Abu Dhabi Commercial Bank PJSC

Consolidated financial statements for the year ended December 31, 2022

The audited consolidated financial statements are subject to approval by CBUAE and Shareholders at the Annual General Meeting

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Independent auditors' report

To the Shareholders of Abu Dhabi Commercial Bank PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Abu Dhabi Commercial Bank PJSC ("the Bank") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated income statement, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory 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 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Standards as issued by the International Accounting Standards Board (IFRS Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable requirements of Financial Statements Auditing Standards for the Subject Entities issued vide ADAA Chairman's Resolution No. (88) of 2021 in the United Arab Emirates (ADAA Auditing Standards). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical and independence requirements of United Arab Emirates that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 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.

See Note 11 and 43 to the consolidated financial statements

Impairment of loans and advances to customers, net

The key audit matter	How the matter was addressed in our audit
The Group recognized allowances for credit losses in its consolidated financial statements using expected credit loss ("ECL") models. The Group exercises significant judgments and makes a number of assumptions in developing its ECL models which is determined as a function of the assessment of the probability of default ("PD"), loss given default ("LGD"), adjusted for the forward looking information, and exposure at default ("EAD") associated with the underlying exposures subject to ECL. Qualitative adjustments or overlays may also be recorded by the Group using credit judgement where the inputs, assumptions and / or modelling techniques do not capture all relevant risk factors captured by the models. This is considered a key audit matter, as the determination of ECL involves significant management judgement, estimates, use of complex models and this has a material impact on the consolidated financial statements of the Group.	Our audit procedures in this area include the following, among others: • Evaluating the appropriateness of the accounting policies adopted based on the requirements of IFRS 9, and our business understanding. • Obtaining an understanding of the ECL accounting estimate including, but not limited to, obtaining information about the Group's control environment in relation to the estimate, obtaining an understanding of the process by which the estimate is developed, understanding the methods, assumptions and data used to develop the accounting estimate. Assessing the design, implementation, and testing the operating effectiveness of selected relevant controls. • Involving our Financial Risk Management ("FRM") specialists, for a selection of models, to assess the reasonableness and appropriateness of the methodology and assumptions used in various components of ECL modelling and the application of expert credit judgment to determine the ECL. This included, where applicable, challenging key assumptions / judgments relating to significant increase in credit risk ("SICR"), definition of default, probability of default, loss given default, use of macro-economic variables and probability weighted outcomes to check that the ECL amounts recorded are reflective of underlying credit quality and macroeconomic trends.

Key Audit Matters (continued)

Impairment of loans and advances to customers, net (continued)

See Note 11 and 43 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
	• Testing the completeness and accuracy of the data used within the ECL calculation. • Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process. • Re-performing key aspects of the Group's SICR determinations for selected samples of loans, advances and Islamic financing to determine whether a SICR event was appropriately identified. • Evaluating the reasonableness of and testing a sample of management overlays. • Involving valuation specialists on a sample basis to assess the reasonableness of the valuation of real estate collaterals held by the Group, relating to the determination of ECL. • Performing credit assessments for a sample of selected customers, including Stage 3 customers, to test the appropriateness of the credit grades, including staging, assessing the financial performance of the borrower, source of repayment and future cash flows of the borrower, and as necessary, challenging the appropriateness of the ECL calculation for a sample of borrowers. • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 31 January 2022.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon (the "Annual report"). The Annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we 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 identified above when it becomes available 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.

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 IFRS Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, and the applicable provisions of Law No. (1) of 2017 (as amended) concerning the Financial System of the Government of Abu Dhabi and instructions issued by the Department of Finance and applicable provisions of the laws and regulations 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.

Auditors' 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 auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and ADAA Auditing Standards 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 and ADAA Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the 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 within 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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021, we report that for the year ended 31 December 2022:

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

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

iii) the Group has maintained proper books of account;

iv) the financial information included in the Charmain's Statement (as included in Earnings Press Release and Management Discussion & Analysis) is consistent with the books of account of the Group;

v) as disclosed in note 10 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2022;

vi) note 37 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;

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

viii) note 51 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2022.

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

Further, as required by the Abu Dhabi Accountability Authority's Chairman Resolution No.(88) of 2021 pertaining to Financial Statements Auditing Standards for the Subject Entities, we report that based on the procedures performed and information provided to us by management and those charged with governance, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material aspects, with any of the provisions of the following laws, regulations and circulars as applicable to its activties, which would have a material impact on the consolidated financial statements as at 31 December 2022:

i) Law No. (1) of 2017 (as amended) concerning the Financial System of the Government of Abu Dhabi and instructions issued by the Department of Finance pertaining to the preparation and implementation of the annual budget of Subject Entities;

Report on Other Legal and Regulatory Requirements (continued)

ii) its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022; and

iii) relevant provisions of the applicable laws, resolutions and circulars that have an impact on the Bank's consolidated financial statements.

KPMG Lower Gulf Limited

Richard Ackland
Registration No.: 1015
Abu Dhabi, United Arab Emirates

Date : 31 January 2023

Consolidated statement of financial position
As at December 31, 2022

	Notes	As at December 31 2022 AED'000	As at December 31 2021 AED'000	As at December 31 2022 USD'000	As at December 31 2021 USD'000
Assets					
Cash and balances with central banks, net	6	**39,429,308**	33,746,202	**10,734,906**	9,187,640
Deposits and balances due from banks, net	7	**35,339,202**	26,670,143	**9,621,346**	7,261,134
Financial assets at fair value through profit or loss	8	**4,642,263**	1,706,767	**1,263,889**	464,679
Derivative financial instruments	9	**15,182,538**	6,488,021	**4,133,552**	1,766,409
Investment securities, net	10	**112,010,683**	96,513,292	**30,495,694**	26,276,420
Loans and advances to customers, net	11	**258,492,870**	244,282,293	**70,376,496**	66,507,567
Investment in associates	12	**252,525**	262,609	**68,752**	71,497
Investment properties	13	**1,691,890**	1,674,954	**460,629**	456,018
Other assets, net	14	**21,711,189**	19,354,460	**5,911,023**	5,269,388
Property and equipment, net	15	**1,937,503**	2,064,270	**527,499**	562,012
Intangible assets, net	16	**7,152,194**	7,294,685	**1,947,235**	1,986,029
Assets held for sale	35	**-**	220,673	**-**	60,080
Total assets		**497,842,165**	440,278,369	**135,541,021**	119,868,873
Liabilities					
Due to banks	17	**9,719,193**	7,205,333	**2,646,118**	1,961,702
Derivative financial instruments	9	**16,225,385**	6,563,379	**4,417,475**	1,786,926
Deposits from customers	18	**308,930,699**	265,052,325	**84,108,549**	72,162,354
Euro commercial paper	19	**5,994,279**	6,199,157	**1,631,984**	1,687,764
Borrowings	20	**69,875,733**	72,499,337	**19,024,158**	19,738,453
Other liabilities	21	**25,670,739**	23,384,164	**6,989,041**	6,366,503
Liabilities related to assets held for sale	35	**-**	4,648	**-**	1,265
Total liabilities		**436,416,028**	380,908,343	**118,817,325**	103,704,967
Equity					
Share capital	22	**6,957,379**	6,957,379	**1,894,195**	1,894,195
Share premium		**17,878,882**	17,878,882	**4,867,651**	4,867,651
Other reserves	23	**7,546,743**	9,283,381	**2,054,654**	2,527,466
Retained earnings		**23,035,375**	19,240,158	**6,271,542**	5,238,268
Capital notes	26	**6,000,000**	6,000,000	**1,633,542**	1,633,542
Equity attributable to equity holders of the Bank		**61,418,379**	59,359,800	**16,721,584**	16,161,122
Non-controlling interests		**7,758**	10,226	**2,112**	2,784
Total equity		**61,426,137**	59,370,026	**16,723,696**	16,163,906
Total liabilities and equity		**497,842,165**	440,278,369	**135,541,021**	119,868,873

These consolidated financial statements were duly approved by the Board of Directors and authorised for issue on January 31, 2023 and signed on its behalf by:

Khaldoon Khalifa Al Mubarak	**Ala'a Eraiqat**	**Deepak Khullar**
Chairman	*Group Chief Executive Officer*	*Group Chief Financial Officer*

The accompanying notes 1 to 52 form an integral part of these consolidated financial statements.

Consolidated income statement
For the year ended December 31, 2022

	Notes	2022 AED'000	2021 AED'000	2022 USD'000	2021 USD'000
Interest income	27	**13,974,754**	9,089,776	**3,804,725**	2,474,755
Interest expense	28	**(5,799,745)**	(2,011,812)	**(1,579,021)**	(547,730)
Net interest income		**8,175,009**	7,077,964	**2,225,704**	1,927,025
Income from Islamic financing and investing products	24	**2,442,088**	2,031,372	**664,876**	553,055
Distribution on Islamic deposits and profit paid to sukuk holders	24	**(423,342)**	(245,806)	**(115,258)**	(66,922)
Net income from Islamic financing and investing products		**2,018,746**	1,785,566	**549,618**	486,133
Total net interest income and income from Islamic financing and investing products		**10,193,755**	8,863,530	**2,775,322**	2,413,158
Net fees and commission income	29	**2,110,413**	1,899,288	**574,575**	517,094
Net trading income	30	**912,786**	675,765	**248,512**	183,982
Net gains from investment properties	13	**19,142**	11,470	**5,212**	3,123
Other operating income	31	**1,108,192**	809,138	**301,713**	220,293
Operating income		**14,344,288**	12,259,191	**3,905,334**	3,337,650
Operating expenses	32	**(4,888,303)**	(4,257,240)	**(1,330,875)**	(1,159,063)
Operating profit before impairment charge		**9,455,985**	8,001,951	**2,574,459**	2,178,587
Impairment charge	33	**(2,778,913)**	(2,646,188)	**(756,579)**	(720,443)
Profit after impairment charge		**6,677,072**	5,355,763	**1,817,880**	1,458,144
Share in (loss)/profit of associates	12	**(8,463)**	7,663	**(2,304)**	2,086
Profit before taxation		**6,668,609**	5,363,426	**1,815,576**	1,460,230
Overseas income tax charge		**(135,073)**	(99,605)	**(36,775)**	(27,118)
Profit for the year from continuing operations		**6,533,536**	5,263,821	**1,778,801**	1,433,112
Loss from discontinued operations	35	**(99,816)**	(16,422)	**(27,176)**	(4,471)
Profit for the year		**6,433,720**	5,247,399	**1,751,625**	1,428,641
Attributable to:					
Equity holders of the Bank		**6,435,301**	5,241,122	**1,752,055**	1,426,932
Non-controlling interests		**(1,581)**	6,277	**(430)**	1,709
Profit for the year		**6,433,720**	5,247,399	**1,751,625**	1,428,641
Basic and diluted earnings per share (AED/USD)	34	**0.90**	0.73	**0.25**	0.20

The accompanying notes 1 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended December 31, 2022

	2022 AED'000	2021 AED'000	2022 USD'000	2021 USD'000
Profit for the year	**6,433,720**	5,247,399	**1,751,625**	1,428,641
Items that may be re-classified subsequently to the consolidated income statement				
Net movement in foreign currency translation reserve (Note 23)	**(116,367)**	(12,517)	**(31,682)**	(3,408)
Net movement in cash flow hedge reserve (Note 23)	**165,088**	(34,448)	**44,946**	(9,379)
Net movement in revaluation reserve of debt instruments designated at FVTOCI (Note 23)	**(1,755,227)**	(487,639)	**(477,873)**	(132,763)
	(1,706,506)	(534,604)	**(464,609)**	(145,550)
Items that may not be re-classified subsequently to the consolidated income statement				
Net movement in revaluation reserve of equity instruments designated at FVTOCI (Note 23)	**(38,695)**	2,342	**(10,535)**	638
Actuarial gains on defined benefit obligation (Note 21)	**108,233**	42,079	**29,467**	11,456
	69,538	44,421	**18,932**	12,094
Other comprehensive loss for the year	**(1,636,968)**	(490,183)	**(445,677)**	(133,456)
Total comprehensive income for the year	**4,796,752**	4,757,216	**1,305,948**	1,295,185
Attributable to:				
Equity holders of the Bank	**4,798,908**	4,751,009	**1,306,535**	1,293,495
Non-controlling interests	**(2,156)**	6,207	**(587)**	1,690
Total comprehensive income for the year	**4,796,752**	4,757,216	**1,305,948**	1,295,185

The accompanying notes 1 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended December 31, 2022

	Share capital AED'000	Share premium AED'000	Other reserves AED'000	Retained earnings AED'000	Capital notes AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total equity AED'000
As at January 1, 2022	**6,957,379**	**17,878,882**	**9,283,381**	**19,240,158**	**6,000,000**	**59,359,800**	**10,226**	**59,370,026**
Profit for the year	-	-	-	**6,435,301**	-	**6,435,301**	**(1,581)**	**6,433,720**
Other comprehensive (loss)/income for the year (Note 23)	-	-	**(1,744,626)**	**108,233**	-	**(1,636,393)**	**(575)**	**(1,636,968)**
Other movements (Note 23)	-	-	**7,888**	**9,724**	-	**17,612**	-	**17,612**
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI (Note 23)	-	-	-	**(1,713)**	-	**(1,713)**	-	**(1,713)**
Adjustments arising from changes in non-controlling interests	-	-	**100**	**173**	-	**273**	**(273)**	-
Dividends paid to equity holders of the Bank (Note 22)	-	-	-	**(2,574,230)**	-	**(2,574,230)**	-	**(2,574,230)**
Dividends paid to non-controlling equity holders of subsidiary	-	-	-	-	-	-	**(39)**	**(39)**
Capital notes coupon paid (Note 34)	-	-	-	**(182,271)**	-	**(182,271)**	-	**(182,271)**
As at December 31, 2022	**6,957,379**	**17,878,882**	**7,546,743**	**23,035,375**	**6,000,000**	**61,418,379**	**7,758**	**61,426,137**
As at January 1, 2021	6,957,379	17,878,882	9,865,416	15,895,692	6,000,000	56,597,369	4,019	56,601,388
Profit for the year	-	-	-	5,241,122	-	5,241,122	6,277	5,247,399
Other comprehensive (loss)/income for the year (Note 23)	-	-	(532,192)	42,079	-	(490,113)	(70)	(490,183)
Other movements (Note 23)	-	-	(49,843)	(715)	-	(50,558)	-	(50,558)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI (Note 23)	-	-	-	(45)	-	(45)	-	(45)
Dividends paid to equity holders of the Bank	-	-	-	(1,878,492)	-	(1,878,492)	-	(1,878,492)
Reversal of zakat provision	-	-	-	114,215	-	114,215	-	114,215
Capital notes coupon paid (Note 34)	-	-	-	(173,698)	-	(173,698)	-	(173,698)
As at December 31, 2021	6,957,379	17,878,882	9,283,381	19,240,158	6,000,000	59,359,800	10,226	59,370,026

For the year ended December 31, 2022, the Board of Directors has proposed to pay cash and stock dividend representing 55% of the paid up capital (Note 22).

The accompanying notes 1 to 52 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended December 31, 2022

	2022 AED'000	2021 AED'000	2022 USD'000	2021 USD'000
OPERATING ACTIVITIES				
Profit before taxation including loss from discontinued operations (Note 35)	**6,569,206**	5,347,661	**1,788,512**	1,455,938
Adjustments for:				
Depreciation on property and equipment (Note 15)	**407,259**	401,147	**110,879**	109,215
Amortisation of intangible assets (Note 16)	**94,135**	95,690	**25,629**	26,052
Net gains from investment properties (Note 13)	**(19,142)**	(11,470)	**(5,212)**	(3,123)
Impairment charge	**3,250,639**	3,024,545	**885,009**	823,454
Share in loss/(profit) of associates (Note 12)	**8,463**	(7,663)	**2,304**	(2,086)
Discount unwind	**(399,206)**	(362,938)	**(108,687)**	(98,812)
Net loss/(gains) from disposal of investment securities (Note 31)	**71,349**	(259,077)	**19,425**	(70,537)
(Discount)/premium amortisation on investment securities	**(68,920)**	167,507	**(18,764)**	45,605
Dividend income (Note 31)	**(35,913)**	(26,814)	**(9,778)**	(7,300)
Gain on bargain purchase	**-**	(166,148)	**-**	(45,235)
Exchange difference arising on translation of foreign operations reclassified to consolidated income statement (Note 23)	**113,366**	-	**30,865**	-
Gain on sale of property and equipment	**(38,904)**	(20,392)	**(10,592)**	(5,552)
Interest capitalised and discount amortisation on borrowings and euro commercial papers	**1,002,981**	939,029	**273,069**	255,657
Net gains from financial assets and liabilities at fair value through profit or loss (Note 30)	**(108,923)**	(19,187)	**(29,655)**	(5,224)
Ineffective portion of hedges – loss (Note 9)	**11,819**	4,569	**3,218**	1,244
Employees' incentive plan expense (Note 25)	**22,622**	5,639	**6,159**	1,535
Cash flows from operating activities before changes in operating assets and liabilities	**10,880,831**	9,112,098	**2,962,381**	2,480,831
Net movement in due from banks	**(7,163,065)**	(9,855,434)	**(1,950,195)**	(2,683,211)
Net movement in derivative financial instruments	**(244,768)**	(97,084)	**(66,640)**	(26,432)
Net movement in financial assets at fair value through profit or loss	**(2,829,266)**	(1,687,943)	**(770,288)**	(459,554)
Net movement in loans and advances to customers	**(19,265,618)**	(7,029,428)	**(5,245,200)**	(1,913,811)
Net movement in other assets	**(1,482,197)**	99,213	**(403,539)**	27,011
Net movement in due to banks	**1,995,339**	(644,760)	**543,245**	(175,540)
Net movement in deposits from customers	**48,994,167**	13,657,487	**13,339,005**	3,718,347
Net movement in other liabilities	**1,599,334**	104,894	**435,433**	28,559
Net cash from operations	**32,484,757**	3,659,043	**8,844,202**	996,200
Overseas income tax paid	**(77,589)**	(63,348)	**(21,124)**	(17,247)
Net cash from operating activities	**32,407,168**	3,595,695	**8,823,078**	978,953
INVESTING ACTIVITIES				
Cash paid on business combination	**-**	(918,923)	**-**	(250,183)
Net proceeds from redemption/disposal of investment securities	**44,781,524**	30,122,479	**12,192,084**	8,201,056
Net purchases of investment securities	**(68,835,083)**	(40,038,906)	**(18,740,834)**	(10,900,873)
Dividend received from investment securities (Note 31)	**35,913**	26,814	**9,778**	7,300
Dividend received from associates (Note 12)	**1,621**	922	**441**	251
Gross proceeds from disposal of assets held for sale	**72,749**	101,308	**19,806**	27,582
Disposal of investment properties (Note 13)	**2,426**	22,879	**660**	6,229
Net purchases of property and equipment	**(289,708)**	(217,816)	**(78,875)**	(59,302)
Net cash used in investing activities	**(24,230,558)**	(10,901,243)	**(6,596,940)**	(2,967,940)
FINANCING ACTIVITIES				
Net movement in euro commercial paper (Note 19)	**(251,159)**	1,436,121	**(68,380)**	390,994
Net proceeds from borrowings (Note 20)	**47,103,994**	30,728,932	**12,824,393**	8,366,167
Repayment of borrowings (Note 20)	**(44,319,818)**	(22,951,954)	**(12,066,381)**	(6,248,830)
Payment of lease liabilities	**(84,173)**	(89,803)	**(22,917)**	(24,449)
Dividends paid to equity holders of the Bank	**(2,574,230)**	(1,878,492)	**(700,852)**	(511,433)
Dividends paid to non-controlling equity holders of subsidiary	**(39)**	-	**(11)**	-
Capital notes coupon paid (Note 34)	**(182,271)**	(173,698)	**(49,625)**	(47,291)
Net cash (used in)/from financing activities	**(307,696)**	7,071,106	**(83,773)**	1,925,158
Effect of exchange rate changes on cash and cash equivalents	**(1,246,500)**	(1,709)	**(339,367)**	(465)
Net increase/(decrease) in cash and cash equivalents	**6,622,414**	(236,151)	**1,802,998**	(64,294)
Cash and cash equivalents at the beginning of the year (Note 36)	**32,435,700**	32,671,851	**8,830,848**	8,895,142
Cash and cash equivalents at end of the year (Note 36)	**39,058,114**	32,435,700	**10,633,846**	8,830,848

The accompanying notes 1 to 52 form an integral part of these consolidated financial statements.

1. General information

Abu Dhabi Commercial Bank PJSC ("ADCB" or the "Bank") is a public joint stock company with limited liability incorporated in the emirate of Abu Dhabi, United Arab Emirates (UAE). The Bank and its subsidiaries (together referred to as the "Group") is principally engaged in the business of retail, commercial and Islamic banking and provision of other financial services.

The Group's Islamic banking activities are conducted in accordance with principles of Islamic Shari'ah as interpreted by Internal Shari'ah Supervision Committee ("ISSC") as well as the standards and resolutions issued by the higher Shari'ah authority of UAE Central Bank.

The Bank is listed on the Abu Dhabi Securities Exchange (Ticker: ADCB).

The registered head office of ADCB is at Abu Dhabi Commercial Bank PJSC Head Office Building, Sheikh Zayed Bin Sultan Street, Plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, UAE.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 Standards and Interpretations in issue and effective

During the current year, the Group has applied the amendments to IFRS 3, IAS 16, IAS 37 and annual improvements to IFRS Standards 2018–2020 issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2022. The application of these amendments to IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for the Group's future transactions or arrangements.

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

2.2 Standards and Interpretations in issue but not yet effective

New standards and significant amendments to standards applicable to the Group:	**Effective for annual periods beginning on or after**
Amendments to IAS 1 'Presentation of Financial Statements' to address the classification of liabilities as current or non-current providing a more general approach based on the contractual arrangements in place at the reporting date.	January 1, 2023
IFRS 17 'Insurance Contracts' requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts.	January 1, 2023
Amendments to IFRS 17 'Insurance Contracts' to address concerns and implementation challenges identified after IFRS 17 were published in 2017.	January 1, 2023

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 Standards and Interpretations in issue but not yet effective (continued)

New standards and significant amendments to standards applicable to the Group:	**Effective for annual periods beginning on or after**
Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4). The amendment changes the fixed expiry date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments' so that entities would be required to apply IFRS 9 for annual periods beginning on or after January 1, 2023.	January 1, 2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) which require that an entity disclose its material accounting policies, instead of its significant accounting policies.	January 1, 2023
The IASB issued 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)' that clarifies how companies account for deferred tax on transactions such as leases and decommissioning obligations.	January 1, 2023
The amendments replace the definition of Accounting Estimates (Amendments to IAS 8) - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".	January 1, 2023
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) - The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.	January 1, 2024
Non-current Liabilities with Covenants (Amendments to IAS 1) - The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	January 1, 2024

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

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

3. Summary of significant accounting policies

3.1 Basis of preparation

The consolidated financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and requirements of the applicable laws including UAE Federal Decree Law No. 32 of 2021 which came into effect on January 2, 2022 replacing the UAE Federal Law No. 2 of 2015 (as amended) and the applicable provisions of Law No. (1) of 2017 (as amended) issued by the Department of Finance. IFRSs comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

Certain disclosure notes/numbers have been reclassified and rearranged from the Group's prior year consolidated financial statements to conform to the current year's presentation.

3.2 Measurement

The consolidated financial statements have been prepared under the historical cost convention except as modified by the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets and liabilities at fair value through other comprehensive income and investment properties.

3.3 Functional and presentation currency

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

The United States Dollar (USD) amounts in the primary financial statements are presented for the convenience of the reader only by converting the AED balances at the pegged exchange rate of 1 USD = 3.673 AED.

3.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 4.

3.5 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (collectively referred to as the "Group").

Subsidiaries

Subsidiaries are entities that are controlled by the Bank. Control is achieved when the Bank:

- 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.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

The Bank reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Bank has less than a majority of voting rights of an investee, it still has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Bank considers all relevant facts and circumstances in assessing whether or not the Bank's voting rights in an investee are sufficient to give it power, including:

- the size of the Bank's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Bank;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Bank has, or does not have, the current ability to direct the relevant activities at the time the decision needs to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and other comprehensive income from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to owners of the Bank and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Bank and non-controlling interests even if this results in non-controlling interests having a deficit balance.

When necessary, adjustments are made to the consolidated financial statements of subsidiaries to align their accounting policies with the Bank's accounting policies.

All intragroup balances and income, expenses and cash flows resulting from intragroup transactions are eliminated in full on consolidation.

Changes in the Bank's ownership interests in existing subsidiaries

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank losing control over the subsidiaries are accounted for as equity transactions. The carrying amount of the Bank's interests is adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the shareholders of the Bank. When the Bank loses control of a subsidiary, a gain or loss is recognised in the consolidated income statement and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), liabilities of the subsidiary and any non-controlling interests.

All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Bank had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to income statement or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary, at the date when control is lost, is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Special Purpose Entities

Special purpose entities (SPEs) are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Bank, the Bank has power over the SPE, is exposed to or has rights to variable returns from its involvement with the SPE and its ability to use its power over the SPE at inception and subsequently to affect the amount of its return, the Bank concludes that it controls the SPE.

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and an SPE.

Funds under management

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity, as referred to above.

Investment in associates

Associates are those entities in which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies. Investments in associates are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of investment in associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 – Impairment of Assets, as a single asset by comparing with the recoverable amount (higher of value in use and fair value less cost of disposal). Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of the impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the investment in prior years.

The Group discontinues the use of equity method of accounting from the date when the investment ceases to be an associate or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9. The difference between the carrying amount of the associate at the date equity method was discontinued and the fair value of the retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of associate. In addition, the

3. Summary of significant accounting policies (continued)

3.5 Basis of consolidation (continued)

Group accounts for all amounts previously recognised in other comprehensive income in relation of that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

Joint arrangements

Joint arrangements are arrangements of which the Group has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation – when the Group has rights to the assets and obligations for the liabilities, relating to an arrangement, it accounts for each of its assets, liabilities and transactions, including its share of those held or incurred jointly, in relation to the joint operation.

- Joint venture – when the Group has rights only to the net assets of the arrangements, it accounts for its interest using the equity method, as for associates.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) 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.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale. When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate, that will be disposed of is classified as held for sale when the criteria described above are met. The Group then ceases to apply the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

3.6 Business combination under common control

A business combination involving entities under common control is a business combination in which all the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Currently, there is no specific guidance on accounting for common control transactions under IFRSs, therefore the management needs to use judgement to develop an accounting policy that provides relevant and reliable information in accordance with IAS 8.

3. Summary of significant accounting policies (continued)

3.6 Business combination under common control (continued)

The Group accounts for business combinations under common control using the acquisition method when there is a commercial substance to the transaction. Under the acquisition method, the consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date but does not exceed twelve months.

Impairment testing of goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. Summary of significant accounting policies (continued)

3.6 Business combination under common control (continued)

A cash-generating unit ("CGU") to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.7 Hedge Accounting

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges, cash flow hedges, or hedges of net investments in foreign operations as appropriate. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship by way of rebalancing the hedge on a case-by-case basis, so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in consolidated income statement except when the hedging instrument hedges an equity instrument designated at fair value through other comprehensive income (FVTOCI) in which case it is recognised in other comprehensive income. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in consolidated income statement. For debt instruments measured at FVTOCI, the carrying amount is not adjusted as it is already at fair value, but the hedging gain or loss is recognised in consolidated income statement instead of other comprehensive income. When the hedged item is an equity instrument designated at FVTOCI, the hedging gain or loss remains in other comprehensive income to match that of the hedging instrument.

