

Arab Bank PLC
United Arab Emirates Branches
REPORTS AND FINANCIAL STATEMENTS
31 DECEMBER 2023

Arab Bank PLC

United Arab Emirates Branches

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REPORT OF THE MANAGEMENT

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

Incorporation and registered offices

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

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

Financial position and results

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

During the year ended 31 December 2023, the Branches recorded total operating income of AED 871,554 thousand (2022: AED 591,151 thousand) and net profit of AED 462,790 thousand (2022: net profit of AED 203,389 thousand).

Signed on behalf of the Management

Feras Darwish
Country Manager

Date: 26 March 2024



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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Arab Bank PLC, United Arab Emirates Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in head office equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for opinion

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

Other matter

The financial statements of the Branches for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 17 March 2023.

Other information

Management is responsible for the other information. The other information comprises the report of the management. The other information does not include the financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



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

Report on the audit of the financial statements (continued)

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

Report on the audit of the financial statements (continued)

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

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

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

Report on other legal and regulatory requirements

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

Deloitte & Touche (M.E.)



Firas Anabtawi
Registration No. 5482
26 March 2024
Dubai
United Arab Emirates

Arab Bank PLC, United Arab Emirates Branches

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Interest income	3	1,142,859	561,848
Interest expense	4	(445,002)	(137,448)
NET INTEREST INCOME		697,857	424,400
Other operating income, net	5	173,697	166,751
TOTAL OPERATING INCOME		871,554	591,151
Credit loss expense on financial assets, net	6	(23,306)	(103,236)
NET OPERATING INCOME		848,248	487,915
General and administrative expenses	7	(255,128)	(218,609)
Depreciation on property and equipment	15	(3,243)	(3,738)
Depreciation on right-of-use assets	34	(10,964)	(10,796)
TOTAL OPERATING EXPENSES		(269,335)	(233,143)
PROFIT BEFORE TAXATION		578,913	254,772
Income tax expense	21(b)	(116,123)	(51,383)
NET PROFIT FOR THE YEAR AFTER TAXATION		462,790	203,389
Other comprehensive income / (loss) for the year			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
- Unrealised gain/(loss) on revaluation of financial assets at FVTOCI 12(e)		257	(19)
- Tax effect		(55)	7
Other comprehensive income/ (loss) for the year, net of tax		202	(12)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		462,992	203,377

Feras Darwish
Country Manager -- United Arab Emirates

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

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

Arab Bank PLC, United Arab Emirates Branches

STATEMENT OF FINANCIAL POSITION


As at 31 December 2023

	Notes	2023 AED'000	2022 AED'000
ASSETS			
Cash and balances with the Central Bank of UAE	8	2,154,666	2,249,825
Due from banks, net	9	992,102	1,984,005
Due from Head Office and its branches abroad	10	176,972	106,507
Loans and advances, net	11	11,219,339	9,543,230
Other financial assets, net	12	5,563,082	4,511,981
Right-of-use assets	34	40,804	13,320
Other assets	13	570,958	469,019
Deferred tax assets	14	265,176	367,372
Property and equipment	15	6,871	5,246
TOTAL ASSETS		20,989,970	19,250,505
LIABILITIES AND HEAD OFFICE EQUITY			
LIABILITIES			
Due to banks	16	262,819	156,627
Due to Head Office and its branches abroad	17	25,161	136,296
Customers' deposits	18	16,326,859	14,774,220
Security deposits from customers	19	1,105,348	1,128,952
Other liabilities	20	681,102	542,587
Provisions	21	35,817	70,945
Deferred tax liability		223	170
Lease liabilities	34	34,658	11,122
Subordinated loan	22	-	374,595
TOTAL LIABILITIES		18,471,987	17,195,514
HEAD OFFICE EQUITY			
Designated share capital	23	620,704	620,704
Statutory reserve	24	310,352	310,352
Other reserve	24	23,000	23,000
Impairment reserve	24	112,954	95,685
Revaluation reserve on financial assets - FVTOCI		893	691
Retained earnings		1,450,080	1,004,559
TOTAL HEAD OFFICE EQUITY		2,517,983	2,054,991
TOTAL LIABILITIES AND HEAD OFFICE EQUITY		20,989,970	19,250,505

These financial statements were approved and authorised for issue on 26 March 2024 by:



Feras Darwish
Country Manager -- United Arab Emirates



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

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

Arab Bank PLC, United Arab Emirates Branches

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	<i>Notes</i>	2023 <i>AED'000</i>	2022 <i>AED'000</i>
OPERATING ACTIVITIES			
Net profit before taxation		578,913	254,772
Adjustments for:			
Depreciation on property and equipment	15	3,243	3,738
Depreciation on right-of-use assets	34	10,964	10,796
Provision for expected credit losses		24,579	103,389
Gain on disposal of property and equipment		-	(8)
Provision for employees' end of service benefits	21(d)	4,577	3,050
Amortisation of premium on other financial assets	12 (e)	9,158	48,803
Cash generated from operations before changes in operating assets and liabilities		631,434	424,540
Changes in operating assets and liabilities:			
Due from Central Bank on statutory deposits		(295,945)	(34,210)
Loans and advances, net		(1,700,348)	(436,663)
Other assets		66,505	37,394
Customers' deposits		1,552,639	1,029,547
Security deposits from customers		(23,604)	(82,146)
Other liabilities		(30,263)	(79,028)
Cash generated from operations		200,418	859,434
Income tax paid	21(a)	(52,676)	(13,478)
Employees' end of service benefits paid	21(d)	(1,018)	(1,471)
Net cash generated from operating activities		146,724	844,485
INVESTING ACTIVITIES			
Purchase of property and equipment	15	(4,868)	(1,133)
Proceeds from disposal of property and equipment		-	8
Purchase of investments	12(e)	(16,551,707)	(9,835,588)
Proceeds from redemption of investments	12(e)	15,491,679	9,237,805
Net cash used in investing activities		(1,064,896)	(598,908)
FINANCING ACTIVITIES			
Redemption of subordinated loan	22	(374,595)	-
Repayment of lease liability, net of accretion of interest	34	(14,832)	(8,296)
Net cash used in financing activities		(389,427)	(8,296)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(1,307,599)	237,281
Cash and cash equivalents at the beginning of the year		3,348,467	3,111,186
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	27	2,040,868	3,348,467
Interest income received		1,116,955	574,348
Interest expense paid		395,548	139,971
Dividend received		22	22

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

Arab Bank PLC, United Arab Emirates Branches

STATEMENT OF CHANGES IN HEAD OFFICE EQUITY

For the year ended 31 December 2023

	<i>Designated share capital AED'000</i>	<i>Statutory reserve AED'000</i>	<i>Other reserve AED'000</i>	<i>Impairment reserve AED'000</i>	<i>Asset revaluation reserve AED'000</i>	<i>Retained earnings AED'000</i>	<i>Total Head Office equity AED'000</i>
Balance at 1 January 2022	620,704	310,352	23,000	127,247	703	769,608	1,851,614
Profit for the year	-	-	-	-	-	203,389	203,389
Other comprehensive loss	-	-	-	-	(12)	-	(12)
Total comprehensive (loss)/income for the year	-	-	-	-	(12)	203,389	203,377
Excess impairment reserve transferred to retained earnings (note 11(i))	-	-	-	(31,562)	-	31,562	-
Balance at 31 December 2022	620,704	310,352	23,000	95,685	691	1,004,559	2,054,991
Profit for the year	-	-	-	-	-	462,790	462,790
Other comprehensive income	-	-	-	-	202	-	202
Total comprehensive income for the year	-	-	-	-	202	462,790	462,992
Excess impairment reserve transferred to retained earnings (note 11(i))	-	-	-	17,269	-	(17,269)	-
Balance at 31 December 2023	620,704	310,352	23,000	112,954	893	1,450,080	2,517,983

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

1 ACTIVITIES

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

The Bank operates within the UAE through the following branches:

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

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

2 ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

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

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

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS

a. New and revised IFRSs applied on the financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements. The application of these revised IFRS has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 relating to disclosure of material accounting policies; and
- Amendment to IFRS 12 Income Taxes relating to deferred taxes related to assets and liabilities arising from a single transaction.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.2 ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

b. New and revised IFRSs in issue but not yet effective

The Bank has not early adopted the following new and revised standards that have been issued but are not yet effective. The management is in the process of assessing the impact of the new requirements.

