

Al Hilal Bank PJSC
Consolidated financial statements
for the year ended December 31, 2023

Principal business address:

Al Hilal Bank PJSC
P O Box: 63111
Abu Dhabi
UAE

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Consolidated financial statements
Year ended 31 December 2023

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Chairman's Report

On behalf of Al Hilal Bank's Board of Directors, I am pleased to present the Bank's Consolidated Financial Statements for the year ended 31 December 2023.

The Business Environment in 2023

Against the backdrop of a robust economy in the UAE, Al Hilal Bank continued to strengthen its resilience, strategically adapting to a dynamic macroeconomic landscape. This progress supports the development of the country's Islamic banking sector, with Shariah-compliant banking assets currently representing approximately 23% of the UAE's total banking assets, equivalent to AED 845 billion.¹

Key Operational Highlights

Al Hilal Bank is making substantial investments in digital banking to deliver innovative solutions and accelerate the expansion of its customer base.

The Bank's cloud-based super app, featuring a virtual marketplace, has witnessed significant growth. In 2023, the platform welcomed over 294,000 registered users, bringing the total to approximately 654,000 since its launch in 2022. By bringing new users to the platform, the Bank attracted 130,000 new banking customers in 2023, bringing the total to 262,000 since the app's inception.

As part of its digital strategy, the Bank also introduced a state-of-the-art personalisation engine to customise banking products and services to individual needs. The Bank also launched its first straight through processing for credit cards and personal finance cash out, and implemented a Dynamic Customer Risk Assessment to enhance risk evaluation and management.

These initiatives underscore Al Hilal Bank's commitment to leveraging digital advancements to better serve its customers and drive sustainable growth.

Key Financial Highlights

Al Hilal Bank's asset base grew by 2% to AED 13.6 billion driven by a 5% increase in Islamic financing activities and Ijara, fueled by personal financing portfolio growth. Customer deposits increased by 8% to AED 8 billion, led by the growth in Wakala deposits.

The Bank reported a net loss of AED 124 million, attributable to a 21% year-on-year decline in revenues due to higher cost of funds and higher expenses related to the cards business. Al Hilal Bank maintained disciplined cost management across its operations, however operating costs rose 8% year-on-year largely due to sales-related expenses aimed at driving growth in customer financing.

The balance sheet remains robust with a Capital Adequacy Ratio (CAR) of 17% and an advances to stable resources ratio (ASRR) of 81% as at December 2023.

¹ [UAE Islamic Finance Report 2023](#) (UAE Central Bank)

Outlook for 2024

As part of its refreshed strategy, Al Hilal Bank aims to position itself as a Shariah-compliant ‘Purist Digital Bank’. We remain committed to investing in our digital platform to build a scalable, cost-efficient, and customer-focused platform, aimed at serving our customers in the most efficient manner.

Our priorities include enhancing the customer experience through refined digital processes and implementing end-to-end digitalisation for key products. Furthermore, as part of our commitment to sustainability, we are working towards achieving net-zero operations by further automating processes to fully leverage digital technology.

On behalf of the Board of AHB, I would like to express our sincere appreciation to His Highness Sheikh Mohamed Bin Zayed Al Nahyan, the UAE President and Ruler of Abu Dhabi, His Highness Sheikh Khaled Bin Mohamed Bin Zayed Al Nahyan, Crown Prince of Abu Dhabi and Chairman of the Abu Dhabi Executive Council, and His Highness Sheikh Mansour Bin Zayed Al Nahyan, the UAE Vice President, Deputy Prime Minister, Chairman of the Presidential Court and Chairman of the UAE Central Bank, for their continued guidance and support.

I would also like to thank all our stakeholders who are part of our journey – our customers, shareholders, business partners and colleagues. We look forward to continued success in the coming years.

Annual Report of the Internal Shari'ah Supervision Committee of Al Hilal Bank

Issued on Thursday, 20th of Rajab 1445 AH, corresponding to 1st Feb 2024

To: Shareholders of Al Hilal Bank (“the Bank”)

After greetings,

Pursuant to the requirements stipulated in the relevant laws, regulations and standards (“Regulatory Requirements”), the Internal Shari'ah Supervision Committee of the bank (“ISSC”) presents to you its Annual Report for the financial year ending on 31 December 2023 (“Financial Year”).

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC’s charter, the ISSC’s responsibility is stipulated as to:

Undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Bank; and the Bank’s policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (“Bank’s Activities”) and issue Shari'ah resolutions in this regard, and to determine Shari'ah parameters necessary for the Bank’s Activities, and the Bank’s compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority (“HSA”) to ascertain compliance of the Bank with Islamic Shari'ah.

The senior management is responsible for compliance of the Bank with Islamic Shari'ah in accordance with the HSA’s resolutions, fatwas, and opinions, and the ISSC’s resolutions within the framework of the rules, principles, and standards set by the HSA (“Compliance with Islamic Shari'ah”) regarding the Bank’s Activities, and the Board bears the ultimate responsibility in this regard.

2. Shari'ah Standards

In accordance with the HSA’s resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by HSA and the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Bank’s Activities without exception.

3. Works Undertaken by the ISSC During the Financial Year

The ISSC undertook Shari'ah supervision of the Bank’s Activities through review of those Activities, and monitoring through Internal Shari'ah Control Division and Internal Shari'ah Audit Division in accordance with the ISSC’s authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC’s activities included the following:

- a. Convening six meetings during the financial year.
- b. Providing fatwas, opinions and resolutions on matters presented to the ISSC in relation to the Bank’s Activities.

- c. Monitoring compliance of policies, procedures, accounting standards, product structures, contracts, documentation, business charters, and other documentation submitted by the Bank and its subsidiaries to the ISSC for approval.
- d. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders with parameters set by the ISSC.
- e. Supervision through internal Shari'ah supervision department and internal Shari'ah Audit of the Bank's Activities including executed transactions, adopted procedures on the basis of samples selected from executed transactions, and reviewing reports submitted in this regard.
- f. Providing direction to relevant parties of the Bank and its subsidiaries to rectify (where possible) findings cited in the reports submitted by internal Shari'ah supervision department and internal Shari'ah audit and issuing of resolutions to set aside revenue derived from transactions in which non-compliances were identified for such revenue to be disposed towards charitable purposes.
- g. Approving remedial rectification and preventive measures related to identified errors to prevent their reoccurrence in the future.
- h. Specifying the amount of Zakat due on each of the Bank's share.
- i. Specifying the amount of Zakat due on the depositor's reserves.
- j. Monitoring charity account sources and payments.
- k. Communicating with the Board and its subcommittees, and the senior management of the Bank concerning the Bank compliance with Islamic Shari'ah.

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

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Bank. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Bank

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Bank's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also issued directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Signatures of members of the Internal Shari'ah Supervision Committee

Prof. Jassim Ali Alshamsi Chairman

Dr. Ibrahim Ali Almansoori Deputy Chairman

Dr. Salim Ali Al Ali Member



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Independent auditors' report

To the Shareholders of Al Hilal Bank PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) 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 Matter

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.

Impairment of Receivables from Islamic Financing and Ijara

See Notes 8, 9 and 38 to the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
<p>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.</p> <p>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.</p>	<p>Our audit procedures in this area include the following, among others:</p> <ul style="list-style-type: none"> • 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. • 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.



Key Audit Matter (continued)

Impairment of Receivables from Islamic Financing and Ijara (continued)

See Notes 8, 9 and 38 to the consolidated financial statements (continued)

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> • Re-performing key aspects of the Group's SICR determinations for selected samples of Receivables from Islamic Financing and Ijara to determine whether a SICR event was appropriately identified. • Assessing the adequacy of the Group's disclosures by reference to the requirements of the relevant accounting standards

Other Information

Management is responsible for the other information. The other information comprises Chariman's Report and the Annual Report of the Internal Shari' ah Supervision Committee of the Bank.

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting 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:

- 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 2023:

- 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 Chariman's Report and the Annual Report of the Internal Shari' ah Supervision Committee of the Bank is consistent with the books of account of the Group ;
- v) as disclosed in note 10 to the consolidated financial statements, the Group has not purchased shares during the year ended 31 December 2023.
- vi) note 33 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2023 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2023.

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 applicable to its activities, regulations and circulars as applicable , which would have a material impact on the consolidated financial statements as at 31 December 2023:

- 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;
- ii) its Articles of Association which would materially affect its activities or its financial position as at 31 December 2023; 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: 3 FEB 2024

Al Hilal Bank PJSC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023

	Notes	2023 AED'000	2022 AED'000
Assets			
Cash and balances with central banks	6	2,018,449	1,168,564
Deposits & balances due from banks, net	7	87,068	199,271
Receivables from Islamic financing activities	8	6,575,065	6,137,034
Ijara	9	1,435,318	1,487,285
Investment securities	10	2,584,600	3,416,744
Islamic derivative financial instruments	11	23,114	36,786
Investment properties	12	70,530	64,894
Property and equipment, net	13	390,442	421,812
Investment in associates	14	52,540	50,462
Intangible assets, net	15	162,947	127,960
Other assets	16	193,783	199,384
Total assets		13,593,856	13,310,196
Liabilities			
Deposits from customers	17	8,102,244	7,522,391
Wakala deposits from banks		3,344,942	1,889,619
Medium term financing	18	82,265	1,915,697
Islamic derivative financial instruments	11	25	46
Other liabilities	19	476,266	381,474
Total liabilities		12,005,742	11,709,227
Equity			
Share capital	20	4,850,000	4,750,000
Statutory reserve	20	178,896	178,896
Other reserves	21	(286,615)	(297,573)
Accumulated losses		(3,154,167)	(3,030,354)
Total equity		1,588,114	1,600,969
Total liabilities and equity		13,593,856	13,310,196

These consolidated financial statements were duly approved by the Board of Directors and authorised for issue on February 13, 2024 and signed on its behalf by:

Ala'a Eraiqat
Chairman

Abdul Shakeel Aidaroos
Chief Executive Officer

Rajesh Arora
Head of Finance

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Al Hilal Bank PJSC

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2023

	<i>Notes</i>	2023 AED'000	2022 AED'000
Profit income			
Income from Islamic financing activities, net	22	398,699	373,403
Income from Ijara, net	23	87,600	70,518
Investment income		93,156	120,397
Profit from Wakala investments		60,259	3,089
Total profit income		639,714	567,407
Depositors' and sukuk holders' share of profits	29	(279,754)	(179,029)
Net profit income		359,960	388,378
Fees and commission income, net	24	27,671	75,810
Trading income, net	25	8,962	15,431
Other operating income	26	7,546	34,115
		44,179	125,356
Operating income		404,139	513,734
Operating expenses	27	(496,638)	(461,800)
Operating (loss) / profit before impairment charge		(92,499)	51,934
Impairment charge, net	28	(22,376)	(1,893)
(Loss) / profit after impairment charge		(114,875)	50,041
Share in profit of associates		2,079	(4,574)
(Loss) / profit before taxation		(112,796)	45,467
Overseas income tax charge		(11,017)	(7,378)
Net (loss) / profit for the year		(123,813)	38,089

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Al Hilal Bank PJSC

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2023

	2023 AED'000	2022 AED'000
Net (loss) / profit for the year	(123,813)	38,089
Other comprehensive income / (loss)		
Items that may be reclassified subsequently to the consolidated statement of income		
Net fair value changes on investment in securities designated at FVTOCI	8,660	(139,344)
Exchange difference on translation of foreign operations	<u>2,298</u>	<u>(9,820)</u>
Other comprehensive income / (loss) for the year	<u>10,958</u>	<u>(149,164)</u>
Total comprehensive loss for the year	<u>(112,855)</u>	<u>(111,075)</u>

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Al Hilal Bank PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Share Capital AED'000	Statutory Reserve AED'000	Translation Reserve AED'000	Fair Value Reserve AED'000	Accumulated Losses AED'000	Total AED'000
Balance at 1 January 2023	4,750,000	178,896	(230,733)	(66,840)	(3,030,354)	1,600,969
Loss for the year	-	-	-	-	(123,813)	(123,813)
Other comprehensive (loss) / income						
Change in fair value of investment securities designated at fair value through other comprehensive income	-	-	-	8,660	-	8,660
Exchange difference on translation of foreign operations	-	-	2,298	-	-	2,298
Total comprehensive (loss) / income for the year	-	-	2,298	8,660	(123,813)	(112,855)
Transaction with owner of the Bank						
Issuance of share capital (note 20)	100,000	-	-	-	-	100,000
Transfer to statutory reserve	-	-	-	-	-	-
	100,000	-	-	-	-	100,000
Balance as at 31 December 2023	4,850,000	178,896	(228,435)	(58,180)	(3,154,167)	1,588,114

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Al Hilal Bank PJSC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2023

	Share Capital AED'000	Statutory Reserve AED'000	Translation Reserve AED'000	Fair Value Reserve AED'000	Accumulate d Losses AED'000	Total AED'000
Balance at 1 January 2022	4,750,000	175,114	(220,913)	72,504	(3,064,661)	1,712,044
Profit for the year	-	-	-	-	38,089	38,089
Other comprehensive (loss) / income						
Change in fair value of investment securities designated at fair value through other comprehensive income	-	-	-	(139,344)	-	(139,344)
Exchange difference on translation of foreign operations	-	-	(9,820)	-	-	(9,820)
Total comprehensive (loss) / income for the year	-	-	(9,820)	(139,344)	38,089	(111,075)
Transaction with owner of the Bank						
Transfer to statutory reserve	-	3,782	-	-	(3,782)	-
	-	3,782	-	-	(3,782)	-
Balance as at 31 December 2022	4,750,000	178,896	(230,733)	(66,840)	(3,030,354)	1,600,969

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

Al Hilal Bank PJSC

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2023

	2023 AED'000	2022 AED'000
OPERATING ACTIVITIES		
(Loss) / profit for the year	(123,813)	38,089
Adjustments for:		
Depreciation	41,400	55,880
Share in profit of associate	(2,079)	4,574
Impairment charges	65,455	29,876
Fair value loss from investment property	(600)	(2,425)
Unwinding on renegotiated financings	(8,155)	(6,926)
Amortisation of intangible assets	21,943	13,227
	<u> </u>	<u> </u>
Cash flows from operating activities before changes in operating assets and liabilities	(5,849)	132,295
Changes in:		
Deposits & balances due from banks with maturities over three months	58	-
Receivables from Islamic financing activities	(494,493)	(184,085)
Ijara	49,692	191,484
Islamic derivative financial instruments	13,651	(118,629)
Other assets	5,601	(24,424)
Deposits from customers	579,853	(713,659)
Wakala deposits from banks	1,455,323	1,889,620
Other liabilities	97,017	(31,274)
	<u> </u>	<u> </u>
Net cash flows from operating activities	1,700,853	1,141,328
	<u> </u>	<u> </u>
INVESTING ACTIVITIES		
Net acquisition of property and equipment	(10,030)	68,197
Net acquisition of Intangible assets	(56,930)	(141,187)
Acquisition of investment securities	(2,566)	(812,090)
Proceeds from sale of investment securities	844,783	622,412
Proceeds from investment in associates	-	1,619
Acquisition of investment property	(5,036)	(5,595)
	<u> </u>	<u> </u>
Net cash flows from / (used in) investing activities	770,221	(266,644)
	<u> </u>	<u> </u>
FINANCING ACTIVITIES		
Issuance of share capital	100,000	-
Repayment of medium term financing	(1,833,432)	(2,348)
Net cash flows used in financing activities	(1,733,432)	(2,348)
	<u> </u>	<u> </u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	737,642	872,336
Cash and cash equivalents at the beginning of the year	1,367,889	495,553
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 30)	<u>2,105,531</u>	<u>1,367,889</u>

The accompanying notes 1 to 41 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

1 GENERAL INFORMATION

Al Hilal Bank PJSC (the “Bank”) was incorporated in Abu Dhabi, United Arab Emirates (“UAE”) on 18 June 2007 by virtue of Amiri Decree number 21 of 2007, with limited liability, and is registered as a Public Joint Stock Company in accordance with the United Arab Emirates Federal Law number 8 of 1984 (as amended), Union Law number 10 of 1980 (as amended) and United Arab Emirates Federal Law number 6 of 1985 regarding Islamic banks, financial institutions and investment companies.