Where hedging gains or losses are recognised in consolidated income statement, they are recognised in the same line as the hedged item. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising

3. Summary of significant accounting policies (continued)

3.7 Hedge Accounting (continued)

from the hedged risk at the date of discontinuation is amortised to consolidated income statement as part of the recalculated effective interest rate over the period to maturity or derecognition. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under cash flow hedge reserve. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to consolidated income statement in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in other comprehensive income will not be recovered in the future, that amount is immediately reclassified to consolidated income statement.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in consolidated income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income and presented in translation reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are reclassified from other comprehensive income and included in the consolidated income statement on the disposal or partial disposal of the foreign operation or other reduction in the Group's investment in the operations.

Hedge effectiveness testing

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

The Group assesses economic relationship and effectiveness on its designated hedges by matching critical terms of hedged item and hedging instrument as part of its qualitative assessment. The critical terms matching method replicates the hedge item and hence is not used for those hedge relationships where the hedging derivative includes features that are not present in the hedged item. In such cases, the hedge effectiveness assessment is performed using other quantitative methods and may result in ineffectiveness.

3. Summary of significant accounting policies (continued)

3.7 Hedge Accounting (continued)

Some of the sources of ineffectiveness include the following:
- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences;
- significant changes in credit risk of the hedging instruments;
- the effects of the forthcoming reforms of Interest rate benchmark, because these might take effect at a different time and have a different impact on hedged items and hedging instruments.

The ineffectiveness arising from quantitative assessments is recognised in the consolidated income statement.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in "net gains from dealing in derivatives" under net trading income.

3.8 Financial instruments

Financial assets

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

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
(ii) debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
(iii) all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Group may make the following irrevocable election/designation at the date of initial application of IFRS 9 or at the date of initial recognition of a financial asset on an asset-by-asset basis:
    - the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI) with dividend income recognised in profit or loss; and
    - the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

The Group holds equity investments and mutual funds as strategic investments and has elected to carry these investments at FVTOCI with changes in fair value through other comprehensive income.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

(a) Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely SPPI. For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments, which reflects how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models during each reporting period to determine whether the business models have changed since the preceding period.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

(b) Financial assets at FVTPL

Financial assets at FVTPL are:

(i) assets with contractual cash flows that are not SPPI; or/and
(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
(iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

(c) Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that result in reclassifying the Group's financial assets. Changes in contractual cash flows are discussed under the accounting policy on modification and derecognition of financial assets.

(d) Impairment

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

- balances with central banks;
- deposits and balances due from banks;
- reverse-repo placements;
- debt investment securities;
- loans and advances to customers;
- Other assets;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

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. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 3.8(h).

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

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

Refer note 43 for more details on measurement of ECL.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

(e) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- for economic or contractual reasons relating to the borrower's financial difficulty, concessions given to the borrower that would not otherwise be considered; or
- the disappearance of an active market for a security because of financial difficulties.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession, the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

(f) Purchased or originated credit-impaired financial assets (POCI)

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit impaired financial assets (POCI). The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in the income statement and the cumulative changes as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and impairment loss where the expected credit losses are greater).

(g) Definition of default

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

The Group considers the following as constituting an event of default:

- the borrower is past due for more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. The decision to use cross-default is based on case-by-case assessment of borrower and facility conditions such as collateral and materiality of exposure.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset; for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty, are key inputs in this analysis. The Group uses a variety of sources of information to assess default, which are either developed internally or obtained from external sources.

(h) Significant increase in credit risk (SICR)

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk (SICR), the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information. For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information.

For retail lending, forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. Refer note 43 for more details about forward looking information and criteria used to determine significant increase in credit risk.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative assessment. For further details on SICR, refer to note 43.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers credit scores and events such as unemployment, bankruptcy or death. As a backstop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

(i) Modification and derecognition of financial assets

Modification of financial assets

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

In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine the substantially different terms the Group considers the qualitative factors (i.e. contractual cash flows after modification, change in currency or counterparty, interest rates, maturity, covenants) and a quantitative assessment (i.e. compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, discounted at the original effective interest).

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

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the credit rating at initial recognition and the original contractual terms; with credit rating at the reporting date based on the modified terms.

Where a modification does not lead to derecognition the Group calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Derecognition of financial assets

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in other comprehensive income (OCI) and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but is transferred to retained earnings.

(j) Presentation of allowance for ECL

Loss allowances for ECL are presented in the consolidated financial statements as follows:

- for financial assets measured at amortised cost (loans and advances, balances due from central banks and other banks, reverse-repo placements, investment securities carried at amortised cost and other financial assets): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: as part of revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income; and
- for loan commitments and financial guarantee contracts: as a provision.

Financial liabilities

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial liabilities at initial recognition depends on the purpose and management's intention for which the financial liabilities were incurred and their characteristics.

Financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at FVTPL) are deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

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

3. Summary of significant accounting policies (continued)

3.8 Financial instruments (continued)

Financial liabilities are subsequently measured at amortised cost except for financial liabilities at fair value through profit or loss. Gains and losses on financial liabilities, other than derivative instruments, designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially in profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss.

Derecognition of financial liabilities

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred is recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised using EIR method over the remaining term of the modified liability.

3.9 Foreign currencies

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Group are presented in AED, which is the Group's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities are translated at historical exchange rates or year-end exchange rates if held at fair value, as appropriate. The resulting foreign exchange gains or losses are recognised in either consolidated income statement or consolidated other comprehensive income statement depending upon the nature of the asset or liability.

In the consolidated financial statements, the results and financial positions of branches and subsidiaries whose functional currency is not AED, are translated into the Group's presentation currency as follows:

- assets and liabilities at the rate of exchange prevailing at the statement of financial position date;
- income and expenses at the average rates of exchange for the reporting period; and

3. Summary of significant accounting policies (continued)

3.9 Foreign currencies (continued)

- all resulting exchange differences arising from the retranslation of opening assets and liabilities and arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end are recognised in other comprehensive income and accumulated in equity under 'foreign currency translation reserve' (Note 23).

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on a proportionate basis, except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, where the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated income statement.

3.10 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Group intends to settle either 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 by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

The Group is party to a number of arrangements, including master netting agreements that give it the right to offset financial assets and financial liabilities but, where it does not intend to settle the amounts net or simultaneously, the assets and liabilities concerned are presented on a gross basis.

3.11 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos) are continued to be recognised in the consolidated statement of financial position, and a liability is recorded in respect of the consideration received under borrowings that are carried at amortised cost or under financial liabilities carried at fair value through profit or loss, that are held for trading. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement for repos carried at amortised cost. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts placed under these agreements are included in reverse-repo placements in the consolidated statement of financial position that are carried at amortised cost or under financial assets carried at fair value through profit or loss that are held for trading. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement for reverse repos carried at amortised cost.

Reverse-repo placements carried at fair value through profit or loss are generally matched by repo agreements as these are held for trading purposes with the net change in fair values of these instruments are recorded within net trading income in the consolidated income statement.

3.12 Securities borrowing and lending

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised in the statement of financial position nor are lent securities derecognised. Cash collateral received or given is treated as a financial asset or liability. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded. The securities borrowing and lending activity arrangements are generally entered into through repos and reverse repos.

3. Summary of significant accounting policies (continued)

3.13 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with original maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost net of impairment allowance in the statement of financial position.

3.14 Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3.15 Fair value measurement

The Group measures its financial assets and liabilities at market price that it would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence in the most advantageous market for the assets or liabilities. The Group considers principal market as the market with the greatest volume and level of activity for financial assets and liabilities.

The Group measures its non-financial assets at a price that take into account a market participant's ability to generate economic benefits by using the assets for their highest and best use.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account into pricing a transaction.

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

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

3. Summary of significant accounting policies (continued)

3.15 Fair value measurement (continued)

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

Different levels of fair value hierarchy based on the inputs to valuation techniques are discussed in note 41. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

3.16 Derivatives

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially measured at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under 'net gain from dealing in derivatives' (Note 30).

3.17 Leases

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangement in which it is the lessee, except for short-term (defined as leases with a lease term of 12 months or less) and leases of low value asset. For these leases, the Group recognises the lease payments as an operating lease on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed. This expense is presented within other expenses in the consolidated income statement.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the period of lease term or useful life of the underlying asset whichever is shorter. The Group applies IAS 36 to

3. Summary of significant accounting policies (continued)

3.17 Leases (continued)

determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as per the Group's impairment policy for non-financial assets.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease component, and instead account for any lease and associated non-lease component as a single arrangement.

The Group has presented right of use asset within 'Property and equipment' and lease liabilities within 'Other liabilities' in the consolidated statement of financial position.

The Group as lessor

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Rental incomes are recognised in the consolidated income statement on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3.18 Treasury shares and contracts on own shares

Own equity instruments of the Group which are acquired by the Group or any of its subsidiaries (treasury shares) are deducted from other reserves and accounted for at weighted average cost. Consideration paid or received on the purchase, sale, issue or cancellation of the Group's own equity instruments is recognised directly in equity.

No gain or loss is recognised in the consolidated income statement on the purchase, sale, issue or cancellation of own equity instruments.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

3.19 Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantee contracts are initially recognised at their fair value, which is likely to equal the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.20 Acceptances

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

3. Summary of significant accounting policies (continued)

3.21 Collateral repossessed

The Bank acquires collaterals in settlement of certain loans and advances. These collaterals are recognised at fair value on the date of acquisition. Subsequent fair value adjustments on these acquired collaterals are included in the consolidated income statement in the period in which these gains or losses arise.

3.22 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. Refer note 3.15 for fair valuation policy.

The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

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

An investment property is derecognised upon disposal or when the investment property and investment property under development are permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

3.23 Property and equipment

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

Depreciation is charged to the consolidated income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated.

Estimated useful lives are as follows:	
Freehold properties	15 to 40 years
Leasehold and freehold improvements	7 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment, software and accessories	4 to 10 years

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate, and treated as changes in accounting estimates.

Property and equipment are derecognised on disposal or when no future economic benefits are expected from its use. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3. Summary of significant accounting policies (continued)

3.24 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Group's policies.

3.25 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

3.26 Intangible assets

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately or in a business combination (other than goodwill) are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Estimated useful lives are as follows:	
Trade mark and license	Indefinite life
Egypt banking license	Indefinite life
Customer relationships	3 to 6 years
Core deposit intangible	4.5 to 7 years

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in consolidated income statement when the asset is derecognised.

3.27 Impairment of non-financial assets

At each consolidated statement of financial position date, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets 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.

3. Summary of significant accounting policies (continued)

3.27 Impairment of non-financial assets (continued)

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 in the consolidated income statement, 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, such 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 in the consolidated income statement, 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.

3.28 Employee benefits

(i) Employees' end of service benefits

(a) Defined benefit plan

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

Past-service costs are recognised immediately in income statement, unless the changes to the gratuity plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, are recognised immediately in other comprehensive income. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions.

The Group provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

(b) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations

3. Summary of significant accounting policies (continued)

3.28 Employee benefits (continued)

for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees.

Pension contributions are made by the Group to the Abu Dhabi Retirement Pensions and Benefits Fund for UAE citizens in accordance with UAE Federal Law No. 7 of 1999 and to respective pension authorities for other employees including GCC Nationals as per applicable laws.

(ii) Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(iii) Short-term employee benefits

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

(iv) Employees' incentive plan shares

The cost of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share–based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the counterparty are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding incentive plan shares is reflected in the computation of diluted earnings per share (Note 34).

3. Summary of significant accounting policies (continued)

3.29 Taxation

Provision is made for taxes at rates enacted or substantively enacted as at statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the respective countries in which the Group operates.

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

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

The Group is currently in the process of assessing the possible impact on the consolidated financial statements, both from current and deferred tax perspective, once the Law becomes substantively enacted.

3.30 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Refer note 39 on business segment reporting.

3.31 Fiduciary assets

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in fiduciary capacity, unless recognition criteria is met, are not reported in the financial statements, as they are not assets of the Group.

3.32 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events and 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. 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.

Provisions for onerous contracts are recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3. Summary of significant accounting policies (continued)

3.32 Provisions and contingent liabilities (continued)

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 only if it is virtually certain that reimbursement will be received and the amount can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.33 Revenue and expense recognition

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

(i) Interest income and expense

Interest income and expense for all financial instruments except for those classified as held for trading or those measured or designated at fair value through profit or loss (FVPTL) are recognised in 'net interest income' as 'interest income' and 'interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments classified as held for trading or those measured or designated at FVTPL is recognised in 'Net gains from financial assets at fair value through profit or loss' under 'Net trading income'.

The effective interest rate (EIR) is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL transaction costs are recognised in profit or loss at initial recognition.

(ii) Dividend income

Dividend income is recognised on the ex-dividend date when the Group's right to receive the payment is established.

(iii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(a) Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the

3. Summary of significant accounting policies (continued)

3.33 Revenue and expense recognition (continued)

loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(b) Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

3.34 Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as below Islamic products:

Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Ijara financing

An agreement whereby the Group (lessor) leases or constructs an asset based on the customer's (lessee) request and promise to lease the assets for a specific period against certain rent instalments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Group transfers substantially all the risks and rewards related to the ownership of the leased asset to the lessee. Ijara income is recognised on an effective profit rate basis over the lease term.

Musharaka

An Islamic contract in which two parties (Islamic financial institution and its customer) pool their respective funds to form a partnership. In Musharaka both parties are involved in management of the business/partnership. Profit is shared on the basis of pre-agreed ratio and loss is shared in the ratio of capital contribution. It's not mandatory in Musharaka for all parties to participate in the management of business. Practically, this form of investment is used by the Islamic financial institution to finance its customers.

Salam

A sale contract where the customer (seller) undertakes to deliver/supply a specified tangible asset to the Group (buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

3. Summary of significant accounting policies (continued)

3.34 Islamic financing (continued)

Sukuk

Certificates of equal value representing undivided shares in ownership of tangible assets, usufructs and services or (in the ownership of) the assets of particular projects or special investment activity. It is asset-backed trust certificates evidencing ownership of an asset or its usufruct (earnings or benefits) and complies with the principle of Shari'ah.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction. Estimated income from Wakala is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal) and the other party (the Mudarib) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal. Income is recognised based on expected results adjusted for actual results on distribution by the Mudarib, whereas if the Group is the Rab Al Mal the losses are charged to the Group's consolidated income statement when incurred.

Profit distribution mechanism

Islamic deposits are invested and managed in accordance with Shari'ah requirements through Mudaraba pool and profit is distributed in accordance with the Shari'ah approved profit distribution policy. To secure competitive return to the depositors, below profit smoothing techniques are used by the Group.

- Profit equalisation reserve (PER) represents the amounts appropriated out of the profits of Islamic banking division, before allocating the Mudarib share, in order to maintain a certain level of return on investments for all investment account holders and other investors in the common Mudaraba pool. This reserve is recognised under Equity.

- Investment risk reserve (IRR) represents a portion of the depositors' share of profits of Islamic banking division set aside as a reserve. This reserve is utilised to pay to Mudaraba depositors to maintain certain level of return on their deposits with Group in case of circumstances impacting the return adversely, upon the approval of the Group's Internal Shari'ah Supervision Committee ("ISSC"). This reserve is reported alongwith Mudaraba deposits from customers.

4. Critical accounting judgements and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS requires the Management, in preparing the Group's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, requires Management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Group's accounting policies that are considered by the Board of Directors (the "Board") to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

4.1 Critical judgements in applying the changes in Group's accounting policies

The following are the critical judgements, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

Impairment losses

- Significant increase of credit risk: ECLs 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.
- 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 (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). 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 reflect the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical judgements in applying the changes in Group's accounting policies (continued)

lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- Models and assumptions used: The Group uses various models and assumptions in measuring ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer note 43 for more details on ECL.

Valuation of financial instruments

The best evidence of fair value is a quoted price for the instrument being measured in an actively traded market. In the event that the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and so the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of 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.

Valuation techniques used to calculate fair values are discussed in note 41. The main assumptions and estimates which management consider when applying a model with valuation techniques are:

- the likelihood and expected timing of future cash flows on the instrument. These cash flows are estimated based on the terms of the instrument, and judgement may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate; and
- when applying a model with unobservable inputs, estimates are made to reflect uncertainties in fair values resulting from a lack of market data inputs, for example, as a result of illiquidity in the market. For these instruments, the fair value measurement is less reliable. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available from which to determine the level at which an arm's length transaction would occur under normal business conditions. However, in most cases there is some market data available on which to base a determination of fair value, for example historical data, and the fair values of most financial instruments are based on some market observable inputs even when unobservable inputs are significant.

Fair valuation of investment properties

The fair value of investment properties is 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 models whose inputs are observable in an active market such as market conditions, market prices, future rental income, etc.

The fair value movements on investment properties are disclosed in more detail in note 13.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.1 Critical judgements in applying the changes in Group's accounting policies (continued)

Consolidation of Funds

The changes introduced by IFRS 10 'Consolidated Financial Statements' require an investor to consolidate an investee when it controls the investee. The investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The new definition of control requires the Group to exercise significant judgement on an ongoing basis to determine which entities are controlled, and therefore are required to be consolidated.

Lease accounting under IFRS 16

The following are the critical judgements in the application of IFRS 16, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements:

- identifying whether a contract (or part of a contract) includes a lease;
- determining whether it is reasonably certain that an extension or termination option will be exercised;
- classification of lease arrangements (when the entity is a lessor).

Tax positions

The income tax positions taken are considered by the Group to be supportable and are intended to withstand challenge from tax authorities. However, it is acknowledged that these positions are uncertain and include interpretations of complex tax laws which could be disputed by tax authorities. Evolving insights, for example following final tax assessments for prior years, can result in additional tax burdens or benefits, and new tax risks may arise.

The Group judges these positions on their technical merits on a regular basis using all the information available (legislation, case law, regulations, established practice, authoritative doctrine as well as the current state of discussions with tax authorities, where appropriate). A liability is recorded for each item that is not probable of being sustained on examination by the tax authorities, based on all relevant information. The liability is calculated taking into account the most likely outcome or the expected value, depending on which is thought to give a better prediction of the resolution of each uncertain tax position in view of reflecting the likelihood of an adjustment being recognised upon examination. These estimates are based on facts and circumstances existing at the end of the reporting period. The tax liability and income tax expense include expected penalties and late payment interests arising from tax disputes.

Management has used its best estimate of the correct value of liability to recognise in each case, which includes a judgement on the length of the future time period to use in such assessments.

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

Expected credit losses

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect one another.
- Exposure at default (EAD) - The EAD over lifetime of a financial asset is modelled taking into account expected repayment profile. We apply specific credit conversion factors (CCFs) in order to calculate an EAD value. Conceptually, the EAD is defined as expected amount of credit exposure of counter party at the time of default. In the instance where a transaction involves an unfunded exposure, CCF models are applied in order to estimate amount of unfunded exposures that are drawn down in case of default. The calibration of such parameters (CCFs) are based on internal historical data and consider counterparty and product type specifics.
- Probability of default (PD) constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Impairment of goodwill and intangible assets

Goodwill is tested at least annually for impairment, along with the intangible assets and other assets of the Group's cash-generating units.

Determining whether goodwill or intangible assets are impaired requires an estimation of the value in use of the business being tested for impairment and of the cash-generating units to which these assets have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, taking into account the achievability of long-term business plans and macroeconomic assumptions underlying the valuation process, and a suitable discount rate in order to calculate present value.

Lease accounting under IFRS 16

The following are key estimations that the management has used in the process of applying the Group's accounting policies for IFRS 16 and that have the most significant effect on the amounts recognised in the Group's consolidated financial statements:

- determination of the appropriate rate to discount the lease payments;
- assessment of whether a right-of-use asset is impaired.

5. IBOR Reform Phase 2

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR). IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend hedge designations and hedge documentation. This includes redefining the hedged risk to reference an RFR, redefining the description of the hedging instrument and / or the hedged item to reference the RFR and amending the method for assessing hedge effectiveness. Updates to the hedging documentation must be made by the end of the reporting period in which a replacement takes place. The Group may designate an interest rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the interest rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price loans and derivatives. For new RFRs that are not yet an established benchmark, relief is provided from this requirement provided the Group reasonably expects the RFR to become separately identifiable within 24 months. For hedges of groups of items, the Group is required to transfer to subgroups those instruments that reference RFRs. Any hedging relationships that prior to application of IBOR reform Phase 2, have been discontinued solely due to IBOR reform and meet the qualifying criteria for hedge accounting when IBOR reform Phase 2 is applied, must be reinstated upon initial application.

Impact on accounting policies and judgements

Recognition of interest income

IBOR reform Phase 2 allows as a practical expedient for changes to the basis for determining contractual cash flows to be treated as changes to a floating rate of interest, provided certain conditions are met. The conditions include that the change is necessary as a direct consequence of IBOR reform and that the transition takes place on an economically equivalent basis. For changes that are not required by IBOR reform, the Group applies judgement to determine whether they result in the financial instrument being derecognised or adjust its carrying value. In making this assessment, the Group considers the extent of any changes to the contractual cash flows as a result of the transition and the factors that have given rise to the changes, with consideration of both quantitative and qualitative factors.

SPPI Test

In the context of IBOR reform, as financial assets transition from IBOR to RFRs, if a change is substantial, the old instrument will be derecognised and a new one recognised. The Group will need to apply judgement to determine whether following transition, the asset's amended contractual cash flows continue to represent solely payments of principal and interest (SPPI). Also, the Group must assess when financial instruments transition, whether the new basis for determining the contractual cash flows is economically equivalent to the previous basis.

Derecognition of financial assets and liabilities

In the context of IBOR reform, the Group's assessment of whether a change to an amortised cost financial instrument is substantial, is made after applying the practical expedient introduced by IBOR reform Phase 2. This requires the transition from an IBOR to an RFR to be treated as a change to a floating interest rate. The Group derecognises financial assets and financial liabilities if there has been a substantial modification of their terms and conditions. In the context of IBOR reform, certain financial instruments have already been amended or will be amended during coming years as they transition from IBORs to RFRs. In addition to the interest rate of a financial instrument changing, there may be other changes made to the terms of the financial instrument at the time of transition. For financial instruments measured at amortised cost, the Group first applies the practical expedient to reflect the change in the referenced interest rate from an IBOR to a RFR.

5. IBOR reform Phase 2 (continued)

Derecognition of financial assets and liabilities (continued)

Second, for any changes not covered by the practical expedient, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised EIR.

Hedge accounting

IBOR reform Phase 2 provides temporary reliefs that allow the Group's hedging relationships to continue upon the replacement of an existing interest rate benchmark with an RFR. The reliefs require the Group to amend the hedge designations and hedge documentation for the hedging derivatives disclosed in this note.

The Group applies temporary reliefs which enable its hedge accounting to continue during the period of uncertainty, before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. For the purpose of determining whether a forecast transaction is highly probable, the reliefs require to be assumed that the IBOR on which the hedged cash flows are based is not altered as a result of IBOR reform. Under one of the reliefs, the Group may elect for individual RFRs designated as hedging the fair value or cash flows of the hedged item for changes due to a non-contractually specified component of interest rate risk, to be deemed as meeting the requirement to be separately identifiable. For each RFR to which the relief has been applied, the Group judges that both the volume and market liquidity of financial instruments that reference the RFR and are priced using the RFR will increase during the 24-month period with the result that the hedged RFR risk component will become separately identifiable in the change in fair value or cash flows of the hedged item.

Impact on interest rate risk management

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The project is sponsored by the CRO and is being led by senior representatives from functions across the Group including the client facing teams, Legal, Finance, Operations and Technology.

The Group is confident that it has the operational capability to process the large volume of transitions to RFRs that will be necessary during coming years for those interest rate benchmarks that will cease to be available mainly USD Libor which will be replaced by SOFR (Secured Overnight Financing Rate). IBOR reform exposes the Group to various risks. These risks include but are not limited to the following:

- Conduct risk arising from discussions with clients and market counterparties due to the amendments required to existing contracts necessary to effect IBOR reform.
- Financial risk to the Group and its clients that markets are disrupted due to IBOR reform giving rise to financial losses.
- Pricing risk from the potential lack of market information if liquidity in IBORs reduces and RFRs are illiquid and unobservable.
- Operational risk arising from changes to the Group's IT systems and processes, also the risk of payments being disrupted if an IBOR ceases to be available.
- Accounting risk if the Group's hedging relationships fail and from unrepresentative income statement volatility as financial instruments transition to RFRs.
- Basis risk as assets and liabilities transfer from Libor to SOFR will happen at varying rates. In addition, the development of term SOFR has the potential of exasperating this basis risk.

5. IBOR reform Phase 2 (continued)

Impact on interest rate risk management (continued)

The table below shows the Group's exposure to significant IBOR subject to reform that have yet to transition to RFRs. These exposures will contractually remain outstanding until the IBOR ceases and will therefore transition in future. The table excludes exposures to IBOR that will expire before transition is required.

As at December 31, 2022	Non-derivative financial assets Carrying value AED'000	Non-derivative financial liabilities Carrying value AED'000	Hedging derivatives Nominal amount AED'000	Other derivatives Nominal amount AED'000
USD Libor 1 month	**6,176,445**	**1,347,748**	**242,798**	**3,211,672**
USD Libor 3 months	**34,684,842**	**8,363,014**	**51,919,102**	**175,117,415**
USD Libor 6 months	**3,398,196**	**202,333**	**806,933**	**7,040,061**
USD Libor 12 months	**616,449**	**-**	**-**	**-**

6. Cash and balances with central banks, net

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Cash on hand	**2,403,467**	2,340,940
Balances with central banks(*)	**22,058,381**	17,964,095
Reserves maintained with central banks	**13,604,807**	12,211,940
Certificate of deposits with central banks	**1,364,227**	1,229,719
Gross cash and balances with central banks	**39,430,882**	33,746,694
Less: Allowance for impairment (Note 43.3)	**(1,574)**	(492)
Total cash and balances with central banks, net	**39,429,308**	33,746,202
The geographical concentration is as follows:		
Within the UAE	**36,380,076**	31,637,652
Outside the UAE	**3,050,806**	2,109,042
	39,430,882	33,746,694
Less: Allowance for impairment (Note 43.3)	**(1,574)**	(492)
	39,429,308	33,746,202

(*) includes overnight deposit amounting to AED 21,200,000 thousand placed with CBUAE at 4.40% p.a. (December 31, 2021 – AED 16,400,000 thousand placed with CBUAE at 0.15% p.a.)

Reserves maintained with central banks represent deposits with the central banks at stipulated percentages of its demand, savings, time and other deposits. As per CBUAE regulations, subject to meeting reserve requirements over 14 days period, the Bank is allowed to draw their balances held in reserve account maintained with CBUAE. These reserves are available for day-to-day operations only under certain specified conditions.

7. Deposits and balances due from banks, net

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Nostro balances	**1,514,892**	431,749
Margin deposits	**3,212,865**	1,188,560
Time deposits	**1,726,606**	3,587,111
Reverse repo placements	**584,416**	-
Murabaha placements	**1,864,362**	555,501
Loans and advances to banks	**26,563,554**	20,948,828
Gross deposits and balances due from banks	**35,466,695**	26,711,749
Less: Allowance for impairment (Note 43.3)	**(127,493)**	(41,606)
Total deposits and balances due from banks, net	**35,339,202**	26,670,143
The geographical concentration is as follows:		
Within the UAE	**1,987,621**	4,465,396
Outside the UAE	**33,479,074**	22,246,353
	35,466,695	26,711,749
Less: Allowance for impairment (Note 43.3)	**(127,493)**	(41,606)
	35,339,202	26,670,143

As at December 31, 2022, the Group received bonds with fair value of AED 585,236 thousand (December 31, 2021 – AED nil) under the reverse repurchase agreement.

