	14,000
Interest expense to governmental institutions	**(111,520)**	(7,640)
Interest expense to corporate deposits	**(18,788)**	(2,614)
Issuance of paid up capital	**50,000**	50,000

27 Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise:

	2023 AED'000	2022 AED'000
Cash and balances with UAE Central Bank	**65,143**	38,994
Balances and deposits with banks (note 6)	**7,240,977**	4,589,133
	7,306,120	4,628,127
Less: balances with original maturities over three months	**(5,548,503)**	(1,274,326)
	1,757,617	3,353,801

28 Financial instruments

The fair values and carrying amounts of financial assets and financial liabilities in the consolidated statement of financial position are as follows:

	Amortised cost AED'000	FVTOCI AED'000	FVTPL AED'000	Total AED'000
As at 31 December 2023				
Cash and balances with UAE Central Bank	**65,143**	**-**	**-**	**65,143**
Balances and deposits with banks	**7,240,977**	**-**	**-**	**7,240,977**
Loans and advances to customers	**5,763,291**	**-**	**-**	**5,763,291**
Islamic Finance	**1,661,324**	**-**	**-**	**1,661,324**
Investment securities	**1,274,395**	**285,630**	**138,242**	**1,698,267**
Derivative financial instruments	**-**	**-**	**37,820**	**37,820**
Other assets – interest receivable	**136,301**	**-**	**-**	**136,301**
Total financial assets	**16,141,431**	**285,630**	**176,062**	**16,603,123**
Due to banks	**-**	**-**	**-**	**-**
Derivative financial instruments	**-**	**-**	**37,820**	**37,820**
Deposits and funds	**5,340,409**	**-**	**-**	**5,340,409**
Term borrowings	**5,507,480**	**-**	**-**	**5,507,480**
Other liabilities	**265,216**	**-**	**-**	**265,216**
Total financial liabilities	**11,113,105**	**-**	**-**	**11,150,925**
As at 31 December 2022				
Cash and balances with UAE Central Bank	38,994	-	-	38,994
Balances and deposits with banks	4,589,133	-	-	4,589,133
Loans and advances to customers	4,949,629	-	-	4,949,629
Islamic Finance	1,842,690	-	-	1,842,690
Investment securities	1,294,679	279,868	137,669	1,712,216
Derivative financial instruments	-	-	268	268
Other assets – interest receivable	58,250	-	-	58,250
Total financial assets	12,773,375	279,868	137,937	13,191,180
Due to banks	25,000	-	-	25,000
Derivative financial instruments	-	-	268	268
Deposits and funds	2,391,897	-	-	2,391,897
Term borrowings	5,505,928	-	-	5,505,928
Other liabilities	206,562	-	-	206,562
Total financial liabilities	8,129,387	-	268	8,129,387

29 Segment information

Operating Segments

The Group along with its subsidiary operates within the United Arab Emirates. The operating segments consist of the Home Finance, Business Finance, and Investments and Treasury business units.

For each business unit, the key management reviews internal management reports on at least a quarterly basis. Information reported to the Group's Executive Management (the Chief Operating Decision Maker (CODM)) for the purposes of resource allocation and assessment of segment performance is focused on the type of products and business unit's operations. The following business units offer different products and services and are managed separately because they require different strategies.

Home Finance

The Group offers affordable financial solutions to UAE nationals that facilitate their purchase, construction or expansion of a home. The Group provides a variety of customised finance solutions for UAE nationals, including loans complementing the offering of federal and local housing authorities, as well as direct financing products such as mortgage loans or loans for home construction. The Group also administers loans made by the SZHP to its customers - these loans are agreed between the SZHP and the customer, and the Group's role is to disburse the funds which it has received from the MoF on behalf of the SZHP and subsequently administer the loans.

Industrial Finance

The objective of the Industrial Finance unit to support the UAE development agenda including GDP growth, economic diversification and job creation through providing funding to corporates and small and medium-sized enterprises ("SMEs"). The Group offers affordable finance to SMEs and large corporates which are majority owned by UAE nationals in the form of: asset-backed financing, purchase financing (pre-sales financing), receivables financing (post-sales financing); and business expansion loan and project financing.