The Bank’s registered office address is Al Bahr Towers, P. O. Box 63111, Abu Dhabi, United Arab Emirates.

These consolidated financial statements as at and for the year ended 31 December 2023 comprise the Bank and its subsidiaries set out in (Note 32) (together referred to as the “Group”). The Group is primarily involved in Islamic retail and corporate activities. The Bank carries out its operations through its branches in the United Arab Emirates and subsidiaries located in the United Arab Emirates and Kazakhstan.

On 29 January 2019, the Board of Directors of Abu Dhabi Commercial Bank PJSC (“ADCB”) and the erstwhile Board of Directors of Union National Bank PJSC (“UNB”) approved and recommended to their respective shareholders a merger of the two banks and acquisition of 100% of the issued share capital of the Bank by the combined bank (i.e., combined after erstwhile ADCB and UNB).

On 21 March 2019, the shareholders of ADCB and UNB approved the proposed merger pursuant to Article 283 (1) of UAE Federal Law No. 2 of 2015, through issuance of 0.5966 new shares in ADCB for every one share of UNB, subject to the terms and conditions of the merger. Following the merger, ADCB and UNB shareholders own approximately 76% and 24% of the combined bank, respectively. On the effective date of the merger, UNB shares were delisted from the Abu Dhabi Securities Exchange. The combined bank has retained ADCB’s legal registrations.

The shareholders of ADCB also approved the issuance by ADCB of a mandatory convertible bond (“bond”) to the shareholder of the Bank as the acquisition price to acquire the entire issued share capital of the Bank. This bond was converted into 117,647,058 ADCB shares. Post acquisition, ADCB holds 100% of the share capital of the Bank.

The effective date of above merger and acquisition was 1 May 2019.

As a part of strategic balance sheet management, the Bank entered into a Master Transfer Agreement with ADCB for the transfer and/or assignment of certain assets and liabilities of the Bank. Based on this agreement, the Bank transferred and/or assigned to ADCB certain portfolio assets which were identified by the Bank and ADCB together, with all of the Bank’s rights, title, interests, duties and obligations (as applicable) under and in respect of the client agreements for such portfolio assets including, without limitation, the amounts owing to the Bank under any client agreements for the portfolio assets and all claims, suits, causes of action and any other rights of the Bank with respect to the portfolio assets.

The consolidated financial statements were authorized and approved for issue by the Board of Directors on February 13, 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

2 APPLICATION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) (IFRSs ACCOUNTING STANDARDS)

2.1 Standards and Interpretations in issue and effective

During the current year, the Group has applied the amendments to IAS 1, IFRS 17, IAS 12 and IAS 8. 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, 2023.

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
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
Classification of liabilities as current or non-current - Amendments to IAS 1.	January 1, 2024
Supplier finance arrangements - Amendments to IAS 7 and IFRS 7.	January 1, 2024
Lack of exchangeability – Amendments to IAS 21.	January 1, 2025
Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures').	Effective date deferred indefinitely, available for early adoption.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 SUMMARY OF MATERIAL 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) and applicable requirements of the laws.

As of 31 December 2023, the Bank's current liabilities exceed its current assets by AED 7,642,614 thousand (2022: AED 8,239,601 thousand), and as of that date it had accumulated losses amounting to AED 3,154,167 thousand (2022: AED 3,030,354 thousand) which exceeded 50% of its share capital. The consolidated financial statements have been prepared on a going concern basis as the Shareholder of the Group has agreed to provide the Bank with sufficient financial support to enable it to meet its financial liabilities and commitments for the foreseeable future. The Shareholder of the Group has met and resolved not to dissolve the Group in accordance with the requirements of Federal Law No. 2/2015.

3.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention except for the following:

<i>Item</i>	<i>Measurement basis</i>
Islamic derivative financial instruments	Fair value
Financial assets at fair value through profit or loss	Fair value
Financial assets at fair value through other comprehensive income	Fair value
Investment property	Fair value
Recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedge relationships	Amortised cost adjusted for changes in fair value attributable to the risk being hedged

3.3 Functional and presentation currency

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

3.4 Use of estimates and judgements

The preparation of the consolidated 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 a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities recognised in the consolidated financial statements are described in Note 4.

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.5 Islamic financial instruments

i) Murabaha

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. A Murabaha contract is a sale of goods with an agreed upon profit mark up on the cost of the goods. A Murabaha contract is of two categories. In the first category, the Bank purchases the goods and makes it available for sale without any prior promise from a customer to purchase it. In the second category, the Bank purchases the goods ordered by a customer from a third party and then sells these goods to the same customer. In the latter case, the Bank purchases the goods only after a customer has made a promise to purchase them from the Bank.

ii) Ijara Muntahia Bittamleek

A form of leasing contract which includes a promise by a lessor to transfer the ownership of the leased property to the lessee at the end of the term of the Ijara period.

iii) Wakala

A contract between the Bank and customers whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the Muwakkil.

iv) Mudaraba

Mudaraba is a contractual arrangement whereby two or more parties undertake an economic activity. Mudaraba is a partnership in profit between capital and work. It may be conducted between investment account holders as providers of funds and the Bank as a Mudarib. The Bank announces its willingness to accept the funds of investment account holders, the sharing of the profits being as agreed between the two parties and the losses being borne by the provider of the funds except if they were due to misconduct, negligence or violation of the conditions agreed upon by the Bank, in which case, such losses would be borne by the Bank.

v) Sukuk

Certificates which are equal in value and represent common shares in the ownership of a specific asset (leased or to be leased either existing or to be constructed in future), or in the ownership of cash receivables of selling an existing-owned asset, or in the ownership of goods receivables, or in the ownership of the assets of Mudaraba or Partnership companies. In all these cases, the Sukuk holders shall be the owners of their common shares in the leased assets, or in the cash receivables, or the goods receivable, or in the assets of the Partnership or the Mudaraba.

vi) Musharaka

Musharaka is an agreement between two or more parties to combine their assets or to merge their services or obligations and liabilities with the aim of making profit. Profit in Musharaka is shared as per the agreed ratio whereas loss is distributed in proportion to the contribution of each partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.6 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries (collectively referred to as the “Group”). 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.

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, still it 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 off during the year are included in the consolidated statement of income 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 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 statement of income 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 profit 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. The subsidiaries consolidated in the Group financial statement are listed in note 32.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.7 Foreign currency

i) Foreign currency transactions

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

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

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the initial transaction. Foreign currency differences arising on translation are recognised in the consolidated statement of income, except for foreign currency differences arising from the translation of non-monetary items carried at fair value through other comprehensive income which are recognised in other comprehensive income.

ii) Foreign operations

The assets and liabilities of foreign operations are translated into AED at spot exchange rates at the reporting date. The income and expenses of foreign operations are translated into AED at the average exchange rates for the year.

Foreign currency differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve (translation reserve), except to the extent that the translation difference is allocated to non-controlling interest.

When a foreign operation is disposed of such that control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the consolidated statement of income as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to non-controlling interest.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising on the item form part of the net investment in the foreign operation and are recognised in other comprehensive income and accumulated in the translation reserve within equity.

3.8 Property and equipment

i) Recognition and measurement

Property and equipment are stated at historical cost less accumulated depreciation, amortization and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Purchased software that is integral to the functionality of related equipment is capitalized as part of equipment. If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property and equipment. Any gains and losses on disposal of an item of property and equipment is recognised in the consolidated statement of income.

ii) Subsequent costs

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.8 Property and equipment continued

iii) Depreciation and amortisation

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Building	40 years
Leasehold improvements	7-10 years
Computer systems	4 years
Furniture and fixtures	4-6 years

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

3.9 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:

Digital banking project	8 to 10 years
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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.

3.10 Capital work in progress

Properties or assets in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes all direct cost attributable to design and construction of the property including related staff costs, and for qualifying assets, financing costs capitalised in accordance with Group's accounting policy. When the assets are ready for the intended use, the capital work in progress is transferred to the appropriate property and equipment category and is depreciated in accordance with the Group's policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.11 Qard hasan

Qard Hasan receivables are non-profit bearing financing receivables whereby the customer borrows funds for a period of time with an understanding that the same amount shall be repaid at the end of the agreed period.

3.12 Swap transactions

Currency and profit rate swaps are promises to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or profit rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency profit rate swaps). The Group's credit risk represents the potential loss if counterparties fail to fulfill their obligations.

3.13 Impairment of non-financial assets

Assets that have indefinite useful life (for example, land, goodwill or intangible assets not ready for use) are not subject to amortization or depreciation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). An impairment loss is recognised if the carrying amount of an asset or cash-generating units exceeds its recoverable amount.

Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of impairment at each reporting date.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.14 Cash and cash equivalents

Cash and cash equivalents include cash on hand, balances held with central banks, deposits and balances due from 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.

3.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are recognised as deductions from equity.

3.16 Fair value reserve

The fair value reserve is related to revaluation of investment securities classified at fair value through other comprehensive income, the policy of which is set out in Note 3.18.

3.17 Deposit from customers and wakala deposits from banks

Deposit from customers and Wakala deposits from banks are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost.

3.18 Financial instruments

Financial instruments comprise financial assets and financial liabilities. Financial assets of the Group are further analysed as:

- Cash and balances with central banks
- Deposits and balances due from banks;
- Receivables from Islamic financing activities;
- Ijara Muntahia Bitamleek ;
- Investment securities;
- Other financial assets and
- Shariah compliant derivatives.

Financial assets are initially measured at fair value. If the financial asset is not subsequently accounted for at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination.

Financial assets are classified in their entirety on the basis of the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or at fair value.

i) Recognition

All financial assets are recognised and derecognised on settlement date basis (other than Islamic 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 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.

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.18 Financial instruments continued

i) Recognition continued

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases, where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Day 1 profit or loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

ii) Classification

Financial assets at amortised cost

Financial assets are subsequently measured at amortised cost, if both the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Financial assets at fair value through profit or loss (“FVTPL”)

Investments in equity instruments are classified as FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income (“FVTOCI”) on initial recognition.

Other financial assets that do not meet the amortised cost criteria are classified as FVTPL. In addition, certain financial assets that meet the amortised cost criteria but at initial recognition are designated as FVTPL in line with the business model of the Group. A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains or losses on them on different basis.

A financial asset is FVTPL if:

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.18 Financial instruments continued

Financial assets at fair value through other comprehensive income (“FVTOCI”)

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as FVTOCI.

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

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

iii) Measurement

Financial assets or financial liabilities carried at amortised cost

Financial assets at amortised cost including receivables from Islamic financing activities, Ijara and investment in sukuk securities are measured at amortised cost, less any reduction for impairment. Amortised cost is calculated using the effective profit rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective profit rate of the instrument.

Balances and deposits with banks and other financial institutions, Murabaha and Mudaraba with financial institutions, Murabaha, Ijara, Mudaraba and certain other Islamic financing are financial assets with fixed or expected profit payments. These assets are not quoted in an active market. They arise when the Group provides funds directly to a customer with no intention of trading the receivable. Financial liabilities are liabilities where the Group has a contractual obligation to deliver cash or another financial asset or exchange financial instruments under conditions that are potentially unfavourable to the Group.

Ijara is classified as a finance lease, when the Bank undertakes to sell the leased assets to the lessee using an independent agreement upon the maturity of the lease and the sale results in transferring all the risks and rewards incident to an ownership of the leased assets to the lessee. Leased assets represents finance lease of assets for periods, which either approximate or cover a major part of the estimated useful lives of such assets. Leased assets are stated at amounts equal to the net investment outstanding in the leases including the income earned thereon less impairment provisions.

Financial assets at fair value through profit or loss (“FVTPL”)

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

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.18 Financial instruments continued

iii) Measurement continued

Financial assets at fair value through other comprehensive income (“FVTOCI”)

Investments in equity securities for which the Group has made an irrevocable election to designate as FVTOCI and sukuk instruments are initially measured at fair value plus transaction costs. Subsequently they are measured at fair value with gains and losses arising from changes in fair value recognised in the consolidated statement of other comprehensive income and accumulated in the cumulative changes in fair values within equity.

Where the assets are disposed off, except for sukuk measured at FVTOCI, the cumulative gain or loss previously accumulated in the cumulative changes in fair values is not transferred to the consolidated income statement, but is reclassified to retained earnings. Financial assets measured at FVTOCI are not required to be tested for impairment.

For sukuk measured at FVTOCI which are disposed off, the cumulative gain or loss previously recognised in the consolidated statement of other comprehensive income is reclassified from equity to the consolidated income statement.

For investments quoted in active market, fair value is determined by reference to quoted market prices.

For other investments, where there is no active market, fair value is normally based on one of the following:

- the expected cash flows discounted at current profit rates applicable for items with similar terms and risk characteristics
- brokers' quotes
- recent market transactions

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

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 SPPP. For the purpose of SPPP 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). Profit 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 financing risks and costs, as well as a profit margin. The SPPP assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPP are consistent with a basic financing arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are SPPP.

Impairment of financial assets

Measurement of Expected Credit Losses (ECL):

The impairment of financial assets is calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including receivables from Islamic financing activities, Ijara and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

The Group measures loss allowances at an amount equal to lifetime ECL, except for financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Group has developed a range of models to estimate these parameters. For the portfolios where sufficient historical data was available, the Group developed a statistical model and for other portfolios judgmental models were developed.

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.18 Financial instruments continued

iii) Measurement continued

Renegotiated financing facilities

Where possible, the Bank seeks to restructure financing facilities rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new conditions. Management continually reviews renegotiated facilities to ensure that all future payments are highly expected to occur.

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset. The difference between the 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 financing is considered to be originated credit impaired.

Purchased or originated credit impaired assets (POCI)

The Group measures expected credit loss on a lifetime basis for purchased or originated credit impaired financial assets (POCI) throughout the expected 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).

Covered card facilities

The Group's product offering includes a variety of covered cards facilities, in which the Group has the right to cancel and/or reduce the facilities at a short notice. The Group does not limit its exposure to credit losses to the contractual notice period, but instead calculates ECL over a period that reflects the Group's expectations of the customer behaviour, its likelihood of default and the Group's future risk mitigation procedures, which could include reducing or cancelling the facilities.

Based on past experience and the Group's expectations, the period over which the Group calculates ECLs for these products, is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Write-off

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group has exhausted all legal and remedial efforts to recover from the customers. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.18 Financial instruments continued

iii) Measurement continued

Collateral valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, to the extent it is possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data such as market transactions, rental yields and audited financial statements.

iv) De-recognition

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 financing 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 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..

v) Offsetting of financial instruments

Financial assets and financial liabilities are only offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right and under Shariah framework to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

3.19 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 profit method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. The effective profit 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.

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3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.20 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 takes 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 takes 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.

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 39. 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 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.21 Hedge accounting

In order to manage profit rate risks, the Group enters into Shariah compliant arrangements including profit rate swaps. These financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All these Shariah compliant derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Group will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Fair value hedges

When a derivative is designated as the hedging instrument in a hedge of the change in fair value of a recognised asset or liability or a firm commitment that could affect profit or loss, changes in the fair value of the derivative are recognised immediately in the consolidated statement of income together with changes in the fair value of the hedged item that are attributable to the hedged risk (in the same line item in the consolidated statement of income and other comprehensive income as the hedged item).

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the consolidated statement of income. The amount recognised in other comprehensive income is reclassified to profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect the consolidated statement of income, and in the same line item in the consolidated statement of income and other comprehensive income.

Changes in the fair value of Islamic derivatives not designated as hedges are recorded in the consolidated statement of income.

Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires, terminated or exercised or when a hedge no longer meets the criteria for hedge accounting. At that point of time, in the case of a cash flow hedge, any cumulative gain or loss on the hedging instrument that has been previously recognised in the consolidated statement of comprehensive income remains in equity until the forecasted transaction occurs. Where the hedged transaction is no longer expected to occur, the net cumulative gains or losses initially recognised in equity are transferred to the consolidated statement of income.

In the case of a fair value hedge, for hedged items recorded at amortised cost, using the effective profit rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated statement of income.

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.22 Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

i) Profit income

Profit income is recognised using the effective profit rate method.

The 'effective profit rate' is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset (or, where appropriate, a shorter period) to the carrying amount of the financial asset. When calculating the effective profit rate, the Group estimates future cash flows considering all contractual terms of the financial asset, but not future credit losses.