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i>	01 January 2024
IFRS S2 <i>Climate Related Disclosures</i>	01 January 2024
Amendments to IAS 1 <i>Presentation of Financial Statements</i> relating to classification of liabilities as current or non-current	01 January 2024
Amendments to IFRS 16 <i>Leases</i> relating to lease liability in a sale and leaseback transaction	01 January 2024
Amendments to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> relating to Lack of Exchangeability	01 January 2025
Amendment to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> relating to treatment of sale or	Effective date deferred indefinitely.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Branches' financial statements for the period of initial application and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

2.3 SIGNIFICANT ACCOUNTING POLICIES

Recognition of income and expenses

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

Interest income and expense

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition of income and expenses (continued)

Fee and commission income

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

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

Income from recoveries

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

Contract balances

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

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

Taxation

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

Deferred tax

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax (continued)

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

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to AED at the foreign exchange rates ruling at the dates that the fair values were determined.

Forward foreign exchange contracts are translated into AED at market rates of exchange ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income.

Fair value measurement

For those assets and liabilities carried at fair value, the Branches measure fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The principal or the most advantageous market must be accessible to the Branches. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of non-financial instruments (instruments other than financial instruments) takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Branches use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, branch, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.

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

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

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Financial instruments

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

Date of recognition

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

Initial measurement of financial instruments

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

Financial assets

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

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

Classification of financial assets

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

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

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

All other financial assets are subsequently measured at fair value.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

Financial assets at amortised cost

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

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

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

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

Financial assets at FVTOCI

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

A financial asset is held for trading if:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification of financial assets (continued)

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

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

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

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

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

Reclassification of financial assets

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

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

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

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

Impairment calculation in accordance with IFRS 9

(i) Overview of expected credit losses

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(i) Overview of expected credit losses (continued)

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

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

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

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

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

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

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

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

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

The key inputs into the measurement of ECL are:

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(i) Overview of expected credit losses (continued)

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

The Bank's internal credit rating system:

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

(ii) Measurement of ECL

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(ii) Measurement of ECL (continued)

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

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

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

(iii) Forward-looking Expected Credit Losses approach

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

- International oil prices
- Equity market indices

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(iv) *Scenarios*

Weighted average ECL is calculated considering base case, upside, and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. The Bank updated the macroeconomic factors used for calculating ECL for the year ended 31 December 2023 in order to incorporate post-covid macroeconomic phenomenon. Further, management adopted a more conservative approach reducing the DPDs in stage 2 to 30 days instead of 45 days.

<i>Scenario (Corporate and Institutional Banking & Treasury)</i>	<i>Assigned weighted average 31 December 2023</i>	<i>Assigned weighted average 31 December 2022</i>
Base case	45%	45%
Upside	20%	20%
Downside	35%	35%

<i>Scenario (Retail Banking)</i>	<i>Assigned weighted average 31 December 2023</i>	<i>Assigned weighted average 31 December 2022</i>
Base case	40%	40%
Upside	30%	30%
Downside	30%	30%

The most significant period-end assumptions used for ECL estimate as at 31 December 2023 are equity market indices, represented by Abu Dhabi Securities Market General Index (ADSMI) and international oil prices. The scenarios base case, upside and downside were used for Corporate and Institutional Banking and treasury portfolios keeping in view the following principal macroeconomic variables:

Corporate and Institutional Banking & Treasury

<i>Macroeconomic variables</i>	<i>Scenario</i>	<i>Assigned probabilities</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>2026</i>	<i>Subsequent years</i>
ADX General Index (ADSMI)	Base case	45%	9,688	9,822	10,028	10,205	10,407
	Upside	20%	9,688	10,484	10,577	10,737	10,845
	Downside	35%	9,688	6,261	7,620	8,194	8,647
Oil prices (USD per barrel)	Base case	45%	86	78	70	71	71
	Upside	20%	86	80	70	71	71
	Downside	35%	86	56	60	69	69

Retail Banking

<i>Macroeconomic variables</i>	<i>Scenario</i>	<i>Assigned probabilities</i>	<i>2023</i>	<i>2024</i>	<i>2025</i>	<i>2026</i>	<i>Subsequent years</i>
ADX General Index (ADSMI)	Base case	40%	86	78	70	71	71
	Upside	30%	86	80	70	71	71
	Downside	30%	86	56	60	69	69
Oil prices (USD per barrel)	Base case	40%	86	78	70	71	71
	Upside	30%	86	80	70	71	71
	Downside	30%	86	56	60	69	69

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment calculation in accordance with IFRS 9 (continued)

(v) *Sensitivity analysis*

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

<i>Change in ECL due to change in macroeconomic variables</i>	<i>Base case</i>	<i>Upside</i>	<i>Downside</i>
Stage 1	(18.7%)	(28.9%)	41.1%
Stage 2	(1.4%)	(2.7%)	3.5%

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

Collateral valuation

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

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

Write-offs

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

Renegotiated loans and advances

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

Derecognition of financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

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

Financial liabilities at FVTPL

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

A financial liability is classified as held for trading if:

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

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Branches' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the statement of income.

Other financial liabilities

Other financial liabilities, include deposits and balances due to Head Office and its branches abroad, borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest rate.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Derivative financial instruments

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

Financial guarantees

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

Hedge accounting

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

When derivatives are designated as hedges, the Branches classify them as either:

- fair value hedges which hedge the change in the fair value of recognised assets or liabilities; or
- cash flow hedges which hedge the exposure to variability in highly probable future cash flows attributable to a recognised asset or liability or a forecast transaction.

Hedge accounting is applied to derivatives designated as hedging instruments in fair value or cash flow hedge provided certain criteria are met.

(i) Hedge documentation

At the inception of the hedge, formal documentation of the hedge relationship must be established. The hedge documentation prepared at the inception of the hedge must include a description of the following:

- The Branches’ risk management objective and strategy for undertaking the hedge;
- The nature of risk being hedged;
- Clear identification of the hedged item and the hedging instrument; and
- How the Branches will assess the effectiveness of the hedging relationship on an ongoing basis.

(ii) Hedge effectiveness testing

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

(iii) Fair value hedge

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

(iv) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in OCI. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities (continued)

Hedge accounting (continued)

(v) Discontinuance of hedge accounting

The hedge accounting is discontinued when a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. At that point of time, any cumulative gain or loss on the hedging instrument that has been recognised in OCI remains in other comprehensive income until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

(vi) Derivatives that do not qualify for hedge accounting

For hedges that do not qualify for hedge accounting, any gains or losses arising from changes in the fair value of the hedging instrument are taken directly to the income statement for the period.