8. Financial assets at fair value through profit or loss

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Debt securities(*)	**1,471,930**	542,455
Equity securities	**-**	42,250
Structured funding arrangements	**3,170,333**	1,122,062
Total financial assets at fair value through profit or loss	**4,642,263**	1,706,767
The geographical concentration is as follows:		
Within the UAE	**733,566**	571,837
Outside the UAE	**3,908,697**	1,134,930
	4,642,263	1,706,767

(*) includes Islamic sukuk amounting to AED 9,060 thousand (December 31, 2021 – AED nil)

The Group entered into structured funding arrangements where the funding was provided against certain reference assets received under the arrangement and held by the Group. The risk and rewards relating to these reference assets remain with the counterparty. The fair value of these reference assets amounting to AED 4,624,495 thousand (December 31, 2021 – AED 1,717,844 thousand), of this AED 433,762 thousand (December 31, 2021 – AED nil) were posted against Repo borrowings. Further, the Group also received net cash collateral of AED 232,053 thousand (December 31, 2021 – AED nil) against this structuring arrangement. The structuring arrangement and reference assets received are governed under International Swaps and Derivatives Association (ISDA) agreements.

Refer note 11 for loans and advances at fair value through profit or loss.

9. Derivative financial instruments

In the ordinary course of business, the Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract with all three of the following characteristics:
(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
(c) it is settled at a future date.

Derivative financial instruments which the Group enters into includes forward foreign exchange contracts, interest rate futures, forward rate agreements, commodity swaps, interest rate swaps and currency and interest rate options.

The Group uses the following derivative financial instruments for hedging and trading purposes.

Forward and Futures transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable forward transactions (i.e. the transaction is net settled). Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price established in an organised financial market. The credit risk for futures contracts is negligible as they are collateralised by cash or marketable securities and changes in the futures' contract value are settled daily with the broker. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate based on a notional principal amount.

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example: fixed rate for floating rate) or a combination of all these (for example: cross-currency interest rate swaps). No exchange of principal takes place except for certain cross currency interest rate swaps. The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis through market risk limits on exposures and credit risk assessment of counterparties using the same techniques as those of lending activities.

Option transactions

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a specific rate of interest or any financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer over the counter (OTC).

Derivative contracts can be exchange traded or OTC. The Group values exchange traded derivatives using inputs at market-clearing levels. OTC derivatives are valued using market based inputs or broker/dealer quotations. Where models are required, the Group uses a variety of inputs, including contractual terms, market prices, market volatilities, yield curves and other reference market data.

9. Derivatives financial instruments (continued)

Fair value measurement models

For OTC derivatives that trade in liquid markets such as generic forwards, swaps and options, model inputs can generally be verified and model selection conforms to market practice. Certain OTC derivatives trade in less liquid markets with limited pricing information and the determination of fair value for these derivatives is inherently more difficult. Subsequent to initial recognition, the Group only updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker dealer quotations or other empirical market data. In the absence of such evidence, Management's best estimates are used.

Derivatives held or issued for trading purposes

The Group's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Group also manages risks taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in currency and interest rates. The Group uses forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps as hedging instruments to hedge currency rate and interest rate risks. The Group uses foreign currency derivatives to hedge its foreign currency risk on its net investment in foreign operations. In all such cases, the hedging relationship and objectives including details of the hedged item and hedging instrument are formally documented and the transactions are accounted for based on the type of hedge.

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

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
As at December 31, 2022			
Derivatives held or issued for trading			
Foreign exchange derivatives	972,852	1,006,404	299,249,313
Interest rate and cross currency swaps	7,626,322	7,170,296	184,666,357
Interest rate and commodity options	918,653	1,180,299	63,603,819
Futures (exchange traded)	10,525	9,510	7,212,196
Commodity and energy swaps	50,280	48,897	521,513
Swaptions	662,102	431,202	75,828,229
Total derivatives held or issued for trading	**10,240,734**	**9,846,608**	**631,081,427**
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	4,111,504	6,188,272	120,122,804
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	446,858	133,401	14,403,967
Forward foreign exchange contracts	176,028	57,104	6,596,404
Total derivatives held as cash flow hedges	**622,886**	**190,505**	**21,000,371**
Derivatives held as net investment hedges			
Foreign exchange derivatives	207,414	-	969,650
Total derivative financial instruments	**15,182,538**	**16,225,385**	**773,174,252**

9. Derivatives financial instruments (continued)

	Fair values		
	Assets AED'000	Liabilities AED'000	Notional AED'000
As at December 31, 2021			
Derivatives held or issued for trading			
Foreign exchange derivatives	389,608	270,803	259,030,691
Interest rate and cross currency swaps	4,099,259	3,843,012	204,615,356
Interest rate and commodity options	480,517	396,789	62,995,505
Total return swap	5,976	-	724,610
Futures (exchange traded)	966	1,387	1,469,203
Commodity and energy swaps	39,307	38,208	355,897
Swaptions	284,929	201,139	72,731,314
Total derivatives held or issued for trading	5,300,562	4,751,338	601,922,576
Derivatives held as fair value hedges			
Interest rate and cross currency swaps	1,096,016	1,405,105	80,526,321
Derivatives held as cash flow hedges			
Interest rate and cross currency swaps	62,767	134,695	4,830,450
Forward foreign exchange contracts	28,676	268,216	11,676,637
Total derivatives held as cash flow hedges	91,443	402,911	16,507,087
Derivatives held as net investment hedges			
Foreign exchange derivatives	-	4,025	281,475
Total derivative financial instruments	6,488,021	6,563,379	699,237,459

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk. Refer note 45 for maturity profile of notional value of derivatives held for hedging purposes.

The net hedge ineffectiveness losses recognised in the consolidated income statement are as follows:

	2022 AED'000	2021 AED'000
Net change in the fair value of the hedged items attributable to risk hedged	**771,138**	398,697
Net change in the fair value of the hedging instruments	**(782,957)**	(403,266)
Net hedge ineffectiveness losses	**(11,819)**	(4,569)

The hedge ineffectiveness losses in 2022 and 2021 mainly pertains to borrowings.

The table below provides the Group's forecast of net undiscounted cash flows in respect of its cash flow hedges and the periods in which these cash flows are expected to impact consolidated income statement, excluding any hedging adjustment that may be applied.

Year	Less than 3 months AED'000	3 months to less than 1 year AED'000	1 year to less than 2 years AED'000	2 years to less than 5 years AED'000	More than 5 years AED'000	Total AED'000
2022	**230,282**	**304,239**	**161,286**	**451,737**	**1,175**	**1,148,719**
2021	(65,299)	(178,233)	(39,145)	127,479	6,662	(148,536)

As at December 31, 2022, the Group received cash collateral of AED 5,784,492 thousand (December 31, 2021 - AED 752,114 thousand) and bonds with fair value of AED 515,415 thousand (December 31, 2021 – AED 252,669 thousand) against positive fair value of derivative assets.

As at December 31, 2022, the Group placed cash collateral of AED 2,404,981 thousand (December 31, 2021 – AED 1,080,496 thousand) and bonds of AED 3,020,297 thousand (December 31, 2021 - AED 3,192,063 thousand) against the negative fair value of derivative liabilities. These collaterals are governed by collateral service agreements under International Swaps and Derivatives Association (ISDA) agreements.

10. Investment securities, net

	UAE AED'000	Other GCC(*) countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2022				
At fair value through other comprehensive income (FVTOCI)				
Quoted:				
Government securities	10,935,448	8,121,358	16,946,221	36,003,027
Bonds – Public sector	5,644,936	2,127,066	2,176,692	9,948,694
Bonds – Banks and financial institutions	3,003,459	1,851,398	1,831,374	6,686,231
Bonds – Corporate	749,353	339,052	592,622	1,681,027
Equities and funds(**)	608,947	30,026	190,701	829,674
Total quoted	20,942,143	12,468,900	21,737,610	55,148,653
Unquoted:				
Bonds – Banks and financial institutions	-	548,532	-	548,532
Equities and funds	129,792	1,382	22,910	154,084
	129,792	549,914	22,910	702,616
Total investment securities at fair value through other comprehensive income	21,071,935	13,018,814	21,760,520	55,851,269
At amortised cost				
Quoted:				
Government securities	10,423,119	10,971,714	17,675,051	39,069,884
Bonds – Public sector	5,698,746	1,497,216	3,385,656	10,581,618
Bonds – Banks and financial institutions	1,291,260	425,132	1,783,731	3,500,123
Bonds – Corporate	2,759,047	61,501	214,109	3,034,657
Total quoted	20,172,172	12,955,563	23,058,547	56,186,282
Less: Allowance for impairment (Note 43.3)	(6,728)	(5,919)	(14,221)	(26,868)
Total investment securities at amortised cost	20,165,444	12,949,644	23,044,326	56,159,414
Total investment securities, net	41,237,379	25,968,458	44,804,846	112,010,683

(*) Gulf Cooperation Council
(**) includes investments in perpetual bonds

10. Investment securities, net (continued)

	UAE AED'000	Other GCC countries AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2021				
At fair value through other comprehensive income (FVTOCI)				
Quoted:				
Government securities	15,448,001	13,574,703	11,110,925	40,133,629
Bonds – Public sector	7,738,714	2,756,645	5,231,215	15,726,574
Bonds – Banks and financial institutions	4,349,722	480,626	2,973,316	7,803,664
Bonds – Corporate	1,191,443	691,201	187,531	2,070,175
Equities and funds(*)	209,807	35,233	406,528	651,568
Total quoted	28,937,687	17,538,408	19,909,515	66,385,610
Unquoted:				
Equities and funds	137,496	1,375	25,598	164,469
Total investment securities at fair value through other comprehensive income	29,075,183	17,539,783	19,935,113	66,550,079
At amortised cost				
Quoted:				
Government securities	7,556,567	6,865,396	6,269,409	20,691,372
Bonds – Public sector	2,486,167	1,510,897	2,238,701	6,235,765
Bonds – Banks and financial institutions	191,801	18,230	533,945	743,976
Bonds – Corporate	2,253,339	38,696	19,774	2,311,809
Total quoted	12,487,874	8,433,219	9,061,829	29,982,922
Less: Allowance for impairment (Note 43.3)	(2,306)	(2,274)	(15,129)	(19,709)
Total investment securities at amortised cost	12,485,568	8,430,945	9,046,700	29,963,213
Total investment securities, net	41,560,751	25,970,728	28,981,813	96,513,292

(*) includes investments in perpetual bonds issued by other banks

For Islamic investing assets included in the above table, refer note 24

As at December 31, 2022, the allowance for impairment on debt instruments designated at FVTOCI amounting to AED 69,616 thousand (December 31, 2021 - AED 107,651 thousand) (Note 43.3) is included in revaluation reserve of investments carried at FVTOCI.

The Group hedges certain fixed and floating rate investments securities amounting to AED 64,910,149 thousand (December 31, 2021 - AED 47,679,913 thousand) for interest rate and foreign currency risks through interest rate and currency swaps and designates these as fair value and cash flow hedges. The net positive fair value of these swaps as at December 31, 2022 was AED 4,173,486 thousand (December 31, 2021 – net negative fair value AED 994,544 thousand).

The Group entered into repurchase agreements whereby bonds were pledged and held by counterparties as collateral. The risks and rewards relating to the investments pledged remains with the Group. The bonds placed as collateral are governed under Global Master Repurchase Agreements (GMRA). The following table reflects the carrying value of these bonds and the associated financial liabilities:

	As at December 31, 2022		As at December 31, 2021	
	Carrying value of pledged securities(*) AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged securities AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**26,510,903**	**24,624,954**	23,554,252	21,008,821

(*) includes securities of AED 433,762 thousand received as collateral by the Group (Note 8)

Further, the Group pledged investment securities with fair value amounting to AED 3,965,022 thousand (December 31, 2021 – AED 3,535,307 thousand) as collateral against margin calls. The risks and rewards on these pledged investments securities remains with the Group.

11. Loans and advances to customers, net

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Overdrafts (retail and corporate)	**17,533,430**	8,403,787
Retail loans – mortgages	**12,738,042**	11,214,834
Retail loans – others	**32,405,769**	31,669,107
Corporate loans	**180,064,566**	184,602,615
Credit cards	**4,401,955**	4,127,291
Other facilities	**20,003,037**	15,095,043
Gross loans and advances to customers at amortised cost	**267,146,799**	255,112,677
Less: Allowance for impairment (Note 43.3)	**(11,758,002)**	(10,830,384)
Total loans and advances to customers at amortised cost, net	**255,388,797**	244,282,293
Loans and advances to customers at fair value through profit or loss	**3,104,073**	-
Total loans and advances to customers, net	**258,492,870**	244,282,293

For Islamic financing assets included in the above table, refer note 24.

The Group hedges certain fixed and floating rate loans and advances amounting to AED 242,798 thousand (December 31, 2021 - AED 294,912 thousand) for interest rate risk using interest rate swaps and designates these swaps as fair value and cash flow hedges, respectively. The net positive fair value of these swaps as at December 31, 2022 was AED 11,732 thousand (December 31, 2021 - net negative fair value of AED 7,091 thousand).

The Group entered into structured financing agreements whereby certain loans and advances to customers were transferred and held by counterparties. The risks and rewards relating to the loans transferred remains with the Group. The structured financing and loans transferred are governed under International Swaps and Derivatives Association (ISDA) agreements. The following table reflects the carrying value of these loans and the associated financial liabilities:

	As at December 31, 2022		As at December 31, 2021	
	Nominal value of pledged loans AED'000	**Carrying value of associated liabilities AED'000**	Nominal value of pledged loans AED'000	Carrying value of associated liabilities AED'000
Repurchase financing	**1,026,640**	**718,647**	1,101,900	771,330

As at December 31, 2022, the Group posted cash collateral against margin call of AED 1,947 thousand (December 31, 2021 - AED nil)

12. Investment in associates

	AED'000
As at January 1, 2021	255,868
Share in profit of associates	7,663
Dividend received from associates	(922)
As at December 31, 2021	262,609
Share in loss of associates	**(8,463)**
Dividend received from associates	**(1,621)**
As at December 31, 2022	**252,525**

Details of investment in associates as at December 31, 2022 are as follows:

Name of associate	Effective ownership interest 2022	Effective ownership interest 2021	Country of incorporation	Principal activities
Four N Property LLC	**35.00%**	35.00%	UAE	Residential facilities for lower income group.
Al Hilal Global Sukuk Fund	**19.37%**	11.82%	UAE	Investment activities.
Al Hilal GCC Equity Fund	**83.66%**	81.80%	UAE	Investment activities.
NMC Holdco SPV Ltd	**37.56%**	-	UAE	Healthcare services.
EL Fouadeya Development Company	**25.00%**	25.00%	Egypt	Real estate contracting services

For balances and transactions with associates, refer note 37.

13. Investment properties

	AED'000
As at January 1, 2021	1,643,956
Additions during the year	42,400
Disposals during the year	(24,957)
Revaluation of investment properties	13,548
Impact of currency translation	7
As at December 31, 2021	1,674,954
Additions during the year	**6,105**
Disposals during the year	**(2,763)**
Revaluation of investment properties	**19,479**
Impact of currency translation	**(5,885)**
As at December 31, 2022	**1,691,890**

For the year 2022, net gain from investment properties include net loss of AED 337 thousand (2021: net loss of AED 2,078 thousand) on disposal of investment properties.

Additions during the year represents properties acquired on settlement of loans and advances and transferred from property and equipment. These being non-cash transactions have not been reflected in the consolidated statement of cash flows.

13. Investment properties (continued)

Fair valuations

Valuations are carried out by registered independent valuers having an appropriate recognised professional qualification and experience in the location and category of the property being valued.

In estimating the fair values of the properties, the highest and best use of the properties is their current use.

The valuation methodologies considered by external valuers include:

- Direct comparable method: This method seeks to determine the value of the property from transactions of comparable properties in the vicinity applying adjustments to reflect differences to the subject property.
- Investment method: This method is used to assess the value of the property by capitalising the net operating income of the property at an appropriate yield an investor would expect for an investment of the duration of the interest being valued.

All investment properties of the Group are primarily located within the UAE.

Lease receivables

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

	2022 AED'000	2021 AED'000
Rental income	**77,825**	79,118
Direct operating expenses	**27,881**	22,775

The Group leases its properties with varied lease terms, with an option to extend the lease term. The lessees do not have an option to purchase the property at the expiry of the lease period. All operating lease contracts contain market review clause in the event that the lessee exercises its option to renew. Non-cancellable operating lease receivables amounted to AED 43,444 thousand as at December 31, 2022 (December 31, 2021 - AED 38,376 thousand).

14. Other assets, net

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Interest receivable	**3,341,919**	2,434,494
Prepayments	**124,628**	98,438
Acceptances (Note 21)	**17,131,510**	16,238,756
Others	**1,128,753**	602,161
Gross other assets	**21,726,810**	19,373,849
Less: Allowance for impairment (Note 43.3)	**(15,621)**	(19,389)
Total other assets, net	**21,711,189**	19,354,460

15. Property and equipment, net

	Freehold properties and improvements AED'000	Leasehold improvements AED'000	Furniture, equipment and vehicles AED'000	Computer equipment, software and accessories AED'000	Capital work in progress AED'000	Right of use asset AED'000	Total AED'000
Cost or valuation							
As at January 1, 2021	1,547,855	369,566	288,258	1,700,495	132,966	331,876	4,371,016
Additions during the year	6,070	5,593	3,204	28,752	300,935	161,068	505,622
Transfers during the year	45,156	9,547	14,964	105,277	(174,944)	-	-
Disposals during the year	(39,727)	(33,183)	(13,035)	(14,001)	(845)	(85,819)	(186,610)
Impact of currency translation	(113)	(80)	(32)	(189)	(54)	(574)	(1,042)
As at December 31, 2021	1,559,241	351,443	293,359	1,820,334	258,058	406,551	4,688,986
Additions during the year	**67,133**	**10,804**	**4,258**	**18,399**	**244,462**	**68,516**	**413,572**
Transfers during the year	**879**	**2,794**	**240**	**282,887**	**(286,800)**	**-**	**-**
Transfers to investment properties/expenses	**(5,594)**	**-**	**-**	**-**	**(5,332)**	**-**	**(10,926)**
Disposals during the year	**(20,928)**	**(4,828)**	**(28,394)**	**(7,314)**	**-**	**(14,579)**	**(76,043)**
Impact of currency translation	**(24,708)**	**(17,826)**	**(9,662)**	**(33,322)**	**(35,277)**	**(50,169)**	**(170,964)**
As at December 31, 2022	**1,576,023**	**342,387**	**259,801**	**2,080,984**	**175,111**	**410,319**	**4,844,625**
Accumulated depreciation							
As at January 1, 2021	557,430	224,429	217,946	1,180,307	-	132,329	2,312,441
Charge for the year (Note 32)	66,752	40,780	20,081	195,648	-	77,886	401,147
Disposals during the year	(2,761)	(21,134)	(9,615)	(12,128)	-	(42,695)	(88,333)
Impact of currency translation	(25)	(148)	(28)	(102)	-	(236)	(539)
As at December 31, 2021	621,396	243,927	228,384	1,363,725	-	167,284	2,624,716
Charge for the year (Note 32)	**68,629**	**34,132**	**15,105**	**215,486**	**-**	**73,907**	**407,259**
Disposals during the year	**(19,153)**	**(4,825)**	**(28,302)**	**(7,467)**	**-**	**(9,804)**	**(69,551)**
Impact of currency translation	**(1,366)**	**(13,584)**	**(7,960)**	**(20,496)**	**-**	**(11,896)**	**(55,302)**
As at December 31, 2022	**669,506**	**259,650**	**207,227**	**1,551,248**	**-**	**219,491**	**2,907,122**
Carrying amount							
As at December 31, 2022	**906,517**	**82,737**	**52,574**	**529,736**	**175,111**	**190,828**	**1,937,503**
As at December 31, 2021	937,845	107,516	64,975	456,609	258,058	239,267	2,064,270

16. Intangible assets, net

	Goodwill AED'000	Other intangible assets: Trade mark and license AED'000	Other intangible assets: Core deposits AED'000	Other intangible assets: Customer relationships AED'000	Total AED'000
Cost or valuation					
As at January 1, 2021	6,753,517	255,258	457,000	84,000	7,549,775
Impact of currency translation	-	84	-	-	84
As at December 31, 2021	6,753,517	255,342	457,000	84,000	7,549,859
Impact of currency translation	**-**	**(48,356)**	**-**	**-**	**(48,356)**
As at December 31, 2022	**6,753,517**	**206,986**	**457,000**	**84,000**	**7,501,503**
Accumulated amortisation					
As at January 1, 2021	-	-	134,206	25,278	159,484
Amortisation for the year (Note 32)	-	-	80,523	15,167	95,690
As at December 31, 2021	-	-	214,729	40,445	255,174
Amortisation for the year (Note 32)	**-**	**-**	**80,524**	**13,611**	**94,135**
As at December 31, 2022	**-**	**-**	**295,253**	**54,056**	**349,309**
Carrying amount					
As at December 31, 2022	**6,753,517**	**206,986**	**161,747**	**29,944**	**7,152,194**
As at December 31, 2021	6,753,517	255,342	242,271	43,555	7,294,685

Goodwill

On May 1, 2019, Union National Bank PJSC (or "UNB") merged with Abu Dhabi Commercial Bank PJSC in an all-stock transaction. The merged entity subsequently completed 100% acquisition of Al Hilal Bank PJSC (or "AHB"). Based on the purchase price allocation exercise performed by an external consultant following the merger and acquisition, the Bank recognised AED 785,000 thousand as intangible assets and AED 6,734,717 thousand as goodwill.

On October 1, 2010, the Bank acquired the retail banking, wealth management and small and medium enterprise businesses (the "Business") of The Royal Bank of Scotland ("RBS") in the UAE for a consideration of AED 168,900 thousand. Based on the fair valuation and purchase price allocation exercise performed by an external consultant immediately following the acquisition in 2010, the Bank recognised AED 143,400 thousand as intangible assets which were fully amortised during the previous years and AED 18,800 thousand as goodwill.

Impairment assessment of goodwill

For the purposes of impairment testing, goodwill acquired in a business combination is allocated to the revenue generating CGUs. In a goodwill impairment test, the recoverable amounts of the goodwill carrying CGUs are compared with the respective carrying amounts. The recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use.

The carrying amount of CGU is derived using a capital allocation model where the Group's core equity capital is allocated to the CGUs. The Group determines the recoverable amounts of its CGUs based on higher of fair value less cost to sell (FVLCS) or value in use (VIU).

Value in use is estimated using a discounted cash flow (DCF) model, which reflects the specifics of the banking business and its regulatory environment. The model calculates the present value of the estimated future earnings that are distributable to shareholders after fulfilling the respective regulatory capital requirements and the risk appetite of the Group.

16. Intangible assets, net (continued)

Impairment assessment of goodwill (continued)

The DCF model uses earnings projections and respective capitalisation assumptions, which are discounted to their present value by using discount rate of 7.8% p.a.

Earnings projections beyond the initial five-year period are, where applicable, adjusted to derive a sustainable level. In case of a going concern, the cash flow to equity is assumed to increase by or converge towards a constant long-term growth rate. This is based on projected revenue forecasts of the CGUs as well as expected gross domestic product growth and is captured in the terminal value. The terminal growth rate of 4.1% p.a. is considered to arrive at earnings projections beyond five years.

The DCF value of a CGU is sensitive to the projections of distributable earnings, to the discount rate (weighed average cost of capital) applied and, to the long-term growth rate. The cost of equity applied have been determined based on the capital asset pricing model and comprise of a risk-free interest rate, a market risk premium and a factor covering the systematic market risk (beta factor).

FVLCS of CGUs are estimated based on data from comparable companies' price to book (P/B) ratio and adding control premium to the same.

No impairment loss on above goodwill was recognised during the year (2021 - AED nil).

Other intangible assets

Trade mark and license	AHB has built a strong franchise and has a reputation as a progressive Islamic bank offering a wide range of client-centric Shari'ah compliant retail banking products. The AHB brand plays a key part in generating revenues for the Bank.
Egypt license	This has been recognised as an intangible asset as Central Bank of Egypt has not issued a new banking license to any entity for the past 20 years, and has therefore restricted engagement in banking activities to banks already licensed and operating in Egypt. The license plays a key part in generating revenues for the Bank. Egypt license was valued considering the market approach using comparable transactions.
Customer relationships	Customer relationship intangible assets represent the value attributable to the business expected to be generated from customers that existed as at the acquisition date. In determining the fair value of customer relationships, trade finance customers were considered. These relationships are expected to generate material recurring income in the form of fees and commission.
Core deposits	The value of core deposit intangible asset arises from the fact that the deposit base of the Group represents a cheaper source of funding than wholesale or money market funding. The spread between the cost of deposit funding and the cost of wholesale/money market funding represents the value of the core deposit intangible.

17. Due to banks

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Vostro balances	**2,939,157**	2,421,042
Margin deposits	**5,917,002**	583,704
Time deposits	**863,034**	4,200,587
Total due to banks	**9,719,193**	7,205,333

The Group hedges time deposits amounting to AED nil (December 31, 2021 - AED 21,715 thousand) for foreign currency risks through foreign exchange swaps and designates these swaps as cash flow hedges. The fair value of these swaps as at December 31, 2022 was AED nil (December 31, 2021 – net negative fair value of AED 890 thousand).

18. Deposits from customers

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Time deposits	**155,624,985**	111,728,428
Current account deposits	**122,426,026**	117,905,965
Savings deposits	**28,368,562**	33,153,628
Long term government deposits	**287,653**	291,740
Margin deposits	**2,223,473**	1,972,564
Total deposits from customers	**308,930,699**	265,052,325

For Islamic deposits included in the above table, refer note 24.

The Group hedges customer deposits amounting to AED 31,261,041 thousand (December 31, 2021 - AED 8,178,419 thousand) for foreign currency and interest rate risks using foreign exchange and interest rate swaps and designates these swaps as either cash flow or fair value hedges. The net negative fair value of these swaps as at December 31, 2022 was AED 157,067 thousand (December 31, 2021 – net negative fair value of AED 227,866 thousand).

19. Euro commercial paper

The details of euro commercial paper ("ECP") issuances under the Bank's ECP programme are as follows:

Currency (CCY)	As at December 31 2022 AED'000	As at December 31 2021 AED'000
US dollar (USD)	**2,510,067**	2,817,652
Euro (EUR)	**1,230,731**	2,173,567
Great Britain pound (GBP)	**2,253,481**	1,207,938
Total euro commercial paper	**5,994,279**	6,199,157

The Group hedges euro commercial paper amounting to AED 3,484,212 thousand (December 31, 2021 – AED 3,381,505 thousand) for foreign currency using foreign exchange swaps and designates these swaps as cash flow hedges. The net positive fair value of these hedge contracts as at December 31, 2022 was AED 72,885 thousand (December 31, 2021 - net negative fair value of AED 7,405 thousand).

The effective interest rate on zero coupon ECPs ranges between positive 1.19% p.a. to 5.29% p.a. (December 31, 2021 – between negative 0.780% p.a. to positive 0.385% p.a.).