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

When a financial asset is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow required to unwind at the original effective profit rate of the instrument, and continues unwinding the discount as profit income. Profit income on impaired finance facilities and receivables is recognised using the original effective profit rate.

ii) Dividend income

Dividend income is recognised when the right to receive the income is established. Usually this is the ex-dividend date for equity securities. Dividends are presented in net trading income or net income from other financial instruments at fair value through profit or loss based on the underlying classification of the equity investment. Dividends on equity instruments designated at fair value through other comprehensive income are presented in other revenue in the consolidated statement of income unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is presented in other comprehensive income.

iii) Fees and commission income, net

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:

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. Commitment fees for financings 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 profit rate on the financings. When it is unlikely that a finance will be drawn down, the finance commitment fees are recognised over the commitment period on a straight line basis.

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.

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3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.22 Revenue recognition continued

iv) Gain on sale of investments

Gain or loss on disposal of fair value through profit or loss investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs and is recognised through consolidated income statement.

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

v) Net trading income

Net trading income includes all gains and losses from changes in fair value and the related profit income or expense and dividends, for financial assets and financial liabilities held for trading. This includes any ineffectiveness recorded on hedging transactions.

3.23 Investment property

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 recorded at its fair value at the consolidated statement of financial position date.

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 are 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.

3.24 Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

i) Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

ii) Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 13 Property and equipment and are subject to impairment in line with the Bank's policy as described in Note 3.13 - Impairment of non-financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.24 Leases continued

iii) Lease liabilities

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

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 financing rate. The lease liability is subsequently measured by increasing the carrying amount to reflect the profit on the lease liability (using the effective profit method) and by reducing the carrying amount to reflect the lease payments made.

3.25 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3.26 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations 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.

3.27 Employee benefits

i) 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 profit rates of high-quality corporate sukuk 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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.27 Employee benefits continued

ii) 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 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.

iii) Staff terminal benefits

UAE nationals employed by the Group are registered in the scheme managed by the Abu Dhabi Retirement Pensions and Benefits Fund in accordance with Law number (2) of 2000. Staff terminal benefits for expatriate employees are accounted for on the basis of their accumulated services at the reporting date and in accordance with the Group's internal policies, which comply with the applicable laws.

3.28 Depositors' and sukuk holders share of profits

Profit distribution is an amount accrued as an expense on the funds accepted from banks and customers in the form of Wakala deposits, Mudaraba contracts, reverse Murabaha and sukuk financing instruments and are recognised as expenses in the consolidated statement of income. The amounts are calculated in accordance with agreed terms and conditions of the Wakala and Mudaraba deposits as per Shariah ruling and principles.

3.29 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.

For other financial guarantee contracts, financial guarantees are initially recognised at their fair value (which is the fees received on issuance). The received fees are amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment. The fees received on these financial guarantees are included within other liabilities.

3.30 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 is not control or joint control over those policies. Investment in associates are accounted for using the equity method and are recognised initially at cost. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Group's interest in that associate (which includes any long term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. Any goodwill is included within the carrying amount of the investment which is assessed for impairment, at least annually, as part of that investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, is recognised immediately in profit or loss. Where a Group's subsidiary or other associate transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate

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31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.31 Assets held for sale

Non-current assets and associated liabilities are classified as held for sale when their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is highly probable. Assets designated as held for sale are held at lower of carrying amount at designation and fair value less costs to sell. Depreciation is not charged against property and equipment classified as held for sale.

3.32 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. For the Group, CT will apply on and from January 1, 2024. A rate of 9% will apply to taxable income exceeding AED 375,000. A rate of 0% will apply to taxable income not exceeding this threshold. The Ministry of Finance has released a significant number of decisions in relation to the Law. Therefore, for the year ended 31 December 2023, the CT regime will apply to the Group for the purposes of IAS 12 – Income Taxes, especially in relation to the recognition of deferred tax balances.

The Group has undertaken an assessment of the application of the CT Law and has identified deferred tax implications in respect of business combinations and fair value adjustments concerning historical acquisitions. The assessment identified assets and other intangibles which would result in both deferred tax assets and deferred tax liabilities. The overall impact on the deferred taxes to the Group is immaterial and thus have not been recognized as at December 31, 2023.

3.33 Zakat

As the Bank is not required to dispose Zakat by UAE laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, each shareholder is responsible of his or her own Zakat. In accordance with the AAOIFI's Shariah Standard number 35 the Zakat is computed by the Bank and it is approved by the Internal Shariah Supervision Committee of the Bank.

Zakat per share is calculated in accordance with AAOIFI's Accounting Standard number 9 and AAOIFI's Shariah Standard number 35, and the Bank's Internal Shariah Supervision Committee of the Bank Resolutions. The Bank communicates the amount of Zakat per share and it is the responsibility of each shareholder to dispose personally his/her own Zakat (note 37).

3.34 Reserves and displaced commercial risk

i) **Profit equalization reserve (PER)** is created by appropriating a specific amount out of the profits earned on the commingled pool of assets before the allocation to shareholders and unrestricted investment account holders. The amounts appropriated to PER reduce the profits available for distribution to both categories of investors, shareholders and investment account holders. PER allows IFIs to mitigate considerably their exposure to displace commercial risk.

PER collectively belongs to investment account holders and shareholders for smoothing their profit payouts. While the purpose of these reserves is to enhance the profit payout to IAH in periods when the assets in an IFI's asset pool have underperformed, it is also the case that a PER can be used for smoothing or enhancing dividend payouts to shareholders if so desired by the management.

ii) **Investment risk reserve (IRR)** is created by setting aside amounts out of the profit attributable to investment account holders, after deducting the Mudarib share, in order to cushion the effects of future investment losses on investment account holders. The IRR enables the IFIs to cover, fully or partially, unexpected losses on investments. Where the losses are fully covered, use of PER may enable a profit payout to be made to the IAH notwithstanding the loss.

With regard to both the PER and IRR, IAH agree in advance in the contract that regulates their relationship with IFI, on the proportion of their income that may be appropriated to each of these reserves. This amount is determined by the management of the IFI at their discretion.

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31 December 2023

3 SUMMARY OF MATERIAL ACCOUNTING POLICIES continued

3.34 Reserves and displaced commercial risk continued

Both profit equalization reserve (PER) and investment risk reserve (IRR) are profit smoothing techniques which are used to manage and mitigate below risks faced by Islamic financial institutions: _

Displaced commercial risk

Rate of return risk can give rise to displaced commercial risk. IFIs may be under pressure to pay a return that is above the rate earned on assets to match the competitors' rates. IFIs cannot provide their customers fixed guaranteed returns on their deposits or investments. Instead, they follow risk/return sharing model. However, in practice, investment account holders are likely to expect competitive returns. This lead to displaced commercial risk for IFIs. It is vital for IFIs to effectively manage their displaced commercial risk to be able to compete with their conventional counterparts. To mitigate displaced commercial risk, IFIs may decide to waive their portions of profits and thus dissuade investment account holders from withdrawing funds. However, the practice of foregoing part or all of shareholders' profits can adversely affect the bank's own capital which can lead to insolvency in extreme cases.

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 light of the requirements and guidance in IFRS's 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 judgments in applying the changes in Group's accounting policies

The following are the critical judgments, 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 solely payment of principal and profit (SPPP) 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 judgment 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 asset was 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

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31 December 2023

reasonable and supportable forward looking information.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.1 Critical judgments in applying the changes in Group's accounting policies continued

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 finance seeker, 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 reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

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 5.3 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 39. 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 are based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on 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 12.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.1 Critical judgments 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 Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried profits and expected management fees) and the investors' rights to remove the fund manager. For all funds managed by the Group, the investors are able to vote by simple majority to remove the Group as fund manager without cause. As a result, the Group has concluded that it does not have to consolidate these funds.

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 profit 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.

4.2 Key sources of assumptions and estimation uncertainties

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:

Impairment 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) is based on internal historical data and consider counterparty and product type specifics.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY continued

4.2 Key sources of estimation uncertainty continued

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.

5 IBOR REFORM PHASE 2

IBOR Phase 2, the amendments to IFRSs issued in August 2020, represents the second phase of the IASB's project on the effects of profit rate benchmark reform. The amendments address issues affecting financial statements when changes are made to contractual cash flows and hedging relationships.

Under these amendments, changes made to a financial instrument measured at other than fair value through profit or loss that are economically equivalent and required by profit rate benchmark reform, do not result in the de-recognition or a change in the carrying amount of the financial instrument. Instead they require the effective profit rate to be updated to reflect the change in the profit rate benchmark.

In addition, IBOR 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 profit 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 a profit rate as a non-contractually specified, hedged risk component of changes in the fair value or cash flows of a hedged item, provided the profit rate risk component is separately identifiable, e.g., it is an established benchmark that is widely used in the market to price financings and derivative financial instruments. 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.

As at 31 December 2023, the IBOR reform to which the Group has exposures have been transitioned to alternative RFRs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

6 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Cash in hand	191,445	189,818
Current account with Central Banks	514,549	248,885
Islamic certificates of deposit with Central Banks	685,582	325,608
Cash reserve deposits with Central Banks	<u>626,873</u>	<u>404,253</u>
	<u><u>2,018,449</u></u>	<u><u>1,168,564</u></u>

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.

7 DEPOSITS AND BALANCES DUE FROM BANKS, NET

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Wakala investments	-	100,060
Nostro balances	<u>87,082</u>	<u>99,265</u>
	87,082	199,325
Allowance for impairment (note 28)	<u>(14)</u>	<u>(54)</u>
	<u><u>87,068</u></u>	<u><u>199,271</u></u>

All Wakala placements held by the Group as at 31 December 2023 and 2022 are in the UAE.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

8 RECEIVABLES FROM ISLAMIC FINANCING ACTIVITIES

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Retail Murabaha	5,618,453	5,234,875
Corporate Commodity Murabaha	1,017,230	960,658
Islamic credit card receivable	<u>93,598</u>	<u>79,875</u>
	6,729,281	6,275,408
Allowance for impairment (note 28)	<u>(154,216)</u>	<u>(138,374)</u>
	<u>6,575,065</u>	<u>6,137,034</u>

Allowances of impairment on receivables from Islamic financing activities have been disclosed in further detail in note 38.3.

The distribution of the gross Murabaha and other Islamic financing by industry sector and geographic region was as follows:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Industry:		
Personal	5,712,050	5,314,749
Trading	152,570	115,640
Energy	50,990	64,089
Transport & communication	107,515	79,292
Manufacturing	40,752	39,591
Agriculture	100,967	100,371
Others	<u>564,437</u>	<u>561,676</u>
	<u>6,729,281</u>	<u>6,275,408</u>
Geographic region:		
UAE	5,670,410	5,266,569
Kazakhstan	<u>1,058,871</u>	<u>1,008,839</u>
	<u>6,729,281</u>	<u>6,275,408</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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9 IJARA

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Retail Ijara Muntahia Bitamleek	1,456,546	1,525,152
Retail Ijara Mawsufa Fi-aldhimma	2,000	906
	<u>1,458,546</u>	<u>1,526,058</u>
Allowance for impairment (note 28)	<u>(23,228)</u>	<u>(38,773)</u>
	<u><u>1,435,318</u></u>	<u><u>1,487,285</u></u>

Ijara assets represent net investment in assets leased for periods which either approximate or cover majority of the estimated useful lives of such assets. The lease agreements stipulate that the lessor undertakes to transfer the leased assets to the lessee upon receiving the final rental payment.

Allowances of impairment on Ijara have been disclosed in further detail in note 38.3.

The distribution of the gross Ijara by industry sector and geographic region was as follows:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Industry:		
Personal	<u>1,458,546</u>	<u>1,526,058</u>
	<u><u>1,458,546</u></u>	<u><u>1,526,058</u></u>
Geographic region:		
UAE	<u>1,458,546</u>	<u>1,526,058</u>
	<u><u>1,458,546</u></u>	<u><u>1,526,058</u></u>

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10 INVESTMENT SECURITIES

	UAE AED'000	Other GCC countries AED'000	Others AED'000	Total AED'000
31 December 2023				
Fair value through other comprehensive income				
Quoted:				
Sukuk – Government securities	694,302	212,241	54,527	961,070
Sukuk – Public sector	242,292	71,225	-	313,517
Sukuk – Banks and financial institutions	92,073	-	-	92,073
Sukuk – Corporate	314,849	-	-	314,849
Equity instruments(*)	108,898	-	-	108,898
	<u>1,452,414</u>	<u>283,466</u>	<u>54,527</u>	<u>1,790,407</u>
Unquoted:				
Equity instruments	603	-	6,971	7,574
	<u>603</u>	<u>-</u>	<u>6,971</u>	<u>7,574</u>
Amortised cost				
Quoted:				
Sukuk – Government securities	109,168	-	388,654	497,822
Sukuk – Public sector	26,335	-	-	26,335
Sukuk – Banks and financial institutions	98,457	29,384	36,730	164,571
Sukuk – Corporate	97,891	-	-	97,891
	<u>331,851</u>	<u>29,384</u>	<u>425,384</u>	<u>786,619</u>
	<u>1,784,868</u>	<u>312,850</u>	<u>486,882</u>	<u>2,584,600</u>
31 December 2022				
Fair value through other comprehensive income				
Quoted:				
Sukuk – Government securities	1,103,635	27,272	54,128	1,185,035
Sukuk – Public sector	240,921	284,268	-	525,189
Sukuk – Banks and financial institutions	379,373	-	-	379,373
Sukuk – Corporate	315,677	-	-	315,677
Equity instruments(*)	143,487	-	-	143,487
	<u>2,183,093</u>	<u>311,540</u>	<u>54,128</u>	<u>2,548,761</u>
Unquoted:				
Equity instruments	2,320	-	6,852	9,172
	<u>2,320</u>	<u>-</u>	<u>6,852</u>	<u>9,172</u>
Amortised cost				
Quoted:				
Sukuk – Government securities	121,955	-	432,452	554,407
Sukuk – Public sector	25,887	-	-	25,887
Sukuk – Banks and financial institutions	113,205	29,384	36,730	179,319
Sukuk – Corporate	99,198	-	-	99,198
	<u>360,245</u>	<u>29,384</u>	<u>469,182</u>	<u>858,811</u>
	<u>2,545,658</u>	<u>340,924</u>	<u>530,162</u>	<u>3,416,744</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

10 INVESTMENT SECURITIES continued

As at 31 December 2023, the allowance for impairment on Sukuk securities designated at FVTOCI amounting to AED 1,158 thousand (2022: AED 2,570 thousand) is included in fair value reserve of investments carried at FVTOCI and recognised in other comprehensive income.

The investment security risk grade analysis based on external ratings is shown below:

	2023	2022
	AED'000	AED'000
AAA to AA-	36,730	36,730
AA+ to AA-	55,095	55,095
A+ to A-	704,982	980,468
BBB+ to BBB-	929,005	1,193,002
BB+ to BB-	742,316	737,555
B+ to B-	-	34,337
Unrated	<u>116,472</u>	<u>379,557</u>
	<u>2,584,600</u>	<u>3,416,744</u>

In case of more than one rating by three external credit risk agencies (S&P, Fitch and Moody's), the lowest rating is applied.

Unrated Sukuk includes sovereign exposures to a local government in the UAE amounting to Nil (2022: AED 252,767 thousand). The Group has not purchased shares during the year ended 31 December 2023.

11 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group enters into various types of transactions that involve Islamic derivative financial instruments. Islamic derivative financial instruments include Islamic promises to exchange currency and / or cash flows.

Islamic derivatives are measured at fair value by reference to published price quotations in an active market, counterparty prices or valuation techniques such as discounted cash flows.

The table below shows the positive and negative fair values of Islamic derivative financial instruments together with the notional amounts.