Offsetting

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

Property and equipment

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

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

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

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

Right-of-use assets

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

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

Assets held for sale

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

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

Impairment of non-financial assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

2.3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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

End of service benefits

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

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

Contingencies

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

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

2.4 CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

b) Classification and measurement of financial assets

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

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

(c) Impairment of financial assets

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

Assessment of Significant Increase in Credit Risk (SICR)

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

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

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

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

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

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

Curing criteria – upward ECL stage movement

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

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

c) Impairment of financial assets (continued)

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

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

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

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

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

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

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

Definition of default

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

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

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

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

Expected Life

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

d) Useful lives of property and equipment

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

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

e) Derivative financial instruments

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

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

f) Tax liabilities and deferred tax assets

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

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

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

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

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

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

h) Estimating the incremental borrowing rate

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

2 ACCOUNTING POLICIES (continued)

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

i) Provisions and other contingent liabilities

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

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

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

j) Effective Interest Rate (EIR) method

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

3 INTEREST INCOME

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
<i>Interest income calculated using the effective interest method</i>		
Loans and advances to customers	748,451	448,239
Other financial assets – debt instruments	250,500	67,766
Due from banks and Certificates of Deposits with Central Bank of UAE	127,215	40,623
	1,126,166	556,628
<i>Other interest and similar income</i>		
Interest income from derivatives	35,104	20,770
Interest expense on derivatives	(18,411)	(15,550)
	16,693	5,220
	1,142,859	561,848

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

4 INTEREST EXPENSE

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
<i>Interest expense calculated using the effective interest method</i>		
Customers' and security deposits	420,665	124,204
Due to banks	23,942	12,932
Interest expense on lease contracts	395	312
	<u>445,002</u>	<u>137,448</u>

5 OTHER OPERATING INCOME, NET

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
Fees and commission income		
- Over time	70,852	71,215
- At a point in time	69,095	61,850
	<u>139,947</u>	<u>133,065</u>
Commission expense	(20,533)	(16,733)
	<u>119,414</u>	<u>116,332</u>
Net foreign currencies exchange income	47,029	45,237
Others	7,254	5,182
	<u>173,697</u>	<u>166,751</u>

Disaggregated revenue information

*For the year ended 31 December 2023
In AED'000*

	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Total</i>
<i>Fees and commission income earned from services that are provided over time:</i>			
Loan commitment fees	-	11,559	11,559
Trade finance	1	59,292	59,293
	<u>1</u>	<u>70,851</u>	<u>70,852</u>
<i>Fees and commission income from services that are provided at a point in time:</i>			
Account services and maintenance	3,217	11,116	14,333
Loan commitment fees	8,708	10,776	19,484
Interchange fees	28,077	-	28,077
Other fees received	1,316	5,885	7,201
	<u>41,318</u>	<u>27,777</u>	<u>69,095</u>
Total revenue from contracts with customers	<u>41,319</u>	<u>98,628</u>	<u>139,947</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

5 OTHER OPERATING INCOME (continued)

Disaggregated revenue information (continued)

	<i>For the year ended 31 December 2022 In AED'000</i>		
	<i>Retail banking</i>	<i>Corporate banking</i>	<i>Total</i>
<i>Fees and commission income earned from services that are provided over time:</i>			
Loan commitment fees	1,180	14,461	15,641
Trade finance	2	55,572	55,574
	<u>1,182</u>	<u>70,033</u>	<u>71,215</u>
<i>Fees and commission income from services that are provided at a point in time:</i>			
Account services and maintenance	2,616	10,625	13,241
Loan commitment fees	6,975	11,115	18,090
Interchange fees	23,812	-	23,812
Other fees received	1,328	5,379	6,707
	<u>34,731</u>	<u>27,119</u>	<u>61,850</u>
Total revenue from contracts with customers	<u><u>35,913</u></u>	<u><u>97,152</u></u>	<u><u>133,065</u></u>

6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

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

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
(Reversal)/provision for expected credit losses:		
Stage 3 (Specific, see i below)	(5,590)	56,430
Stage 1 and 2 (Collective, see ii below)	28,896	46,806
	<u>23,306</u>	<u>103,236</u>

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

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
Charge for specific impairment allowance (see note 11(g) & 25(f))	73,589	141,745
Reversal upon recoveries (see note 11(g) & 25(f))	(77,899)	(85,162)
Recoveries from written off loans and advances	(1,280)	(153)
	<u>(5,590)</u>	<u>56,430</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

6 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (continued)

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

	2023 AED'000	2022 AED'000
Charge for collective impairment allowance	44,112	64,352
Reversal upon recoveries	(15,216)	(17,546)
	<u>28,896</u>	<u>46,806</u>

iii) Expected credit losses (Stage 1 and 2)

	2023 AED'000	2022 AED'000
Loans and advances, net (note 11 (h))	28,552	48,050
Other financial assets, at amortised cost (note 11 (h))	26	(1,780)
Due from banks (note 11 (h))	(15)	(126)
Indirect facilities (note 11 (h))	333	662
	<u>28,896</u>	<u>46,806</u>

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

31 December 2023

In AED'000	Notes	Stage 1	Stage 2	Stage 3	Total
Due from banks	9(a)	(15)	-	-	(15)
Loans and advances to customers	11	4,886	23,666	(5,598)	22,954
Debt instruments measured at amortised cost	12	26	-	-	26
Financial guarantees	11	148	152	8	308
Letters of credit	11	846	1	-	847
Other undrawn commitments	11	(756)	(58)	-	(814)
Total impairment loss		<u>5,135</u>	<u>23,761</u>	<u>(5,590)</u>	<u>23,306</u>

31 December 2022

In AED'000	Notes	Stage 1	Stage 2	Stage 3	Total
Due from banks	9(a)	(126)	-	-	(126)
Loans and advances to customers	11	(4,007)	52,057	56,430	104,480
Debt instruments measured at amortised cost	12	(1,780)	-	-	(1,780)
Financial guarantees	11	124	(16)	-	108
Letters of credit	11	355	(17)	-	338
Other undrawn commitments	11	228	(12)	-	216
Total impairment loss		<u>(5,206)</u>	<u>52,012</u>	<u>56,430</u>	<u>103,236</u>

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

7 GENERAL AND ADMINISTRATIVE EXPENSES

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Salaries and related benefits	137,842	112,421
Services expenses (see note 7(a))	7,477	22,401
Head Office charges (see note 28)	24,865	21,104
IT services related expenses (see note 7(b))	11,415	10,699
Operating leases, utilities and related expenses	8,771	8,665
Others	64,758	43,319
	255,128	218,609

- a) Services expenses represent cost of transaction processing and back-office support activities recharged to the Branches by Arab Company for Shared Services FZ - LLC (a 100% owned subsidiary of the Head office) (see note 28).
- b) IT related expenses represent cost of IT support services recharged to the Branches by Arab Gulf-Tech for IT Services FZ-LLC (a 100% owned subsidiary of the Head office) (see note 28).
- c) The social contributions (including donations and charity) made during the year ended 31 December 2023 amount to AED Nil (2022: AED Nil).

8 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Cash on hand	83,285	83,385
Balances with the Central Bank of UAE:		
- Current accounts	126,489	17,493
- Overnight deposits	950,000	1,450,000
- Statutory reserves (see note a)	994,892	698,947
	2,154,666	2,249,825

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

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

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

9 DUE FROM BANKS, NET

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Current account	570,400	643,581
Time deposits	421,855	1,340,592
	992,255	1,984,173
Less: Provision for expected credit loss (see note a below)	(153)	(168)
	992,102	1,984,005

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
At 1 January	168	294
Released during the year	(15)	(126)
At 31 December	153	168

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Banks in the U.A.E.	13,140	477,925
Banks abroad	754,421	1,263,890
Related parties – abroad	224,541	242,190
	992,102	1,984,005

c) As at 31 December 2023, there were no time deposits with an original maturity of more than 3 months (2022: Nil).

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

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Rated Aaa to Aa3	221,322	250,553
Rated A1 to A3	517,483	1,411,234
Rated Baa1 to Baa3	27,540	79,526
Rated below Baa3 and unrated - others	225,910	242,860
	992,255	1,984,173

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

9 DUE FROM BANKS, NET (continued)

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

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

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Internal rating grade				
Performing				
1	-	-	-	-
2	221,322	-	-	221,322
3	517,483	-	-	517,483
4	27,540	-	-	27,540
5	3,629	-	-	3,629
6	208,987	-	-	208,987
7	-	-	-	-
8	-	-	-	-
9	-	-	-	-
10	-	-	-	-
Unrated	13,294	-	-	13,294
At 31 December 2023	992,255	-	-	992,255

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Internal rating grade				
Performing				
1	-	-	-	-
2	250,553	-	-	250,553
3	1,411,234	-	-	1,411,234
4	79,526	-	-	79,526
5	-	-	-	-
6	-	-	-	-
7	-	-	-	-
Unrated	242,860	-	-	242,860
At 31 December 2022	1,984,173	-	-	1,984,173