Reconciliation of ECP movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2021	4,753,593
Net proceeds from issuances	13,658,074
Repayments	(12,221,953)
Other movements	9,443
As at December 31, 2021	6,199,157
Net proceeds from issuances	**14,604,440**
Repayments	**(14,855,599)**
Other movements	**46,281**
As at December 31, 2022	**5,994,279**

Net proceeds from issuances include effects of changes in foreign exchange rates. Other movements include discount amortised.

20. Borrowings

The details of borrowings as at December 31, 2022 are as follows:

Instrument	Currency (CCY)	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	-	-	860,600	134,025	994,625
	Chinese renminbi (CNH)	-	226,806	509,186	-	735,992
	Euro (EUR)	-	75,952	-	-	75,952
	Swiss franc (CHF)	695,947	1,382,678	-	-	2,078,625
	Hong Kong dollar (HKD)	105,133	137,019	-	-	242,152
	US dollar (USD)	4,580,451	3,894,245	5,545,598	16,890,626	30,910,920
	Great Britain pound (GBP)	-	165,889	-	-	165,889
	Indonesian rupiah (IDR)	-	-	-	454,570	454,570
		5,381,531	5,882,589	6,915,384	17,479,221	35,658,725
Islamic sukuk notes	US dollar (USD)	1,844,944	-	-	-	1,844,944
Bilateral loans	US dollar (USD)	631,137	3,175,949	-	-	3,807,086
	Kazakhstan tenge (KZT)	-	-	81,198	-	81,198
Certificate of deposits issued	Great Britain pound (GBP)	110,228	-	-	-	110,228
	US dollar (USD)	286,325	-	-	-	286,325
Subordinated notes – fixed rate	US dollar (USD)	2,743,626	-	-	-	2,743,626
Borrowings through repurchase agreements	US dollar (USD)	18,115,040	7,019,742	202,333	-	25,337,115
	Egyptian pound (EGP)	594	-	-	5,892	6,486
Total borrowings		29,113,425	16,078,280	7,198,915	17,485,113	69,875,733

The Group hedges borrowings amounting to AED 37,677,496 thousand for foreign currency and interest rate risks using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net negative fair value of these swaps as at December 31, 2022 was AED 5,745,422 thousand.

20. Borrowings (continued)

The details of borrowings as at December 31, 2021 are as follows:

Instrument	Currency (CCY)	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Over 5 years AED'000	Total AED'000
Global medium term notes	Australian dollar (AUD)	750,714	-	-	602,302	1,353,016
	Chinese renminbi (CNH)	319,454	244,485	372,491	-	936,430
	Euro (EUR)	82,980	84,630	-	-	167,610
	Swiss franc (CHF)	-	2,150,195	-	-	2,150,195
	Japanese yen (JPY)	73,232	-	-	-	73,232
	Hong Kong dollar (HKD)	217,094	184,265	72,963	-	474,322
	US dollar (USD)	1,488,025	7,463,715	2,733,885	21,419,823	33,105,448
	Great Britain pound (GBP)	273,068	194,511	-	-	467,579
	Indonesian rupiah (IDR)	-	-	-	540,411	540,411
		3,204,567	10,321,801	3,179,339	22,562,536	39,268,243
Islamic sukuk notes	US dollar (USD)	-	1,856,612	-	-	1,856,612
Bilateral loans	US dollar (USD)	2,018,092	2,712,240	731,798	-	5,462,130
	Kazakhstan tenge (KZT)	-	-	-	86,429	86,429
Certificate of deposits issued	Great Britain pound (GBP)	69,217	-	-	-	69,217
	US dollar (USD)	1,174,288	-	-	-	1,174,288
Subordinated notes – fixed rate	US dollar (USD)	-	2,802,267	-	-	2,802,267
Borrowings through repurchase agreements	US dollar (USD)	13,880,359	7,052,268	202,333	-	21,134,960
	UAE dirham (AED)(*)	632,362	-	-	-	632,362
	Egyptian pound (EGP)	145	2,810	-	9,874	12,829
Total borrowings		20,979,030	24,747,998	4,113,470	22,658,839	72,499,337

(*) represents interest free borrowings from CBUAE under its Targeted Economic Support Scheme (TESS) recovery program

The Group hedges borrowings amounting to AED 33,939,861 thousand for foreign currency and interest rate risks using either interest rate or cross currency swaps and designates these swaps as either fair value or cash flow hedges. The net positive fair value of these swaps as at December 31, 2021 was AED 617,239 thousand.

20. Borrowings (continued)

Interests are payable in arrears and the contractual coupon rates as at December 31, 2022 are as follows:

Instrument	CCY	Within 1 year	1-3 years	3-5 years	Over 5 years
Global medium term notes	AUD	-	-	Fixed rate between 3.10% p.a. to 4.50% p.a. and quarterly coupons between 90 to 94 basis points over bank bill swap rate (BBSW)	Fixed rate between 2.696% p.a. to 2.80% p.a.
	CNH	-	Fixed rate between 3.33% p.a. to 4.60% p.a.	Fixed rate between 3.20% p.a. to 3.415% p.a.	-
	EUR	-	Fixed rate of 0.75% p.a.	-	-
	CHF	Fixed rate of 0.385% p.a.	Fixed rate between 0.05% p.a. to 0.735% p.a.	-	-
	HKD	Fixed rate of 2.84% p.a.	Fixed rate between 1.34% p.a. to 2.87% p.a.	-	-
	USD	Fixed rate of 4.00% p.a.	Quarterly coupons between 110 to 155 basis points over Libor and quarterly coupons between 129 to 146 basis points over SOFR	Fixed rate between 1.63% p.a. to 5.10% p.a. and quarterly coupons of 88 basis points over SOFR	Fixed rate between 4.65% p.a. to 5.00% p.a.; zero coupon with an internal rate of return between 3.271% p.a. to 5.785% p.a. and quarterly coupons of 140 basis points over Libor(*)
	GBP	-	Fixed rate of 0.95% p.a.	-	-
	IDR	-	-	-	Fixed rate between 7.50% p.a. to 8.16% p.a.
Islamic Sukuk notes	USD	Fixed rate of 4.375% p.a.	-	-	-
Bilateral loans	USD	Monthly coupons of 95 basis points over Libor	Monthly coupons between 95 to 100 basis points over Libor and monthly coupons of 32.5 basis points over SOFR	-	-
	KZT	-	-	Fixed rate between 8.50% p.a. to 9.50% p.a.	-
Certificate of deposits issued	GBP	Zero coupon with an internal rate of 1.474% p.a.	-	-	-
	USD	Zero coupon with an internal rate of return of 0.89% p.a.	-	-	-
Subordinated notes	USD	Fixed rate of 4.50% p.a.	-	-	-
Borrowings through repurchase agreements	USD	Fixed rate between 4.16% p.a. to 4.74% p.a.; SOFR plus spread between 30 to 75 basis points and quarterly coupons of 40 basis points over Libor	Quarterly coupons between 43 to 50 basis points over Libor	Semi-annual coupons between negative 20 to negative 18 basis points over Libor	-
	EGP	Fixed rate of 3.00% p.a.	-	-	Fixed rate between 0.50% p.a. to 3.50% p.a.

(*) includes AED 16,328,483 thousand accreting notes issued with original tenors ranging from 30 years to 40 years with internal rate of return ranging between 3.271% p.a. to 5.785% p.a. and are callable at the end of every 5th, 6th, 7th or 10th year from issue date

20. Borrowings (continued)

The subordinated fixed rate note qualifies as Tier 2 capital and is eligible for grandfathering at the rate of 10% per annum in accordance with capital guidance issued by CBUAE. Further, the subordinated fixed rate note has entered its five years to maturity and is being amortised at the rate of 20% per annum till its maturity in 2023 (Note 50).

Refer note 10 and note 11 for details of bonds and loans pledged as collateral against borrowings through repurchase agreements. Further, the Group placed net cash collateral of AED 1,072,321 thousand (December 31, 2021 - AED 169,873 thousand) against margin calls.

Reconciliation of borrowings movement to cash flows arising from financing activities is as follows:

	AED'000
As at January 1, 2021	65,396,044
Net proceeds from issuances	30,728,932
Repayments	(22,951,954)
Other movements	(673,685)
As at December 31, 2021	72,499,337
Net proceeds from issuances	**47,103,994**
Repayments	**(44,319,818)**
Other movements	**(5,407,780)**
As at December 31, 2022	**69,875,733**

Net proceeds from issuances include effects of changes in foreign exchange rates on borrowings. Other movements include interest capitalised on callable accreting notes, discount on issuances amortised and changes in fair value hedges.

21. Other liabilities

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Interest payable	**1,841,733**	676,841
Recognised liability for defined benefit obligation	**511,909**	594,717
Deferred income	**842,135**	807,322
Acceptances (Note 14)	**17,131,510**	16,238,756
Impairment allowance on letters of credit, guarantees and other commitments (Note 43.3)	**423,942**	503,225
Others(*)	**4,919,510**	4,563,303
Total other liabilities	**25,670,739**	23,384,164

(*) includes AED 225,595 thousand (December 31, 2021 – AED 286,322 thousand) pertaining to finance lease liability

Defined benefit obligation

The Group provides gratuity benefits to its eligible employees in UAE. The most recent actuarial valuations of the present value of the defined benefit obligation were carried out in the last quarter of 2022 by a registered actuary in the UAE. The present value of the defined benefit obligation and the related current and past service cost, were measured using the Projected Unit Credit Method.

Key assumptions used in the actuarial valuation are as follows:

Discount rate: 5.23% p.a. (2021: 2.39% p.a.)
Salary increment rate: 2.75% p.a. (2021: 2.75% p.a.)

Demographic assumptions for mortality, resignation and retirement were used in valuing the liabilities and benefits under the plan.

21. Other liabilities (continued)

The liability would be higher by AED 14,550 thousand had the discount rate used in the assumption been lower by 0.50% and the liability would be lower by AED 14,011 thousand had the discount rate used in the assumption been higher by 0.50%. Similarly, the liability would be higher by AED 11,856 thousand had the salary increment rate used in the assumption been higher by 0.50% and the liability would be lower by AED 11,317 thousand had the salary increment rate used in the assumption been lower by 0.50%.

The movement in defined benefit obligation is as follows:

	2022 AED'000	2021 AED'000
Opening balance	**594,717**	630,203
Net charge during the year(*)	**73,011**	68,005
Actuarial gains on defined benefit obligation	**(108,233)**	(42,079)
Benefits paid	**(47,586)**	(61,412)
Closing balance	**511,909**	594,717

(*) recognised under "staff expense" in the consolidated income statement

Defined contribution

Under defined contribution plans, the Group pays contributions to Abu Dhabi Retirement Pensions and Benefits Fund for UAE National employees and to respective pension funds for other employees including GCC Nationals. The charge for the year in respect of these contributions is AED 85,480 thousand (2021 – AED 68,735 thousand). As at December 31, 2022, pension payable of AED 9,523 thousand has been classified under 'Other liabilities – others' (December 31, 2021 – AED 8,647 thousand).

22. Share capital

	Authorised	Issued and fully paid	
		As at December 31 2022	As at December 31 2021
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	**10,000,000**	**6,957,379**	6,957,379

As at December 31, 2022, Mubadala Investment Company holds 60.20% (December 31, 2021 – 60.20%) of the Bank's issued and fully paid up share capital through its wholly owned subsidiary One Hundred and Fourteenth Investment Company – Sole Proprietorship LLC.

Dividends

For the year ended December 31, 2022, the Board of Directors has proposed to pay cash and stock dividend of AED 3,826,559 thousand, being AED 0.55 dividend per share and representing 55% of the paid up capital (December 31, 2021 – AED 2,574,230 thousand, being AED 0.37 dividend per share and representing 37% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

23. Other reserves

Reserves movement for the year ended December 31, 2022:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2022	**(76,712)**	**3,478,690**	**3,478,690**	**2,000,000**	**150,000**	**(68,673)**	**(67,912)**	**389,298**	**9,283,381**	**194**	**9,283,575**
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(619,537)	-	-	(619,537)	(530)	(620,067)
Net gain on hedge of net investment in foreign operations	-	-	-	-	-	390,334	-	-	390,334	-	390,334
Exchange difference arising on translation of foreign operations reclassified to consolidated income statement	-	-	-	-	-	113,366	-	-	113,366	-	113,366
Net fair value changes on cash flow hedges	-	-	-	-	-	-	99,311	-	99,311	-	99,311
Net fair value changes on cash flow hedges reclassified to consolidated income statement	-	-	-	-	-	-	65,777	-	65,777	-	65,777
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	(1,815,918)	(1,815,918)	(45)	(1,815,963)
Changes in allowance for expected credit losses on debt instrument designated at FVTOCI	-	-	-	-	-	-	-	(38,035)	(38,035)	-	(38,035)
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI	-	-	-	-	-	-	-	98,771	98,771	-	98,771
Net fair value changes of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	(40,408)	(40,408)	-	(40,408)
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	1,713	1,713	-	1,713
Total other comprehensive (loss)/gain for the year	**-**	**-**	**-**	**-**	**-**	**(115,837)**	**165,088**	**(1,793,877)**	**(1,744,626)**	**(575)**	**(1,745,201)**
Acquisition of shares	(5,010)	-	-	-	-	-	-	-	(5,010)	-	(5,010)
Adjustment arising from changes in non-controlling interests	-	-	-	-	-	61	-	39	100	(100)	-
Fair value adjustments	(9,724)	-	-	-	-	-	-	-	(9,724)	-	(9,724)
Shares – vested portion (Note 25)	22,622	-	-	-	-	-	-	-	22,622	-	22,622
As at December 31, 2022	**(68,824)**	**3,478,690**	**3,478,690**	**2,000,000**	**150,000**	**(184,449)**	**97,176**	**(1,404,540)**	**7,546,743**	**(481)**	**7,546,262**

For more information on reserves, refer note 50.

23. Other reserves (continued)

Reserves movement for the year ended December 31, 2021:

	Employees' incentive plan shares, net AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Cash flow hedge reserve AED'000	Revaluation reserve of investments designated at FVTOCI AED'000	Attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2021	(26,869)	3,478,690	3,478,690	2,000,000	150,000	(56,156)	(33,464)	874,525	9,865,416	264	9,865,680
Exchange difference arising on translation of foreign operations	-	-	-	-	-	(8,492)	-	-	(8,492)	-	(8,492)
Net loss on hedge of net investment in foreign operations	-	-	-	-	-	(4,025)	-	-	(4,025)	-	(4,025)
Net fair value changes on cash flow hedges	-	-	-	-	-	-	6,170	-	6,170	-	6,170
Net fair value changes on cash flow hedges reclassified to consolidated income statement	-	-	-	-	-	-	(40,618)	-	(40,618)	-	(40,618)
Net fair value changes of debt instruments designated at FVTOCI	-	-	-	-	-	-	-	(136,520)	(136,520)	(44)	(136,564)
Changes in allowance for expected credit losses on debt instrument designated at FVTOCI	-	-	-	-	-	-	-	(122,169)	(122,169)	-	(122,169)
Amounts reclassified to consolidated income statement for debt instruments designated at FVTOCI	-	-	-	-	-	-	-	(228,906)	(228,906)	-	(228,906)
Net fair value changes of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	2,323	2,323	(26)	2,297
Amounts transferred within equity upon disposal of equity instruments designated at FVTOCI	-	-	-	-	-	-	-	45	45	-	45
Total other comprehensive loss for the year	-	-	-	-	-	(12,517)	(34,448)	(485,227)	(532,192)	(70)	(532,262)
Acquisition of shares	(56,060)	-	-	-	-	-	-	-	(56,060)	-	(56,060)
Fair value adjustments	578	-	-	-	-	-	-	-	578	-	578
Shares – vested portion (Note 25)	5,639	-	-	-	-	-	-	-	5,639	-	5,639
As at December 31, 2021	(76,712)	3,478,690	3,478,690	2,000,000	150,000	(68,673)	(67,912)	389,298	9,283,381	194	9,283,575

24. Islamic financing

Islamic financing assets

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Murabaha	**24,103,675**	21,476,214
Ijara financing	**14,622,375**	16,236,052
Salam	**681,721**	1,368,544
Others	**379,650**	375,506
Gross Islamic financing assets	**39,787,421**	39,456,316
Less: Allowance for impairment	**(1,777,870)**	(1,794,576)
Net Islamic financing assets	**38,009,551**	37,661,740

Islamic investing assets

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
At fair value through other comprehensive income (FVTOCI)		
Sukuk investments	**8,597,418**	13,494,673
Equities	**159,790**	9,290
	8,757,208	13,503,963
At amortised cost		
Sukuk investments	**4,629,980**	2,420,935
Less: Allowance for impairment	**(3,509)**	(2,241)
	4,626,471	2,418,694
Net Islamic investing assets	**13,383,679**	15,922,657

Income from Islamic financing and investing products

	2022 AED'000	2021 AED'000
Murabaha	**1,223,608**	960,489
Ijara financing	**637,435**	565,027
Salam	**62,176**	145,232
Sukuk investments	**477,432**	345,827
Others	**41,437**	14,797
Total income from Islamic financing and investing products	**2,442,088**	2,031,372

Islamic deposits

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Current account deposits	**12,742,453**	10,904,289
Margin deposits	**202,030**	308,690
Mudaraba savings deposits (*)	**16,923,718**	17,031,181
Mudaraba term deposits	**1,038,049**	1,899,618
Murabaha term deposits	**1,270,585**	1,066,481
Wakala deposits	**13,664,516**	6,176,291
Total Islamic deposits	**45,841,351**	37,386,550

(*) includes AED 20,081 thousand pertaining to investment risk reserve (IRR) as at December 31, 2022 (December 31, 2021 – AED 27,039 thousand)

24. Islamic financing (continued)

Distribution on Islamic deposits and profit paid to sukuk holders

	2022 AED'000	2021 AED'000
Mudaraba savings and term deposits	**74,065**	75,727
Murabaha term deposits	**40,704**	16,072
Wakala deposits	**217,865**	65,740
Islamic sukuk notes and reverse murabaha	**90,708**	88,267
Total distribution on Islamic deposits and profit paid to sukuk holders	**423,342**	245,806

25. Employees' incentive plan shares, net

The Group operates Deferred Compensation Plan (the "Plan") to recognise and retain good performing employees. Under the Plan, the employees are granted shares of the Bank when they meet the vesting conditions at a price prevailing at the grant date. These shares are acquired and held by a subsidiary of the Bank until vesting conditions are met. The Board Nomination Compensation HR and Governance Committee determines and approves the shares to be granted to employees based on the Group's key performance indicators.

During the year ended December 31, 2022, the Group had the following incentive plan in force:

Grant date	January 1, 2022	January 1, 2022	January 1, 2021
Number of shares granted	3,030,000	3,269,856	2,756,383
Fair value of the granted shares at the grant date in AED thousand	25,846	27,892	17,090
Final vesting date	December 31, 2025	December 31, 2024	December 31, 2023

Vesting conditions – In service from the grant date till respective vesting date or meeting special conditions during the vesting period (death or disability).

The movement of plan shares is as follows:

	2022	2021
Opening balance	**1,818,919**	-
Granted during the year	**6,299,856**	2,756,383
Exercised during the year	**(2,213,224)**	(909,447)
Forfeited during the year	**(187,896)**	(28,017)
Closing balance	**5,717,655**	1,818,919
Amount of "Plan" cost recognised under "staff expenses" in the consolidated income statement (AED '000)	**22,622**	5,639

Total number of un-allotted shares under the Plan as at December 31, 2022 were 3,870,314 shares (December 31, 2021 – 9,423,680 shares). These un-allotted shares include forfeited shares and shares purchased for future awards.

26. Capital notes

In February 2009, the Department of Finance, Government of Abu Dhabi subscribed to ADCB's Tier I regulatory capital notes with a principal amount of AED 4,000,000 thousand (the "ADCB Notes"). Further, pursuant to the merger with UNB, the Bank assumed erstwhile UNB's Tier I regulatory capital notes with a principal amount of AED 2,000,000 thousand (together with the ADCB Notes, the "Notes"). Further, via written resolutions of the Department of Finance, Government of Abu Dhabi dated December 15, 2021, the Notes were amended to comply with the Standards and Guidance for Capital Adequacy of Banks in the UAE issued by the Central Bank of UAE under Notice No. 4980/2020 (November, 2020), which included the introduction of a "write-down at the point of non-viability (PONV)" clause.

26. Capital Notes (continued)

The PONV clause introduced into the terms and conditions can be triggered by the CBUAE. If the CBUAE notifies the Bank that it is, or will become, non-viable without (i) a write-down; or (ii) a public sector injection of capital, the Note holders' rights under the Notes shall automatically be deemed to be irrevocably, unconditionally and permanently written-down in a proportion corresponding to the write-down amount determined by the CBUAE. This could result in the Notes being written down to zero and the Notes being cancelled.

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date. With the consent of the CBUAE, the Notes may be called by the Bank in February 2027 or on any interest payment date thereafter. The holders of the Notes have no right to call for redemption. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari-passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bore interest at the rate of 6% per annum from their issue date to the first reset date (which was in February 2014), and currently bear a floating interest rate of 6 month-Eibor plus 2.3% per annum thereafter. However, the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service the coupon is not considered an event of default. In addition, there are certain circumstances ("non-payment event") under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date.

If the Bank makes a non-payment election or a non-payment event occurs, then the Bank will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Bank ranking pari-passu with or junior to the Notes except securities, the term of which stipulates a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

27. Interest income

	2022 AED'000	2021 AED'000
Loans and advances to banks	**1,424,952**	365,022
Loans and advances to customers	**9,757,975**	6,985,957
Investment securities	**2,791,827**	1,738,797
Total interest income	**13,974,754**	9,089,776

28. Interest expense

	2022 AED'000	2021 AED'000
Deposits from banks	**141,485**	21,950
Deposits from customers	**3,595,772**	1,164,114
Euro commercial paper	**76,671**	18,816
Borrowings(*)	**1,985,817**	806,932
Total interest expense	**5,799,745**	2,011,812

(*) includes AED 20,518 thousand (2021: AED 15,128 thousand) for interest expense on lease liabilities

29. Net fees and commission income

	2022 AED'000	2021 AED'000
Fees and commission income		
Card related fees	**1,177,724**	945,585
Loan processing fees	**759,971**	711,990
Accounts related fees	**207,741**	183,160
Trade finance commission	**548,289**	504,859
Insurance commission	**17,424**	17,134
Asset management and investment services	**71,968**	72,679
Brokerage fees	**13,094**	13,169
Other fees	**606,353**	482,309
Total fees and commission income	**3,402,564**	2,930,885
Fees and commission expense	**(1,292,151)**	(1,031,597)
Net fees and commission income	**2,110,413**	1,899,288

30. Net trading income

	2022 AED'000	2021 AED'000
Net gain from dealing in derivatives	**173,546**	141,016
Net gain from dealing in foreign currencies	**630,317**	515,562
Net gain from financial assets at fair value through profit or loss(*)	**108,923**	19,187
Net trading income	**912,786**	675,765

(*) includes loss of AED 16,614 thousand from debt securities mandatorily measured at fair value (2021 – net loss of AED 6,277 thousand)

31. Other operating income

	2022 AED'000	2021 AED'000
Property management income	**155,461**	149,483
Rental income	**79,558**	79,118
Net (loss)/gain from disposal of investment securities(*)	**(71,349)**	259,077
Net gains arising from retirement of hedges	**271,581**	61,358
Dividend income	**35,913**	26,814
Others	**637,028**	233,288
Total other operating income	**1,108,192**	809,138

(*) includes realised gain of AED 7,056 thousand (2021 – gain of AED 1,832 thousand) on sale of investments carried at amortised cost amounting to AED 367,300 thousand (December 31, 2021 - AED 53,097 thousand)

32. Operating expenses

	2022 AED'000	2021 AED'000
Staff expenses	**2,767,876**	2,437,165
General administrative expenses	**1,619,033**	1,323,238
Depreciation on property and equipment (Note 15)	**407,259**	401,147
Amortisation of intangible assets (Note 16)	**94,135**	95,690
Total operating expenses	**4,888,303**	4,257,240

33. Impairment charge

	2022 AED'000	2021 AED'000
Financial instruments carried at amortised cost – net charge(*)	**3,300,711**	3,306,356
Debt instruments designated at FVTOCI – net charge	**47,257**	56,489
Commitment and contingent liabilities – net release	**(83,574)**	(28,893)
Less: Recoveries/modifications during the year	**(485,481)**	(687,764)
Total impairment charge (Note 43.3)	**2,778,913**	2,646,188

(*) includes net charge of AED 21,415 thousand (2021: AED 13,315 thousand) on investment securities at amortised cost

34. Earnings per share

Basic and diluted earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Bank and the weighted average number of equity shares outstanding. Diluted earnings per share is calculated by adjusting the weighted average number of equity shares outstanding for the dilutive effects of potential equity shares held on account of employees' incentive plan.

	2022 AED'000	2021 AED'000
Profit for the year attributable to the equity holders of the Bank	**6,435,301**	5,241,122
Less: Coupons paid on capital notes (Note 26)	**(182,271)**	(173,698)
Net adjusted profit for the year attributable to the equity holders of the Bank (a)	**6,253,030**	5,067,424
	Number of shares in thousand	
Weighted average number of shares in issue throughout the year	**6,957,379**	6,957,379
Less: Weighted average number of shares resulting from employees' incentive plan shares	**(10,743)**	(5,599)
Weighted average number of equity shares in issue during the year for basic earnings per share (b)	**6,946,636**	6,951,780
Add: Weighted average number of shares resulting from employees' incentive plan shares	**10,743**	5,599
Weighted average number of equity shares in issue during the year for diluted earnings per share (c)	**6,957,379**	6,957,379
Basic earnings per share (AED) (a)/(b)	**0.90**	0.73
Diluted earnings per share (AED) (a)/(c)	**0.90**	0.73

35. Discontinued operations

The Group has classified its subsidiaries - Abu Dhabi Commercial Bank (UK Representative Office) Limited and Union Brokerage LLC as discontinued operations.

The Group's investment in subsidiaries - Alexandria New Medical Centre SAE, Al Hilal Auto LLC and overseas branch operations in India, which were classified as discontinued operations as at December 31, 2021, were sold or closed during the year.

Loss from discontinued operations comprises of the following:

	2022 AED'000	2021 AED'000
Net interest income and income from Islamic financing and investing products	**2,930**	2,941
Non-interest income	**(94,206)**	(2,224)
Operating expenses	**(8,127)**	(16,482)
Overseas income tax charge	**(413)**	(657)
Total loss from discontinued operations	**(99,816)**	(16,422)

Loss from discontinued operations is fully attributable to the equity holders of the Bank.