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

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11 ISLAMIC DERIVATIVE FINANCIAL INSTRUMENTS continued

	<i>Positive market value AED'000</i>	<i>Negative market value AED'000</i>	<i>Notional amount AED'000</i>	<i>Less than 3 months AED'000</i>	<i>3-12 months AED'000</i>	<i>1-5 years AED'000</i>	<i>Total AED'000</i>
31 December 2023							
Islamic derivatives held for hedging purposes							
Profit rate swaps	<u>23,114</u>	<u>(25)</u>	<u>751,863</u>	<u>-</u>	<u>257,110</u>	<u>494,753</u>	<u>751,863</u>
	<u>23,114</u>	<u>(25)</u>	<u>751,863</u>	<u>-</u>	<u>257,110</u>	<u>494,753</u>	<u>751,863</u>
31 December 2022							
Islamic derivatives held for hedging purposes							
Profit rate swaps	<u>36,786</u>	<u>(46)</u>	<u>1,064,474</u>	<u>228,123</u>	<u>29,393</u>	<u>806,958</u>	<u>1,064,474</u>
	<u>36,786</u>	<u>(46)</u>	<u>1,064,474</u>	<u>228,123</u>	<u>29,393</u>	<u>806,958</u>	<u>1,064,474</u>

12 INVESTMENT PROPERTIES

The fair value of the Group's investment property is categorised into level 3 of the fair value hierarchy. The fair value of the investment property was determined by an external, independent property valuer having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. To arrive at the current market value of the property, the sale price per square foot of comparable properties was utilized. Change in the fair value for the year 2023 resulted in a gain of AED 600 thousand (2022: gain of AED 2,425 thousand) which was recorded under other operating income (note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

13 PROPERTY AND EQUIPMENT, NET

Property and equipment at 31 December 2023 comprise:

	Land and building <i>AED'000</i>	Leasehold improvements <i>AED'000</i>	Computer systems <i>AED'000</i>	Furniture and fixtures <i>AED'000</i>	Right Of use asset <i>AED'000</i>	Capital work in progress <i>AED'000</i>	Total <i>AED'000</i>
Cost:							
At 1 January 2023	630,467	176,658	360,592	29,641	59,870	22,484	1,279,712
Additions	-	3,235	3,349	2,848	355	331	10,118
Transfers	-	2,540	15,652	-	-	(18,192)	-
Disposals	-	-	-	(60)	(275)	-	(335)
Translation adjustments	23	52	(267)	27	169	-	4
At 31 December 2023	630,490	182,485	379,326	32,456	60,119	4,623	1,289,499
Accumulated depreciation and impairment:							
At 1 January 2023	332,573	133,217	345,030	4,905	42,175	-	857,900
Charge for the year	10,010	11,081	12,268	1,457	6,584	-	41,400
Disposals	-	-	-	(60)	-	-	(60)
Translation adjustments	13	49	(288)	17	26	-	(183)
At 31 December 2023	342,596	144,347	357,010	6,319	48,785	-	899,057
Net book value:							
At 31 December 2023	287,894	38,138	22,316	26,137	11,334	4,623	390,442

Included in land and building are three plots of land granted by the Government to the Bank with each having a carrying value of AED 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

13 PROPERTY AND EQUIPMENT, NET continued

Property and equipment at 31 December 2022 comprise:

	Land and building <i>AED '000</i>	Leasehold improvements <i>AED '000</i>	Computer systems <i>AED '000</i>	Furniture and fixtures <i>AED '000</i>	Right Of use asset <i>AED '000</i>	Capital work in progress <i>AED '000</i>	Total <i>AED '000</i>
Cost:							
At 1 January 2022	636,534	174,026	359,839	54,761	69,649	90,384	1,385,193
Additions	-	2,888	2,334	599	1,525	69,663	77,009
Transfers	-	-	1,172	(146)	-	(1,026)	-
Disposals	(5,615)	-	(2,336)	(25,451)	(9,955)	(136,537)	(179,894)
Translation adjustments	(452)	(256)	(417)	(122)	(1,349)	-	(2,596)
At 31 December 2022	630,467	176,658	360,592	29,641	59,870	22,484	1,279,712
Accumulated depreciation and impairment:							
At 1 January 2022	322,624	118,332	326,721	29,467	42,160	-	839,304
Charge for the year	10,009	15,097	20,594	1,059	9,121	-	55,880
Disposals	-	(3)	(2,032)	(25,536)	(8,617)	-	(36,188)
Translation adjustments	(60)	(209)	(253)	(85)	(489)	-	(1,096)
At 31 December 2022	332,573	133,217	345,030	4,905	42,175	-	857,900
Net book value:							
At 31 December 2022	297,894	43,441	15,562	24,736	17,695	22,484	421,812

Included in land and building are three plots of land granted by the Government to the Bank with each having a carrying value of AED 1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

14 INVESTMENT IN ASSOCIATES

Details of each of the Group's associates at the end of the reporting period are as follows:

Name of associate	Principal activity	Proportion of ownership	
		2023	2022
GCC Equity Fund	Investment	90.19%	83.66%
Global Sukuk Fund	Investment	27.63%	19.37%

All of the above associates are incorporated in UAE and are accounted for using the equity method in consolidated financial statements as set out in the Group's accounting policies in note 3.

The latest available audited financial information in respect of the Group's associates is as follows:

	<i>GCC Equity Fund 2023 AED'000</i>	<i>Global Sukuk Fund 2023 AED'000</i>
Total assets	18,719	131,728
Total liabilities	703	382
Net assets	18,016	131,346
Bank's share in net assets of associates	16,249	36,291
Total revenue	2,045	7,520
Profit for the year	907	4,565
Bank's share in profit of associates	818	1,261

15 INTANGIBLE ASSETS, NET

	<i>2023 AED'000</i>	<i>2022 AED'000</i>
Cost:		
At 1 January	141,187	-
Additions	56,930	141,187
At 31 December	198,117	141,187
Accumulated amortization		
At 1 January	13,227	-
Charge for the year	21,943	13,227
At 31 December	35,170	13,227
Net book value:		
At 31 December	162,947	127,960

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16 OTHER ASSETS

	<i>2023</i>	<i>2022</i>
	<i>AED'000</i>	<i>AED'000</i>
Financial assets		
Income receivable	33,151	42,784
Others	94,825	100,363
	<u>127,976</u>	<u>143,147</u>
Non financial assets		
Murabaha inventory	49,937	43,746
Prepaid expenses	9,964	8,253
Prepaid staff allowances	5,906	4,238
	<u>65,807</u>	<u>56,237</u>
	<u><u>193,783</u></u>	<u><u>199,384</u></u>

17 DEPOSITS FROM CUSTOMERS

	<i>2023</i>	<i>2022</i>
	<i>AED'000</i>	<i>AED'000</i>
By account:		
Wakala deposits	1,914,210	946,203
Current accounts	1,935,950	1,835,550
Savings accounts	3,856,038	4,029,157
Time deposits	396,046	711,481
	<u>8,102,244</u>	<u>7,522,391</u>
Industry:		
Consumers	6,556,532	6,139,455
Corporate	1,086,807	1,106,514
Government	238,426	91,240
GRE and Public related entities	220,479	185,182
	<u>8,102,244</u>	<u>7,522,391</u>
Geographic region:		
UAE	7,162,353	6,589,948
Kazakhstan	881,672	855,666
Others	58,219	76,777
	<u>8,102,244</u>	<u>7,522,391</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18 MEDIUM TERM FINANCING

Medium Term Sukuk

On 19 September 2018, the Bank through a Shariah compliant Sukuk arrangement raised a medium term Sukuk at a discount amounting to AED 1,834,499 thousand (Par value of USD 500,000 thousand) under the USD 2,500,000 thousand Trust Certificate Programme which was updated in August 2018. The medium term sukuk had matured on 19 September 2023. The Sukuk was listed on the Irish Stock Exchange (Euronext Dublin). The issuance had a contractual maturity of five years and bears an expected profit rate of 4.375%.

Terms of arrangement

The terms of the arrangement include transfer of the ownership of certain assets (“the Co-Owned Assets”), including original Ijara assets of the Bank, to a Sukuk company, AHB Sukuk Company Ltd - the Issuer, a subsidiary of the Bank, specially formed for the Sukuk transaction. The assets are owned by the investors; however, the assets are managed by the Bank, credit risk resides with the Bank and shall continue to be serviced by the Bank as the managing agent.

The issuer will pay the semi-annual distribution amount from returns received in respect of the Co-Owned Assets. Such proceeds are expected to be sufficient to cover the semi annual amount payable to the Sukuk holders on the distribution dates. Upon maturity of the Sukuk, the Issuer will have the right to require the Bank to purchase all of the co-owned Assets for payment of the relevant dissolution distribution amount under Sukuk which includes the outstanding face amount of Sukuks and any accrued but unpaid periodic distribution.

International Reverse Murabaha

In 2020, Al Hilal Islamic Bank PJSC entered international reverse murabaha agreements with JSC DAMU Entrepreneurship Development Fund. As at 31 December 2023, the outstanding balance amounted to AED 82,265 thousand (2022: AED 81,198 thousand) with a contractual maturity of seven years and bears an expected profit rate that ranges from 8.5% to 9.5%.

19 OTHER LIABILITIES

	2023 AED'000	2022 AED'000
Financial liabilities		
Accounts payable	157,639	74,424
Deferred income	27,375	33,173
Lease liability	9,011	14,190
Charity payable	9,530	8,545
Others	42,761	46,542
	<u>246,316</u>	<u>176,874</u>
Non financial liabilities		
Accrued expenses	229,787	204,516
Provision on unfunded facilities (note 27)	97	24
Advance administrative fees	66	60
	<u>229,950</u>	<u>204,600</u>
	<u>476,266</u>	<u>381,474</u>

Accrued expenses also include an amount of AED 9,289 thousand (2022: AED 10,302 thousand) of depositor’s profit reserve (Investment Risk Reserve-IRR) and the zakat due on these reserves. The Group is discharging this Zakat on behalf of depositors. Amount of AED 1,016 thousand (2022: AED 624 thousand) were added to IRR and AED 2,029 thousand (2022: 3,755 thousand) were utilized from IRR during year 2023. IRR is being adequately maintained during last year and is sufficient to cover the upcoming adverse situations (if any). Hence, no amount added/(utilized) on Profit Equalization Reserve (PER) and the same has been maintained as Nil (2022: nil) for year 2023. Charity payable represents profits forfeited by the Internal Shariah Supervision Committee, commitment to donate (late payment) amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

20 SHARE CAPITAL AND STATUTORY RESERVE

Share capital

As at 31 December 2022, the authorized share capital of the Bank comprises of 5,250,000 thousand ordinary shares of AED 1 each. The issued and fully paid up share capital as at 31 December 2022 comprise of 4,750,000 thousand ordinary shares of AED 1 each.

In December 2023, The Bank increased its issued and fully paid up share capital by 100,000 thousand ordinary shares of AED 1 each. As at 31 December 2023, the issued and fully paid up share capital comprise of 4,850,000 thousand ordinary shares of AED 1 each.

After the effective date of merger and acquisition, ADCB holds 100% of the issued and paid share capital. The Bank's shares are not listed on a recognised stock exchange.

Statutory reserve

The UAE Federal Law No.2 of 2015 and the Bank's Articles of Association require that 10% of the annual net profit to be transferred to a statutory reserve until it equals 50% of the paid-up share capital. The statutory reserve is not available for distribution. Transfers to the statutory reserve, if any, are made at year end. For the year ended 31 December 2023, transfer of AED Nil (2022: AED 3,782 thousand) was made during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21 OTHER RESERVES

	Fair value reserve AED'000	Foreign currency translation reserve AED'000	Total AED'000
1 January 2022	72,504	(220,913)	(148,409)
Net loss on investment securities designated at fair value through other comprehensive income	(139,344)	-	(139,344)
Exchange differences on translation of foreign operations	<u>-</u>	<u>(9,820)</u>	<u>(9,820)</u>
1 January 2023	(66,840)	(230,733)	(297,573)
Net gain on investment securities designated at fair value through other comprehensive income	8,660	-	8,660
Exchange differences on translation of foreign operations	<u>-</u>	<u>2,298</u>	<u>2,298</u>
31 December 2023	<u>(58,180)</u>	<u>(228,435)</u>	<u>(286,615)</u>

22 INCOME FROM ISLAMIC FINANCING ACTIVITIES, NET

	2023 AED'000	2022 AED'000
Income from Murabaha – retail	310,177	308,441
Income from Murabaha – corporate	<u>88,522</u>	<u>64,962</u>
	<u>398,699</u>	<u>373,403</u>

23 INCOME FROM IJARA, NET

	2023 AED'000	2022 AED'000
Income from Ijara – retail	87,600	70,514
Income from Ijara – corporate	<u>-</u>	<u>4</u>
	<u>87,600</u>	<u>70,518</u>

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24 FEES AND COMMISSION INCOME, NET

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Card related fee	79,508	115,248
Trade finance commission	21	22
Finance processing fee	12,454	6,946
Insurance commission	1,297	1,223
Accounts related fee	2,039	2,507
Asset management services	1,469	3,289
Others	<u>5,581</u>	<u>4,890</u>
	102,369	134,125
Fees and commission expenses	<u>(74,698)</u>	<u>(58,315)</u>
	<u><u>27,671</u></u>	<u><u>75,810</u></u>

25 TRADING INCOME, NET

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Net gains from dealing in foreign currencies	<u>8,962</u>	<u>15,431</u>
	<u><u>8,962</u></u>	<u><u>15,431</u></u>

26 OTHER OPERATING INCOME

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Dividends income	7,609	4,310
Net gain from non trading investments	1	19,003
Others	<u>(64)</u>	<u>10,802</u>
	<u><u>7,546</u></u>	<u><u>34,115</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

27 OPERATING EXPENSES

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Staff expenses	235,503	219,137
General administrative expenses	197,792	173,556
Depreciation (Note 13)	41,400	55,880
Amortisation of intangible assets (Note 15)	<u>21,943</u>	<u>13,227</u>
	<u><u>496,638</u></u>	<u><u>461,800</u></u>

28 IMPAIRMENT ALLOWANCE

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
At the beginning of the year	<u>179,795</u>	<u>221,096</u>
Allowances for impairment made during the year	65,455	51,575
Unwinding on renegotiated financings	(8,155)	(6,926)
Net amounts written-off	(58,396)	(85,574)
Currency translation	<u>14</u>	<u>(376)</u>
At end of the year	<u><u>178,713</u></u>	<u><u>179,795</u></u>
Impairment charges, net		
Allowances for impairment made during the year	65,455	51,575
Recoveries during the year	<u>(43,079)</u>	<u>(49,682)</u>
Net charge for the year	<u><u>22,376</u></u>	<u><u>1,893</u></u>

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Deposits & balances due from banks, net	14	54
Receivables from Islamic financing activities	154,216	138,374
Ijara	23,228	38,773
Investment securities	1,158	2,570
Other liabilities	<u>97</u>	<u>24</u>
	<u><u>178,713</u></u>	<u><u>179,795</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

29 DEPOSITORS' AND SUKUK HOLDERS' SHARE OF PROFITS

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Wakala	180,208	57,547
Medium term financing	68,390	91,547
Mudaraba	<u>31,156</u>	<u>29,935</u>
	<u><u>279,754</u></u>	<u><u>179,029</u></u>

The Bank invests all of its investment deposits including saving accounts, adjusted for UAE Central Bank reserve requirements and the Group's liquidity requirements. With respect to investment deposits, the Bank is liable only in case of wilful misconduct, negligence or breach of contract otherwise it is on the account of the fund's provider (Rab Al Mal) or the principal (the Muwakkil).

30 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following amounts with original contractual maturities of less than three months:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Cash and balances with central banks	2,018,449	1,168,564
Deposits & balances due from banks (note 7)	<u>87,082</u>	<u>199,325</u>
	<u><u>2,105,531</u></u>	<u><u>1,367,889</u></u>

31 COMMITMENTS AND CONTINGENCIES

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Letters of guarantee	<u>102,914</u>	<u>74,183</u>
Revocable commitments to extend credit	<u>423,469</u>	<u>364,646</u>
Capital commitments	<u>31,636</u>	<u>75,041</u>
Operating lease commitments	<u>3,043</u>	<u>917</u>

As at 31 December 2023, ECL on unfunded exposures amounted to AED 97 thousand (2022: AED 24 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

32 GROUP ENTITIES

<i>Subsidiaries</i>	<i>Country of incorporation</i>	<i>Ownership</i>	
		2023	2022
Al Hilal Islamic Bank PJSC	Kazakhstan	100%	100%
Al Hilal Leasing LLP	Kazakhstan	100%	100%
AHB Sukuk Company Limited*	Cayman	-	-

*The Group does not have direct holding in AHB Sukuk Company Limited, which is considered to be a subsidiary by virtue of control.