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

9 DUE FROM BANKS, NET (continued)

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

In AED'000

	<i>Stage 1</i>		<i>Stage 2</i>		<i>Stage 3</i>		<i>Total</i>	
	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>	<i>Outstanding exposure</i>	<i>ECL</i>
1 January 2023	1,984,173	168	-	-	-	-	1,984,173	168
New assets originated or purchased	177,762,147	(15)	-	-	-	-	177,762,147	(15)
Payments and assets derecognised	(178,754,065)	-	-	-	-	-	(178,754,065)	-
At 31 December 2023	<u>992,255</u>	<u>153</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>992,255</u>	<u>153</u>

In AED'000

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

10 DUE FROM HEAD OFFICE AND ITS BRANCHES ABROAD

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Current accounts	66,797	36,729
Time deposits	110,175	69,778
	<u>176,972</u>	<u>106,507</u>

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

11 LOANS AND ADVANCES, NET

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

a) By type:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Overdrafts	2,245,044	2,727,880
Loans	9,765,847	8,311,724
Bills discounted	345,882	343,928
Credit cards	40,166	45,428
	<u>12,396,939</u>	<u>11,428,960</u>
Less: Interest in suspense (see note g)	(221,001)	(308,059)
Specific provisions for impairment (Stage 3) (see note g)	(846,974)	(1,485,097)
ECL collective impairment provision for on-balance sheet (Stage 1 and 2) (see note h)	(109,625)	(92,574)
Loans and advances, net	<u>11,219,339</u>	<u>9,543,230</u>

b) By economic sector (Gross):

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Trading	2,103,466	2,112,005
Retail loans	2,094,225	1,825,202
Construction	1,214,276	1,695,382
Manufacturing	1,694,136	1,474,460
Services	1,744,178	1,390,545
Real estate	882,361	876,206
Government	1,122,619	806,561
Transportation, storing and communication	723,186	358,834
Others	818,492	889,765
	<u>12,396,939</u>	<u>11,428,960</u>

c) By classification (Gross):

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Corporate	10,302,714	9,603,758
Retail	2,094,225	1,825,202
	<u>12,396,939</u>	<u>11,428,960</u>

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

- d) As at 31 December 2023, the total value of non-performing loans and advances, for which interest has been suspended amounted to AED 1,124 million (2022: AED 1,857 million) (see note 33a).
- e) As at 31 December 2023, loans and advances include AED 233 million (2022: AED 371 million) of loans and advances that are past due but not impaired.
- f) The Branches do not hold any significant loans and advances outside the Middle East region.
- g) Loans and advances are stated net of interest in suspense and allowance for expected credit loss (stage 1, 2 & 3). The movements for interest in suspense and allowance for expected credit loss (stage 3) are as follows:

	<i>31 December 2023</i>		<i>31 December 2022</i>	
	<i>Interest in suspense AED'000</i>	<i>Allowance for expected credit loss (stage 3) AED'000</i>	<i>Interest in suspense AED'000</i>	<i>Allowance for expected credit loss (stage 3) AED'000</i>
At 1 January	308,059	1,485,097	255,960	1,638,756
Suspended/provided during the year (see note 6)	85,446	67,473	111,757	111,575
Reversal upon recoveries (see note 6)	(595)	(71,783)	-	(79,930)
Amounts written off during the year	(171,909)	(645,314)	(59,658)	(193,485)
Transfers from other stages	-	11,501	-	8,181
At 31 December	<u>221,001</u>	<u>846,974</u>	<u>308,059</u>	<u>1,485,097</u>

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

	<i>Loans & Advances AED'000 (note 11 (a))</i>	<i>Off-Balance Sheet AED'000 (note 20)</i>	<i>Other financial assets AED'000 (notes 9 & 12)</i>	<i>Total AED'000</i>
At 1 January 2023	92,574	3,774	1,345	97,693
Provided during the year, net (see note 6)	41,455	2,574	83	44,112
Released during the year (see note 6)	(12,903)	(2,241)	(72)	(15,216)
Transfers to stage 3 (see note k below)	(11,501)	(3)	-	(11,504)
At 31 December 2023	<u>109,625</u>	<u>4,104</u>	<u>1,356</u>	<u>115,085</u>
At 1 January 2022	52,705	3,112	3,251	59,068
Provided during the year, net (see note 6)	62,245	2,107	-	64,352
Released during the year (see note 6)	(14,195)	(1,445)	(1,906)	(17,546)
Transfers to stage 3 (see note k below)	(8,181)	-	-	(8,181)
At 31 December 2022	<u>92,574</u>	<u>3,774</u>	<u>1,345</u>	<u>97,693</u>

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

	<i>Specific provision AED'000</i>	<i>Collective provision AED'000</i>	<i>Total AED'000</i>
As at 1 January 2023	-	95,685	95,685
Shortfall transferred from retained earnings	-	17,269	17,269
At 31 December 2023 (see note 33(a))	-	112,954	112,954
	<i>Specific provision AED'000</i>	<i>Collective provision AED'000</i>	<i>Total AED'000</i>
As at 1 January 2022	-	127,247	127,247
Excess transferred to retained earnings	-	(31,562)	(31,562)
At 31 December 2022 (see note 33(a))	-	95,685	95,685

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

<i>In AED'000</i>	2023			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2023	9,066,339	505,466	1,857,155	11,428,960
New assets originated	3,448,195	2,943	64,835	3,515,973
Assets derecognised or repaid (excluding write offs)	(1,508,749)	(172,520)	(49,647)	(1,730,916)
Transfers to Stage 1	43,010	(43,010)	-	-
Transfers to Stage 2	(85,117)	85,117	-	-
Transfers to Stage 3	(755)	(68,214)	68,971	2
Amounts written off	-	-	(817,080)	(817,080)
At 31 December 2023	10,962,923	309,782	1,124,234	12,396,939
	2022			
<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2023	8,242,627	896,855	2,019,139	11,158,621
New assets originated	2,083,652	-	129,310	2,212,962
Assets derecognised or repaid (excluding write offs)	(1,531,312)	(87,775)	(75,890)	(1,694,977)
Transfers to Stage 1	419,749	(419,749)	-	-
Transfers to Stage 2	(148,345)	148,345	-	-
Transfers to Stage 3	(32)	(32,210)	32,242	-
Amounts written off	-	-	(247,646)	(247,646)
At 31 December 2023	9,066,339	505,466	1,857,155	11,428,960

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

<i>In AED'000</i>	<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January 2023	22,195	70,778	1,485,097	1,578,070
Net charge for the year	12,693	30,404	67,473	110,570
Recoveries from repaid / derecognized facilities	(8,296)	(6,645)	(71,838)	(86,779)
Transfers to Stage 1	147	(147)	-	-
Transfers to Stage 2	(178)	178	-	-
Transfers to Stage 3	(30)	(11,474)	11,504	-
Amounts written off	-	-	(645,262)	(645,262)
At 31 December 2023	<u>26,531</u>	<u>83,094</u>	<u>846,974</u>	<u>956,599</u>

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

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

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Internal rating grade				
Performing				
1	-	-	-	-
2	397,619	-	-	397,619
3	1,374,733	-	-	1,374,733
4	5,424,285	13,381	-	5,437,666
5	1,544,761	38,433	-	1,583,194
6	47,381	-	-	47,381
7	-	218,486	-	218,486
Unrated	2,174,144	39,482	104,969	2,318,595
Non-performing				
Individually impaired	-	-	1,019,265	1,019,265
At 31 December 2023	<u>10,962,923</u>	<u>309,782</u>	<u>1,124,234</u>	<u>12,396,939</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