The major class of assets and liabilities forming part of discontinued operations and assets held for sale are as follows:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Assets		
Cash and balances with central banks, net	-	32,351
Deposits and balances due from banks, net	-	106,030
Other assets, net	-	80,942
Property and equipment, net	-	1,350
Total assets classified as held for sale	-	220,673
Liabilities		
Other liabilities	-	4,648
Total liabilities related to assets held for sale	-	4,648

The net cash flows attributable to discontinued operations are as follows:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Net cash from/(used) in operating activities	**8,692**	(16,898)
Net cash from investing activities	**74,099**	101,860
Net cash from discontinued operations	**82,791**	84,962

36. Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Cash and balances with central banks (Note 6)	**39,430,882**	33,746,694
Deposits and balances due from banks (excluding loans and advances to banks) (Note 7)	**8,903,141**	5,762,921
Due to banks (Note 17)	**(9,719,193)**	(7,205,333)
	38,614,830	32,304,282
Less: Cash and balances with central banks and deposits and balances due from banks – with original maturity of more than three months	**(6,336,752)**	(4,791,660)
Add: Due to banks – with original maturity of more than three months	**6,780,036**	4,784,697
Add: Cash and cash equivalents included in assets held for sale (Note 35)	**-**	138,381
Total cash and cash equivalents	**39,058,114**	32,435,700

37. Related party transactions

The Group enters into transactions with the parent and its related entities, associates, funds under management, directors, senior management and their related entities and the Government of Abu Dhabi (ultimate controlling party and its related entities) in the ordinary course of business at agreed upon interest and commission rates.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the directors, chief executive officer and his direct reports. Details of all transactions in which a Director and/or related parties might have actual or potential conflicts are provided to the Board of Directors (the "Board") for its review and approval. Where a Director is interested, that Director neither participates in the discussions nor votes on such matters. The Bank's policy is, so far as possible, to engage in transactions with related parties only on arm's length terms and in accordance with relevant laws and regulations. The Board Secretariat maintains a conflicts and related parties register which is regularly reviewed by the Board Corporate Governance Committee. In addition, the Board maintains awareness of other commitments of its Directors and senior management. The Bank has implemented a Directors' Conflict of Interest policy and, for senior management, a Code of Conduct. As a result of written declarations submitted by each of the Board members, the Board recognises that the other commitments of the Directors do not conflict with their duties or that, where conflicts arise, the Board is sufficiently aware and policies are in place to minimise the risks.

Parent and ultimate controlling party

Mubadala Investment Company holds 60.20% (December 31, 2021 – 60.20%) of the Bank's issued and fully paid up share capital through its wholly owned subsidiary One Hundred and Fourteenth Investment Company – Sole Proprietorship LLC (Note 22). The Government of Abu Dhabi owns 100% of Mubadala Investment Company and so the ultimate controlling party is the Government of Abu Dhabi.

Related party balances and transactions

Related party balances and transactions of the Group included in the consolidated statement of financial position and consolidated income statement are shown in below table. Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

37. Related party transactions (continued)

	Ultimate controlling party and its related parties AED'000	Directors and their related parties AED'000	Key management personnel AED'000	Associates and funds under management AED'000	Total AED'000
Balances as at December 31, 2022					
Deposits and balances due from banks	**16,902**	**-**	**-**	**-**	**16,902**
Financial assets at fair value through profit or loss	**504,402**	**-**	**-**	**-**	**504,402**
Derivative financial instruments - assets	**934,030**	**132,858**	**-**	**-**	**1,066,888**
Investment securities	**23,789,440**	**-**	**-**	**212,570**	**24,002,010**
Loans and advances to customers	**45,732,014**	**4,341,722**	**34,543**	**3,683,898**	**53,792,177**
Other assets	**449,265**	**5,830**	**69**	**3,276**	**458,440**
Due to banks	**394,752**	**-**	**-**	**-**	**394,752**
Derivative financial instruments - liabilities	**1,874,381**	**66,616**	**-**	**-**	**1,940,997**
Deposits from customers	**92,729,567**	**419,297**	**64,799**	**471,070**	**93,684,733**
Other liabilities	**781,441**	**540**	**18,806**	**3**	**800,790**
Capital notes	**6,000,000**	**-**	**-**	**-**	**6,000,000**
Commitments and contingent liabilities	**20,828,665**	**6,648**	**3,950**	**2,252**	**20,841,515**
Transactions for the year ended December 31, 2022					
Interest income, Islamic financing income, fees and other income	**2,303,075**	**157,788**	**1,358**	**64,739**	**2,526,960**
Interest expense and Islamic profit distribution	**1,334,654**	**1,043**	**252**	**-**	**1,335,949**
Net loss from dealing in derivatives	**1,617,107**	**118,408**	**-**	**-**	**1,735,515**
Impairment charge	**929**	**-**	**-**	**-**	**929**
Share in loss of associates	**-**	**-**	**-**	**8,463**	**8,463**
Coupons paid on capital notes	**182,271**	**-**	**-**	**-**	**182,271**
Balances as at December 31, 2021					
Deposits and balances due from banks	14,026	-	-	-	14,026
Financial assets at fair value through profit or loss	571,837	-	-	-	571,837
Derivative financial instruments - assets	1,147,429	184,802	-	-	1,332,231
Investment securities, net	24,504,444	-	-	212,061	24,716,505
Loans and advances to customers	49,106,303	4,502,292	32,409	157,944	53,798,948
Other assets	259,414	21,594	39	2,419	283,466
Due to banks	92	-	-	-	92
Derivative financial instruments - liabilities	807,269	4,453	-	-	811,722
Deposits from customers	94,181,012	429,125	72,039	56,125	94,738,301
Other liabilities	126,860	26	17,783	-	144,669
Capital notes	6,000,000	-	-	-	6,000,000
Commitments and contingent liabilities	13,502,374	11,643	3,556	4,285	13,521,858
Transactions for the year ended December 31, 2021					
Interest income, Islamic financing income, fees and other income	1,434,810	98,474	938	23,748	1,557,970
Interest expense and Islamic profit distribution	280,186	494	49	-	280,729
Net loss from dealing in derivatives	298,940	310,901	-	-	609,841
Impairment charge	10,727	-	-	-	10,727
Share in profit of associates	-	-	-	7,663	7,663
Coupons paid on capital notes	173,698	-	-	-	173,698

37. Related party transactions (continued)

As at December 31, 2022, Funds under management held 2,496,981 shares (December 31, 2021: 1,834,264 shares) of the Bank. During the year, the Bank paid dividend of AED 913 thousand (2021: AED 617 thousand) to these Funds.

Remuneration of key management employees and Board of Directors fees and expenses during the year are as follows:

	2022 AED'000	2021 AED'000
Short term benefits(*)	**42,194**	29,305
Post-employment benefits	**3,985**	2,816
Variable pay benefits	**38,297**	20,760
Total remuneration	**84,476**	52,881
Board of Directors fees and expenses	**26,991**	17,570

(*) includes retirement benefits

In addition to the above, the key management personnel were granted long term deferred compensation including share based payments of AED 27,532 thousand (2021 – AED 17,590 thousand).

38. Commitments and contingent liabilities

The Group has the following commitments and contingent liabilities:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Letters of credit	**9,908,377**	10,928,787
Guarantees	**53,409,932**	50,851,169
Commitments to extend credit – revocable(*)	**15,652,151**	14,582,222
Commitments to extend credit – irrevocable	**31,037,374**	21,055,873
Total commitments on behalf of customers	**110,007,834**	97,418,051
Commitments for future capital expenditure and others	**664,876**	853,069
Commitments to invest in investment securities	**9,160**	15,854
Total commitments and contingent liabilities	**110,681,870**	98,286,974

(*) includes AED 8,131,188 thousand (December 31, 2021: AED 7,323,450 thousand) for undrawn credit card limits

Credit-related commitments

Credit-related commitment include commitments to extend credit, letters of credit and guarantees which are designed to meet the requirements of the Bank's customers. Irrevocable commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Revocable commitments to extend credit represent commitments to make loan and advances and revolving credits which can be cancelled by the Bank unconditionally without any contractual obligations. Commitments generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and 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. Commitments and contingent liabilities which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. 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 included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

39. Operating segments

The Group has five reportable segments as described below. Retail banking and Private banking were reported as part of Consumer banking group till March 31, 2022. Subsequently, the management has decided to evaluate Retail banking group and Private banking group as separate segments and hence, the analysis of financial performance and results have been presented for five reportable segments for the current and prior year.

These segments offer different products and services and are managed separately based on the Group's management and internal reporting structure. The Group's Management Executive Committee (the Chief Operating Decision Maker "CODM"), is responsible for allocation of resources to these segments, whereas, the Group's Performance Management Committee, based on delegation from CODM reviews the performance of these segments on a regular basis.

The following summary describes the operations in each of the Group's reportable segments:

Retail banking - comprises of retail products, wealth management, Islamic financing and investment in associates. It includes loans, deposits and other transactions and balances with retail customers.

Private banking - comprises of high net worth customers, asset management, brokerage, Islamic financing and investment in associates. It includes loans, deposits and other transactions and balances with corporate and private accounts of high net worth individuals and fund management activities.

Wholesale banking - comprises of business banking, cash management, trade finance, corporate finance, small and medium enterprise financing, investment banking, Islamic financing, infrastructure and asset finance, government and public enterprises. It includes loans, deposits and other transactions and balances with corporate customers.

Investments and treasury - comprises of central treasury operations, management of the Group's investment portfolio and interest rate, currency and commodity derivative portfolio and Islamic financing. Investments and treasury undertakes the Group's funding and centralised financial risk management activities through borrowings, issue of debt securities and use of derivatives for risk management. It also undertakes trading and corporate finance activities and investing in liquid assets such as short-term placements, corporate and government debt securities.

Property management - comprises of real estate management, engineering service operations of subsidiaries and rental income earned from properties of the Group.

Information regarding the results of each reportable segment is shown below. Performance is measured based on segment profit, as included in the internal management reports that are reviewed by the Performance Management Committee. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of these segments relative to other entities that operate within these industries.

39. Operating segments (continued)

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2022:

	Retail banking AED'000	Private banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	**2,182,701**	**1,227,492**	**2,624,830**	**2,120,246**	**19,740**	**8,175,009**
Net income from Islamic financing and investing products	**1,030,630**	**39,697**	**403,157**	**545,470**	**(208)**	**2,018,746**
Total net interest income and income from Islamic financing and investing products	**3,213,331**	**1,267,189**	**3,027,987**	**2,665,716**	**19,532**	**10,193,755**
Non-interest income	**994,579**	**455,558**	**1,512,109**	**877,360**	**310,927**	**4,150,533**
Operating income	**4,207,910**	**1,722,747**	**4,540,096**	**3,543,076**	**330,459**	**14,344,288**
Operating expenses	**(2,807,617)**	**(254,846)**	**(1,294,259)**	**(346,634)**	**(184,947)**	**(4,888,303)**
Operating profit before impairment charge	**1,400,293**	**1,467,901**	**3,245,837**	**3,196,442**	**145,512**	**9,455,985**
Impairment (charge)/release	**(447,271)**	**(1,052,373)**	**(1,293,390)**	**14,121**	**-**	**(2,778,913)**
Profit after impairment charge	**953,022**	**415,528**	**1,952,447**	**3,210,563**	**145,512**	**6,677,072**
Share in loss of associates	**(4,574)**	**(3,889)**	**-**	**-**	**-**	**(8,463)**
Profit before taxation	**948,448**	**411,639**	**1,952,447**	**3,210,563**	**145,512**	**6,668,609**
Overseas income tax charge	**(24,273)**	**-**	**(59,050)**	**(51,750)**	**-**	**(135,073)**
Loss from discontinued operations	**-**	**-**	**(99,816)**	**-**	**-**	**(99,816)**
Profit for the year	**924,175**	**411,639**	**1,793,581**	**3,158,813**	**145,512**	**6,433,720**
As at December 31, 2022						
Total assets	**55,248,810**	**53,338,075**	**206,530,321**	**180,954,912**	**1,770,047**	**497,842,165**
Total liabilities	**71,750,920**	**43,153,857**	**162,605,453**	**157,956,543**	**949,255**	**436,416,028**

The following is an analysis of the Group's revenue and results by operating segments for the year ended December 31, 2021:

	Retail banking AED'000	Private banking AED'000	Wholesale banking AED'000	Investments and treasury AED'000	Property management AED'000	Total AED'000
Net interest income	2,274,947	835,074	2,190,091	1,748,820	29,032	7,077,964
Net income from Islamic financing and investing products	947,792	35,902	383,211	418,064	597	1,785,566
Total net interest income and income from Islamic financing and investing products	3,222,739	870,976	2,573,302	2,166,884	29,629	8,863,530
Non-interest income	913,296	89,393	1,280,559	830,456	281,957	3,395,661
Operating income	4,136,035	960,369	3,853,861	2,997,340	311,586	12,259,191
Operating expenses	(2,493,522)	(224,402)	(1,099,450)	(284,834)	(155,032)	(4,257,240)
Operating profit before impairment charge	1,642,513	735,967	2,754,411	2,712,506	156,554	8,001,951
Impairment charge	(757,992)	(41,063)	(1,810,699)	(35,384)	(1,050)	(2,646,188)
Profit after impairment charge	884,521	694,904	943,712	2,677,122	155,504	5,355,763
Share in profit of associates	3,695	3,968	-	-	-	7,663
Profit before taxation	888,216	698,872	943,712	2,677,122	155,504	5,363,426
Overseas income tax charge	(19,863)	-	(15,637)	(64,105)	-	(99,605)
Loss from discontinued operations	(1,718)	-	(14,704)	-	-	(16,422)
Profit for the year	866,635	698,872	913,371	2,613,017	155,504	5,247,399
As at December 31, 2021						
Total assets	53,922,491	55,703,413	185,155,652	143,781,827	1,714,986	440,278,369
Total liabilities	71,246,970	25,536,713	131,382,759	152,063,395	678,506	380,908,343

39. Operating segments (continued)

Other disclosures

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

	External		Inter-segment	
	2022 **AED'000**	2021 AED'000	**2022** **AED'000**	2021 AED'000
Retail banking	**3,748,019**	3,862,733	**459,891**	273,302
Private banking	**2,548,928**	1,665,546	**(826,181)**	(705,177)
Wholesale banking	**6,167,227**	4,570,767	**(1,627,131)**	(716,906)
Investments and treasury	**1,571,635**	1,877,977	**1,971,441**	1,119,363
Property management	**308,479**	282,168	**21,980**	29,418
Total operating income	**14,344,288**	12,259,191	**-**	-

Geographical information

The Group operates in two principal geographic areas i.e. domestic and international. The United Arab Emirates is designated as domestic area which represents the operations of the Group that originates from the UAE branches and subsidiaries. International area represents the operations of the Group that originates from its subsidiaries outside UAE. The information regarding the Group's revenue from continuing operations and non-current assets by geographical location are detailed as follows:

	Domestic		International	
	2022 **AED'000**	2021 AED'000	**2022** **AED'000**	2021 AED'000
Income				
Net interest income and income from Islamic financing and investing products	**9,583,095**	8,412,660	**610,660**	450,870
Non-interest income	**3,997,931**	3,306,168	**152,602**	89,493
Non-current assets				
Investment in associates	**252,525**	262,609	**-**	-
Investment properties	**1,673,983**	1,663,003	**17,907**	11,951
Property and equipment, net	**1,713,634**	1,814,261	**223,869**	250,009
Intangible assets	**7,068,207**	7,162,342	**83,987**	132,343

40. Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9 as at December 31, 2022.

	Measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
As at December 31, 2022						
Assets						
Cash and balances with central banks, net	-	-	-	-	39,429,308	39,429,308
Deposits and balances due from banks, net	-	-	-	-	35,339,202	35,339,202
Financial assets at fair value through profit or loss(*)	4,642,263	-	-	-	-	4,642,263
Derivative financial instruments	10,240,734	4,941,804	-	-	-	15,182,538
Investment securities, net	-	-	54,867,511	983,758	56,159,414	112,010,683
Loans and advances to customers, net	3,104,073	-	-	-	255,388,797	258,492,870
Other assets, net	-	-	-	-	21,575,530	21,575,530
Total financial assets	**17,987,070**	**4,941,804**	**54,867,511**	**983,758**	**407,892,251**	**486,672,394**
Liabilities						
Due to banks	-	-	-	-	9,719,193	9,719,193
Derivative financial instruments	9,846,608	6,378,777	-	-	-	16,225,385
Deposits from customers	-	-	-	-	308,930,699	308,930,699
Euro commercial paper	-	-	-	-	5,994,279	5,994,279
Borrowings	-	-	-	-	69,875,733	69,875,733
Other liabilities	-	-	-	-	24,307,172	24,307,172
Total financial liabilities	**9,846,608**	**6,378,777**	**-**	**-**	**418,827,076**	**435,052,461**

(*) includes AED 504,402 thousand debt securities that are mandatorily measured at fair value through profit or loss

40. Financial instruments (continued)

Categories of financial instruments (continued)

	Measured at FVTPL AED'000	Hedging derivatives AED'000	Debt instruments classified at FVTOCI AED'000	Equity instruments designated at FVTOCI AED'000	Amortised cost AED'000	Total AED'000
As at December 31, 2021						
Assets						
Cash and balances with central banks, net	-	-	-	-	33,746,202	33,746,202
Deposits and balances due from banks, net	-	-	-	-	26,670,143	26,670,143
Financial assets at fair value through profit or loss(*)	1,706,767	-	-	-	-	1,706,767
Derivative financial instruments	5,300,562	1,187,459	-	-	-	6,488,021
Investment securities, net	-	-	65,734,042	816,037	29,963,213	96,513,292
Loans and advances to customers, net	-	-	-	-	244,282,293	244,282,293
Other assets, net	-	-	-	-	19,256,022	19,256,022
Total financial assets	7,007,329	1,187,459	65,734,042	816,037	353,917,873	428,662,740
Liabilities						
Due to banks	-	-	-	-	7,205,333	7,205,333
Derivative financial instruments	4,751,338	1,812,041	-	-	-	6,563,379
Deposits from customers	-	-	-	-	265,052,325	265,052,325
Euro commercial paper	-	-	-	-	6,199,157	6,199,157
Borrowings	-	-	-	-	72,499,337	72,499,337
Other liabilities	-	-	-	-	21,973,478	21,973,478
Total financial liabilities	4,751,338	1,812,041	-	-	372,929,630	379,493,009

(*) includes AED 542,455 thousand debt securities that are mandatorily measured at fair value through profit or loss

41. Fair value hierarchy

Fair value measurements recognised in the consolidated financial statements

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs includes financial instruments such as swaps and forwards which are valued using market standard pricing techniques and options that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

The category includes derivative financial instruments such as over the counter (OTC) derivatives, commodity derivatives, foreign exchange spot and forward contracts, certain investment securities, financial assets at FVTPL, euro commercial paper and borrowings. Valuation of the derivative financial instruments is made through discounted cash flow method using the applicable yield curve for the duration of the instruments for non-optional derivatives and standard option pricing models such as Black-Scholes and other valuation models for derivatives with options.

41. Fair value hierarchy (continued)

Valuation techniques using observable inputs – Level 2 (continued)

The Group periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Group's financial instruments such as credit risk and funding costs. Therefore, the Group applies various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. Credit valuation adjustment is calculated by multiplying the probability of default (PD), the loss given default (LGD) and the expected exposure at the time of default.

Collateral and netting arrangements are taken into account where applicable. The Group applies credit value adjustments to all relevant (not collateralised) OTC positions with the exception of positions settled through central clearing houses.

Funding value adjustment (FVA) reflects the impact of funding associated with collateralised and partly collateralised OTC positions. The Group calculates the FVA by applying estimated future funding costs to the expected future exposure that the Group will be required to fund as a result of the uncollateralised component of the OTC portfolio (i.e. the uncollateralised component of a collateralised portfolio and the entire uncollateralised portfolio).

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from transactions in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Financial instruments under this category mainly include private equity instruments, funds and loans and advances to customers measured at FVTPL. The carrying values of these investments are adjusted as follows:

a) Private equity instruments – using the latest available net book value;
b) Funds – based on the net asset value provided by the fund manager; and
c) Loans and advances to customers measured at FVTPL – multiplying relevant market multiples to actual earnings before interest, tax, depreciation and amortisation (EBITDA).

The fair value of loans and advances measured at FVTPL would change with change in EBITDA and market multiple.

Investment properties are classified as Level 3 as their valuation incorporates significant unobservable inputs. The significant unobservable inputs used in the fair value measurement of the Group's investment properties are rental income and capitalisation rates. Significant decrease in rental income, or increase in capitalisation rates, in isolation would result in a significant lower fair value measurement. 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 raises the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other. Refer note 13 in respect of valuation methodology used for investment properties.

Except as detailed in the following table, the Management considers that the carrying amounts of financial assets and liabilities recognised in the consolidated financial statements do not materially differ from their fair values.

41. Fair value hierarchy (continued)

	Note	Level 1 Quoted market prices AED'000	Level 2 Observable inputs AED'000	Level 3 Significant unobservable inputs AED'000	Total fair value AED'000	Carrying value AED'000
As at December 31, 2022						
Assets at fair value						
Financial assets at fair value through profit or loss	**8**	**751,911**	**3,890,352**	**-**	**4,642,263**	**4,642,263**
Derivative financial instruments	**9**	**10,525**	**15,172,013**	**-**	**15,182,538**	**15,182,538**
Investment securities, net	**10**					
- At fair value through other comprehensive income		**47,561,877**	**8,135,308**	**154,084**	**55,851,269**	**55,851,269**
- At amortised cost		**52,896,175**	**185,885**	**-**	**53,082,060**	**56,159,414**
Loans and advances to customers at fair value through profit or loss	**11**	**-**	**-**	**3,104,073**	**3,104,073**	**3,104,073**
Investment properties	**13**	**-**	**-**	**1,691,890**	**1,691,890**	**1,691,890**
Total		**101,220,488**	**27,383,558**	**4,950,047**	**133,554,093**	**136,631,447**
Liabilities at fair value						
Derivative financial instruments	**9**	**9,510**	**16,215,875**	**-**	**16,225,385**	**16,225,385**
Liabilities at amortised cost						
Euro commercial paper	**19**	**-**	**5,997,173**	**-**	**5,997,173**	**5,994,279**
Borrowings	**20**	**17,522,401**	**50,719,629**	**-**	**68,242,030**	**69,875,733**
Total		**17,531,911**	**72,932,677**	**-**	**90,464,588**	**92,095,397**
As at December 31, 2021						
Assets at fair value						
Financial assets at fair value through profit or loss	8	584,705	1,122,062	-	1,706,767	1,706,767
Derivative financial instruments	9	966	6,487,055	-	6,488,021	6,488,021
Investment securities, net	10					
- At fair value through other comprehensive income		61,322,931	5,062,679	164,469	66,550,079	66,550,079
- At amortised cost		29,674,807	-	-	29,674,807	29,963,213
Investment properties	13	-	-	1,674,954	1,674,954	1,674,954
Total		91,583,409	12,671,796	1,839,423	106,094,628	106,383,034
Liabilities at fair value						
Derivative financial instruments	9	1,387	6,561,992	-	6,563,379	6,563,379
Liabilities at amortised cost						
Euro commercial paper	19	-	6,200,006	-	6,200,006	6,199,157
Borrowings	20	16,399,128	54,482,036	-	70,881,164	72,499,337
Total		16,400,515	67,244,034	-	83,644,549	85,261,873

The Group's OTC derivatives in the trading book are classified as Level 2 as they are valued using inputs that can be observed in the market.

Reconciliation showing the movement in fair values of Level 3 investments designated at FVTOCI is as follows:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Opening balance	**164,469**	205,981
Purchases, net during the year	**6,693**	19,165
Disposals including capital refunds during the year	**(19,826)**	(6,907)
Adjustment through other comprehensive income during the year	**2,748**	(53,770)
Closing balance	**154,084**	164,469

41. Fair value hierarchy (continued)

The purchases under Level 3 category represents mainly capital contributions made during the year into private equity funds under existing capital commitments.

The disposals during the year mainly represents sale of certain investments and capital refunds distributed by the private equity fund managers out of sale of underlying investments held in the funds.

Gain of AED 1,526 thousand (2021 – gain of AED 4,012 thousand) was realised on disposal of Level 3 equity investments designated at FVTOCI and were transferred to retained earnings.

There were no significant transfers between Level 1 and Level 2 investments and no change in valuation techniques used during the year.

Unconsolidated structured entity

Level 1 financial instruments include the Group's investments in certain Funds. The total carrying value of investments in these Funds as at December 31, 2022 was AED 212,570 thousand (December 31, 2021 – AED 212,061 thousand). The maximum exposure to loss in these Funds is equal to the carrying value of the investments.

42. Risk management

Risk governance structure emphasises and balances strong central oversight and control of risk with clear accountability for ownership of risk within each business unit. Group has a documented risk governance policy which sets out the framework for risk management. Under the Group's approach to risk governance, the business primarily owns the risk that it generates and is the first line of defence for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite.

Ultimate responsibility for setting out risk appetite and effective management of risk rests with the Board. This is managed through various Board level committees, namely Board Risk Management Committee (BRC) and Board Executive Committee (BEC), which ensure that risk taking authority and policies are cascaded down from the Board to the appropriate business units.

Acting within the authority delegated by the Board, the BRC has overall responsibility for oversight and review of all areas of risks. It periodically reviews and monitors compliance with the Group's overall risk appetite and makes recommendations thereon to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Group's risk management systems and controls, overseeing the management risk committees and ensuring that the Group's risk governance is supportive of prudent risk taking at all levels in the Group. The BRC receives on a regular basis, portfolio level briefings from the Group Chief Risk Officer (GCRO) along with regular reports on risk management, including portfolio trends, policy parameters, key risk indicators, results of stress testing and changes to the assumptions, liquidity measures, capital adequacy and planning, and also is authorised to investigate or seek any information relating to any activity within its terms of reference. The BRC also conducts 'deep dive' reviews on a rolling basis of different sections of the consolidated group risk information report. The Board Executive Committee (BEC) will be responsible for approving high value credits beyond the management delegated lending limits.

The Management Executive Committee (MEC) has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board committees.

42. Risk management (continued)

In addition to MEC, other management level committees that actively manage risk include:

Assets and Liabilities Management Committee (ALCO),
Risk Management Committee (RMC),
Model Risk Management Committee (MRMC),
Management Recoveries Committee (MRC),
Management Credit Committee (MCC), and
Management Compliance Committee.

The Risk Management function headed by the GCRO reports independently to BRC and administratively to the Group Chief Executive Officer (GCEO). The risk function is independent of the origination, trading and sales function to ensure balance in risk reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function is also independent of the credit underwriting division which is headed by the Group Chief Credit Officer. The risk function exercises control over all areas of risks. These includes credit, market, liquidity, operational, fraud, Shari'ah, reputational, data management, information security, ESG (Environment, Social Governance) and model risk. The risk function also oversees Group's international branches and subsidiaries.

Board Audit Committee (BAC) provides assistance to the Board to fulfill its duties to ensure and oversee the Group's financial statements, independence and performance of the Group's external and internal auditors, adherence with legal and regulatory requirements and internal policies and internal control over financial reporting. BAC also has oversight of the Bank's compliance activities (financial crime prevention, anti-money laundering, know your customer requirements, etc.) and CBUAE standards and regulations that affect the operations of the Bank.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Group's risk management, control and governance processes. The IAD reports directly to BAC. The IAD consists of a team of auditors, whose tasks are, among other things, to evaluate the quality of the Group's lending portfolio, controls in operational processes and the integrity of the Group's information systems and databases. The IAD auditors, alongside the compliance department, also ensure that transactions undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

43. Credit risk management

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes.

The Group's risk committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group.
- Formulating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.

43. Credit risk management (continued)

- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location, etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.
- Managing the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances 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.