33 RELATED PARTIES

Identification of related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties comprise the Shareholder, directors and key management personnel of the Group. The terms of these transactions are approved by the Group's management and are made on terms agreed by the Board of Directors or management.

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 commercial profit and commission rates which are generally at market terms.

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.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

Parent and ultimate controlling party

ADCB holds 100% of the Group issued and fully paid up share capital. Mubadala Investment Company holds 60.20% of ADCB's issued and fully paid up share capital through its wholly owned subsidiary One Hundred and Fourteenth Investment Company – Sole Proprietorship LLC (December 31, 2023 – 60.20% held by Mubadala Investment Company through Abu Dhabi Investment Council Company PJSC). The Government of Abu Dhabi owns 100% of Mubadala Investment Company and so the ultimate controlling party is the Government of Abu Dhabi.

Compensation of directors and key management personnel

Key management remuneration for the years ended 31 December 2023 and 31 December 2022 comprise:

	2023	2022
	AED'000	AED'000
Short term employment benefits	19,471	20,868
Post employment benefits	1,572	1,660

For the year ended 31 December 2023 short term employment benefits includes termination cost of AED 1,573 thousand (2022: AED 747 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

33 RELATED PARTIES continued

Terms and conditions

Islamic financing and deposits are granted and accepted in various currency denominations and for various time periods from related parties. Profit rates earned on Murabaha financing facilities extended to related parties during the year have ranged from 0.01% to 2.98% per annum (2022: 0.01% to 3.75% per annum).

Profit distribution rates paid on customers' investment accounts placed by related parties during the year have ranged from 0.17% to 6.14% per annum (2022: 0.19% to 4.29% per annum).

Fees and commissions earned on transactions with related parties during the year have ranged from 0.40% to 3.00% per annum (2022: 0.40% to 3.00% per annum).

Collaterals against financing to related parties range from being unsecured to fully secure.

Except for transactions carried out with the ultimate Parent and its group of companies, all transactions with the government and its related concerns are deemed to occur within the normal course of business.

Particulars of transactions with related parties, disclosed pursuant to the requirements of IAS 24, are shown below. The balances and transactions with related parties comprise:

	<i>Balances: 31 December 2023</i>				
	<i>Ultimate controlling</i>	<i>Senior management</i>		<i>Associates and</i>	<i>Total</i>
	<i>party and its</i>	<i>Directors and</i>	<i>personnel and their</i>	<i>Funds under</i>	
<i>related parties</i>	<i>related parties</i>	<i>related parties</i>	<i>management</i>		
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Deposits & balances due from banks, net	-	-	-	-	-
Receivables from Islamic financing activities and Ijara	-	-	6,466	-	6,466
Investment securities	147,327	-	-	-	147,327
Islamic derivative financial instruments - assets	21,072	-	-	-	21,072
Other assets	35,506	-	3	-	35,509
Deposits from customers	4,693	4,128	716	-	9,537
Wakala deposits from banks	3,345,153	-	-	-	3,345,153
Other liabilities	87,869	5	-	-	87,874
Commitments and contingent liabilities	40	-	118	-	158

	<i>Balances: 31 December 2022</i>				
	<i>Ultimate controlling</i>	<i>Senior management</i>		<i>Associates and</i>	<i>Total</i>
	<i>party and its</i>	<i>Directors and</i>	<i>personnel and their</i>	<i>Funds under</i>	
<i>related parties</i>	<i>related parties</i>	<i>related parties</i>	<i>management</i>		
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Deposits & balances due from banks, net	100,000	-	-	-	100,000
Receivables from Islamic financing activities and Ijara	-	-	6,888	-	6,888
Investment securities	147,657	-	-	-	147,657
Islamic derivative financial instruments - assets	33,024	-	-	-	33,024
Other assets	20,681	-	13	-	20,694
Deposits from customers	4,966	2,187	547	-	7,700
Wakala deposits from banks	1,864,048	-	-	-	1,864,048
Other liabilities	854	-	-	-	854
Commitments and contingent liabilities	40	-	186	-	226

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

33 RELATED PARTIES continued

	<i>Transactions: 31 December 2023</i>				<i>Total AED'000</i>
	<i>Ultimate controlling party and its related parties AED'000</i>	<i>Directors and related parties AED'000</i>	<i>Senior management personnel and their related parties AED'000</i>	<i>Associates and Funds under management AED'000</i>	
	Profit income, fees and other income	6,365	4	166	
Depositors' and sukuk holders' share of profits	116,131	18	57	-	116,206
Share in profit of associate	-	-	-	2,079	2,079

	<i>Transactions: 31 December 2022</i>				<i>Total AED'000</i>
	<i>Ultimate controlling party and its related parties AED'000</i>	<i>Directors and related parties AED'000</i>	<i>Senior management personnel and their related parties AED'000</i>	<i>Associates and Funds under management AED'000</i>	
	Profit income, fees and other income	111,265	77	312	
Depositors' and sukuk holders' share of profits	30,683	3	-	-	30,686
Share in profit of associate	-	-	-	(4,574)	(4,574)

The Bank entered into a profit rate swap, where the (loss)/ gain was with a related party and the gain/ (loss) with a non-related party.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

34 OPERATING SEGMENT

34.1 Basis for segmentation

The Group is structured into the following three segments which offer different products and services and are managed separately based on the Group's management and internal reporting structure.

Wholesale Banking Group ("WBG") provides Shariah compliant financial solutions to both the private and public sector in Kazakhstan, with a focus on financing the working capital and investment needs of corporate customers, as well as cash management and foreign exchange.

Personal Banking Group ("PBG") provides Shariah compliant products and services that are designed to meet the financial needs of individuals which include wealth management, personal financings, vehicle financings, home financings, Islamic credit cards as well as day to day banking requirements such as account management, cash transfers and cheque management.

Treasury Banking Group ("TBG") provides Shariah compliant services to handle money market, trading and other treasury services, as well as the management of the Bank's funding operations by use of investment deposits.

34.2 Information about reportable segments

Information related to each reportable segment is set out below. Segment profit or loss, as included in the internal management reports reviewed by the Management Executive Committee (MEC) used to measure the performance of each segment.

Reportable segment information for the year ended 31 December 2023 and 31 December 2022 are as follows:

	PBG	WBG	TBG	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2023				
Segment revenues, net	330,986	52,304	20,849	404,139
Operating expenses	<u>(463,743)</u>	<u>(31,165)</u>	<u>(1,730)</u>	<u>(496,638)</u>
Net operating income	(132,757)	21,139	19,119	(92,499)
Impairment charges, net	(29,265)	5,475	1,414	(22,376)
Share of profit in associates	2,079	-	-	2,079
Overseas income tax charge	-	<u>(11,017)</u>	-	<u>(11,017)</u>
Reportable segment (loss)/ profit	<u>(159,943)</u>	<u>15,597</u>	<u>20,533</u>	<u>(123,813)</u>
Reportable segment assets	<u>8,042,964</u>	<u>1,015,110</u>	<u>4,535,782</u>	<u>13,593,856</u>
Reportable segment liabilities	<u>7,526,205</u>	<u>962,350</u>	<u>3,517,187</u>	<u>12,005,742</u>
31 December 2022				
Segment revenues, net	402,748	61,096	49,890	513,734
Operating expenses	<u>(435,133)</u>	<u>(24,720)</u>	<u>(1,947)</u>	<u>(461,800)</u>
Net operating income	(32,385)	36,376	47,943	51,934
Impairment charges, net	1,445	(2,498)	(840)	(1,893)
Share of profit in associates	(4,574)	-	-	(4,574)
Overseas income tax charge	-	<u>(7,378)</u>	-	<u>(7,378)</u>
Reportable segment (loss)/ profit	<u>(35,514)</u>	<u>26,500</u>	<u>47,103</u>	<u>38,089</u>
Reportable segment assets	<u>7,711,987</u>	<u>957,062</u>	<u>4,641,147</u>	<u>13,310,196</u>
Reportable segment liabilities	<u>7,052,616</u>	<u>790,764</u>	<u>3,865,847</u>	<u>11,709,227</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

34 OPERATING SEGMENTS continued

34.2 Information about reportable segments continued

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

	<i>PBG</i> <i>AED'000</i>	<i>WBG</i> <i>AED'000</i>	<i>TBG</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 December 2023				
Revenue, net	364,064	48,506	(8,431)	404,139
Inter segment revenues	(33,078)	3,798	29,280	-
Segment revenues, net	330,986	52,304	20,849	404,139
31 December 2022				
Revenue, net	424,628	59,986	29,120	513,734
Inter segment revenues	(21,880)	1,110	20,770	-
Segment revenues, net	402,748	61,096	49,890	513,734

34.3 Geographic information

The Group operates primarily in the UAE and designates it as the domestic segment. The operations originating from its branches, associates and subsidiaries in the domestic segment form a significant portion of the Group's total assets and liabilities. The international segment represents the operations of the Group that originate from its presence in Kazakhstan. As the size of these operations and exposures is not significant, no further geographical analysis of segment revenues, expenses, assets and liabilities is presented.

35 INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

<i>Name of entity</i>	<i>Interest held by the Group 2023</i>	<i>Interest held by the Group 2022</i>
Al Hilal Global Sukuk Fund	Associate (note 14)	Associate (note 14)
Al Hilal GCC Equity Fund	Associate (note 14)	Associate (note 14)

36 FUND MANAGEMENT FEES AND FIDUCIARY ACTIVITIES

The Group manages and administers assets held in trust or in fiduciary capacity on behalf of its customers. The underlying assets held in a custodial or fiduciary capacity are excluded from the consolidated financial statements of the Group.

The management fees earned by the Group from its fund management activities as per latest financial statements dated 31 December 2023 was AED 1,108 thousand (2022: AED 2,933 thousand).

37 ZAKAT

As the Bank is not required to pay Zakat by laws or by its Articles and Memorandum of Association or by a decision of the General Assembly, accordingly the responsibility of paying Zakat is that of the shareholders. Based on the management valuation of the Bank's net assets, which are subject to Zakat, the share value, for Zakat purposes based on Gregorian year, was estimated at AED 30,456 thousand (2022:27,908 thousand) and accordingly, Zakat is estimated at AED 0.0062 (2022: AED 0.0059) per outstanding share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 FINANCIAL RISK MANAGEMENT

38.1 Financial risk factors

The Group's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks.

Financial instruments are fundamental to the Group's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Group. Financial instruments create, modify or reduce the credit, market and liquidity risks of the Group's balance sheet.

Risk taking is core to the banking business and financial /operational risks are an inevitable consequence of such activities. The Group's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and procedures to reflect changes in regulations, markets, products and emerging best practice in order to keep financial risk at a minimum and acceptable level within agreed risk appetite parameters.

The Group has exposure to financial instruments which entails the following financial risks:

- Credit risk - The risk of financial loss where a customer or counterparty fails to meet their financial obligations;
- Market risk - The risk of an adverse impact on earnings resulting from changes in market factors, such as foreign exchange rates and profit rates.
- Liquidity risk - The risk that the Group will be unable to fund assets and meet obligations as they become due;
- Operational risk – The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events including legal risk but excluding strategic or reputational risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.2 Risk Governance Framework

Risk management is integral to the operations and risk culture of the Group. The Board of Directors (“The Board”) places significant importance on strong risk governance when shaping the Group’s strategy and managing risks effectively. Risks are proactively managed within the Group with a clear framework of risk ownership by respective stakeholders. The Bank’s Risk Governance framework is part of overall approach to corporate governance. The Risk Governance Framework provides guidance on the ongoing development, enhancement and implementation of the Bank’s Risk Management infrastructure which covers methodologies, structures, policies, procedures, limits, monitoring, managing mechanism and systems. Risk Governance Framework is established given the consideration of risk profile, nature, size and complexity of the Bank’s business and structure. The Bank’s risk governance structure ensures oversight of, and accountability for, the effective management of risk at the Group.

The Group’s business strategy is to achieve the objective of being a strong digital financial player and at the same time managing risks associated with this objective effectively. The risk management supports this objective and promotes the transparency within the Group. Under the Group’s approach to risk governance, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls and monitoring and reporting their ongoing effectiveness to safeguard the Group from exceeding its risk appetite

The Board has the ultimate responsibility for setting out the risk appetite and effective management of risk for the Group. The Board’s risk strategy is reflected in its Risk Appetite Statement (“RAS”). These describe the amount of each risk type that the Bank is willing to take in pursuit of its strategic objectives.

The Management Executive Committee (MEC) has the primary responsibility for implementing, overseeing and taking ownership for the enforcement of strategy and internal control directives laid down by the Board. The Management level committees also actively manage risk through the Asset and Liabilities Committee (“ALCO”) and the Risk Management Committee (“RMC.”).

The ALCO is responsible structuring and monitoring the balance sheet from a risk-return perspective including the strategic management of profit rate, foreign exchange and liquidity risks. The RMC supports the Board Risk Committee (“BRC”) to fulfil its responsibilities in relation to the oversight of the development and implementation of risk management strategies and limits, the alignment of the Bank’s strategic objectives with its risk profile, the risks in the Bank’s asset portfolios, the compliance with regulatory requirements relating to risk management.

The Risk Management function headed by the Chief Risk Officer reports to the Board Risk Committee (BRC). The risk function is independent of the origination function to ensure the 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 exercises control over credit, market, liquidity, operational, fraud, data governance and information security risk and business continuity risk.

The Internal Audit division (IAD) aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of the Bank’s risk management, control and governance processes. The IAD auditors, alongside the compliance department, also ensure that policies and procedures undertaken by the Group are conducted in compliance with applicable legal and regulatory requirements and in accordance with the Group’s internal procedures.

38.3 Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group’s receivables from Islamic financing activities, Ijara, and Investments. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure such as counterparty default risk and geographical risk for risk management purposes.

The objective of credit risk management is to undertake an independent review and objective assessment of risk for all credit facilities as well as to both partner and challenge the businesses in defining, implementing, and continually re-evaluating the risk appetite in line with the Group’s policies, procedures and change in market conditions and regulations.

Credit applications for Personal banking customers are reviewed and approved by the Credit underwriting team in line with the approved policies and delegated approval authorities. Credit policies for the Personal Banking Group asset products are reviewed by the Retail Risk Policies & Portfolio Management team to ensure that the associated risks against financing are minimized.

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For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

The Risk management department ensures that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances for facilities in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance. Risk Management is also responsible for establishing a sound credit risk accounting 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. It is also responsible for providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Approved policies govern all delegated financing authorities and include policies, strategies and procedures specific to the Group's business and are decided based on 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 the Group. The internal audit function performs regular audits making sure that the established controls and procedures are adequately designed and implemented.

ECL measurement

Group credit risk is measured in terms of expected credit loss (ECL), which is calculated by utilizing the key input of probability of default (PD), loss given default (LGD) and the exposure at default EAD). These inputs are generally derived from statistical models and other historical data and they are adjusted to reflect probability weighted forward looking information.

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions. In addition, the estimation of ECL takes into account the time value of money.

As per IFRS 9 requirements, the Group calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility.

12 Month or Lifetime ECL for each facility is being determined depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed, 12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk has been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

Significant increase in credit risk (SICR)

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 quantitative such as significant increase in Point-in-time (PIT) PD since origination, 30 days past due (DPD) and restructured in the last 12 months and qualitative. The SICR indicators per type of asset and the rating deterioration that are determined to be significant are summarised below.

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For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

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

Grade/facility status	SICR indicators
All grades	Annualized lifetime PD is 3 times or more than the PD at origination
Credit restructured	Restructured for credit reasons in the last 12 months
Watch list	Accounts that are more than 30 days past due (DPD)
Others	All other criteria as per Central Bank

However, low credit risk exposure, defined as rated 3 and better for corporate and financial institutions and rated 4- and better for sovereign, are classified as stage 1.

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.

For retail loans and credit cards, SICR is assessed at a portfolio level through metrics such as:

The extent of salary credits into customer accounts who have a borrowing (currently a portfolio threshold of 80% or lower will trigger a SICR review); and
Al Etihad Credit Bureau (AECB) alerts pertaining to occurrence of delinquency with other Banks, but regular with ADCB, (currently a portfolio threshold of 3.5% or higher will trigger a SICR review).