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

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

	<i>Non-credit impaired</i>				<i>Credit impaired</i>		<i>Total</i>	
	<i>Stage 1</i>		<i>Stage 2</i>		<i>Stage 3</i>			
	<i>Exposure</i>	<i>Impairment Allowance</i>	<i>Exposure</i>	<i>Impairment Allowance</i>	<i>Exposure</i>	<i>Impairment Allowance</i>	<i>Exposure</i>	<i>Impairment Allowance</i>
<i>Retail banking loans</i>								
As at 1 January 2023	1,646,992	5,776	39,481	5,081	138,727	88,904	1,825,200	99,761
Other movements	302,782	2	1	1	20,312	10,459	323,095	10,462
Written-off	-	-	-	-	(54,070)	(36,450)	(54,070)	(36,450)
Total Retail	1,949,774	5,778	39,482	5,082	104,969	62,913	2,094,225	73,773
<i>Corporate & Institutional Banking loans:</i>								
As at 1 January 2023	7,419,348	16,188	465,985	65,529	1,718,428	1,396,193	9,603,761	1,477,910
Transfers from stage 1 to stage 2	(85,116)	(170)	85,116	170	-	-	-	-
Transfers from stage 2 to stage 1	43,010	146	(43,010)	(146)	-	-	-	-
Transfers from 1&2 to stage 3	(758)	(30)	(68,216)	(11,470)	68,974	11,502	-	2
Other movements	1,636,665	4,619	(169,575)	23,929	(5,127)	(14,716)	1,461,963	13,832
Written-off	-	-	-	-	(763,010)	(608,918)	(763,010)	(608,918)
Total Corporate & Institutional Banking	9,013,149	20,753	270,300	78,012	1,019,265	784,061	10,302,714	882,826
As at 31 December 2023	10,962,923	26,531	309,782	83,094	1,124,234	846,974	12,396,939	956,599

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

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

<i>In AED'000</i>	<i>Stage 2</i>		<i>Stage3</i>		<i>Total</i>	
	<i>Gross carrying amount</i>	<i>ECL</i>	<i>Gross carrying amount</i>	<i>ECL</i>	<i>Gross carrying amount</i>	<i>ECL</i>
31 December 2023						
Less than:						
30 dpd (for stage 2)	261,623	76,214	-	-	261,623	76,214
More than:						
30 dpd (for stage 2)	48,159	6,880	-	-	48,159	6,880
90 dpd (for stage 3)	-	-	1,124,234	846,974	1,124,234	846,974
Total	309,782	83,094	1,124,234	846,974	1,434,016	930,068

Breakdown of stage 3 exposures:

No longer impaired but in cure period	-	-
Other	1,124,234	846,974
Total	1,124,234	846,974

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

Breakdown of stage 3 exposures:

No longer impaired but in cure period	-	-
Other	1,857,155	1,485,097
Total	1,857,155	1,485,097

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

31 December 2023
In AED'000s

	<i>Gross carrying amount</i>				<i>Allowance for ECL</i>				<i>ECL Coverage %</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Loans and advances to customers												
Retail Banking												
Credit Cards	34,546	324	5,297	40,167	314	82	2,981	3,377	1%	25%	56%	8%
Housing Loans	1,384,782	25,186	55,109	1,465,077	605	279	23,331	24,215	0%	1%	42%	2%
Personal Loans	466,596	13,410	43,167	523,173	4,651	4,647	35,563	44,861	1%	35%	82%	9%
Auto Loans	48,367	562	1,309	50,238	208	74	961	1,243	0%	13%	73%	2%
Others	15,483	-	87	15,570	-	-	77	77	0%	0%	89%	0%
Total	1,949,774	39,482	104,969	2,094,225	5,778	5,082	62,913	73,773	0%	13%	60%	4%
Corporate and Institutional Banking:												
Emirates												
Governments	1,039,500	-	-	1,039,500	1,724	-	-	1,724	0%	0%	0%	0%
GRES	508,846	-	-	508,846	377	-	-	377	0%	0%	0%	0%
Other Corporates	6,268,572	228,139	985,779	7,482,490	16,729	74,773	755,760	847,262	0%	33%	77%	11%
High Net Worth												
Individuals	625,026	5,598	20,119	650,743	428	-	16,222	16,650	0%	0%	81%	3%
SMEs	571,205	36,564	13,366	621,135	1,758	2,977	12,080	16,815	0%	8%	90%	3%
Total	9,013,149	270,301	1,019,264	10,302,714	21,016	77,750	784,062	882,828	0%	29%	77%	9%
Grand Total	10,962,923	309,783	1,124,233	12,396,939	26,794	82,832	846,975	956,601	0%	27%	75%	8%
Per region												
UAE	10,904,944	309,783	1,124,233	12,338,960	26,467	82,832	846,975	956,274	0%	27%	75%	8%
GCC countries	21,847	-	-	21,847	15	-	-	15	0%	0%	0%	0%
Other Arab countries	36,132	-	-	36,132	312	-	-	312	1%	0%	0%	1%
Total	10,962,923	309,783	1,124,233	12,396,939	26,794	82,832	846,975	956,601	0%	27%	75%	8%

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

11 LOANS AND ADVANCES, NET (continued)

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

31 December 2022

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

12 OTHER FINANCIAL ASSETS

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Measured at FVTOCI		
Unquoted equities	2,879	2,622
Measured at amortised cost		
Quoted bonds	1,911,159	1,517,050
Measured at amortised cost		
Treasury bills	3,650,246	2,993,485
	<u>5,564,284</u>	<u>4,513,157</u>
Less: ECL collective provision	(1,202)	(1,176)
	<u><u>5,563,082</u></u>	<u><u>4,511,981</u></u>

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
At 1 January	1,176	2,956
Provided/(released) during the year	26	(1,780)
	<u>1,202</u>	<u>1,176</u>

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

b) By geographical area (Gross):

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Within UAE	5,101,373	4,125,695
Outside UAE	462,911	387,462
	<u>5,564,284</u>	<u>4,513,157</u>
Less: ECL collective provision	(1,202)	(1,176)
	<u><u>5,563,082</u></u>	<u><u>4,511,981</u></u>

c) By economic sector:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Government and public sector	5,451,230	3,404,831
Trade and business sector	2,879	131,160
Financial institutions	110,175	977,166
	<u>5,564,284</u>	<u>4,513,157</u>
Less: ECL collective provision	(1,202)	(1,176)
	<u><u>5,563,082</u></u>	<u><u>4,511,981</u></u>

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

12 OTHER FINANCIAL ASSETS (continued)

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

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
Rated Aaa to Aa3	4,767,738	3,625,366
Rated A1 to A3	738,348	743,699
Rated Baa1 to Baa3	55,319	141,470
	5,561,405	4,510,535
Less: ECL collective provision	(1,202)	(1,176)
	5,560,203	4,509,359

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

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

<i>31 December 2023</i>	<i>Measured at amortised cost AED'000</i>	<i>Measured at FVTPL AED'000</i>	<i>Measured at FVTOCI AED'000</i>	<i>Total AED'000</i>
At 1 January 2023	4,510,535	-	2,622	4,513,157
Purchases during the year	16,551,707	-	-	16,551,707
Matured during the year	(15,491,679)	-	-	(15,491,679)
Change in fair value	-	-	257	257
Accrued interest and amortisation	(9,158)	-	-	(9,158)
	5,561,405	-	2,879	5,564,284
Less: ECL collective provision	(1,202)	-	-	(1,202)
At 31 December 2023	5,560,203	-	2,879	5,563,082
<i>31 December 2022</i>	<i>Measured at amortised cost AED'000</i>	<i>Measured at FVTPL AED'000</i>	<i>Measured at FVTOCI AED'000</i>	<i>Total AED'000</i>
At 1 January 2022	3,961,555	-	2,641	3,964,196
Purchases during the year	9,835,588	-	-	9,835,588
Matured during the year	(9,237,805)	-	-	(9,237,805)
Change in fair value	-	-	(19)	(19)
Accrued interest and amortisation	(48,803)	-	-	(48,803)
	4,510,535	-	2,622	4,513,157
Less: ECL collective provision	(1,176)	-	-	(1,176)
At 31 December 2022	4,509,359	-	2,622	4,511,981

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

13 OTHER ASSETS

	2023	2022
	AED'000	AED'000
Interest receivable	88,897	44,582
Bankers' acceptances (notes 20 and 25(d))	442,914	380,939
Prepayments	7,602	8,963
Derivative financial assets (note 26)	4,556	2,803
Other receivables	26,989	31,732
	570,958	469,019