The Group wide credit policies and standards are approved by BRC. These govern all delegated lending authorities and include policies, standards, metrics, strategies and procedures specific to each of the different business segments and are decided based on the macro economic conditions, the risk appetite of the Group, market data and internal skill sets and capabilities. They are regularly reviewed and modified to ensure they stay current, relevant and protect the Group's interest in changing operating conditions. In addition to Group wide policies, there are underwriting standards set for each portfolio segment. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

Risk ratings

Internal credit risk ratings

In order to measure credit risk, the Group Risk Management has developed credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises of ten categories and 21 risk grades. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The Group uses various qualitative and quantitative factors such as borrower financial strength, industry risk factors, management quality, operational efficiency, company standing, liquidity, capital structure, peer group analysis, etc. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The Group uses several internal rating models to effecttively rate customers based on the customer segment. These rating models have been developed internally and validated on a regular basis by both internal and external validation teams. The rating models have been calibrated based on ADCB's default rate history. The Group also has an LGD rating scale and assigns LGD rating to each of its wholesale customers.

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

43. Credit risk management (continued)

Risk ratings (continued)

- Financial ratios – absolute values, peer analyis;
- Industry risk;
- Qualitative factors such as management strength, concentrations, etc.;
- Payment record, including payment ratios and ageing analysis;
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behaviour, affordability metrics, etc.; and
- For corporate exposures: information obtained by periodic review of customer files including review of audited financial statements and market data.

The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides an indicative mapping of the Group's internal credit risk grades to external ratings.

Rating category	Moody's	S&P	Fitch	Description
1	Aaa	AAA	AAA	Investment grade
2	Aa1 -Aa3	AA+ - AA-	AA+ - AA-	Investment grade
3	A1 - A3	A+ - A-	A+ - A-	Investment grade
4	Baa1 - Baa3	BBB+ - BBB-	BBB+ - BBB-	Investment grade
5	Ba1 - Ba3	BB+ - BB-	BB+ - BB-	Non-investment grade
6	B1 - B3	B+ - B-	B+ - B-	Non-investment grade
7	Caa1 - Caa3	CCC - CCC-	CCC – C	Watch list
8-10	Default	Default	Default	Default

Some of these grades are further sub-classified with a plus or a minus sign. Lower grades are indicative of a lower likelihood of default. Credit grades 1-7 are assigned to performing customers or accounts while credit grades 8 – 10 are assigned to non-performing or defaulting customers.

Credit ratings are used by the Group to decide the maximum lending amount per customer group and also to set minimum pricing thresholds. The Bank also uses these internal ratings as a input to the IFRS 9 ECL model and these ratings are also used to determine the staging of the customer.

Retail customers or individual borrowers are not assigned a credit rating under this structure. However, retail banking division uses behaviour scoring for its customers.

The internal credit grade system is not intended to replicate external credit grades but factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a higher internal credit grade. The basis for determining ECL is as follows:

IFRS 9 Staging	Basis for determining ECL
1	12 months ECL
2	Lifetime ECL
3 including POCI	Credit impairment based on discounted cash flow model

The quality of credit risk exposure is disclosed in note 43.2.

43. Credit risk management (continued)

Risk ratings (continued)

External credit risk ratings

The table below presents the external credit ratings of the Group's deposits and balances due from banks, gross, financial assets at fair value through profit or loss (FVTPL) and investment securities, gross based on S&P's rating scale. Bond issuer level ratings are used in case ratings are not available at issuance level. Wherever S&P's ratings are not available, comparable Fitch or Moody's equivalent ratings scale is used.

	As at December 31, 2022				As at December 31, 2021			
Ratings	**Deposits and balances due from banks, gross AED'000**	**Financial assets at FVTPL AED'000**	**Bond securities at amortised cost, gross AED'000**	**Bond securities designated at FVTOCI AED'000**	Deposits and balances due from banks, gross AED'000	Financial assets at FVTPL AED'000	Bond securities at amortised cost, gross AED'000	Bond securities designated at FVTOCI AED'000
AAA to AA-	**2,192,583**	**700,419**	**29,913,315**	**19,939,742**	505,724	542,455	14,350,410	24,669,402
A+ to A-	**14,573,848**	**-**	**17,427,330**	**20,231,083**	9,007,526	-	11,044,141	19,608,741
BBB+ to BBB-	**6,207,554**	**24,086**	**6,665,661**	**7,204,035**	5,127,203	-	1,670,562	10,126,672
BB+ to B-	**12,138,660**	**3,917,758**	**1,895,148**	**6,517,011**	10,798,556	1,122,062	1,195,740	9,341,678
CCC+ to C-	**125,429**	**-**	**-**	**-**	57,462	-	-	-
UAE Sovereigns	**-**	**-**	**284,828**	**975,640**	-	-	1,701,937	1,956,696
Unrated	**228,621**	**-**	**-**	**-**	1,215,278	-	20,132	30,853
	35,466,695	**4,642,263**	**56,186,282**	**54,867,511**	26,711,749	1,664,517	29,982,922	65,734,042

Internal ratings of UAE Sovereigns and unrated bond securities with comparable external ratings are as follows:

	Internal rating	**External rating**	**2022 AED'000**	2021 AED'000
UAE Sovereigns	Grade 2 to 3	AA to A	**1,260,468**	3,658,633
Unrated	Grade 8	D	**-**	50,985
			1,260,468	3,709,618

Significant increase in credit risk

As explained in note 3.8(h), the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both deterioration in internal/external ratings as well as qualitative. The SICR indicators per type of asset and the rating deterioration that are determined to be significant are summarised below.

SICR – from stage 1 to stage 2 for non-retail loans and advances, debt instruments and money market instruments

Grade/facility status	**SICR indicators**
Investment grade	6 notches rating downgrade
Non-investment grade	3 notches rating downgrade
Across investment/non-investment grade	3 notches rating downgrade across investment to non-investment grade
Credit restructured	Restructured for credit reasons in the last 12 months
Watch list	Flagged as watch list or accounts that are more than 30 days past due (DPD)
Others	All other criteria as per Central Bank

43. Credit risk management (continued)

SICR – from stage 1 to stage 2 for retail loans and advances and credit cards

Criteria to determine whether credit risk has increased significantly are as follows:

- greater than 30 DPD;
- at least three times 30 DPD or more in the last 12 months;
- at least two times 60 DPD or more in the last 12 months.

In addition to above rating deterioration criteria, the Group also considers other qualitative SICR indicators as suggested in IFRS 9 and CBUAE guidelines.

Default – Stage 3

	Default indicators
Non retail loans and advances	Sub-standard, doubtful or loss flagging – this includes all accounts that are over 90 days past due
Debt instruments and money market instruments	Sub-standard, doubtful or loss flagging
Retail loans and advances and credit cards	90 days past due

Exposure other than to a Sovereign with a rating of A (equivalent internal rating of 3) or better and Sovereign exposures with investment grade rating from an External Rating Agency (BBB- or better) will be classified as low credit risk (LCR).

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

In addition, the Group also follows a probation period for backward transition of staging:

An account has to be in stage 2 for a minimum of 12 months (cure period) for it to move to stage 1 and an account in stage 3 has to move to stage 2 before moving to stage 1.

The Group also employes customer level staging for high risk customers i.e if a customer is rated 6+ or worse, all the accounts of the customer are assigned the worse staging. The top 70% of the non retail exposures are individually assesssed for any SICR not reflected in the ratings.

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

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

43. Credit risk management (continued)

Incorporation of forward-looking information

The Group uses forward-looking macro-economic variables in its measurement of ECL. The Group Chief Economist provides the macro-economic forecasts and scenarios.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and has macro-economic models that forecast relationships between macro-economic variables and credit losses.

During the year, the Group changed its macro-economic variables forecast in line with the prevailing market conditions. The Group has implemented new macro-economic models. The number of macro-economic models were increased to cater to the portfolio size and appropriate segmentation.

The table below summarises the principal macro-economic indicators included in the economic scenarios used at December 31, 2022 for the years 2023 to 2025, for UAE which is the country where the Group primarily operates and therefore is the country that has a material impact on ECLs. The base case economic scenario is having a weightage of 60% while the other two scenarios have a weightage of 20% each.

List of macro-economic variables used	Definition	Scenario	2023	2024	2025
Oil price, Brent USD	Price per barrel	Base	95	88	84
		Upside	110	100	95
		Downside	84	77	70
Real GDP growth	% change	Base	3.4	3.0	3.0
		Upside	5.1	4.4	4.0
		Downside	2.9	2.9	2.3
Real non-oil GDP growth	% change	Base	3.0	2.8	3.0
		Upside	4.3	3.7	4.0
		Downside	2.7	2.8	2.4
Consumer inflation	% annual average	Base	2.5	2.0	1.5
		Upside	3.5	3.0	2.7
		Downside	1.5	1.2	1.6
Dubai real estate sale prices	% change	Base	5.0	3.2	2.0
		Upside	7.6	5.0	5.0
		Downside	4.0	3.0	2.0

Predicted relationships between the key indicators and default rates on various portfolios of financial assets have been developed based on analysing historical data of more than five years.

43. Credit risk management (continued)

Measurement of ECL

The key inputs used for measuring ECL are:

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

These figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated based on customer risk profile, adjusted to take into account the future economic conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is either based on Basel LGD for low default portfolio or on internal ADCB experience in term of workout process and recovery data. The internal models take into consideration all the collected amounts, the time to recovery, the discount rate which is EIR at the default date, the exposure at default and all direct and indirect costs. The seniority of the facility and the type of collateral are important criteria and are considered in the LGD calculation. For ECL calculation, the LGD are converted to point-in time to reflect the economic forecast in each scenario.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level.

The ECL calculation for accounting purposes is different to the provision calculation for regulatory purposes, although many inputs used are similar. The Group has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes.

43. Credit risk management (continued)

43.1 Maximum exposure to credit risk

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. For loans and other credit related commitments that are irrevocable over the life of the respective facilities, the gross exposure to credit risk is the full amount of the committed facilities.

The following table presents the maximum exposure of credit risk for amortised cost financial instruments, derivative financial instruments, investment securities (bonds), financial instruments at fair value through profit or loss and off-balance sheet financial instruments as at December 31, 2022 and 2021, after allowance for impairment and netting where appropriate and after taking into account any collateral held or other credit risk mitigants (CRMs).

	On-balance sheet AED'000	Off-balance sheet AED'000	Gross credit risk exposure AED'000	Gross CRMs AED'000	Maximum credit risk exposure AED'000
As at December 31, 2022					
Cash and balances with central banks, net	**39,429,308**	**-**	**37,025,841**	**-**	**37,025,841**
Deposits and balances due from banks, net	**35,339,202**	**-**	**35,339,202**	**584,400**	**34,754,802**
Financial assets at fair value through profit or loss	**4,642,263**	**-**	**4,642,263**	**3,170,333**	**1,471,930**
Derivative financial instruments	**15,182,538**	**-**	**15,182,538**	**13,521,902**	**1,660,636**
Investment securities, net	**112,010,683**	**-**	**111,026,925**	**-**	**111,026,925**
Loans and advances to customers, net(*)	**258,492,870**	**94,355,683**	**352,848,553**	**123,594,849**	**229,253,704**
Other assets, net	**21,711,189**	**-**	**21,575,530**	**12,267,142**	**9,308,388**
Total	**486,808,053**	**94,355,683**	**577,640,852**	**153,138,626**	**424,502,226**
As at December 31, 2021					
Cash and balances with central banks, net	33,746,202	-	31,405,262	-	31,405,262
Deposits and balances due from banks, net	26,670,143	-	26,670,143	-	26,670,143
Financial assets at fair value through profit or loss	1,706,767	-	1,664,517	1,122,062	542,455
Derivative financial instruments	6,488,021	-	6,488,021	4,452,806	2,035,215
Investment securities, net	96,513,292	-	95,697,255	-	95,697,255
Loans and advances to customers, net	244,282,293	82,835,829	327,118,122	130,519,547	196,598,575
Other assets, net	19,354,460	-	19,256,018	12,650,288	6,605,730
Total	428,761,178	82,835,829	508,299,338	148,744,703	359,554,635

(*) includes loans and advances to customers at fair value through profit or loss, refer note 11

43. Credit risk management (continued)

43.2 Gross exposure

An analysis of the Group's credit risk exposure per class of financial asset, internal rating and "stage" without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Gross exposure as at December 31, 2022 is as follows:

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**POCI AED'000**	**Total AED'000**
Balances with central banks (Note 6)	**37,027,415**	**-**	**-**	**-**	**37,027,415**
Deposits and balances due from banks (Note 7)	**35,263,253**	**203,442**	**-**	**-**	**35,466,695**
Investment securities at amortised cost (Note 10)	**56,186,282**	**-**	**-**	**-**	**56,186,282**
Investment securities designated at FVTOCI (Note 10)	**54,856,972**	**10,539**	**-**	**-**	**54,867,511**
Loans and advances to customers (Note 11)(*)	**235,550,671**	**16,688,102**	**12,481,812**	**2,426,214**	**267,146,799**
Other assets (Note 14)	**21,306,940**	**257,254**	**20,039**	**6,918**	**21,591,151**
Letters of credit, guarantees and other commitments (Note 38)	**87,830,847**	**6,301,431**	**-**	**223,405**	**94,355,683**
Total gross exposure	**528,022,380**	**23,460,768**	**12,501,851**	**2,656,537**	**566,641,536**

(*) excludes loans and advances to customers at fair value through profit or loss

Gross exposure as at December 31, 2021 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 6)	31,405,754	-	-	-	31,405,754
Deposits and balances due from banks (Note 7)	26,439,250	272,499	-	-	26,711,749
Investment securities at amortised cost (Note 10)	29,962,790	-	-	20,132	29,982,922
Investment securities designated at FVTOCI (Note 10)	64,678,283	1,024,906	30,853	-	65,734,042
Loans and advances to customers (Note 11)	215,923,239	20,215,770	14,923,704	4,049,964	255,112,677
Other assets (Note 14)	18,902,550	334,879	33,198	4,780	19,275,407
Letters of credit, guarantees and other commitments (Note 38)	75,796,968	6,613,976	-	424,885	82,835,829
Total gross exposure	463,108,834	28,462,030	14,987,755	4,499,761	511,058,380

43. Credit risk management (continued)

43.2 Gross exposure (continued)

The table below summarises gross exposure as at year end per class of exposure/asset, internal rating and stage:

As at December 31, 2022	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 - 4	232,236,680	453,389	-	-	232,690,069
Grades 5 - 6	96,796,786	7,882,071	3,911	-	104,682,768
Grade 7	4,849,268	7,730,313	6,469	-	12,586,050
Grades 8 – 10	-	-	11,804,243	2,354,841	14,159,084
Unrated	51,451,827	1,083,025	687,228	78,291	53,300,371
Gross financial instruments carried at amortised cost	385,334,561	17,148,798	12,501,851	2,433,132	417,418,342
Debt instruments designated at FVTOCI					
Grades 1 – 4	46,685,481	-	-	-	46,685,481
Grades 5 – 6	8,171,491	10,539	-	-	8,182,030
Gross debt instruments designated at FVTOCI	54,856,972	10,539	-	-	54,867,511
Commitments and contingent liabilities					
Grades 1 – 4	58,367,307	108,645	-	-	58,475,952
Grades 5 – 6	27,840,896	1,434,882	-	-	29,275,778
Grade 7	1,206,740	4,757,904	-	-	5,964,644
Grades 8 – 10	-	-	-	223,405	223,405
Unrated	415,904	-	-	-	415,904
Total commitments and contingent liabilities	87,830,847	6,301,431	-	223,405	94,355,683

Unrated exposure in financial instruments carried at amortised cost comprising mainly of retail loans and credit card exposures can be further classified as below:

As at December 31, 2022	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Performing (Grades 1 - 6)	51,451,827	493,928	-	-	51,945,755
Watch list (Grade 7)	-	589,097	-	-	589,097
Non-performing (Grades 8 – 10)	-	-	687,228	78,291	765,519
Total	51,451,827	1,083,025	687,228	78,291	53,300,371

43. Credit risk management (continued)

43.2 Gross exposure (continued)

As at December 31, 2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 - 4	182,555,059	702,243	-	-	183,257,302
Grades 5 - 6	90,140,880	10,491,014	4,334	-	100,636,228
Grade 7	2,728,318	8,304,642	9,548	-	11,042,508
Grades 8 – 10	-	-	14,100,548	3,978,118	18,078,666
Unrated	47,209,326	1,325,249	842,472	96,758	49,473,805
Gross financial instruments carried at amortised cost	322,633,583	20,823,148	14,956,902	4,074,876	362,488,509
Debt instruments designated at FVTOCI					
Grades 1 – 4	56,361,510	-	-	-	56,361,510
Grades 5 – 6	8,316,773	1,024,906	-	-	9,341,679
Grade 8 – 10	-	-	30,853	-	30,853
Gross debt instruments designated at FVTOCI	64,678,283	1,024,906	30,853	-	65,734,042
Commitments and contingent liabilities					
Grades 1 – 4	46,486,553	39,381	-	-	46,525,934
Grades 5 – 6	27,187,596	1,940,650	-	-	29,128,246
Grade 7	1,661,456	4,633,945	-	-	6,295,401
Grades 8 – 10	-	-	-	424,885	424,885
Unrated	461,363	-	-	-	461,363
Total commitments and contingent liabilities	75,796,968	6,613,976	-	424,885	82,835,829

Unrated exposure in financial instruments carried at amortised cost comprising mainly of retail loans and credit card exposures can be further classified as below:

As at December 31, 2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Performing (Grades 1 – 6)	47,209,326	756,519	-	-	47,965,845
Watch list (Grade 7)	-	568,730	-	-	568,730
Non-performing (Grades 8 – 10)	-	-	842,472	96,758	939,230
Total	47,209,326	1,325,249	842,472	96,758	49,473,805

43. Credit risk management (continued)

43.2 Gross exposure (continued)

The movement of gross exposure is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2022	322,633,583	20,823,148	14,956,902	4,074,876	362,488,509
- Transfer from stage 1 to stage 2	(3,003,671)	3,003,671	-	-	-
- Transfer from stage 1 to stage 3	(582,939)	-	582,939	-	-
- Transfer from stage 2 to stage 1	4,074,699	(4,074,699)	-	-	-
- Transfer from stage 2 to stage 3	-	(2,885,993)	2,885,993	-	-
- Transfer from stage 3 to stage 2	-	395,221	(395,221)	-	-
Other movements within the same stage	(1,895,702)	(111,972)	(748,462)	(770,955)	(3,527,091)
New financial assets originated/purchased	190,479,592	2,025,001	638,719	-	193,143,312
Financial assets derecognised	(123,070,704)	(1,757,721)	(3,085,129)	(904,237)	(128,817,791)
Adjustments to gross carrying value due to changes in estimated cash flows	-	-	-	346,269	346,269
Net amounts written-off	-	-	(2,220,273)	(312,821)	(2,533,094)
Impact of currency translation	(3,300,297)	(267,858)	(113,617)	-	(3,681,772)
Balance as at December 31, 2022	385,334,561	17,148,798	12,501,851	2,433,132	417,418,342
Debt instruments designated at FVTOCI					
Balance as at January 1, 2022	64,678,283	1,024,906	30,853	-	65,734,042
Other movements within the same stage	(4,870,031)	(12,824)	20,950	-	(4,861,905)
New financial assets purchased	21,709,838	-	-	-	21,709,838
Financial assets derecognised	(24,772,420)	(1,001,543)	-	-	(25,773,963)
Net amounts written-off	-	-	(51,803)	-	(51,803)
Impact of currency translation	(1,888,698)	-	-	-	(1,888,698)
Balance as at December 31, 2022	54,856,972	10,539	-	-	54,867,511
Commitments and contingent liabilities					
Balance as at January 1, 2022	75,796,968	6,613,976	-	424,885	82,835,829
- Transfer from stage 1 to stage 2	(1,524,991)	1,524,991	-	-	-
- Transfer from stage 2 to stage 1	507,151	(507,151)	-	-	-
Other movements within the same stage	(971,099)	(173,709)	-	(25,643)	(1,170,451)
New financial assets originated/purchased	39,383,970	196,157	-	-	39,580,127
Financial assets derecognised	(24,612,610)	(1,346,951)	-	(175,837)	(26,135,398)
Impact of currency translation	(748,542)	(5,882)	-	-	(754,424)
Balance as at December 31, 2022	87,830,847	6,301,431	-	223,405	94,355,683

43. Credit risk management (continued)

43.2 Gross exposure (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2021	289,256,767	22,237,158	15,807,707	4,325,945	331,627,577
Addition on business combinations	1,049,092	-	-	35,979	1,085,071
- Transfer from stage 1 to stage 2	(4,974,888)	4,974,888	-	-	-
- Transfer from stage 1 to stage 3	(2,154,529)	-	2,154,529	-	-
- Transfer from stage 2 to stage 1	4,381,485	(4,381,485)	-	-	-
- Transfer from stage 2 to stage 3	-	(2,110,544)	2,110,544	-	-
- Transfer from stage 3 to stage 2	-	783,928	(783,928)	-	-
Other movements within the same stage	(4,840,451)	(415,594)	(1,084,014)	(236,719)	(6,576,778)
New financial assets originated/purchased	118,824,979	2,275,518	1,038,973	-	122,139,470
Financial assets derecognised	(78,908,872)	(2,540,721)	(490,536)	(170,367)	(82,110,496)
Adjustments to gross carrying value due to changes in estimated cash flows	-	-	-	491,375	491,375
Net amounts written-off	-	-	(3,796,373)	(371,337)	(4,167,710)
Balance as at December 31, 2021	322,633,583	20,823,148	14,956,902	4,074,876	362,488,509
Debt instruments designated at FVTOCI					
Balance as at January 1, 2021	64,128,009	1,326,437	122,562	-	65,577,008
Other movements within the same stage	(1,583,223)	(27,394)	63,293	-	(1,547,324)
New financial assets purchased	19,607,262	-	-	-	19,607,262
Financial assets derecognised	(17,473,765)	(274,137)	-	-	(17,747,902)
Net amounts written-off	-	-	(155,002)	-	(155,002)
Balance as at December 31, 2021	64,678,283	1,024,906	30,853	-	65,734,042
Commitments and contingent liabilities					
Balance as at January 1, 2021	72,106,276	4,992,500	-	590,196	77,688,972
- Transfer from stage 1 to stage 2	(2,870,972)	2,870,972	-	-	-
- Transfer from stage 2 to stage 1	980,358	(980,358)	-	-	-
Other movements within the same stage	(1,508,076)	(81,371)	-	(94,289)	(1,683,736)
New financial assets originated/purchased	29,726,376	1,621,044	-	-	31,347,420
Financial assets derecognised	(22,636,994)	(1,808,811)	-	(71,022)	(24,516,827)
Balance as at December 31, 2021	75,796,968	6,613,976	-	424,885	82,835,829

43. Credit risk management (continued)

43.3 Expected credit losses

Impairment allowance as at December 31, 2022 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 6)	**1,574**	**-**	**-**	**-**	**1,574**
Deposits and balances due from banks (Note 7)	**124,277**	**3,216**	**-**	**-**	**127,493**
Investment securities at amortised cost (Note 10)	**26,868**	**-**	**-**	**-**	**26,868**
Investment securities designated at FVTOCI (Note 10)(*)	**69,581**	**35**	**-**	**-**	**69,616**
Loans and advances to customers (Note 11)	**1,283,509**	**3,444,757**	**6,592,820**	**436,916**	**11,758,002**
Other assets (Note 14)	**6,210**	**139**	**9,272**	**-**	**15,621**
Letters of credit, guarantees and other commitments (Note 21)	**83,055**	**261,985**	**-**	**78,902**	**423,942**
Total allowance for impairment	**1,595,074**	**3,710,132**	**6,602,092**	**515,818**	**12,423,116**

(*) recognised under "Revaluation reserve of investments designated at FVTOCI"

Impairment allowance as at December 31, 2021 is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Balances with central banks (Note 6)	492	-	-	-	492
Deposits and balances due from banks (Note 7)	40,724	882	-	-	41,606
Investment securities at amortised cost (Note 10)	19,709	-	-	-	19,709
Investment securities designated at FVTOCI (Note 10)(*)	77,415	8,198	22,038	-	107,651
Loans and advances to customers (Note 11)	720,459	3,267,946	6,363,607	478,372	10,830,384
Other assets (Note 14)	6,051	4,439	8,899	-	19,389
Letters of credit, guarantees and other commitments (Note 21)	64,953	348,937	-	89,335	503,225
Total allowance for impairment	929,803	3,630,402	6,394,544	567,707	11,522,456

(*) recognised under "Revaluation reserve of investments designated at FVTOCI"

43. Credit risk management (continued)

43.3 Expected credit losses (continued)

The table below summarises impairment allowance as at year end per class of exposure/asset, internal rating and stage:

As at December 31, 2022	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 – 4	**30,965**	**6,745**	**-**	**-**	**37,710**
Grades 5 – 6	**833,664**	**766,695**	**268**	**-**	**1,600,627**
Grade 7	**120,569**	**2,523,028**	**1,695**	**-**	**2,645,292**
Grades 8 – 10	**-**	**-**	**6,091,579**	**427,229**	**6,518,808**
Unrated(*)	**457,240**	**151,644**	**508,550**	**9,687**	**1,127,121**
Allowance for impairment	**1,442,438**	**3,448,112**	**6,602,092**	**436,916**	**11,929,558**
Debt instruments designated at FVTOCI					
Grades 1 – 4	**3,040**	**-**	**-**	**-**	**3,040**
Grades 5 – 6	**66,541**	**35**	**-**	**-**	**66,576**
Allowance for impairment	**69,581**	**35**	**-**	**-**	**69,616**
Commitments and contingent liabilities					
Grades 1 – 4	**9,339**	**440**	**-**	**-**	**9,779**
Grades 5 – 6	**67,396**	**4,028**	**-**	**-**	**71,424**
Grade 7	**6,217**	**257,517**	**-**	**-**	**263,734**
Grades 8 – 10	**-**	**-**	**-**	**78,902**	**78,902**
Unrated	**103**	**-**	**-**	**-**	**103**
Allowance for impairment	**83,055**	**261,985**	**-**	**78,902**	**423,942**

(*) Stage 2 expected credit losses include AED 67,406 thousand towards performing exposure

As at December 31, 2021	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Grades 1 – 4	32,895	17,531	-	-	50,426
Grades 5 – 6	385,047	1,046,468	1,853	-	1,433,368
Grade 7	37,705	2,019,558	2,370	-	2,059,633
Grades 8 – 10	-	-	5,825,935	459,856	6,285,791
Unrated(*)	331,788	189,710	542,348	18,516	1,082,362
Allowance for impairment	787,435	3,273,267	6,372,506	478,372	10,911,580
Debt instruments designated at FVTOCI					
Grades 1 – 4	12,133	-	-	-	12,133
Grades 5 – 6	65,282	8,198	-	-	73,480
Grade 8 -10	-	-	22,038	-	22,038
Allowance for impairment	77,415	8,198	22,038	-	107,651
Commitments and contingent liabilities					
Grades 1 – 4	9,263	939	-	-	10,202
Grades 5 – 6	41,144	3,766	-	-	44,910
Grade 7	14,528	344,232	-	-	358,760
Grades 8 – 10	-	-	-	89,335	89,335
Unrated	18	-	-	-	18
Allowance for impairment	64,953	348,937	-	89,335	503,225

(*) Stage 2 expected credit losses include AED 69,891 thousand towards performing exposure

43. Credit risk management (continued)

43.3 Expected credit losses (continued)

The movement in impairment allowances is as follows:

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2022	787,435	3,273,267	6,372,506	478,372	10,911,580
- Transfer from stage 1 to stage 2	(20,699)	20,699	-	-	-
- Transfer from stage 1 to stage 3	(24,187)	-	24,187	-	-
- Transfer from stage 2 to stage 1	96,138	(96,138)	-	-	-
- Transfer from stage 2 to stage 3	-	(180,979)	180,979	-	-
- Transfer from stage 3 to stage 2	-	68,483	(68,483)	-	-
Other movements within the same stage	416,726	454,912	2,896,761	(39,542)	3,728,857
New financial assets originated/purchased	370,760	83,194	151,017	-	604,971
Financial assets derecognised	(187,648)	(156,676)	(653,467)	(35,326)	(1,033,117)
Changes to methodologies, assumptions and risk parameters(*)	4,464	(4,480)	101	(36)	49
Gross charge/(release) for the year	655,554	189,015	2,531,095	(74,904)	3,300,760
Recoveries	-	-	(453,065)	-	(453,065)
Net charge/(release) for the year	655,554	189,015	2,078,030	(74,904)	2,847,695
Adjustments to gross carrying value	-	-	-	346,269	346,269
Net amounts written-off	-	-	(1,767,208)	(312,821)	(2,080,029)
Impact of currency translation	(551)	(14,170)	(81,236)	-	(95,957)
Balance as at December 31, 2022	1,442,438	3,448,112	6,602,092	436,916	11,929,558
Debt instruments designated at FVTOCI					
Balance as at January 1, 2022	77,415	8,198	22,038	-	107,651
Other movements within the same stage	14,024	1,049	29,765	-	44,838
New financial assets originated/purchased	36,171	-	-	-	36,171
Financial assets derecognised	(25,713)	(8,039)	-	-	(33,752)
Changes to methodologies, assumptions and risk parameters(*)	(18,662)	(1,173)	-	-	(19,835)
Gross charge/(release) for the year	5,820	(8,163)	29,765	-	27,422
Recoveries	-	-	(18,661)	-	(18,661)
Net charge/(release) for the year	5,820	(8,163)	11,104	-	8,761
Net amounts written-off	-	-	(33,142)	-	(33,142)
Impact of currency translation	(13,654)	-	-	-	(13,654)
Balance as at December 31, 2022	69,581	35	-	-	69,616
Commitments and contingent liabilities					
Balance as at January 1, 2022	64,953	348,937	-	89,335	503,225
- Transfer from stage 1 to stage 2	(3,448)	3,448	-	-	-
- Transfer from stage 2 to stage 1	18,947	(18,947)	-	-	-
Other movements within the same stage	8,054	(35,284)	-	1,596	(25,634)
New financial assets originated/purchased	11,974	596	-	-	12,570
Financial assets derecognised	(19,579)	(38,850)	-	(12,081)	(70,510)
Changes to methodologies, assumptions and risk parameters(*)	3,114	2,865	-	52	6,031
Net charge/(release) for the year	19,062	(86,172)	-	(10,433)	(77,543)
Impact of currency translation	(960)	(780)	-	-	(1,740)
Balance as at December 31, 2022	83,055	261,985	-	78,902	423,942

(*) included in 'Recoveries/modifications during the year' (Note 33)

43. Credit risk management (continued)

43.3 Expected credit losses (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	POCI AED'000	Total AED'000
Financial instruments carried at amortised cost					
Balance as at January 1, 2021	877,809	3,346,092	6,761,581	569,053	11,554,535
- Transfer from stage 1 to stage 2	(26,575)	26,575	-	-	-
- Transfer from stage 1 to stage 3	(173,073)	-	173,073	-	-
- Transfer from stage 2 to stage 1	103,717	(103,717)	-	-	-
- Transfer from stage 2 to stage 3	-	(811,731)	811,731	-	-
- Transfer from stage 3 to stage 2	-	69,477	(69,477)	-	-
Other movements within the same stage	55,993	401,783	1,896,757	(194,188)	2,160,345
New financial assets originated/purchased	263,175	577,195	780,032	-	1,620,402
Financial assets derecognised	(160,865)	(111,785)	(184,673)	(17,068)	(474,391)
Changes to methodologies, assumptions and risk parameters(*)	(152,746)	(120,622)	(145)	538	(272,975)
Gross (release)/charge for the year	(90,374)	(72,825)	3,407,298	(210,718)	3,033,381
Recoveries	-	-	(378,357)	-	(378,357)
Net (release)/charge for the year	(90,374)	(72,825)	3,028,941	(210,718)	2,655,024
Adjustments to gross carrying value	-	-	-	491,374	491,374
Net amounts written-off	-	-	(3,418,016)	(371,337)	(3,789,353)
Balance as at December 31, 2021	787,435	3,273,267	6,372,506	478,372	10,911,580
Debt instruments designated at FVTOCI					
Balance as at January 1, 2021	49,393	23,116	157,311	-	229,820
Other movements within the same stage	23,361	(5,475)	19,749	-	37,635
New financial assets originated/purchased	22,953	-	-	-	22,953
Financial assets derecognised	(3,644)	(455)	-	-	(4,099)
Changes to methodologies, assumptions and risk parameters(*)	(14,648)	(8,988)	-	-	(23,636)
Net charge/(release) for the year	28,022	(14,918)	19,749	-	32,853
Net amounts written-off	-	-	(155,022)	-	(155,022)
Balance as at December 31, 2021	77,415	8,198	22,038	-	107,651
Commitments and contingent liabilities					
Balance as at January 1, 2021	149,122	264,189	-	131,603	544,914
- Transfer from stage 1 to stage 2	(22,147)	22,147	-	-	-
- Transfer from stage 2 to stage 1	8,162	(8,162)	-	-	-
Other movements within the same stage	7,626	326,950	-	(21,294)	313,282
New financial assets originated/purchased	10,708	31,691	-	-	42,399
Financial assets derecognised	(80,400)	(283,600)	-	(20,574)	(384,574)
Changes to methodologies, assumptions and risk parameters(*)	(8,118)	(4,278)	-	(400)	(12,796)
Net (release)/charge for the year	(84,169)	84,748	-	(42,268)	(41,689)
Balance as at December 31, 2021	64,953	348,937	-	89,335	503,225

(*) included in 'Recoveries/modifications during the year' (Note 33)

43. Credit risk management (continued)

43.4 Concentration of credit risk

Concentration of credit risk arises when a number of counterparties or exposures have comparable economic characteristics or such counterparties are engaged in similar activities or operate in the same geographical areas or economic sectors that would impact their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. The analysis of credit risk concentrations presented below are based on the location of the counterparty or customer or country of risk in which they are engaged.

(a) Credit risk concentration by geographical sector

	Domestic (UAE) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	USA AED'000	Rest of the world AED'000	Total AED'000
As at December 31, 2022								
Assets								
Balances with central banks, net	**34,033,625**	**-**	**2,927,675**	**64,541**	**-**	**-**	**-**	**37,025,841**
Deposits and balances due from banks, net	**1,986,531**	**10,786,548**	**2,338,574**	**7,701,913**	**8,621,758**	**1,178,627**	**2,725,251**	**35,339,202**
Financial assets at fair value through profit or loss	**733,566**	**720,019**	**2,220,421**	**968,257**	**-**	**-**	**-**	**4,642,263**
Derivative financial instruments	**1,586,106**	**32,930**	**-**	**2,284**	**13,157,418**	**-**	**403,800**	**15,182,538**
Investment securities – bonds, net	**40,498,640**	**25,937,050**	**6,289,976**	**19,338,213**	**6,105,281**	**8,371,646**	**4,486,119**	**111,026,925**
Loans and advances to customers, net	**212,367,088**	**8,223,498**	**16,180,631**	**10,112,014**	**7,467,348**	**290,775**	**3,851,516**	**258,492,870**
Other assets, net	**8,767,544**	**592,844**	**688,223**	**4,562,703**	**5,646,574**	**52,179**	**1,265,463**	**21,575,530**
Total	**299,973,100**	**46,292,889**	**30,645,500**	**42,749,925**	**40,998,379**	**9,893,227**	**12,732,149**	**483,285,169**
Commitment and contingent liabilities	**69,374,053**	**5,684,368**	**2,538,087**	**8,469,943**	**6,203,204**	**680,484**	**1,405,544**	**94,355,683**
As at December 31, 2021								
Assets								
Balances with central banks, net	29,358,121	-	1,957,293	89,848	-	-	-	31,405,262
Deposits and balances due from banks, net	4,459,996	6,850,401	1,604,312	6,816,127	4,280,654	94,778	2,563,875	26,670,143
Financial assets at fair value through profit or loss	542,455	-	1,122,062	-	-	-	-	1,664,517
Derivative financial instruments	2,091,524	71,899	-	2,880	4,145,517	-	176,201	6,488,021
Investment securities – bonds, net	41,213,448	25,934,120	6,213,329	12,210,010	3,593,524	3,305,991	3,226,833	95,697,255
Loans and advances to customers, net	219,746,321	6,041,441	8,941,096	4,610,457	3,098,788	6,045	1,838,145	244,282,293
Other assets, net	9,917,219	699,855	621,418	5,205,912	2,517,755	7,902	285,957	19,256,018
Total	307,329,084	39,597,716	20,459,510	28,935,234	17,636,238	3,414,716	8,091,011	425,463,509
Commitment and contingent liabilities	61,845,362	3,862,168	2,420,615	7,591,886	5,389,660	507,456	1,218,682	82,835,829

43. Credit risk management (continued)

43.4 Concentration of credit risk (continued)

(b) Credit risk concentration by economic/industry sector

The economic activity sector composition of the loans and advances to customers is as follows:

	As at December 31, 2022			As at December 31, 2021		
	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000	Within the UAE AED'000	Outside the UAE AED'000	Total AED'000
Economic activity sector						
Agriculture	**161,730**	**170,156**	**331,886**	40,638	134,697	175,335
Energy	**1,226,669**	**13,605,745**	**14,832,414**	1,558,735	4,774,130	6,332,865
Trading	**7,222,359**	**6,141,184**	**13,363,543**	7,332,355	4,403,215	11,735,570
Real estate investment	**58,107,673**	**2,042,155**	**60,149,828**	59,600,419	862,715	60,463,134
Hospitality	**9,096,528**	**497,788**	**9,594,316**	10,467,533	499,428	10,966,961
Transport and communication	**1,541,809**	**1,428,122**	**2,969,931**	1,928,265	1,221,525	3,149,790
Personal	**54,369,336**	**1,354,235**	**55,723,571**	51,638,942	1,942,860	53,581,802
Government and public sector entities	**55,465,449**	**6,018,575**	**61,484,024**	65,063,724	2,059,992	67,123,716
Financial institutions (*)	**13,706,939**	**7,457,918**	**21,164,857**	13,221,475	4,970,315	18,191,790
Manufacturing	**4,551,598**	**5,052,793**	**9,604,391**	3,923,447	3,190,148	7,113,595
Services (**)	**5,538,091**	**261,836**	**5,799,927**	5,829,119	448,755	6,277,874
Others	**12,869,966**	**2,362,218**	**15,232,184**	9,644,053	356,192	10,000,245
Gross loans and advances to customers	**223,858,147**	**46,392,725**	**270,250,872**	230,248,705	24,863,972	255,112,677
Less: Allowance for impairment			**(11,758,002)**			(10,830,384)
Total loans and advances to customers, net			**258,492,870**			244,282,293

(*) includes investment companies
(**) December 31, 2022 numbers include loans and advances to customers at fair value through profit or loss

The industry sector composition of other exposures is as follows:

	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
As at December 31, 2022						
Balances with central banks, net	-	-	-	**37,025,841**	-	**37,025,841**
Deposits and balances due from banks, net	-	-	-	-	**35,339,202**	**35,339,202**
Financial assets at fair value through profit or loss	**9,060**	-	**504,402**	**958,468**	**3,170,333**	**4,642,263**
Derivative financial instruments	**438,100**	**140,062**	**179,743**	**196,377**	**14,228,256**	**15,182,538**
Investment securities – bonds, net	**4,713,194**	-	**20,529,008**	**75,050,703**	**10,734,020**	**111,026,925**
Other assets, net	**15,571,143**	**469,076**	**452,887**	**553,390**	**4,529,034**	**21,575,530**
Total	**20,731,497**	**609,138**	**21,666,040**	**113,784,779**	**68,000,845**	**224,792,299**
Contingent liabilities	**48,467,578**	**2,077,410**	**24,991,362**	**2,361,651**	**16,457,682**	**94,355,683**
As at December 31, 2021						
Balances with central banks, net	-	-	-	31,405,262	-	31,405,262
Deposits and balances due from banks, net	-	-	-	-	26,670,143	26,670,143
Financial assets at fair value through profit or loss	-	-	542,455	-	1,122,062	1,664,517
Derivative financial instruments	608,324	195,210	788,494	567,251	4,328,742	6,488,021
Investment securities – bonds, net	4,381,631	-	21,961,147	60,806,945	8,547,532	95,697,255
Other assets, net	14,770,389	371,553	283,664	517,290	3,313,122	19,256,018
Total	19,760,344	566,763	23,575,760	93,296,748	43,981,601	181,181,216
Contingent liabilities	46,438,822	1,249,219	17,588,676	1,415,889	16,143,223	82,835,829

43. Credit risk management (continued)

43.5 Credit risk measurement and mitigation policies

Loans and advances to customers is the main source of credit risk although the Group can also be exposed to other forms of credit risk through, for example, loans to banks, loan commitments and debt securities. The Group's risk management policies and processes are designed to identify and analyse risk, to set appropriate risk appetite and to monitor the risks and adherence to limits by means of reliable and timely data. The Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.

Collateral

The Group holds collateral against various credit risk exposures in the form of mortgage interests over property, other registered securities over assets, fixed deposits and guarantees. Estimates of fair value of the collateral (including shares) are updated on a regular basis. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The principal collateral types for loans and advances are:

- Cash and marketable securities;
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities; and
- Guarantees.

The estimated fair value of collateral and other security enhancements held against various credit risk exposures for the year ended December 31, 2022 was AED 227,175,417 thousand (December 31, 2021 – AED 242,520,106 thousand).

Collateral held as security against impaired loans primarily relates to commercial and residential properties and securities. Where the estimated fair value of collateral held exceeds the outstanding loan, any excess on realisation is paid back to the customers and is not available for offset against other loans.

Write-off

Financial assets are written off when a debtor fails to engage in a repayment plan with the Group. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments more than 180 days past due for retail and SME loans. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

43. Credit risk management (continued)

43.5 Credit risk measurement and mitigation policies (continued)

Derivatives

The Group maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group (i.e. positive fair value of assets), which in relation to derivatives is a small fraction of the contract or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers together with potential exposures from market movements.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Group's market transactions on any single day.

The following table represents internal credit ratings of derivative financial instruments:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Internal risk grades		
Grades 1 to 4	**14,482,661**	4,439,869
Grades 5 to 6	**688,092**	1,993,581
Unrated	**11,785**	54,571
	15,182,538	6,488,021

Master netting arrangements

The Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis, hence the impact of netting in practice is immaterial.

However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a year, as it is affected by each transaction subject to the arrangement.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Group. The Group enters into derivative contracts with financial institutions and corporates which are of satisfactory credit standing as per the Group's independent credit assessment. Credit risk in derivatives is mitigated through limit control and master netting arrangements.

43. Credit risk management (continued)

43.5 Credit risk measurement and mitigation policies (continued)

Off-balance sheet

The Group applies the same risk management policies for off-balance sheet risks as it does for its on-balance sheet risks with the exception that the worse staging for off-balance sheet exposures is stage 2. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

44. Interest rate risk framework, measurement and monitoring

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 through monitoring of interest rate gaps, economic value of equity and earnings at risk and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Group's Treasury division, which uses derivative instruments such as interest rate swaps and cross currency interest rate swaps to manage the overall interest rate risk arising from the Group's interest bearing financial instruments.

Financial assets and liabilities exposed to interest rate risk are assets and liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Group's loans and advances, deposits and balances due from banks, investment securities, deposits from customers, due to banks, and borrowings fall under this category. Interest rate sensitivity position of floating rate financial instruments is based on either repricing date or maturity date while that of fixed rate financial instruments is based on maturity date.

Derivative financial instruments (other than those designated in a hedge relationship) and trading book assets and liabilities (excluding non-interest bearing) are included in the 'less than 3 months' column at their fair value. Derivative financial instruments designated in a hedge relationship are included according to their contractual next re-pricing date or maturity date if floating rate and maturity date if fixed rate instrument.

Financial assets that are not subject to any interest rate risk mainly comprise of investments in equity and mutual funds, commodity and currency derivatives and cash and balances with central banks excluding overnight and certificate of deposits.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate and cross currency interest rate swaps which are used to manage interest rate risk.

The Group uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

44. Interest rate risk framework, measurement and monitoring (continued)

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2022 is as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	22,564,227	-	-	-	-	16,865,081	39,429,308
Deposits and balances due from banks, net	21,361,593	9,181,549	2,859,285	549,376	-	1,387,399	35,339,202
Financial assets at fair value through profit or loss	4,642,263	-	-	-	-	-	4,642,263
Derivative financial instruments	10,773,197	1,652,640	298,340	130,686	845,518	1,482,157	15,182,538
Investment securities, net	12,623,079	7,905,510	9,689,935	25,458,078	55,350,323	983,758	112,010,683
Loans and advances to customers, net	202,342,954	17,257,147	5,973,816	7,626,571	37,587,591	(12,295,209)	258,492,870
Investment in associates	-	-	-	-	-	252,525	252,525
Investment properties	-	-	-	-	-	1,691,890	1,691,890
Other assets, net	393,757	-	-	-	-	21,317,432	21,711,189
Property and equipment, net	-	-	-	-	-	1,937,503	1,937,503
Intangible assets, net	-	-	-	-	-	7,152,194	7,152,194
Total assets	274,701,070	35,996,846	18,821,376	33,764,711	93,783,432	40,774,730	497,842,165
Liabilities and equity							
Due to banks	8,146,521	-	679,385	-	-	893,287	9,719,193
Derivative financial instruments	12,890,838	711,377	740,784	61,716	627,593	1,193,077	16,225,385
Deposits from customers	135,162,030	19,618,164	62,117,295	3,151,934	7,636,733	81,244,543	308,930,699
Euro commercial paper	3,669,336	2,324,943	-	-	-	-	5,994,279
Borrowings	40,160,509	1,946,775	1,950,077	2,226,125	23,592,247	-	69,875,733
Other liabilities	-	-	-	-	-	25,670,739	25,670,739
Equity	-	-	-	-	-	61,426,137	61,426,137
Total liabilities and equity	200,029,234	24,601,259	65,487,541	5,439,775	31,856,573	170,427,783	497,842,165
On-balance sheet gap	74,671,836	11,395,587	(46,666,165)	28,324,936	61,926,859	(129,653,053)	-
Off-balance sheet gap	(13,512,139)	(1,252,091)	24,183,878	(6,311,346)	(3,108,302)	-	-
Total interest rate sensitivity gap	61,159,697	10,143,496	(22,482,287)	22,013,590	58,818,557	(129,653,053)	-
Cumulative interest rate sensitivity gap	61,159,697	71,303,193	48,820,906	70,834,496	129,653,053	-	-

Non-interest bearing items include mainly impairment allowances under loans and advances to customers.

44. Interest rate risk framework, measurement and monitoring (continued)

The Group's interest rate sensitivity position based on contractual repricing arrangements as at December 31, 2021 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets							
Cash and balances with central banks, net	17,798,869	-	-	-	-	15,947,333	33,746,202
Deposits and balances due from banks, net	20,145,519	3,678,846	2,453,701	-	-	392,077	26,670,143
Financial assets at fair value through profit or loss	1,664,517	-	-	-	-	42,250	1,706,767
Derivative financial instruments	5,880,159	28,963	21,824	10,407	19,694	526,974	6,488,021
Investment securities, net	7,561,691	4,990,338	5,811,945	18,084,478	59,248,803	816,037	96,513,292
Loans and advances to customers, net	195,772,537	19,228,175	5,958,149	7,012,694	27,546,856	(11,236,118)	244,282,293
Investment in associates	-	-	-	-	-	262,609	262,609
Investment properties	-	-	-	-	-	1,674,954	1,674,954
Other assets, net	-	-	-	-	-	19,354,460	19,354,460
Property and equipment, net	-	-	-	-	-	2,064,270	2,064,270
Intangible assets, net	-	-	-	-	-	7,294,685	7,294,685
Assets held for sale	-	-	-	-	-	220,673	220,673
Total assets	248,823,292	27,926,322	14,245,619	25,107,579	86,815,353	37,360,204	440,278,369
Liabilities and equity							
Due to banks	1,897,590	983,446	2,795,152	-	-	1,529,145	7,205,333
Derivative financial instruments	5,719,481	18,552	106	107,693	66,912	650,635	6,563,379
Deposits from customers	137,968,985	22,221,567	20,772,867	3,447,961	1,063,663	79,577,282	265,052,325
Euro commercial paper	2,910,000	1,810,901	1,478,256	-	-	-	6,199,157
Borrowings	28,850,826	5,886,327	540,231	12,560,493	24,661,460	-	72,499,337
Other liabilities	-	-	-	-	-	23,384,164	23,384,164
Liabilities related to assets held for sale	-	-	-	-	-	4,648	4,648
Equity	-	-	-	-	-	59,370,026	59,370,026
Total liabilities and equity	177,346,882	30,920,793	25,586,612	16,116,147	25,792,035	164,515,900	440,278,369
On-balance sheet gap	71,476,410	(2,994,471)	(11,340,993)	8,991,432	61,023,318	(127,155,696)	-
Off-balance sheet gap	2,390,367	(66,065)	(1,285,077)	3,218,531	(4,257,756)	-	-
Total interest rate sensitivity gap	73,866,777	(3,060,536)	(12,626,070)	12,209,963	56,765,562	(127,155,696)	-
Cumulative interest rate sensitivity gap	73,866,777	70,806,241	58,180,171	70,390,134	127,155,696	-	-

Non-interest bearing items include mainly impairment allowances under loans and advances to customers.

45. Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replenish funds when they are withdrawn. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk management process

The Group's Board of Directors (BOD) approved liquidity risk appetite framework establishes the minimum liquidity required in order to survive a stress environment for a stipulated time horizon. The BOD has delegated to Management Executive Committee (MEC) the responsibility of liquidity management which is overseen on their behalf by the Asset Liability Committee (ALCO) on a day to day basis. ALCO sets and monitors liquidity ratios and regularly revises and calibrates the liquidity management policies to ensure that the Group is in a position to meet its obligations as they fall due. ALCO also ensures that the Bank remains compliant with all regulatory and internal policy guidelines pertaining to liquidity risk.

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

- Monitoring of liquidity position on a daily, weekly and monthly basis. This entails forecasting of cash inflows/outflows and ensuring that the Group can meet the required outflows;
- Conducting regular liquidity stress testing of the Group's liquidity position under a variety of scenarios covering both normal and more severe market conditions with triggers and suggested actions;
- Ensuring compliance with the liquidity ratios such as Net Stable Funding Ratio (NSFR) and Liquidity Coverage Ratio (LCR) as stipulated by CBUAE and internally approved management triggers for liquidity risk;
- Conducting regular enterprise wide liquidity stress test which estimates liquidity requirements under idiosyncratic and systemic stress conditions. The enterprise wide stress test incorporates diverse liquidity triggers like currency de-peg, failure of a major local bank, credit rating downgrades in addition to regular stress cash flow analysis; and
- Monitoring of depositor concentration to ensure that the Group's deposit funding is well diversified.

Monitoring composition of funding sources at a granular level includes setting triggers for avoiding concentration of funding by product. Some of the ratios monitored are as follows:

- Euro commercial paper to total liabilities and equity
- Wholesale funds to total liabilities and equity
- Money market deposits to total liabilities and equity
- Core deposits to customer deposits
- Offshore funds to total liabilities and equity

The Group has established several early warning indicators for liquidity risk in line with the CBUAE requirements and monitors them regularly. Some of the key early warning indicators are as follows:

- Credit rating downgrade
- Decline in stock price
- Widening credit-default-swap levels
- Rising retail/wholesale funding costs
- Increased collateral calls

The Group has also established a breach management and escalation process with clear definition of roles and responsibilities.

45. Liquidity risk framework, measurement and monitoring (continued)

Liquidity risk management process (continued)

Tools for liquidity management

The Group through its Treasury division ensures that it has access to diverse sources of funding ranging from local customer deposits from its retail, corporate and institutional customers as well as international sovereign wealth funds and central banks to long term funding such as debt securities and subordinated liabilities issued under the global medium term note program.

Whilst the Group's debt securities and sub-debt typically are issued with maturities of greater than one year, deposits from banks and customers generally have shorter maturities which increases the liquidity risk of the Group. The Group's Treasury division manages this risk by:

- Diversification of funding sources and balancing between long term and short term funding sources through borrowing under its global medium term notes issue programs;
- Monitoring the stickiness of liability portfolio and rewarding business units for sticky deposits through the fund transfer pricing process; and
- Investing in various short-term or medium term but highly marketable assets in line with Basel-III guidelines for High Quality Liquid Assets (HQLA) such as certificate of deposit with Central Bank, investment grade bonds that can be repurchased at short notices, etc.

Further, the Bank also has the following facilities from CBUAE to manage its liquidity risk during critical times:

- Drawdown against its cash reserves at base rate plus a spread of 400 basis points; and
- Repo facility against certificate of deposits and HQLA under CBUAE's Marginal Lending Facility (MLF) at base rate plus a spread of 50 basis points;

Base rate is currently set at US Federal Reserve's interest payable on excess reserves.

The Bank has in place a contingent funding plan which lists out the trigger points to be monitored for invoking the contingent funding plan. The trigger points are based on market observable data points such as credit spreads and internal and external events such as decline in customer deposits and drying up of wholesale markets. The contingent funding plan clearly defines the roles and responsibilities and is updated with changing market conditions by ALCO.

The table below summarises the maturity profile of the Group's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Derivative financial instruments (other than those designated in a hedge relationship) and trading portfolio assets and liabilities are included in 'less than 3 months' at their fair value. Liquidity risk on these items is not managed on the basis of remaining maturity since they are not held for settlement according to such maturity and will frequently be settled before remaining maturity at fair value. Derivatives designated in a hedge relationship are included according to their remaining maturity at fair value. Investment securities in equities and mutual funds with no maturity are included in 'over 3 years'.