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

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 subject to a materiality threshold. The top 70% of the non retail exposures are individually assessed for staging.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued

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 on the models used to ensure that the models are still performing and predict well the default and loss rates for the Bank and take action in a timely manner in case of non-performance.

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 which are also supplemented by external feed of other variables by Moodys.

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 multiple macroeconomic models to cater the portfolio size and ensure homogeneity within the segments.

The table below summarises the principal macro-economic indicators included in the economic scenarios used at December 31, 2023 for the years 2024 to 2026, 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 variables used	Definition	Scenario	2024	2025	2026
Oil price, Brent USD	Price per barrel	Base	88	82	79
		Upside	95	97	95
		Downside	81	65	64
Real GDP growth	% change	Base	4.0	3.9	4.0
		Upside	5.3	5.0	4.7
		Downside	2.5	2.3	1.9
Real non-oil GDP growth	% change	Base	4.2	4.4	3.8
		Upside	4.5	4.6	4.4
		Downside	2.8	2.5	2.3
Consumer inflation	% annual average	Base	2.7	1.7	1.4
		Upside	3.5	3.0	3.0
		Downside	1.2	0.7	0.0
Dubai real estate sale prices	% change	Base	7.0	5.0	2.0
		Upside	11.0	8.0	5.0
		Downside	0.0	0.0	-1.0

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

Collateral management

The Group holds collateral against various credit risk exposures in the form of mortgage over property, fixed deposits and guarantees. Collateral and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collateral include cash/ fixed deposits, guarantees, immovable properties, vehicles.

Collateral is revalued regularly as per the bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered.

Exposure to credit risk

The Group measures its exposures to credit risk by reference to the gross carrying amount of financial assets.

As at 31 December 2023 and 31 December 2022, the Group's maximum exposure to credit risk before collateral held or other credit enhancements was as follows:

	<i>Notes</i>	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Deposits & balances due from banks, net	7	87,082	199,325
Receivables from Islamic financing activities	8	6,729,281	6,275,408
Ijara	9	1,458,546	1,526,058
Investment securities	10	2,468,128	3,264,085
Other assets	16	<u>127,976</u>	<u>143,147</u>
		<u>10,871,013</u>	<u>11,408,023</u>
Commitments and contingencies	31	<u>526,383</u>	<u>438,829</u>

As at 31 December 2023 and 31 December 2022, the distribution by geographical region of major categories of assets and commitments as per Central Bank guidelines was as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	<i>United Arab Emirates AED'000</i>	<i>Kazakhstan AED'000</i>	<i>Others AED'000</i>	<i>Total AED'000</i>
31 December 2023				
Assets				
Balances with central banks	1,633,611	193,393	-	1,827,004
Deposits & balances due from banks, net	168	1,440	85,460	87,068
Receivables from Islamic financing activities	5,518,315	1,056,750	-	6,575,065
Ijara	1,435,318	-	-	1,435,318
Investment securities	1,784,868	6,971	792,761	2,584,600
Other assets	111,844	10,176	5,956	127,976
Total	10,484,124	1,268,730	884,177	12,637,031
Commitments and contingencies	174,403	351,980	-	526,383
31 December 2022				
Assets				
Balances with central banks	946,879	31,867	-	978,746
Deposits & balances due from banks, net	100,270	3,555	95,446	199,271
Receivables from Islamic financing activities	5,131,791	1,005,243	-	6,137,034
Ijara	1,487,285	-	-	1,487,285
Investment securities	2,545,658	6,852	864,234	3,416,744
Other assets	127,515	9,305	6,327	143,147
Total	10,339,398	1,056,822	966,007	12,362,227
Commitments and contingencies	147,282	291,547	-	438,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued

At 31 December 2023 and 31 December 2022, the distribution by sector of major categories of assets and commitments as per Central Bank guidelines was as follows:

	<i>Government</i> <i>AED'000</i>	<i>Public</i> <i>AED'000</i>	<i>Corporate /</i> <i>private</i> <i>AED'000</i>	<i>Consumers</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 December 2023					
Balances with central banks	1,827,004	-	-	-	1,827,004
Deposits & balances due from banks, net	-	-	87,068	-	87,068
Receivables from Islamic financing activities	-	-	1,015,110	5,559,955	6,575,065
Ijara	-	-	-	1,435,318	1,435,318
Investment securities	1,458,892	339,852	785,856	-	2,584,600
Other assets	112,874	2,871	4,663	7,568	127,976
Total	3,398,770	342,723	1,892,697	7,002,841	12,637,031
Commitments and contingencies	-	-	351,980	174,403	526,383
	<i>Government</i> <i>AED'000</i>	<i>Public</i> <i>AED'000</i>	<i>Corporate /</i> <i>private</i> <i>AED'000</i>	<i>Consumers</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 December 2022					
Balances with central banks	978,746	-	-	-	978,746
Deposits & balances due from banks, net	-	-	199,271	-	199,271
Receivables from Islamic financing activities	-	-	957,062	5,179,972	6,137,034
Ijara	-	-	-	1,487,285	1,487,285
Investment securities	1,739,442	551,076	1,126,226	-	3,416,744
Other assets	16,453	5,372	8,283	113,039	143,147
Total	2,734,641	556,448	2,290,842	6,780,296	12,362,227
Commitments and contingencies	-	-	291,547	147,282	438,829

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued*Credit quality per class of financial assets*

The Group's credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. The credit quality of financial assets is reported by the Group using internal credit ratings.

31 December 2023	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	911,355	105,875	-	1,017,230
Non performing (Grades 8-10)	-	-	-	-
Gross receivables from Islamic financings activities - Corporate	911,355	105,875	-	1,017,230
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	5,569,450	109,062	-	5,678,512
Non performing (Grades 8-10)	-	-	33,539	33,539
Gross receivables from Islamic financings activities - Retail	5,569,450	109,062	33,539	5,712,051
Gross receivables from Islamic financings activities	6,480,805	214,937	33,539	6,729,281
Allowance for impairment	(115,356)	(13,520)	(25,340)	(154,216)
Total carrying amount	6,365,449	201,417	8,199	6,575,065

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38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

31 December 2022	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities - Corporate				
Performing (Grades 1-7)	960,658	-	-	960,658
Non performing (Grades 8-10)	-	-	-	-
Gross receivables from Islamic financings activities - Corporate	960,658	-	-	960,658
Receivables from Islamic financings activities - Retail				
Performing (Grades 1-7)	5,227,292	71,653	-	5,298,945
Non performing (Grades 8-10)	-	-	15,805	15,805
Gross receivables from Islamic financings activities - Retail	5,227,292	71,653	15,805	5,314,750
Gross receivables from Islamic financings activities	6,187,950	71,653	15,805	6,275,408
Allowance for impairment	(116,603)	(8,166)	(13,605)	(138,374)
Total carrying amount	6,071,347	63,487	2,200	6,137,034
31 December 2023	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000
Ijara - Corporate				
Non performing (Grades 8-10)	-	-	-	-
Gross Ijara - Corporate	-	-	-	-
Ijara - Retail				
Performing (Grades 1-7)	1,249,748	117,766	-	1,367,514
Non performing (Grades 8-10)	-	-	91,032	91,032
Gross Ijara - Retail	1,249,748	117,766	91,032	1,458,546
Gross Ijara	1,249,748	117,766	91,032	1,458,546
Allowance for impairment	(686)	(5,116)	(17,426)	(23,228)
Total carrying amount	1,249,062	112,650	73,606	1,435,318

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For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
31 December 2022	AED'000	AED'000	AED'000	AED'000
Ijara - Corporate				
Non performing (Grades 8-10)	-	-	-	-
Gross Ijara - Corporate	-	-	-	-
Ijara - Retail				
Performing (Grades 1-7)	1,330,806	123,614	-	1,454,420
Non performing (Grades 8-10)	-	-	71,638	71,638
Gross Ijara - Retail	1,330,806	123,614	71,638	1,526,058
Gross Ijara	1,330,806	123,614	71,638	1,526,058
Allowance for impairment	(765)	(12,167)	(25,841)	(38,773)
Total carrying amount	1,330,041	111,447	45,797	1,487,285
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
31 December 2023	AED'000	AED'000	AED'000	AED'000
Investment securities				
Performing (Grades 1-7)	2,468,128	-	-	2,468,128
Gross Investments	2,468,128	-	-	2,468,128
Allowance for impairment	-	-	-	-
Total carrying amount	2,468,128	-	-	2,468,128
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
31 December 2022	AED'000	AED'000	AED'000	AED'000
Investment securities				
Performing (Grades 1-7)	3,264,085	-	-	3,264,085
Gross Investments	3,264,085	-	-	3,264,085
Allowance for impairment	-	-	-	-
Total carrying amount	3,264,085	-	-	3,264,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

The movement of gross exposure is as follows:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Deposits & balances due from banks				
Balance as at 1 January 2023	199,325	-	-	199,325
Transfers:				
Other movements within the same stage	(4,711)	-	-	(4,711)
New financial assets originated/purchased	16,498	-	-	16,498
Financial assets that have been derecognized	(124,030)	-	-	(124,030)
Balance as at 31 December 2023	87,082	-	-	87,082
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Deposits & balances due from banks				
Balance as at 1 January 2022	404,345	-	-	404,345
Transfers:				
Other movements within the same stage	(202,927)	-	-	(202,927)
New financial assets originated/purchased	85	-	-	85
Financial assets that have been derecognized	(2,178)	-	-	(2,178)
Balance as at 31 December 2022	199,325	-	-	199,325

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38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2023	6,187,950	71,653	15,805	6,275,408
Transfers:				
Transfer from stage 1 to stage 2	(175,092)	175,092	-	-
Transfer from stage 1 to stage 3	(25,985)	-	25,985	-
Transfer from stage 2 to stage 1	12,674	(12,674)	-	-
Transfer from stage 2 to stage 3	-	(4,795)	4,795	-
Transfer from stage 3 to stage 2	-	107	(107)	-
Other movements within the same stage	(598,518)	(17,943)	25,777	(590,684)
New financial assets originated/purchased	3,017,745	12,645	5,163	3,035,553
Financial assets that have been derecognized	(1,935,610)	(9,148)	(3,317)	(1,948,075)
Write-offs and other adjustments	(2,359)	-	(40,562)	(42,921)
Balance as at 31 December 2023	6,480,805	214,937	33,539	6,729,281
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2022	5,998,439	90,701	44,116	6,133,256
Transfers:				
Transfer from stage 1 to stage 2	(46,807)	46,807	-	-
Transfer from stage 1 to stage 3	(13,432)	-	13,432	-
Transfer from stage 2 to stage 1	44,495	(44,495)	-	-
Transfer from stage 2 to stage 3	-	(2,373)	2,373	-
Transfer from stage 3 to stage 2	-	1,761	(1,761)	-
Other movements within the same stage	(1,479,945)	(15,254)	25,795	(1,469,404)
New financial assets originated/purchased	808,219	(11,124)	(747)	796,348
Financial assets that have been derecognized	880,167	5,630	-	885,797
Write-offs and other adjustments	(3,186)	-	(67,403)	(70,589)
Balance as at 31 December 2022	6,187,950	71,653	15,805	6,275,408

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Ijara				
Balance as at 1 January 2023	1,330,806	123,614	71,638	1,526,058
Transfers:				
Transfer from stage 1 to stage 2	(52,450)	52,450	-	-
Transfer from stage 1 to stage 3	(15,733)	-	15,733	-
Transfer from stage 2 to stage 1	33,483	(33,483)	-	-
Transfer from stage 2 to stage 3	-	(33,805)	33,805	-
Transfer from stage 3 to stage 2	-	1,498	(1,498)	-
Other movements within the same stage	(66,671)	(4,444)	(5,043)	(76,158)
New financial assets originated/purchased	182,989	15,718	314	199,021
Financial assets that have been derecognized	(162,676)	(3,782)	(6,097)	(172,555)
Write-offs and other adjustments	-	-	(17,820)	(17,820)
Balance as at 31 December 2023	1,249,748	117,766	91,032	1,458,546
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Ijara				
Balance as at 1 January 2022	1,472,131	161,085	106,641	1,739,857
Transfers:				
Transfer from stage 1 to stage 2	(17,782)	17,782	-	-
Transfer from stage 1 to stage 3	(2,324)	-	2,324	-
Transfer from stage 2 to stage 1	28,635	(28,635)	-	-
Transfer from stage 2 to stage 3	-	(21,771)	21,771	-
Transfer from stage 3 to stage 2	-	13,620	(13,620)	-
Other movements within the same stage	(85,135)	(7,802)	(1,438)	(94,375)
New financial assets originated/purchased	(145,620)	(22,274)	(18,137)	(186,031)
Financial assets that have been derecognized	80,901	19,136	-	100,037
Write-offs and other adjustments	-	(7,527)	(25,903)	(33,430)
Balance as at 31 December 2022	1,330,806	123,614	71,638	1,526,058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Investment securities				
Balance as at 1 January 2023	3,264,085	-	-	3,264,085
Transfers:				
Other movements within the same stage	8,435	-	-	8,435
New financial assets originated/purchased	-	-	-	-
Financial assets that have been derecognized	(804,392)	-	-	(804,392)
Balance as at 31 December 2023	2,468,128	-	-	2,468,128
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Investment securities				
Balance as at 1 January 2022	3,357,980	-	-	3,357,980
Transfers:				
Other movements within the same stage	(215,628)	-	-	(215,628)
New financial assets originated/purchased	773,238	-	-	773,238
Financial assets that have been derecognized	(651,505)	-	-	(651,505)
Balance as at 31 December 2022	3,264,085	-	-	3,264,085

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued

The movement in impairment allowances is as follows:

	31 December 2023				31 December 2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
<u>Deposits & balances due from banks, net</u>								
At the beginning of the year	54	-	-	54	115	-	-	115
Allowances for impairment made during the year, net	(98)	-	-	(98)	(55)	-	-	(55)
Write offs, recoveries and others	58	-	-	58	(6)	-	-	(6)
At the end of the year	<u>14</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>54</u>	<u>-</u>	<u>-</u>	<u>54</u>
	31 December 2023				31 December 2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
<u>Receivables from Islamic financings activities</u>								
At the beginning of the year	116,603	8,166	13,605	138,374	118,569	9,709	35,422	163,700
Allowances for impairment made during the year	6,303	6,017	52,297	64,617	4,731	(1,304)	41,803	45,230
Write offs, recoveries and others	(58)	-	(40,562)	(40,620)	(10)	-	(63,620)	(63,630)
Unwinding on renegotiated financings	(7,492)	(663)	-	(8,155)	(6,687)	(239)	-	(6,926)
At the end of the year	<u>115,356</u>	<u>13,520</u>	<u>25,340</u>	<u>154,216</u>	<u>116,603</u>	<u>8,166</u>	<u>13,605</u>	<u>138,374</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued

The movement in impairment allowances is as follows:

	31 December 2023				31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<u>Ijara</u>								
At the beginning of the year	765	12,167	25,841	38,773	1,032	15,384	39,102	55,518
Allowances for impairment made during the year, net	(79)	(7,051)	9,405	2,275	(267)	(3,006)	8,842	5,569
Write offs, recoveries and others	-	-	(17,820)	(17,820)	-	(211)	(22,103)	(22,314)
At the end of the year	<u>686</u>	<u>5,116</u>	<u>17,426</u>	<u>23,228</u>	<u>765</u>	<u>12,167</u>	<u>25,841</u>	<u>38,773</u>
	31 December 2023				31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
<u>Investment securities</u>								
At the beginning of the year	2,570	-	-	2,570	1,714	-	-	1,714
Allowances for impairment made during the year, net	(1,412)	-	-	(1,412)	856	-	-	856
Write offs, recoveries and others	-	-	-	-	-	-	-	-
At the end of the year	<u>1,158</u>	<u>-</u>	<u>-</u>	<u>1,158</u>	<u>2,570</u>	<u>-</u>	<u>-</u>	<u>2,570</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

The movement in impairment allowances is as follows:

	31 December 2023				31 December 2022			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Other Liabilities								
At the beginning of the year	24	-	-	24	37	12	-	49
Allowances for impairment made during the year	73	-	-	73	(13)	(12)	-	(25)
Write offs, recoveries and others	-	-	-	-	-	-	-	-
At the end of the year	97	-	-	97	24	-	-	24