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

14 DEFERRED TAX ASSETS

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

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

<i>AED'000</i>	<i>31 December 2023</i>					<i>31 December 2022</i>				
	<i>Impairment allowance for loans and advances to customers (Stage 3)</i>	<i>Allowance for ECL collective provision (stage 1 & 2)</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>	<i>Impairment allowance for loans and advances to customers (Stage 3)</i>	<i>Allowance for ECL collective provision (stage 1 & 2)</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>
As at 1 January	1,425,857	97,693	301,277	12,031	1,836,858	1,512,485	59,068	246,476	12,031	1,830,060
Additions	67,420	44,112	83,348	187,669	382,549	141,749	64,352	109,753	-	315,854
Release	(71,783)	(15,216)	(595)	-	(87,594)	(85,161)	(17,546)	-	-	(102,707)
Write-offs	(640,275)	-	(165,551)	-	(805,826)	(151,397)	-	(54,952)	-	(206,349)
Other adjustments	2,697	-	(2,778)	(26)	(107)	-	-	-	-	-
Transfers to/from other stages	11,505	(11,505)	-	-	-	8,181	(8,181)	-	-	-
As at 31 December	<u>795,421</u>	<u>115,084</u>	<u>215,701</u>	<u>199,674</u>	<u>1,325,880</u>	<u>1,425,857</u>	<u>97,693</u>	<u>301,277</u>	<u>12,031</u>	<u>1,836,858</u>

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

14 DEFERRED TAX ASSETS (continued)

<i>AED'000</i>	<i>31 December 2023</i>					<i>31 December 2022</i>				
	<i>Impairment allowance for loans and advances to customers</i>	<i>Allowance for ECL collective provision</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>	<i>Impairment allowance for loans and advances to customers</i>	<i>Allowance for ECL collective provision</i>	<i>Suspended interest</i>	<i>Others</i>	<i>Total</i>
<i>Deferred tax movement</i>										
As at 1 January	285,175	19,535	60,256	2,406	367,372	302,501	11,813	49,296	2,406	366,016
Transferred to statement of income for the year (note 21 (b))	(128,931)	5,783	(16,560)	37,534	(102,174)	(18,962)	9,358	10,960	-	1,356
Other adjustments	539	-	(556)	(5)	(22)	-	-	-	-	-
Transfers between stages	2,301	(2,301)	-	-	-	1,636	(1,636)	-	-	-
As at 31 December	<u>159,084</u>	<u>23,017</u>	<u>43,140</u>	<u>39,935</u>	<u>265,176</u>	<u>285,175</u>	<u>19,535</u>	<u>60,256</u>	<u>2,406</u>	<u>367,372</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

15 PROPERTY AND EQUIPMENT

	<i>Furniture, information systems and vehicles AED '000</i>	<i>Leasehold improvements AED '000</i>	<i>Total AED '000</i>
Cost:			
At 1 January 2022	27,804	29,423	57,227
Additions	1,049	84	1,133
Disposals	(978)	-	(978)
	<hr/>	<hr/>	<hr/>
At 31 December 2022	27,875	29,507	57,382
Additions	4,868	-	4,868
	<hr/>	<hr/>	<hr/>
At 31 December 2023	32,743	29,507	62,250
Depreciation:			
At 1 January 2022	23,487	25,889	49,376
Charge for the year	2,404	1,334	3,738
Disposals	(978)	-	(978)
	<hr/>	<hr/>	<hr/>
At 31 December 2022	24,913	27,223	52,136
Charge for the year	2,158	1,085	3,243
	<hr/>	<hr/>	<hr/>
At 31 December 2023	27,071	28,308	55,379
<i>Net carrying amounts:</i>			
At 31 December 2023	5,672	1,199	6,871
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2022	2,962	2,284	5,246
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

16 DUE TO BANKS

	2023 AED '000	2022 AED '000
Related parties - abroad	61,836	119,450
Due to Central Bank – UAE	182,196	20,487
Banks abroad	18,787	16,690
	<hr/>	<hr/>
	262,819	156,627
	<hr/> <hr/>	<hr/> <hr/>

The above balance is classified as current account.

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

17 DUE TO HEAD OFFICE AND ITS BRANCHES ABROAD

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Time deposits	2,000	112,000
Current accounts	23,161	24,296
	25,161	136,296

18 CUSTOMERS' DEPOSITS

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Time deposits	9,659,064	8,121,406
Current accounts	5,103,924	5,144,495
Saving accounts	1,414,203	1,344,530
Call deposits	149,668	163,789
	16,326,859	14,774,220

19 SECURITY DEPOSITS FROM CUSTOMERS

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Security deposits against direct facilities	803,093	842,756
Security deposits against indirect facilities	301,247	285,346
Other security deposits	1,008	850
	1,105,348	1,128,952

20 OTHER LIABILITIES

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Interest payable	118,507	50,642
Bankers' acceptances (notes 13 and 25 (d))	442,914	380,939
Derivative financial liabilities (note 26)	3,889	-
Collected bills	33,479	31,241
Unearned income	11,351	9,429
ECL Stage 3 provisions for off-balance sheet (note 25 (f))	25,119	25,119
ECL Stage 1 and 2 provisions for off-balance sheet (note 11 (h) and 25 (f))	4,106	3,774
Other payables	41,737	41,443
	681,102	542,587

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

21 PROVISIONS

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
Income tax (see notes a, b and c)	13,703	52,452
Employees' end of service benefits (see note d)	22,052	18,493
Provision for legal cases	62	-
	35,817	70,945

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

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
At 1 January	52,452	13,191
Charge for the year	13,927	52,739
Payments made during the year	(52,676)	(13,478)
At 31 December	13,703	52,452

b) Taxation is provided at 20% (2022: 20%) on the profit, adjusted for taxation purposes, attributable to the operations of the Branches in each of the respective Emirates in which the Branches operate, where tax is applicable. The Branches have filed annually the tax return for Dubai, Abu Dhabi, Sharjah, and Ras Al Khaimah Branches up to 31 December 2021 and settled tax due. The tax assessments up to 31 December 2021 have been agreed with the taxation authorities for Dubai & Sharjah and up to 31 December 2018 have been agreed with the taxation authority of Ras Al Khaimah. Tax assessed by the tax authorities for the prior assessment years was within the amount of tax provision maintained by the Branches. However, to date, the tax authorities for Abu Dhabi Branches have not raised final tax assessments.

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

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
Current income tax at 20%	13,703	52,452
Prior year income tax adjustments	225	287
Total income tax	13,928	52,739
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences (see note 14)	102,195	(1,356)
Total income tax expense / (reversal) (At effective tax rate of 20.01% (2022: 20.06%))	116,123	51,383

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

21 PROVISIONS (continued)

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Net profit / (loss) for the year before taxation	578,913	254,772
Less: Provisions for impairment and IIS on loans disallowed in the previous years written back/off during the year upon recoveries/write offs	87,716	(309,077)
Add: Items that are not deductible in determining taxable profit	(598,221)	316,741
Other adjustments	111	-
Net taxable profit	<u>68,519</u>	<u>262,436</u>

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
At 1 January	18,493	16,914
Charge for the year	4,577	3,050
Payments made during the year	(1,018)	(1,471)
At 31 December	<u>22,052</u>	<u>18,493</u>

22 SUBORDINATED LOAN

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

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

During 2017, the Head Office extended the maturity of the subordinated loan by one year till 29 December 2023. The average interest rate on subordinated loan during the year was 6.14% per annum (2022: 3.90% per annum), calculated based on 3 months LIBOR rate +1%.