45. Liquidity risk framework, measurement and monitoring (continued)

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

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	39,429,308	-	-	-	-	39,429,308
Deposits and balances due from banks, net	15,649,416	9,431,049	5,682,718	4,576,019	-	35,339,202
Financial assets at fair value through profit or loss	4,642,263	-	-	-	-	4,642,263
Derivative financial instruments	10,586,110	198,581	133,317	503,604	3,760,926	15,182,538
Investment securities, net	12,348,190	7,905,510	9,964,823	25,458,078	56,334,082	112,010,683
Loans and advances to customers, net	58,298,269	10,056,078	21,867,079	37,872,496	130,398,948	258,492,870
Investment in associates	-	-	-	-	252,525	252,525
Investment properties	-	-	-	1,691,890	-	1,691,890
Other assets, net	7,044,331	3,674,160	10,964,550	15,143	13,005	21,711,189
Property and equipment, net	-	-	-	-	1,937,503	1,937,503
Intangible assets, net	-	-	-	65,500	7,086,694	7,152,194
Total assets	147,997,887	31,265,378	48,612,487	70,182,730	199,783,683	497,842,165
Liabilities and equity						
Due to banks	9,039,808	679,385	-	-	-	9,719,193
Derivative financial instruments	9,932,358	19,468	351,119	83,993	5,838,447	16,225,385
Deposits from customers	212,882,228	20,197,190	62,822,152	5,072,690	7,956,439	308,930,699
Euro commercial paper	3,669,336	2,324,943	-	-	-	5,994,279
Borrowings	18,561,051	4,774,691	5,777,683	16,078,280	24,684,028	69,875,733
Other liabilities	10,852,995	3,069,201	10,668,731	254,112	825,700	25,670,739
Equity	-	-	-	-	61,426,137	61,426,137
Total liabilities and equity	264,937,776	31,064,878	79,619,685	21,489,075	100,730,751	497,842,165
Balance sheet liquidity gap	(116,939,889)	200,500	(31,007,198)	48,693,655	99,052,932	-
Off balance sheet						
Financial guarantees and irrevocable commitments	4,670,761	2,166,385	12,071,567	8,723,372	7,340,384	34,972,469
Derivatives held for hedging purpose (notional)	18,922,808	5,647,651	37,413,848	14,385,058	65,723,460	142,092,825

45. Liquidity risk framework, measurement and monitoring (continued)

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

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with central banks, net	33,746,202	-	-	-	-	33,746,202
Deposits and balances due from banks, net	9,949,051	8,259,899	7,301,648	1,159,545	-	26,670,143
Financial assets at fair value through profit or loss	1,706,767	-	-	-	-	1,706,767
Derivative financial instruments	5,331,002	35,689	33,095	351,891	736,344	6,488,021
Investment securities, net	7,123,315	5,011,174	5,939,289	18,374,675	60,064,839	96,513,292
Loans and advances to customers, net	52,544,302	7,609,694	18,232,045	32,794,988	133,101,264	244,282,293
Investment in associates	-	-	-	-	262,609	262,609
Investment properties	-	-	-	1,674,954	-	1,674,954
Other assets, net	4,930,101	5,812,373	8,586,079	8,257	17,650	19,354,460
Property and equipment, net	-	-	-	-	2,064,270	2,064,270
Intangible assets, net	-	-	-	121,778	7,172,907	7,294,685
Assets held for sale	220,673	-	-	-	-	220,673
Total assets	115,551,413	26,728,829	40,092,156	54,486,088	203,419,883	440,278,369
Liabilities and equity						
Due to banks	3,426,736	983,446	2,795,151	-	-	7,205,333
Derivative financial instruments	4,859,072	114,652	180,442	299,738	1,109,475	6,563,379
Deposits from customers	216,097,113	22,637,971	21,362,755	3,577,709	1,376,777	265,052,325
Euro commercial paper	2,910,000	1,810,901	1,478,256	-	-	6,199,157
Borrowings	9,919,858	4,214,037	6,845,135	24,747,998	26,772,309	72,499,337
Other liabilities	8,261,360	5,400,613	8,489,061	316,549	916,581	23,384,164
Liabilities related to assets held for sale	4,648	-	-	-	-	4,648
Equity	-	-	-	-	59,370,026	59,370,026
Total liabilities and equity	245,478,787	35,161,620	41,150,800	28,941,994	89,545,168	440,278,369
Balance sheet liquidity gap	(129,927,374)	(8,432,791)	(1,058,644)	25,544,094	113,874,715	-
Off balance sheet						
Financial guarantees and irrevocable commitments	2,158,007	1,795,724	6,701,776	8,092,731	5,899,153	24,647,391
Derivatives held for hedging purpose (notional)	6,721,918	6,438,169	7,741,326	20,524,838	55,888,632	97,314,883

45. Liquidity risk framework, measurement and monitoring (continued)

The table below summarises the maturity profile of the Group's financial liabilities as at December 31, 2022 and 2021 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities other than derivatives have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities**.** Derivative financial instruments held for trading are included in "less than 3 months" bucket at their fair value while the cash flows for derivative financial instruments held for hedging are classified based on their contractual cash flows or next call date. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

	Carrying amount AED'000	Gross outflow AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
As at December 31, 2022							
Due to banks	**9,719,193**	**9,753,120**	**9,043,405**	**709,715**	**-**	**-**	**-**
Derivative financial instruments	**16,225,385**	**10,585,146**	**9,986,374**	**645,622**	**(276,127)**	**359,657**	**(130,380)**
Deposits from customers	**308,930,699**	**315,651,975**	**187,061,547**	**16,602,876**	**52,639,180**	**48,977,119**	**10,371,253**
Euro commercial paper	**5,994,279**	**6,041,004**	**3,686,841**	**2,354,163**	**-**	**-**	**-**
Borrowings	**69,875,733**	**140,013,770**	**19,718,765**	**5,830,654**	**5,938,335**	**17,000,265**	**91,525,751**
Total financial liabilities	**410,745,289**	**482,045,015**	**229,496,932**	**26,143,030**	**58,301,388**	**66,337,041**	**101,766,624**
As at December 31, 2021							
Due to banks	7,205,333	7,224,844	3,427,480	988,277	2,809,087	-	-
Derivative financial instruments	6,563,379	6,157,077	4,967,257	305,974	310,090	373,404	200,352
Deposits from customers	265,052,325	265,461,685	216,349,169	22,678,515	21,449,434	3,604,103	1,380,464
Euro commercial paper	6,199,157	6,198,451	2,910,542	1,809,251	1,478,658	-	-
Borrowings	72,499,337	133,698,573	10,407,893	6,798,760	4,651,242	25,639,493	86,201,185
Total financial liabilities	357,519,531	418,740,630	238,062,341	32,580,777	30,698,511	29,617,000	87,782,001

46. Market risk framework, measurement and management

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

- Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.
- Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.
- Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

The Group separates its exposure to market risk between trading and banking book as defined below:

Market risk arising from trading book

Trading positions are held by the Treasury division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis. Realised and unrealised gains and losses on these positions are reported in consolidated income statement.

Market risk arising from banking book

Market risk from banking book arises from execution of the Group's core business strategies, products and services to its customers, that invariably create interest rate risk and open currency positions that the Group endeavours to manage through strategic positions to mitigate the inherent risk caused by these positions.

Banking book includes all positions that are not held for trading such as but not limited to the Group's investments in instruments designated at FVTOCI and amortised cost, loans and advances carried at amortised cost, derivatives used for hedging and other financial assets held for long term.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk identification and classification

The MCC approves market risk policies for the Group. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

46. Market risk framework, measurement and management (continued)

Management of market risk

The Board of Directors have set risk limits based on the Value-at Risk (VaR), Stressed Value at Risk (SVaR), Greeks, sensitivity/stress analysis and foreign exchange open position limits which are closely monitored by the risk management division and reported regularly to the senior management and discussed by ALCO.

Market risk is identified, measured, managed and controlled by an independent risk control function. Treasury, Market & Liquidity Risk aims to reduce volatility in operating performance and make the Group's market risk profile transparent to senior management, the Board of Directors and Regulators.

Treasury, Market & Liquidity Risk is overseen by MRCC and performs the following primary functions:

- establishment of a comprehensive mark-to-market valuation policy framework;
- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk;
- setting and monitoring of limits; and
- hedge effectiveness methodology.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk. The Group uses various matrices, both statistical and non-statistical, including sensitivity analysis.

Statistical risk measures

The Group measures the risk of loss arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. The VaR that the Group measures is an estimate, using a confidence level of 99% of the potential loss that is not expected to be exceeded if the current market positions were to be held unchanged for one day. This confidence level suggests that potential daily losses in excess of the VaR measure are likely to be experienced, once every hundred days. The Board has set limits for the acceptable level of risks in managing the trading and banking book.

The Group uses simulation models to assess the possible changes in the market value of the trading and banking book based on historical data. VaR models are usually designed to measure the market risk in a normal market environment and therefore the use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that the future movements will follow a statistical distribution.

The VaR represents the risk of portfolios at the close of a business day and intra-day risk levels may vary from those reported at the end of the day. The actual trading results, however, may differ from the VaR calculations and, in particular, the calculation does not provide a meaningful indication of profits and losses in stressed market conditions.

To overcome the VaR limitations mentioned above, the Group runs both SVaR and Expected Shortfall daily to monitor the tail risk outside the confidence limit. Stressed VaR is the VaR run through a stressed year rather than the previous year as used in VaR.

The Group's VaR for the year ended December 31, 2022 is as below:

Daily value at risk (VaR at 99% - 1 day)	**2022** **AED'000**	2021 AED'000
Overall risk	**(32,460)**	(25,934)
Average VaR	**(44,386)**	(41,672)

46. Market risk framework, measurement and management (continued)

Non-statistical risk measures

Non-statistical risk measures, other than stress/sensitivity testing, include independent market valuations to ensure that the Group's valuations are correct and Risk Greeks to ensure that trading is within the risk appetite thresholds. These measures provide granular information of the Group's market risk exposures.

Independent market valuations/Greeks are validated by the market risk function in order to ensure that the market valuations/Greeks are measured correctly. The Group uses first order Risk Greeks to monitor and control market risk on a day to day basis. The interest rate delta and vega and the foreign exchange delta and vega are computed daily and monitored against a limit. The Board has set limits for the delta and the vega within acceptable level of risks in managing the trading book.

Sensitivity analysis

To overcome the VaR limitations mentioned under statistical measure above, the Group also carries out daily stress tests/sensitivity analysis of its portfolio to simulate conditions outside normal confidence intervals in order to analyse potential risk that may arise from extreme market events that are rare but plausible. The results of the stress tests are reported regularly to the Group's ALCO committee for their review.

Interest rate risk - trading book

The following table depicts the sensitivity of fair valuations in the trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Group's consolidated income statement:

Relative instantaneous rate move shift for all tenors:

	2022		2021	
	+25bps AED'000	**-25bps AED'000**	+25bps AED'000	-25bps AED'000
AED	**11,512**	**(9,719)**	3,988	(3,006)
USD	**(4,754)**	**4,358**	1,117	(323)

Interest rate risk – non-trading book

The following table depicts the sensitivity of fair valuations in the non-trading book to hypothetical and instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Group's consolidated income statement:

	2022		2021	
	+25 bps AED'000	**-25 bps AED'000**	+25 bps AED'000	-25 bps AED'000
Sensitivity of net interest income	**127,530**	**(124,805)**	116,431	(100,819)

The sensitivity on the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments.

46. Market risk framework, measurement and management (continued)

Currency risk

Foreign exchange 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. The Board of Directors has set limits on delta notional positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits. As at December 31, 2022, the Group's net delta notional positions in major currencies are as below:

	Net currency position long/(short)	
	2022	2021
Currency	**AED'000**	AED'000
USD	**75,658,206**	28,404,391
EUR	**624**	93,952
GBP	**2,797**	(20,601)
JPY	**15,126**	(25,063)
INR	**92,912**	101,123
SAR	**746,451**	178,203
EGP	**166,707**	1,366,017
AUD	**2,176**	344

The following table depicts the sensitivity of fair valuations in the trading and banking book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant (including the USD-AED currency pair which is pegged) – which would have an impact on the Group's consolidated income statement:

	2022		2021	
	+5%	**-5%**	+5%	-5%
Price shock in percentage	**AED'000**	**AED'000**	AED'000	AED'000
USD-AUD	**69**	**(13)**	(33)	33
EUR-USD	**31**	**(31)**	(7,415)	10,937
GBP -USD	**(35)**	**64**	1,480	1,634
USD-JPY	**(328)**	**635**	1,637	4,880
USD-INR	**4,765**	**(4,311)**	5,422	(1,808)
USD-EGP	**14,466**	**(12,642)**	75,685	(68,476)
USD-SAR	**56,591**	**(67,106)**	6,464	(32,027)

47. Operational risk management

Overview

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. While including legal risk, but excluding strategic and reputational risk, damage to the Bank's reputation, legal or regulatory implications, financial losses and other factors are being considered when assessing impact of operational risk events.

Operational risk is inherent in all dimensions of the Bank, including all banking products, activities, processes and systems, therefore the effective management of operational risk is a fundamental element of the Bank's risk management program.

The Board assumes an overall responsibility for operational risk management. This includes defining risk appetite for operational risk, approval of the Operational Risk Management Framework, oversight of senior management to ensure that strategies, policies and processes are reviewed and implemented effectively at all levels.

47. Operational risk management (continued)

Overview (continued)

The objective of the Group is to manage and control operational risk in a proactive and cost-effective manner within targeted levels of operational risk consistent with a defined risk appetite. Group primarily aims at early identification and assessment of operational risks allowing timely mitigation, as well as meaningful management reporting and continuous improvement of the control environment.

Ongoing management of operational risk is coordinated by the Group Operational Risk Management (GORM) and reviewed and monitored by a dedicated Operational Risk Working Group (ORWG) and Management Executive Committee (MEC) as applicable for policy purposes.

The Group Operational Risk Management function continues to lead the effort to embed the enhanced Operational Risk Management Framework ('ORMF') across the Group. The main focus is on the consistency in application of the core tools such as risk and control self-assessment (RCSAs), key risk indicators (KRIs), control testing and timely operational risk event reporting, especially those classified as material in nature. Implementation of the first phase of a new Operational Risk Management System (ORMS) has been completed.

To mitigate increased operational risk resulting from Covid-19 pandemic, a cross-functional team led by Group Operational Risk continued to oversee the impact to business processes to ensure they remained within the Bank's risk appetite.

The enhanced ORMF currently being embedded enables an end-to-end view of non-financial risks, facilitating focus on the risks that are critical to achieving the Group's strategic objectives and associated controls. It provides a platform to drive forward-looking risk awareness and assist management focus. It also helps the organisation understand the level of risk it is willing to accept.

To support the dynamic business environment and increased regulatory focus on new products and outsourcing, a new vertical has been established in GORM to provide oversight over New Initiatives and Third party related risks.

Three lines of defence

To create a robust control environment to manage risks, the Group uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins the Group's approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

- First line of defence (Business Unit): owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them.

- The second line of defence (Group Operational Risk Management, Compliance, Fraud Risk Management, Information and Physical Security Governance, Data Management, Market Risk, Islamic Internal control, etc.): defines the frameworks, policies and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defence on effective risk management.

- The third line of defence (Group Internal Audit function): provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Group's risk management framework and control governance process.

47. Operational risk management (continued)

Risk identification, monitoring and reporting

The risk identification and assessment process involves risk assessment of new initiatives, which may include new and amended products, processes, systems or third party engagements. Risk assessment methodology employs more granular and objective assessment of operational risk exposures for material risks identified through the risk identification processes, which enables us to prioritise risks and related actions.

A robust system of controls that is commensurate with the level of operational risks being managed is in place. Since the risk environment is not static, processes are in place for ongoing review of key mitigating controls. This dynamic process helps us to identify gaps early and facilitate timely remedial action for potential risk exposures.

The reporting of issues and events (and therefore greater risk transparency across the organisation) is a critical component of the Group's operational risk management process. The escalation process ensures that relevant information is received by the decision makers in a timely manner so that appropriate actions are taken.

Monitoring and reporting processes are in place for periodic monitoring of key operational risks. The reports are submitted to the Board (as part of GCRO update) and also to Group Heads for information and resolution.

Fraud risk

Proactive fraud-risk management is a key success factor in combating the increasing number of frauds perpetrated against financial institutions around the globe. The Group continued to strengthen its anti-fraud activities by centralizing its fraud management capabilities, increased fraud awareness to the employees and customers, as well as initiating various projects to drive fraud prevention through use of technology and systems. The projects are at various levels of maturity.

Business Continuity Management

The safety of employees and the ability to recover from a crisis in a timely fashion are of utmost importance to the Group. To appropriately handle crisis situations, emergency response procedures and business continuity plans (BCPs) were significantly enhanced.

ADCB's ISO22301:2012 certified business continuity framework for the UAE has been designed to ensure that the Bank can continue to achieve its business objectives in the face of an unexpected disruptive event. The plans identify the teams, and list critical processes and systems, evacuation procedures and the respective recovery sites where the teams will report to in the event of a disaster. Emergency response procedures contain evacuation guidelines, response measures, and roles and responsibilities in dealing with various threats.

The plans are tested periodically and involve mobilising staff from a primary site to a recovery site and enabling them to carry out critical activities.

Risk Management

For operational risk measurement and determination of the amount that the Group needs to hold to absorb potential operational losses, Group follows the standardised approach under Basel III. As at December 31, 2022, the capital charge including buffer requirements was AED 2,906,544 thousand (December 31, 2021 – AED 3,043,286 thousand).

48. Trust activities

As at December 31, 2022, the net asset value of the funds under the management of the Group amounted to AED 3,773,249 thousand (December 31, 2021 – AED 3,816,672 thousand).

49. Subsidiaries

The following is the list of subsidiaries of the Bank:

		Incorporation		
Name of subsidiary	**Ownership interest**	**Year**	**Country**	**Principal activities**
ADCB Securities LLC	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Commercial Properties LLC	100%	2005	UAE	Real estate property management and advisory services.
Kinetic Infrastructure Development LLC	100%	2006	UAE	Financial investments.
Abu Dhabi Commercial Property Development LLC (1)	100%	2006	UAE	Property development.
Abu Dhabi Commercial Engineering Services LLC	100%	2007	UAE	Engineering services.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
ADCB Markets (Cayman) Limited	100%	2008	Cayman Islands	Treasury related activities.
ACB LTIP (IOM) Limited	Controlling Interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Bank (UK Representative Office) Limited (2)	100%	2008	United Kingdom	UK representative office and process service agent.
ITMAM Services FZ LLC	100%	2010	UAE	Transaction processing and back office support for the Group.
AD NAC Ventures WLL	99.75%	2012	Bahrain	Trust activities.
ITMAM Services LLC	100%	2013	UAE	Transaction processing and back office support for the Group.
ADCB Asset Management Limited	100%	2018	UAE	Wealth management and private banking.
Union Brokerage LLC (2)	100%	2002	UAE	Agent in trading of financial instruments and stocks.
Al Wifaq Investment Properties PrJSC	90.08%	2006	UAE	Investment in real estate properties and earning rental income.
Abu Dhabi Commercial Bank – Egypt SAE (formerly known as Union National bank – Egypt SAE)	99.90%	1981	Egypt	Commercial banking services.
Al Hilal Bank PJSC	100%	2007	UAE	Islamic banking activities.
Al Hilal Islamic Bank JSC	100%	2010	Kazakhstan	Islamic banking activities.
Al Hilal Leasing LLP	100%	2011	Kazakhstan	Shari'ah compliant leasing operations.
AHB Sukuk Company Limited	Controlling Interest	2011	Cayman Islands	Treasury financing activities.
Al Hur 1 Holding Limited	100%	2022	UAE	Real estate investment activities
Al Hur 2 Holding Limited	100%	2022	UAE	Real estate investment activities

(1) dormant
(2) under liquidation/discontinued operations

The Group does not have any subsidiary with material non-controlling interests.

50. Capital adequacy ratio and capital management

Capital management process

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the CBUAE;
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management employing techniques based on the guidelines developed by the Basel Committee and the CBUAE.

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

CBUAE has issued an updated Pillar 2 - Internal Capital Adequacy Assessment (ICAAP) reporting guidelines on December 30, 2022 vide notice number CBUAE/BSD/2022/5280 for implementation and banks are required to comply and report Pillar 2 - ICAAP assessment based on updated guidelines. For operational risk, the CBUAE has given banks the option to use the basic indicator approach or the standardised approach and the Group has chosen to use the standardised approach.

The Bank currently uses the approach defined below for Pillar 1 reporting:

Credit risk: Standardised approach is used by the Group in calculating its capital requirements for credit risk. This approach allows the use of external ratings from designated credit rating agencies, wherever available, in determining the appropriate risk weights. The risk weight is determined by the asset class and the external rating of the counterparty. The net exposure incorporates off balance sheet exposures after applying the credit conversion factors (CCF) and credit risk mitigants (CRM).

Market risk: For the regulatory market risk capital requirement, the Group uses the standardised approach.

Operational risk: Basel III includes a capital requirement for operational risk, again utilising three levels of sophistication. The capital required under the basic indicator approach is a simple percentage of gross revenues, whereas under the standardised approach it is one of three different percentages of total operating income under each of eight defined business lines. Both these approaches use an average of the last three financial years' revenues. The Group has adopted the standardised approach in determining the operational risk capital requirements.

The Group also prepares an annual comprehensive ICAAP document. This document is a detailed assessment by the Group of its risk profile, approaches to assess and measure various material risks, capital planning under regular and stress scenarios.

The Group's capital management is driven by long/short term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

50. Capital adequacy ratio and capital management (continued)

Capital supply

As per Basel III requirements, total regulatory capital comprises of the following:

a) Tier 1 capital, composed of:
   (i) Common Equity Tier 1 (CET1) and
   (ii) Additional Tier 1 (AT1).

b) Tier 2 capital.

CET1 capital includes paid-up share capital, share premium, retained earnings, legal reserves, statutory reserves, accumulated other comprehensive income, other disclosed reserves and non-controlling interest.

The following regulatory adjustments are applied in the calculation of CET1:

a) goodwill and other intangible assets;
b) cash flow hedge reserves;
c) employee's incentive plan shares
d) revaluation reserve of investments designated at FVTOCI

AT1 capital comprises of instruments eligible for inclusion in AT1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and CBUAE rules, perpetual equity instruments issued by the Bank or its subsidiaries and not included in Tier 1 and their premium and instruments eligible for inclusion in Tier 2 capital such as hybrid (debt/equity) capital instruments and subordinated term loan.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital and the Group's business strategy, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation by the Bank's risk and credit and finance functions and is subject to review by the ALCO as appropriate.

50. Capital adequacy ratio and capital management (continued)

Capital adequacy ratio

The Bank's capital adequacy ratio calculated in accordance with guidelines issued by the CBUAE after deducting proposed cash dividend from retained earnings is as below:

	As at December 31 2022 AED'000	As at December 31 2021 AED'000
Common equity tier 1 (CET1) capital		
Share capital (Note 22)	**6,957,379**	6,957,379
Share premium	**17,878,882**	17,878,882
Other reserves (Note 23)	**8,922,931**	9,038,707
Retained earnings	**22,884,994**	19,062,924
Non-controlling interests	**-**	9,325
Regulatory deductions and adjustments		
Intangible assets, net (Note 16)	**(7,152,194)**	(7,294,685)
Cash flow hedge reserve (Note 23)	**80,900**	(67,912)
Employee's incentive plan shares, net (Note 23)	**(68,824)**	(76,712)
Revaluation reserve of investments designated at FVTOCI (Note 23)	**(1,404,540)**	175,184
Other deduction	**(416,056)**	-
Less: Proposed cash dividend (Note 22)	**(1,252,328)**	(2,574,230)
Total CET1 capital	**46,431,144**	43,108,862
Additional tier 1 (AT1) capital		
Capital notes (Note 26)	**6,000,000**	6,000,000
Total AT1 capital	**6,000,000**	6,000,000
Total tier 1 capital	**52,431,144**	49,108,862
Tier 2 capital		
Eligible general provision	**4,034,067**	3,763,456
Subordinated notes (Note 20)	**39,224**	324,354
Total tier 2 capital	**4,073,291**	4,087,810
Total regulatory capital	**56,504,435**	53,196,672
Risk-weighted assets		
Credit risk	**322,725,321**	301,076,491
Market risk	**13,983,513**	9,406,226
Operational risk	**21,529,955**	22,542,856
Total risk-weighted assets	**358,238,789**	333,025,573
CET1 ratio	**12.96%**	12.94%
AT1 ratio	**1.68%**	1.81%
Tier 1 ratio	**14.64%**	14.75%
Tier 2 ratio	**1.13%**	1.22%
Capital adequacy ratio	**15.77%**	15.97%

As per Basel guidelines and in accordance with IAS 10 'Events after the Reporting Period', which does not allow proposed dividends to be recognised as a liability, the Bank's capital adequacy ratio before deducting proposed cash dividends from retained earnings is as below:

	2022	2021
CET1 ratio	**13.31%**	13.72%
Tier 1 ratio	**14.99%**	15.52%
Capital adequacy ratio	**16.12%**	16.75%

50. Capital adequacy ratio and capital management (continued)

Capital adequacy ratio (continued)

In December 2010 (revised in June 2011), the Basel Committee on Banking Supervision issued Basel III, a global regulatory framework, to enhance international capital standards. Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banking organisations to hold capital in excess of regulatory minimums. In November 2020, CBUAE issued an update to the Capital Adequacy Standards vide notice number CBUAE/BSD/N/2020/4980 superseding the previous notices. All requirements of revised guidelines are effective for capital reporting.

To achieve broader macro-prudential goal of protecting the banking sector from the periods of excess aggregate credit growth and in addition to the capital conservation buffer (CCB) requirement, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet CCB and CCyB requirement by using CET1 capital. The level of CCyB requirement will vary between 0% - 2.5% of risk weighted assets and will be communicated by CBUAE with adequate notice period. Further, to reduce risks related to the failure of domestic systemically relevant institutions, CBUAE has introduced domestic systematically important banks (D-SIB) buffer of 0.5% for ADCB.

The Bank is required to meet the following minimum capital ratios:

Capital ratios	
CET1 including buffers	
- CET1	**7.00%**
- CCB	**2.50%**
- D-SIB buffer	**0.50%**
CET1 including buffers	**10.00%**
Tier 1	**11.50%**
Minimum capital requirement	**13.50%**

Common equity tier 1 (CET1) capital resources

(a) Ordinary shareholders' funds, which include the cumulative proceeds from the issuance of ordinary shares at their nominal value net of treasury shares. These instruments confer a share of ownership in the Bank, and carry no obligations.

(b) Statutory and Legal reserves:

(i) Statutory reserve: As required by Article 241 of the UAE Federal Decree Law No. (32) of 2021, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, no transfers were made to statutory reserve during the year (December 31, 2021 – AED nil). The statutory reserve is not available for distribution.

(ii) Legal reserve: In accordance with the Articles of Association of the Bank and Decretal Federal Law No. (14) of 2018, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. Accordingly, no transfers were made to legal reserve during the year (December 31, 2021 – AED nil). The legal reserve is not available for distribution.

50. Capital adequacy ratio and capital management (continued)

Common equity tier 1 (CET1) capital resources (continued)

(c) General and Contingency reserves:

- (i) General reserve: In accordance with the Articles of Association of the Bank, a further percentage of net profit for the year can be transferred to the general reserve based on the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

- (ii) Contingency reserve: The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

- (iii) Retained earnings which represent the cumulative profits not distributed to shareholders, and other eligible reserves.

(d) Regulatory deductions and adjustments:

- (i) Goodwill and other intangible assets.

- (ii) Cash flow hedge reserve: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges in line with section 3.3 of Capital Standards issued by Central Bank of UAE are recognised in other comprehensive income and accumulated in equity. However, it is limited to 45% if the balance is positive.

- (iii) Employees' incentive plan shares: The Bank grants equity-settled share-based payments to employees. These shares are acquired by the Bank for its employees and are deducted from capital.

- (iv) Revaluation reserve of investments designated at FVTOCI: This includes the cumulative net change in the fair value of investments measured at fair value through other comprehensive income. However, it is limited to 45% if the balance is positive.

Additional tier 1 (AT1) capital resources

This includes the Group's Tier 1 regulatory capital notes subscribed by the Department of Finance, Government of Abu Dhabi (Note 26).

Tier 2 capital resources

(a) Collective impairment on loans and advances limited to 1.25% of credit risk-weighted assets.

(b) Eligible subordinated notes (Note 20).

51. Social contributions

The Group made the following social contributions during the year:

	2022 AED'000	2021 AED'000
Donations	**2,056**	12,721
Sponsorships	**1,937**	3,620
Total social contributions	**3,993**	16,341

52. Legal proceedings

The Group is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial information, if disposed unfavourably.