As at 31 December 2023, ECL on unfunded exposures amounted to AED 97 thousand (2022: AED 24 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued

The movement in impairment allowances is as follows:

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Deposits & balances due from banks				
Balance as at 1 January 2023	54	-	-	54
Transfers:				
Other movements within the same stage	(236)	-	-	(236)
New financial assets originated/purchased	482	-	-	482
Financial assets that have been derecognized	(344)	-	-	(344)
Net release for the year	(98)	-	-	(98)
Write-offs and other adjustments	58	-	-	58
Balance as at 31 December 2023	14	-	-	14
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Deposits & balances due from banks				
Balance as at 1 January 2022	115	-	-	115
Transfers:				
Other movements within the same stage	(55)	-	-	(55)
New financial assets originated/purchased	-	-	-	-
Financial assets that have been derecognized	-	-	-	-
Net release for the year	(55)	-	-	(55)
Write-offs and other adjustments	(6)	-	-	(6)
Balance as at 31 December 2022	54	-	-	54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2023	116,603	8,166	13,605	138,374
Transfers:				
Transfer from stage 1 to stage 2	(1,656)	1,656	-	-
Transfer from stage 1 to stage 3	(285)	-	285	-
Transfer from stage 2 to stage 1	1,030	(1,030)	-	-
Transfer from stage 2 to stage 3	-	(427)	427	-
Transfer from stage 3 to stage 2	-	67	(67)	-
Other movements within the same stage	(10,690)	3,828	49,935	43,073
New financial assets originated/purchased	27,053	2,350	4,059	33,462
Financial assets that have been derecognized	(9,149)	(427)	(2,342)	(11,918)
Gross charge for the year	6,303	6,017	52,297	64,617
Recoveries	-	-	(43,079)	(43,079)
Net charge for the year	6,303	6,017	9,218	21,538
Unwinding on renegotiated financings	(7,492)	(663)	-	(8,155)
Write-offs and other adjustments	(58)	-	(40,562)	(40,620)
Balance as at 31 December 2023	115,356	13,520	25,340	154,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL	Stage 2 Lifetime ECL not credit- impaired	Stage 3 Lifetime ECL credit- impaired	Total
	AED'000	AED'000	AED'000	AED'000
Receivables from Islamic financings activities				
Balance as at 1 January 2022	118,569	9,709	35,422	163,700
Transfers:				
Transfer from stage 1 to stage 2	(573)	573	-	-
Transfer from stage 1 to stage 3	(150)	-	150	-
Transfer from stage 2 to stage 1	3,000	(3,000)	-	-
Transfer from stage 2 to stage 3	-	(311)	311	-
Transfer from stage 3 to stage 2	-	881	(881)	-
Other movements within the same stage	(3,855)	869	41,485	38,499
New financial assets originated/purchased	11,165	764	1,354	13,283
Financial assets that have been derecognized	(4,856)	(1,080)	(616)	(6,552)
Gross charge for the year	4,731	(1,304)	41,803	45,230
Recoveries	-	-	(49,682)	(49,682)
Net charge for the year	4,731	(1,304)	(7,879)	(4,452)
Unwinding on renegotiated financings	(6,687)	(239)	-	(6,926)
Write-offs and other adjustments	(10)	-	(63,620)	(63,630)
Balance as at 31 December 2022	116,603	8,166	13,605	138,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Ijara				
Balance as at 1 January 2023	765	12,167	25,841	38,773
Transfers:				
Transfer from stage 1 to stage 2	(55)	55	-	-
Transfer from stage 1 to stage 3	(4)	-	4	-
Transfer from stage 2 to stage 1	6,001	(6,001)	-	-
Transfer from stage 2 to stage 3	-	(1,851)	1,851	-
Transfer from stage 3 to stage 2	-	318	(318)	-
Other movements within the same stage	(6,074)	307	9,390	3,623
New financial assets originated/purchased	106	238	314	658
Financial assets that have been derecognized	(53)	(117)	(1,836)	(2,006)
Gross charge / (release) for the year	(79)	(7,051)	9,405	2,275
Net charge / (release) for the year	(79)	(7,051)	9,405	2,275
Write-offs and other adjustments	-	-	(17,820)	(17,820)
Balance as at 31 December 2023	686	5,116	17,426	23,228
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Ijara				
Balance as at 1 January 2022	1,032	15,384	39,102	55,518
Transfers:				
Transfer from stage 1 to stage 2	(13)	13	-	-
Transfer from stage 1 to stage 3	-	-	-	-
Transfer from stage 2 to stage 1	336	(336)	-	-
Transfer from stage 2 to stage 3	-	(3,315)	3,315	-
Transfer from stage 3 to stage 2	-	4,060	(4,060)	-
Other movements within the same stage	(536)	(7,897)	14,061	5,628
New financial assets originated/purchased	64	5,893	-	5,957
Financial assets that have been derecognized	(118)	(1,424)	(4,474)	(6,016)
Gross charge / (release) for the year	(267)	(3,006)	8,842	5,569
Net charge / (release) for the year	(267)	(3,006)	8,842	5,569
Write-offs and other adjustments	-	(211)	(22,103)	(22,314)
Balance as at 31 December 2022	765	12,167	25,841	38,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Investment securities				
Balance as at 1 January 2023	2,570	-	-	2,570
Transfers:				
Other movements within the same stage	458	-	-	458
New financial assets originated/purchased	-	-	-	-
Financial assets that have been derecognized	(1,870)	-	-	(1,870)
Net charge for the year	(1,412)	-	-	(1,412)
Balance as at 31 December 2023	1,158	-	-	1,158

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Investment securities				
Balance as at 1 January 2022	1,714	-	-	1,714
Transfers:				
Other movements within the same stage	435	-	-	435
New financial assets originated/purchased	482	-	-	482
Financial assets that have been derecognized	(61)	-	-	(61)
Net charge for the year	856	-	-	856
Balance as at 31 December 2022	2,570	-	-	2,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Other liabilities				
Balance as at 1 January 2023	24	-	-	24
Transfers:				
Transfer from stage 2 to stage 1	-	-	-	-
Other movements within the same stage	-	-	-	-
New financial assets originated/purchased	75	-	-	75
Financial assets that have been derecognized	(2)	-	-	(2)
Net release for the year	73	-	-	73
Write-offs and other adjustments	-	-	-	-
Balance as at 31 December 2023	97	-	-	97
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL not credit- impaired AED'000	Stage 3 Lifetime ECL credit- impaired AED'000	Total AED'000
Other liabilities				
Balance as at 1 January 2022	37	12	-	49
Transfers:				
Transfer from stage 2 to stage 1	12	(12)	-	-
Other movements within the same stage	(27)	-	-	(27)
New financial assets originated/purchased	2	-	-	2
Financial assets that have been derecognized	-	-	-	-
Net release for the year	(13)	(12)	-	(25)
Write-offs and other adjustments	-	-	-	-
Balance as at 31 December 2022	24	-	-	24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.3 Credit risk management** continued**Impairment reserve under the Central Bank of UAE (CBUAE) guidance**

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2019 via notice no. CBUAE/BSD/2019/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE (“the guidance”). Pursuant to clause 6.4 of the guidance, a comparison between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	<i>2023</i>	<i>2022</i>
	<i>AED'000</i>	<i>AED'000</i>
Impairment Reserve - General		
General provisions under Circular 28/2010 of CBUAE	123,104	122,787
Less: Stage 1 and Stage 2 provisions under IFRS 9	<u>(135,947)</u>	<u>(140,349)</u>
General provision transferred to the impairment reserve	<u>-</u>	<u>-</u>
Impairment Reserve - Specific		
Specific provisions under Circular 28/2010 of CBUAE	42,766	39,446
Less: Stage 3 provisions under IFRS 9	<u>(42,766)</u>	<u>(39,446)</u>
Specific provision transferred to the impairment reserve	<u>-</u>	<u>-</u>

As per the guidance note, where provisions under IFRS 9 exceed provisions under circular 28/2010 of the CBUAE, no amount is required to be transferred to the impairment reserve.

Financial assets with renegotiated terms

Financial assets with renegotiated terms are facilities that have been renegotiated due to the deterioration in the customer’s financial position and where the Group has made concessions that it would not otherwise consider.

Write-off of financial assets

Board approved policies are in place covering the timing and amount of provisions and write offs for all the financing portfolios of the bank. These reflect both the UAE Central bank guidelines and rules, accepted international accounting standards, and market and industry best practice and are stringently adhered to.

Settlement risk

The Group’s activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of a counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. Any delays in settlement are rare and are monitored and quantified by Risk Management Division.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.3 Credit risk management continued

Collateral

Collateral is used to mitigate credit risk, as the secondary source of payment in case the counterparty cannot meet its contractual payment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

Credit risk mitigants are held against receivables from Islamic financing activities, Ijara finance and investments in the form of real estate collateral, cash deposits and guarantees. Collateral generally is not held against Wakala deposits with banks and other financial institutions, and no such collateral was held at 31 December 2023 or 31 December 2022.

The table below shows the lower of the collateral value or the outstanding balance of the customers' financings as at the reporting date

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
<i>Against customer financing not credit-impaired</i>		
Property	1,371,944	1,456,784
Cash margin and lien over deposit	<u>1,388</u>	<u>1,388</u>
	<u>1,373,332</u>	<u>1,458,172</u>
<i>Against individually credit-impaired</i>		
Property	<u>91,171</u>	<u>71,476</u>
	<u>91,171</u>	<u>71,476</u>
Total	<u><u>1,464,503</u></u>	<u><u>1,529,648</u></u>

The tables below stratify credit exposures from home finances retail customers by ranges of finance-to-value (FTV) ratio:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
FTV ratio		
Less than 50%	584,773	583,821
51-70%	448,789	442,923
71-90%	314,621	365,110
91-100%	91,543	82,506
More than 100%	<u>25,941</u>	<u>58,620</u>
Total	<u><u>1,465,667</u></u>	<u><u>1,532,980</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued

38.4 Market risk

The Group is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in profit rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as profit rates, spreads and foreign exchange rates.

Overall authority for market risk is vested in the Asset and Liability Committee (“ALCO”). The Risk Management Division is responsible for the development of detailed market and liquidity risk management policies (subject to review and approval by ALCO or relevant authority) and for the day to day monitoring of the actual position versus the established limits.

Management of market risk

The Treasury, Market, & Liquidity Risk team is responsible for measuring market risk exposures as an independent control function in accordance with approved policies and risk appetite.

The Treasury, Market, & Liquidity Risk team monitors market risk exposures of daily limit monitoring and control reports that are circulated to all stakeholders to advise of current outstanding exposures versus prescribed limits and any breach is immediately advised for rectification.

The banking book primarily comprises Islamic financing activities, Ijara and investment in Sukuks designated at FVTOCI and AC which are exposed to profit rate risk. The Group has non-material exposure in the trading book.

Currency risk

The Group is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. ALCO or relevant authority sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, and currency positions on are monitored on a daily basis.

If the exchange rates between the various currencies and AED increase or decrease by 5%, with all other variables held constant, the impact on the results and equity of the Group would not be material as the exposures are primarily related to currencies that are pegged to AED. The table below indicates the extent to which the Group is exposed to currency risk and its impact:

	<i>% Change in rate</i>	<i>Effect on net profit AED'000</i>	<i>Effect on equity AED'000</i>
31 December 2023			
Currency			
USD	5%	(1,467)	(1,467)
EUR	5%	307	307
GBP	5%	463	463
Others	5%	1,559	1,559
KZT	5%	-	4,767
31 December 2022			
Currency			
USD	5%	(303)	(303)
EUR	5%	7	7
GBP	5%	114	114
Others	5%	317	317
KZT	5%	-	4,705

In addition, the Group does not actively trade in foreign currency but manages all customer requests on a back to back basis, thus further reducing the risk the Group is exposed to.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023

38 FINANCIAL RISK MANAGEMENT continued**38.4 Market risk** continued**Profit rate risk**

Profit rate risk in the banking book is applicable to the Group's exposure to receivables from Islamic financing activities, Ijara as well as investment in Sukuks securities designated at FVTOCI and AC. To the extent that the profit rate sensitive assets are funded and backed by rate sensitive liabilities of identical maturities / repricing frequency the exposure is mitigated, matched funding however does not maximize profit. The Group therefore selectively accepts the gap between the repricing/ maturities of rate sensitive assets/ liabilities that maximizes profitability while remaining within defined risk tolerance and parameters.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and financial liabilities to various standard and non-standard profit rate scenarios. Standard scenarios include a 25 basis point parallel rise in all yield curves over a twelve-month horizon maintaining a constant financial position.

	<i>Impact on results and equity of the Group</i>	
	<i>2023</i>	<i>2022</i>
	<i>AED'000</i>	<i>AED'000</i>
+ 25 basis points change in profit rates	<u>34</u>	<u>111</u>

This exposure arises as a result of mismatches in re-pricing of assets and liabilities reflected in the following net position schedule.

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38 FINANCIAL RISK MANAGEMENT continued

38.4 Market risk continued

A summary of the Group's profit rate re-pricing as at 31 December 2023 is as follows:

	Less than 3 months AED'000	3-6 months AED'000	6-12 months AED'000	1-3 years AED'000	Greater than 3 years AED'000	Non- sensitive AED'000	Total AED'000
Assets							
Cash and balances with central banks	685,582	-	-	-	-	1,332,867	2,018,449
Deposits & balances due from banks, net	-	-	-	-	-	87,068	87,068
Receivables from Islamic financing activities	337,528	695,637	2,022,159	59,895	3,615,008	(155,162)	6,575,065
Ijara	363,889	132,077	61,595	20,917	885,391	(28,551)	1,435,318
Investment securities	-	186,751	380,580	711,081	1,189,714	116,474	2,584,600
Islamic derivative financial instruments	21,565	1,549	-	-	-	-	23,114
Investment properties	-	-	-	-	-	70,530	70,530
Property and equipment, net	-	-	-	-	-	390,442	390,442
Investment in associate	-	-	-	-	-	52,540	52,540
Intangible assets	-	-	-	-	-	162,947	162,947
Other assets	-	-	-	-	-	193,783	193,783
Total assets	1,408,564	1,016,014	2,464,334	791,893	5,690,113	2,222,938	13,593,856
Liabilities							
Deposits from customers	4,587,065	251,407	1,003,311	294,271	30,238	1,935,952	8,102,244
Wakala deposits from banks	994,388	257,110	2,092,660	-	-	784	3,344,942
Medium term financing	-	-	-	-	82,265	-	82,265
Islamic derivative financial instruments	25	-	-	-	-	-	25
Other liabilities	-	-	-	-	-	476,266	476,266
Total liabilities	5,581,478	508,517	3,095,971	294,271	112,503	2,413,002	12,005,742
Total off balance sheet	526,383	-	-	-	-	-	526,383
Net position	(3,646,531)	507,497	(631,637)	497,622	5,577,610	(190,064)	2,114,497

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38 FINANCIAL RISK MANAGEMENT continued

38.4 Market risk continued

A summary of the Group's profit rate re-pricing as at 31 December 2022 is as follows:

	<i>Less than 3 months AED'000</i>	<i>3-6 months AED'000</i>	<i>6-12 months AED'000</i>	<i>1-3 years AED'000</i>	<i>Greater than 3 years AED'000</i>	<i>Non- sensitive AED'000</i>	<i>Total AED'000</i>
Assets							
Cash and balances with central banks	325,608	-	-	-	-	842,956	1,168,564
Deposits & balances due from banks, net	100,060	-	-	-	-	99,211	199,271
Receivables from Islamic financing activities	341,607	220,679	383,813	415,026	4,909,917	(134,008)	6,137,034
Ijara	1,169,968	68,568	37,197	73,795	180,774	(43,017)	1,487,285
Investment securities	-	706,688	-	1,219,290	1,338,107	152,659	3,416,744
Islamic derivative financial instruments	33,374	3,412	-	-	-	-	36,786
Investment properties	-	-	-	-	-	64,894	64,894
Property and equipment, net	-	-	-	-	-	421,812	421,812
Investment in associate	-	-	-	-	-	50,462	50,462
Intangible assets	-	-	-	-	-	127,960	127,960
Other assets	-	-	-	-	-	199,384	199,384
Total assets	1,970,617	999,347	421,010	1,708,111	6,428,798	1,782,313	13,310,196
Liabilities							
Deposits from customers	4,839,247	74,951	731,755	27,580	13,308	1,835,550	7,522,391
Wakala deposits from banks	1,864,048	-	-	-	-	25,571	1,889,619
Medium term financing	-	-	1,834,499	-	81,198	-	1,915,697
Islamic derivative financial instruments	46	-	-	-	-	-	46
Other liabilities	-	-	-	-	-	381,474	381,474
Total liabilities	6,703,341	74,951	2,566,254	27,580	94,506	2,242,595	11,709,227
Total off balance sheet	438,829	-	-	-	-	-	438,829
Net position	(4,293,895)	924,396	(2,145,244)	1,680,531	6,334,292	(460,282)	2,039,798

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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38 FINANCIAL RISK MANAGEMENT continued**38.5 Liquidity risk**

Liquidity risk comprises mainly funding liquidity risk and market liquidity risk. Funding Liquidity Risk is the risk that the Group will be unable to meet its obligations associated with its financial liabilities. Market Liquidity Risk is the risk that the bank will be unable to sell financial assets at prevailing market price due to absence of buyers or due to lack of depth of the market thereby forcing the bank to accept a haircut in the event of forced or voluntary liquidation.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as much as possible, that it will always have a sufficient buffer of liquidity to meet its liabilities during the normal course of business. As part of its strategic liquidity management, contingency funding planning in the Group ensures that the liquidity management centre (treasury) is well equipped to tap contingent funding sources during periods of market stress. The Group also maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities and inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term financing from the Treasury Department to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements. The daily liquidity position is monitored by the Market and Liquidity Risk Department and regular stress testing is conducted under a variety of scenarios covering the idiosyncratic and systemic stress conditions.