23 DESIGNATED SHARE CAPITAL

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Designated capital	<u>620,704</u>	<u>620,704</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

24 RESERVES

a) Statutory reserve

In accordance with the UAE Company's Law and Regulations, the Branches have established a statutory reserve by appropriation of 10% of net profit for each year until the reserve equalled 50% of the designated share capital. No transfers to statutory reserve were made during 2023 and 2022 as the statutory reserve had reached the limit of 50% of designated share capital. The statutory reserve is not available for distribution except under the circumstances stipulated by the relevant law.

b) Other reserve

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

c) Impairment reserve

The impairment reserve was created in compliance with the Guidance note on implementation of IFRS 9 issued by the Central Bank of United Arab Emirates (CB UAE). The guidance note requires the Bank to maintain the impairment reserve in equity for an amount of shortfall in provision for expected credit losses as calculated under IFRS 9 compared to the amount of general provision if calculated as of 31 December 2023 per requirements of circular 28/2010 of CB UAE. The Bank assessed such shortfall to be AED 112,954 thousand (2022: AED 95,685 thousand), which is retained as impairment reserve as of 31 December 2023. The impairment reserve is not available for payment of dividend.

25 CONTINGENT LIABILITIES AND COMMITMENTS

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

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

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
<i>Contingent liabilities:</i>		
Guarantees	6,444,642	5,780,060
Letters of credit	1,195,291	695,849
Total (see note c)	7,639,933	6,475,909
	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Foreign currency forward contracts	1,078,306	1,827,639
Interest rate and cross currency swap contracts	1,524,267	2,163,500
Options	407,750	311,846
Total	3,010,323	4,302,985

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Loan commitments*	3,282,398	2,492,824
Capital contracts commitments	3,422	4,728
Total	<u>3,285,820</u>	<u>2,497,552</u>

* For the year ended 31 December 2023, an amount of AED 763 million (2022: AED 370 million) represent irrevocable loan commitments.

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

<i>31 December 2023</i>	<i>Less than</i> <i>1 year</i> <i>AED'000</i>	<i>More than</i> <i>1 year</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Guarantees	913,673	5,530,969	6,444,642
Letters of credit	1,168,092	27,199	1,195,291
Total	<u>2,081,765</u>	<u>5,558,168</u>	<u>7,639,933</u>
<i>31 December 2022</i>	<i>Less than</i> <i>1 year</i> <i>AED'000</i>	<i>More than</i> <i>1 year</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
Guarantees	949,693	4,830,367	5,780,060
Letters of credit	695,849	-	695,849
Total	<u>1,645,542</u>	<u>4,830,367</u>	<u>6,475,909</u>

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

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

<i>In AED'000</i>	<i>2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January	9,249,421	32,092	68,159	9,349,672
Additions during the year	4,049,088	13,360	7,598	4,070,046
Repaid / derecognized facilities	(1,879,790)	(165,285)	(9,399)	(2,054,474)
Transfers to Stage 1	2,624	(2,624)	-	-
Transfers to Stage 2	(191,047)	191,047	-	-
Transfers to Stage 3	(857)	(1,915)	2,773	1
At 31 December 2023	<u>11,229,439</u>	<u>66,675</u>	<u>69,131</u>	<u>11,365,245</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

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

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

<i>In AED'000</i>	2023			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
At 1 January	3,684	91	25,119	28,894
Net charge for the year	2,157	10	6,116	8,283
Recoveries during the year	(1,915)	79	(6,116)	(7,952)
Transfers to Stage 1	1	(1)	-	-
Transfers to Stage 2	(8)	8	-	-
At 31 December 2023	<u>3,919</u>	<u>187</u>	<u>25,119</u>	<u>29,225</u>

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

25 CONTINGENT LIABILITIES AND COMMITMENTS (continued)

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

<i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Internal rating grade				
Performing				
1	4,618	-	-	4,618
2	382,702	-	-	382,702
3	2,027,074	15,642	-	2,042,716
4	5,083,959	15,023	-	5,098,982
5	1,985,493	5,449	-	1,990,942
6	39,327	2,013	-	41,340
7	29,052	28,548	-	57,600
9	-	-	1,626	1,626
10	-	-	67,505	67,505
Unrated	1,677,213	-	-	1,677,213
Non-performing				
Individually impaired	-	-	69,131	69,131
At 31 December 2023	11,229,438	66,675	138,262	11,434,375

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

26 DERIVATIVES

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

26 DERIVATIVES (continued)

	Positive fair value AED'000 (note 13)	Negative fair value AED'000 (note 20)	Notional amount AED'000	Notional amounts by term to maturity		
				Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
Foreign exchange forward contracts	-	(3,889)	1,078,306	797,368	252,095	28,843
Cross currency & interest rate swaps	4,556	-	1,524,267	384,892	-	1,139,375
Options	-	-	407,750	-	-	407,750
At 31 December 2023	4,556	(3,889)	3,010,323	1,182,260	252,095	1,575,968
Foreign exchange forward contracts	674	-	1,827,639	1,172,065	449,900	205,674
Cross currency & interest rate swaps	2,129	-	2,163,500	146,653	678,320	1,338,527
Options	-	-	311,846	80,923	80,923	150,000
At 31 December 2022	2,803	-	4,302,985	1,399,641	1,209,143	1,694,201

31 December 2023

In AED'000

	Carrying value assets	Carrying value liabilities	Notional amount
Derivatives held for trading			
Foreign exchange contracts	541,292	537,014	1,078,306
Cross currency & interest rate swaps	441,150	441,150	882,300
Trading	203,875	203,875	407,750
	1,186,317	1,182,039	2,368,356
Derivatives used as fair value hedges			
Cross currency & interest rate swaps	320,976	320,991	641,967
	320,976	320,991	641,967
Total derivative financial instruments	1,507,293	1,503,030	3,010,323

31 December 2022

In AED'000s

	Carrying value assets	Carrying value liabilities	Notional amount
Derivatives held for trading			
Foreign exchange contracts	914,292	913,347	1,827,639
Cross currency & interest rate swaps	610,315	610,315	1,220,630
Trading	150,000	161,846	311,846
	1,674,607	1,685,508	3,360,115
Derivatives used as fair value hedges			
Cross currency & interest rate swaps	441,435	501,435	942,870
	441,435	501,435	942,870
Total derivative financial instruments	2,116,042	2,186,943	4,302,985

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

27 CASH AND CASH EQUIVALENTS

	2023	2022
	AED'000	AED'000
Cash and balances with the Central Bank of UAE (see note 8)	2,154,666	2,249,825
Due from banks (see note 9)	992,255	1,984,173
Due from the Head Office and its branches abroad (see note 10)	176,972	106,507
Due to banks (see note 16)	(262,819)	(156,627)
Due to Head Office and its branches abroad (see note 17)	(25,161)	(136,296)
	3,035,913	4,047,582
Less: ECL collective provision (see note 9)	(153)	(168)
	3,035,760	4,047,414
Less: Statutory deposits with Central Bank of UAE (see note 8)	(994,892)	(698,947)
	2,040,868	3,348,467

28 RELATED PARTY TRANSACTIONS AND BALANCES

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

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

The above-mentioned outstanding balances arose from the ordinary course of business. There have been no guarantees provided or received for any related party receivables or payables. Outstanding balances at year end are unsecured. For the year ended 31 December 2023, the Branches have not made any provision for doubtful debts relating to amounts owed by related parties (2022: nil).