Investments and Treasury

The role of Investments and Treasury is to manage the Group's liquidity and cash flows as well as its foreign exchange positions, its investment securities and its other assets and liabilities. In addition, the department acts as the custodian of the Group's cash and other liquid assets. The department seeks to achieve portfolio diversification by maintaining high quality assets portfolio focused on achieving strong and sustainable returns. Through treasury liabilities products, the Group also aims to obtain long-term, risk-free, stable deposits cheaply to fund its assets and develop sustainable long-term relationships.

The other activities under this segment include managing the investment properties of the Group.

	Home Finance AED'000	Industrial Finance AED'000	Investments and Treasury AED'000	Unallocated transactions and others AED'000	Total AED'000
For the year ended 31 December 2023					
Net interest income and profit from Islamic finance	**219,995**	**197,320**	**398,802**	**(318,621)**	**497,496**
Net fee and commission income	**14,570**	**18,123**	**-**	**3,019**	**35,712**
Income from investment securities	**-**	**-**	**16,299**	**-**	**16,299**
Income from investment properties	**-**	**-**	**4,282**	**-**	**4,282**
Other income	**-**	**-**		**32,134**	**32,134**
Net operating income	**234,565**	**215,443**	**419,383**	**(283,468)**	**585,923**
As at 31 December 2023					
Total assets	**3,140,463**	**4,391,847**	**9,616,468**	**(3,050)**	**17,145,728**
Total liabilities	**44,072**	**148,762**	**10,840,704**	**117,387**	**11,150,925**

	Home Finance AED'000	Industrial Finance AED'000	Investments and Treasury AED'000	Unallocated transactions and others AED'000	Total AED'000
For the year ended 31 December 2022					
Net interest income and profit from Islamic finance	136,152	127,272	144,325	(165,995)	241,754
Net fee and commission income	12,779	9,115	(443)	2,535	23,986
Income from investment securities	-	-	13,836	-	13,836
Income from investment properties	-	-	8,094	-	8,094
Other income	-	-	-	207	207
Net operating income	148,931	136,387	165,812	(163,253)	287,877
As at 31 December 2022	-	-	-	207	207
Total assets	3,364,510	3,511,415	6,845,486	14,141	13,735,552
Total liabilities	45,656	119,896	7,856,566	107,537	8,129,655

30 Assets held for sale

During the year 2022, the Board of Directors had resolved to dispose the properties held by the bank under property and equipment and decided to recover their carrying values through sale rather than continuing use. As of 31 December 2022, the Group's Abu Dhabi building previously classified under property and equipment has been recognized as assets held for sale due to progress on the sale of this property and on receipt of market competitive offers from potential buyers, management was of the view that sale will be highly probable in the next 12 months and the asset is immediately available for sale in its present condition.

Assets held for sale includes the Group's building in the Emirate of Abu Dhabi which is constructed on a land granted by the government of Abu Dhabi in the year 2000 for no consideration. This land was booked at nominal amount of AED 1. During the year ended 31 December 2023, the Bank received the disposal proceeds, net of disposal costs amounting to AED 37.2 million, higher than the carrying value.

31 Derivative financial instruments

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Positive fair value AED'000	Negative fair value AED'000	Notional Value AED'000
31 December 2023			
Financial Derivatives			
Interest rate swaps	**37,636**	**(37,636)**	**431,820**
Interest rate caps	**184**	**(184)**	**94,079**
	37,820	**(37,820)**	**525,899**
31 December 2022	-	-	-
Financial Derivatives			
Interest rate swaps	268	(268)	41,910
	268	(268)	41,910

The Group has offered their customers with an opportunity of risk mitigating solutions to help manage their interest rate exposure related to their borrowing with the Group. These solutions includes hedging the interest rate fluctuations through financial derivatives such as interest rate swaps and interest rate cap with a back to back counter arrangement with other financial intuitions and banks.

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk.

32 Corporate Income Tax

On 3 October 2023, the United Arab Emirates (UAE) Ministry of Finance ("MoF") issued Federal Decree-Law No 47 of 2023 on the Taxation of Corporations and Businesses, Corporate Tax Law ("CT Law") to implement a new CT regime in the UAE. The new CT regime is applicable for accounting periods beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% CT rate, however a rate of 0% could be applied to taxable income not exceeding a particular threshold or to certain types of entities, to be prescribed by way of a Cabinet Decision.

The Group is currently assessing the impact of these laws and regulations and will apply the requirements as further guidance is provided by the relevant tax authorities.