All liquidity policies and procedures are subject to regular review and approval by ALCO or relevant authority. Daily reports are produced covering the liquidity position.

The Group relies on customers' current accounts, saving accounts and Wakala deposits as its primary sources of funding. Customers' accounts generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are regulatory driven ratios such as Advance to stable ratio ("ASRR"), Liquid Assets Ratio and eligible liquid asset ratio.

ASRR take into consideration the extent of stable resources (stable funding sources) which are being utilized by the financing activities of the Bank. At 31 December 2023, the Bank's ASRR was 81.32% (2022: 81.97%).

The eligible liquid assets ratio is calculated as per the UAE Central Bank's definition of liquid assets divided by total liabilities. The eligible liquid assets are defined by the Central Bank to include cash and cash equivalents including reserves, central bank certificates of deposits, federal government securities and issuances from local governments, non-commercial and foreign sovereign public sector entities subject to certain limits. As at 31 December 2023, this ratio stood at 21.28% (2022: 13.37%).

In addition to the above ratios the Bank also monitors internally its liquidity profile through regular ALCO briefings which are held on a monthly basis. Treasury, Market, & Liquidity Risk department monitors various internal and regulatory liquidity risk ratios against the limits and circulates the liquidity risk dashboard to various stakeholders in treasury and finance.

The table below sets out the availability of the Group's financial assets to future financing.

	<i>2023</i>	<i>2022</i>
	<i>AED'000</i>	<i>AED'000</i>
Cash and balances with central banks	2,018,449	1,168,564
Deposits & balances due from banks, net	(3,257,874)	(1,690,348)
Investment securities	<u>2,584,600</u>	<u>3,416,744</u>
	<u>1,345,175</u>	<u>2,894,960</u>

As at the reporting date, the Group had no pledged or encumbered financial assets (2022: nil).

Al Hilal Bank PJSC

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38 FINANCIAL RISK MANAGEMENT continued

38.5 Liquidity risk continued

A summary of the Group's maturity profile as at 31 December 2023 is as follows:

	Less than 3 months AED'000	3-6 months AED'000	6-12 months AED'000	1-3 years AED'000	Greater than 3 years /unspecified AED'000	Total AED'000
Assets						
Cash and balances with central banks	2,018,449	-	-	-	-	2,018,449
Deposits & balances due from banks, net	87,068	-	-	-	-	87,068
Receivables from Islamic financing activities	307,741	227,977	453,490	521,795	5,064,062	6,575,065
Ijara	39,518	567	1,563	27,844	1,365,826	1,435,318
Investment securities	-	186,751	380,580	711,081	1,306,188	2,584,600
Islamic derivative financial instruments	-	969	3,388	6,257	12,500	23,114
Investment properties	-	-	-	-	70,530	70,530
Property and equipment, net	-	-	-	-	390,442	390,442
Investment in associate	-	-	-	-	52,540	52,540
Intangible assets	-	-	-	-	162,947	162,947
Other assets	172,874	13,344	9	211	7,345	193,783
Total assets	2,625,650	429,608	839,030	1,267,188	8,432,380	13,593,856
Liabilities						
Deposits from customers	6,268,642	338,307	1,134,361	330,382	30,552	8,102,244
Wakala deposits from banks	995,171	257,110	2,092,661	-	-	3,344,942
Medium term financing	-	-	-	-	82,265	82,265
Islamic derivative financial instruments	25	-	-	-	-	25
Other liabilities	450,625	-	-	-	25,641	476,266
Total liabilities	7,714,463	595,417	3,227,022	330,382	138,458	12,005,742
Net position	(5,088,813)	(165,809)	(2,387,992)	936,806	8,293,922	1,588,114
Total off balance sheet	439,127	5,371	4,006	50,033	27,846	526,383

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

38 FINANCIAL RISK MANAGEMENT continued

38.5 Liquidity risk continued

A summary of the Group's maturity profile as at 31 December 2022 is as follows:

	<i>Less than 3 months AED'000</i>	<i>3-6 months AED'000</i>	<i>6-12 months AED'000</i>	<i>1-3 years AED'000</i>	<i>Greater than 3 years /unspecified AED'000</i>	<i>Total AED'000</i>
Assets						
Cash and balances with central banks	1,168,564	-	-	-	-	1,168,564
Deposits & balances due from banks, net	199,271	-	-	-	-	199,271
Receivables from Islamic financing activities	328,215	220,528	383,704	410,757	4,793,830	6,137,034
Ijara	52,885	1,131	2,019	26,577	1,404,673	1,487,285
Investment securities	-	706,688	-	1,219,289	1,490,767	3,416,744
Islamic derivative financial instruments	177	118	-	20,690	15,801	36,786
Investment properties	-	-	-	-	64,894	64,894
Property and equipment, net	-	-	-	-	421,812	421,812
Investment in associate	-	-	-	-	50,462	50,462
Intangible assets	-	-	-	-	127,960	127,960
Other assets	180,683	11,778	13	187	6,723	199,384
Total assets	1,929,795	940,243	385,736	1,677,500	8,376,922	13,310,196
Liabilities						
Deposits from customers	6,157,210	236,775	1,021,037	78,844	28,525	7,522,391
Wakala deposits from banks	1,889,619	-	-	-	-	1,889,619
Medium term financing	-	-	1,834,499	-	81,198	1,915,697
Islamic derivative financial instruments	46	-	-	-	-	46
Other liabilities	356,189	-	-	-	25,285	381,474
Total liabilities	8,403,064	236,775	2,855,536	78,844	135,008	11,709,227
Net position	(6,473,269)	703,468	(2,469,800)	1,598,656	8,241,914	1,600,969
Total off balance sheet	383,837	26,767	294	162	27,769	438,829

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31 December 2023

38 FINANCIAL RISK MANAGEMENT continued

38.5 Liquidity risk continued

Maturity profile of financial liabilities based on contractual undiscounted repayment obligations:

	<i>Carrying amount</i>	<i>Gross outflow</i>	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-3 years</i>	<i>Greater than 3 years</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
31 December 2023							
Liabilities							
Deposits from customers	8,102,244	8,521,669	6,611,254	344,425	1,173,415	349,679	42,896
Wakala deposits from banks	3,344,942	3,344,941	995,171	257,110	2,092,660	-	-
Medium term financing	82,265	136,110	-	-	-	-	136,110
Islamic derivative financial instruments	25	25	25	-	-	-	-
Other liabilities	246,316	246,316	246,316	-	-	-	-
Total financial liabilities	11,775,792	12,249,061	7,852,766	601,535	3,266,075	349,679	179,006
	<i>Carrying amount</i>	<i>Gross outflow</i>	<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>1-3 years</i>	<i>Greater than 3 years</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
31 December 2022							
Liabilities							
Deposits from customers	7,522,391	7,906,353	6,498,390	240,266	1,053,395	82,138	32,164
Wakala deposits from banks	1,889,619	1,890,973	1,890,973	-	-	-	-
Medium term financing	1,915,697	2,008,376	-	-	1,895,150	-	113,226
Islamic derivative financial instruments	46	46	46	-	-	-	-
Other liabilities	176,874	176,874	176,874	-	-	-	-
Total financial liabilities	11,504,627	11,982,622	8,566,283	240,266	2,948,545	82,138	145,390

38 FINANCIAL RISK MANAGEMENT continued

38.6 Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Loss from operational risk can include fines, penalties, loss or theft of funds or assets, legal costs, customer compensation, loss of shareholder value, loss of life or injury to people, and loss of property and / or information.

All operational risks carry at least a financial consequence. Examples of operational risks that the Group is exposed to include the losses arising from internal fraud, external fraud, acts that are inconsistent with employment, health or safety laws or agreements, failure to meet professional customer and legal obligations, disruption of business or system failures, failure to execute a transaction correctly including but not limited to internal restructures, inadequate process management and failure caused by third parties.

Direct or indirect losses that occur as a result of operational failures, breakdowns, omissions or unplanned events could adversely affect the Group's financial results. Operational risks arise from all of the Group's operations.

The objective of the Group operational risk management is to manage and control operational risk in a cost-effective manner within targeted levels of operational risk consistent with the Group's defined risk appetite.

The Group has a dedicated Operational Risk Management function. It is responsible for leading the embedding of the Operational Risk management function and assuring adherence to associated policies and processes across the first and second lines of defense.

The Operational Risk Policy defines processes and the governance structure for the management of operational risk for businesses and support functions.

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

The three lines of defense are summarised below:

- The first line of defense 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 day-to-day management of operational risk is executed through a strong "second line of defense" within business lines and control functions. Risk and Control Self Assessments (RCSAs), Key Risk Indicators (KRIs) and Incident Management (IM) form the core of the Operational Risk Policy. The Operational Risk Management function provides assistance to the first line of defense (business and support functions) in the implementation of the polices as-well as providing independent reporting on the effectiveness of the implementation of the operational risk framework by risk and control owners.
- The third line of defense is the Group's Internal Audit function, which 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.

38 FINANCIAL RISK MANAGEMENT continued

38.6 Operational risk continued

Business Continuity Management continued

The safety of staff and customers and the capability to resume critical business processes in a timely manner following any disruptive incidents or crisis situations that impact AHB are of utmost importance to the Group. AHB recognizes the importance of business continuity preparedness, so that we can meet our obligations to customers and stakeholders, and to safeguard the AHB brand image and reputation during any incidents.

ADCB's ISO22301 certified Business Continuity Management (BCM) framework for the UAE has been designed to ensure that the Bank can continue to achieve its business objectives following any disruptive incidents, to minimise any operational impacts, with emergency response procedures, crisis management and business continuity plans (BCPs) implemented for all business units and subsidiaries.

Business continuity plans can be activated following any incident response decisions by the AHB Crisis Management Team, and includes process flows, staff contact lists, recovery time objectives, resumption checklists, recovery strategies and alternative locations for staff to resume critical business processes and return to business as usual. The Plans are exercised and tested periodically, to provide training and awareness and to evaluate their effectiveness and involve mobilising staff from a primary site to a recovery location to resume business processes, to simulate a disruptive incident and to identify any learnings.

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39 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as profit rate and currency swaps that use only observable market data and require little management judgment and estimation. Observable prices or model inputs are usually available in the market for listed Sukuk and equity securities, exchange-traded Islamic derivatives and simple over-the-counter Islamic derivatives such as profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Financial instruments measured at Fair value – fair value hierarchy

The table below analyses assets and liabilities measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised.

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.

	<i>Level 1</i> <i>AED'000</i>	<i>Level 2</i> <i>AED'000</i>	<i>Level 3</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
31 December 2023				
Assets and liabilities measured at fair value				
Investment securities				
Quoted	1,790,407	-	-	1,790,407
Unquoted	-	-	7,574	7,574
Profit rate swaps (Negative value)	-	(25)	-	(25)
Investment property	-	-	70,530	70,530
31 December 2022				
Investment securities				
Quoted	2,548,761	-	-	2,548,761
Unquoted	-	-	9,172	9,172
Profit rate swaps (Negative value)	-	(46)	-	(46)
Investment property	-	-	64,894	64,894

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40 CAPITAL MANAGEMENT

40.1 Regulatory capital

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

- to comply with the capital requirements set by the Central Bank of the United Arab Emirates.
- to safeguard the Group's ability to continue as a going concern and increase the returns for the shareholders.
- 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 and amended time-to-time by the Basel Committee and the Central Bank of the United Arab Emirates.

CBUAE issued an update on Capital Adequacy Standards on November 12, 2020 vide notice number CBUAE/BSN/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/BSN/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 Group to determine the risk weight by the asset class and the criteria applicable to the counterparty as per the regulatory guidance. 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 as well as 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.

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40 CAPITAL MANAGEMENT continued

40.2 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 minority interest.

The following regulatory adjustments are applied in the calculation of CET 1:

- (i) goodwill and other intangible assets;
- (ii) cash flow hedge reserves;
- (iii) defined benefit pension fund assets and liabilities;
- (iv) treasury shares

AT1 capital comprises of instruments eligible for inclusion in AT 1 capital (paragraph 55 of Basel III Accord).

Tier 2 capital includes collective provisions per Basel guidelines and UAE Central Bank 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 II capital such as hybrid (sukuk/ equity) capital instruments and subordinated term finance.

Capital allocation.

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, 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.

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40 CAPITAL MANAGEMENT continued

40.3 Capital allocation

The Bank's capital adequacy ratio calculated in accordance with guidelines issued by the CBUAE is as below:

	<i>BASEL III</i> 2023 AED'000	<i>BASEL III</i> 2022 AED'000
Common Equity Tier 1 (CET1) Capital		
Share capital	4,850,000	4,750,000
Statutory reserve	178,896	178,896
Cumulative changes in fair value	(287,774)	(298,720)
Retained earnings	<u>(3,154,167)</u>	<u>(3,050,576)</u>
CET1 capital before the regulatory adjustments	<u>1,586,955</u>	<u>1,579,600</u>
Less: Regulatory deductions	<u>(176,241)</u>	<u>(138,558)</u>
Total CET1 capital after deductions (A)	<u>1,410,714</u>	<u>1,441,042</u>
Additional Tier 1 Capital		
Eligible Additional Tier 1 Capital	<u>-</u>	<u>-</u>
Total Additional Tier 1 Capital (B)	<u>-</u>	<u>-</u>
Tier 2 Capital		
Other Tier 2 capital (including General Provisions, etc.)	<u>101,754</u>	<u>101,293</u>
Total Tier 2 Capital (C)	<u>101,754</u>	<u>101,293</u>
Total Regulatory Capital (A+B+C)	<u>1,512,468</u>	<u>1,542,335</u>
	<i>BASEL III</i> 2023 AED'000	<i>BASEL III</i> 2022 AED'000
Available capital		
Common equity tier 1 capital	1,410,714	1,441,042
Tier 1 capital	1,410,714	1,441,042
Total eligible capital	1,512,468	1,542,335
Risk weighted assets		
Credit risk	8,206,931	8,185,830
Market risk	142,034	102,868
Operational risk	<u>783,581</u>	<u>815,528</u>
Total risk weighted assets	<u>9,132,546</u>	<u>9,104,226</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2023

40 CAPITAL MANAGEMENT continued**40.4 Capital Adequacy Ratio**

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/BSN/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.

Capital ratios	Minimum capital requirement	2023	2022
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	9.50%	15.45%	15.83%
Tier 1 capital expressed as a percentage of total risk weighted assets	11.00%	15.45%	15.83%
Total regulatory capital expressed as a percentage of total risk weighted assets	13.00%	16.56%	16.94%

41 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation adopted in the current year.