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

	2023	2022
	AED'000	AED'000
<i>Interest income</i>		
Head Office and branches abroad	6,614	1,136
Other related parties	10,110	5,640
	16,724	6,776
<i>Interest expense</i>		
Head Office and branches abroad	1,021	1,522
Other related parties	1,608	732
	2,629	2,254

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

28 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
<i>Commission income</i>		
Other related parties	<u>994</u>	<u>943</u>
Head Office charges (see note 7)	<u>24,865</u>	<u>21,104</u>
Services expenses (see note 7 (a))	<u>7,477</u>	<u>22,401</u>
IT services related expenses (see note 7 (b))	<u>11,415</u>	<u>10,699</u>
Acceptances	<u>51,255</u>	<u>39,363</u>
<i>Contingent liabilities</i>		
Letters of credit	<u>23,833</u>	<u>36,383</u>
Guarantees	<u>48,724</u>	<u>52,034</u>
	<u>72,557</u>	<u>88,417</u>

b) Compensation of key management personnel is as follows:

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Salaries, bonuses and other benefits	<u>14,226</u>	<u>9,991</u>

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

<i>31 December 2023</i>	<i>Financial assets at FVTPL</i> <i>AED'000</i>	<i>Financial assets at FVTOCI</i> <i>AED'000</i>	<i>Financial assets at amortised cost</i> <i>AED'000</i>	<i>Other financial liabilities at amortised cost</i> <i>AED'000</i>	<i>Financial liabilities at FVTPL</i> <i>AED'000</i>	<i>Total</i> <i>AED'000</i>
<i>Financial assets</i>						
Cash and balances with the Central Bank of UAE	-	-	2,154,666	-	-	2,154,666
Due from banks	-	-	992,102	-	-	992,102
Due from the Head Office and branches abroad	-	-	176,972	-	-	176,972
Loans and advances, net	-	-	11,219,339	-	-	11,219,339
Other financial assets	-	2,606	5,560,476	-	-	5,563,082
Other assets	4,556	-	558,800	-	-	563,356
Total financial assets	<u>4,556</u>	<u>2,606</u>	<u>20,662,355</u>	<u>-</u>	<u>-</u>	<u>20,669,517</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

29 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

<i>31 December 2023</i>	<i>Financial assets at FVTPL AED'000</i>	<i>Financial assets at FVTOCI AED'000</i>	<i>Financial assets at amortised cost AED'000</i>	<i>Other financial liabilities at amortised cost AED'000</i>	<i>Financial liabilities at FVTPL AED'000</i>	<i>Total AED'000</i>
<i>Financial liabilities</i>						
Due to banks	-	-	-	262,819	-	262,819
Due to the Head Office and branches abroad	-	-	-	25,161	-	25,161
Customers' deposits	-	-	-	16,326,859	-	16,326,859
Security deposits from customers	-	-	-	1,105,348	-	1,105,348
Other liabilities	-	-	-	677,213	3,889	681,102
Subordinated loan	-	-	-	-	-	-
Lease contract liability	-	-	-	34,658	-	34,658
Total financial liabilities	-	-	-	18,432,058	3,889	18,435,947
<i>31 December 2022</i>						
	<i>Financial assets at FVTPL AED'000</i>	<i>Financial assets at FVTOCI AED'000</i>	<i>Financial assets at amortised cost AED'000</i>	<i>Other financial liabilities at amortised cost AED'000</i>	<i>Financial liabilities at FVTPL AED'000</i>	<i>Total AED'000</i>
<i>Financial assets</i>						
Cash and balances with the Central Bank of UAE	-	-	2,249,825	-	-	2,249,825
Due from banks	-	-	1,984,005	-	-	1,984,005
Due from the Head Office and branches abroad	-	-	106,507	-	-	106,507
Loans and advances, net	-	-	9,543,230	-	-	9,543,230
Other financial assets	-	2,622	4,509,359	-	-	4,511,981
Other assets	2,803	-	457,253	-	-	460,056
Total financial assets	2,803	2,622	18,850,179	-	-	18,855,604
<i>Financial liabilities</i>						
Due to banks	-	-	-	156,627	-	156,627
Due to the Head Office and branches abroad	-	-	-	136,296	-	136,296
Customers' deposits	-	-	-	14,774,220	-	14,774,220
Security deposits from customers	-	-	-	1,128,952	-	1,128,952
Other liabilities	-	-	-	542,587	-	542,587
Subordinated loan	-	-	-	374,595	-	374,595
Lease contract liability	-	-	-	11,122	-	11,122
Total financial liabilities	-	-	-	17,124,399	-	17,124,399

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

30 CONCENTRATIONS OF ASSETS AND LIABILITIES

	31 December 2023			31 December 2022		
	Assets AED'000	Liabilities AED'000	Off-balance sheet items AED'000	Assets AED'000	Liabilities AED'000	Off-balance sheet items AED'000
<i>Geographic regions</i>						
United Arab Emirates	19,270,628	16,543,967	11,757,386	17,126,709	14,996,990	9,882,122
Middle East and other countries	1,719,342	1,928,020	2,175,268	2,123,796	2,198,524	3,239,596
Total	20,989,970	18,471,987	13,932,654	19,250,505	17,195,514	13,121,718
<i>Economic sectors</i>						
Government and Public Sector	7,403,012	169,617	61,209	6,545,546	71,888	-
Trading and commercial Retail	7,525,661	7,520,124	10,091,060	6,430,698	7,209,788	8,609,566
Financial institutions	2,094,225	9,742,470	-	1,803,322	8,621,497	-
Others	3,084,855	140,853	3,780,385	3,610,817	303,677	4,512,152
Total	20,989,970	18,471,987	13,932,654	19,250,505	17,195,514	13,121,718

31 FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments held at fair value through profit and loss

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

Unquoted investments held at fair value through other comprehensive income

The financial statements include holdings in unquoted securities amounting to AED 2.88 million (2022: AED 2.62 million) which are measured at fair value. Fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis and capitalisation of sustainable earnings basis or comparable ratios depending on the investment and industry. The valuation model includes some assumptions that are not supported by observable market prices or rates.

Fair value of financial instruments carried at amortised cost

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

	Carrying amount AED'000	Fair value AED'000
2023		
Financial assets at amortised cost (Quoted bonds, gross – note 12)	5,561,405	5,548,001
2022		
Financial assets at amortised cost (Quoted bonds, gross – note 12)	4,510,535	4,475,935

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

31 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair value measurements recognised in the statement of financial position

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

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

31 December 2023	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Financial assets at FVTPL</i>				
- Derivative financial assets	-	4,556	-	4,556
<i>Financial assets at FVTOCI</i>				
- Unquoted equity instrument	-	-	2,879	2,879
<i>Financial liabilities at FVTPL</i>				
Derivative financial liabilities	-	3,889	-	3,889
31 December 2022				
	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
<i>Financial assets at FVTPL</i>				
- Derivative financial assets	-	2,803	-	2,803
<i>Financial assets at FVTOCI</i>				
- Unquoted equity instrument	-	-	2,622	2,622
<i>Financial liabilities at FVTPL</i>				
Derivative financial liabilities	-	-	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

32 CAPITAL MANAGEMENT

a) Regulatory capital

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

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

Minimum Capital Requirements

The CB UAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

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

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

Regulatory Capital

The Bank's capital base is divided into three main categories, namely CET1, AT1 and Tier 2 ('T2'), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, fair value reserve, retained earnings, non-controlling interest after deductions for goodwill and intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- AT1 capital comprises eligible non-common equity capital instruments.
- T2 capital comprises qualifying subordinated debt and undisclosed reserve

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
Tier 1 Capital		
Designated share capital	620,704	620,704
Statutory reserve	310,352	310,352
General reserve	23,000	23,000
Retained earnings	1,450,080	1,004,559
Accumulated other comprehensive income	402	309
	2,404,538	1,958,924
Deductions from Tier 1	(27,945)	(176,391)
Total Tier 1 capital [A]	2,376,593	1,782,533

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

32 CAPITAL MANAGEMENT (continued)

a) Regulatory capital (continued)

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>		
Tier 2 Capital				
Qualifying subordinated liabilities after amortization (Subordinated loan) (see note 22)	-	56,186		
Provision for expected credit losses (stage 1 and 2)/general provision, including impairment reserve (up to 1.25% of credit risk weighted assets)	190,030	161,098		
Total Tier 2 capital [B]	190,030	217,284		
Total regulatory capital [C = A + B]	2,566,623	1,999,817		
	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>		
Credit Risk	15,202,607	12,887,847		
Market Risk	53,857	32,453		
Operational Risk	980,215	1,021,299		
Total risk-weighted assets [D]	16,236,679	13,941,599		
Total capital ratio	15.81%	14.34%		
Tier 1 ratio	14.64%	12.79%		
CET1 ratio	14.64%	12.79%		
	<i>Actual</i> <i>2023</i>	<i>Limits</i> <i>2023</i>	<i>Actual</i> <i>2022</i>	<i>Limits</i> <i>2022</i>
In AED '000				
Tier 1 capital	2,376,593	1,380,118	1,782,533	1,534,643
Other Tier 2 capital instruments	190,030	-	217,284	-
Total capital	2,566,623	1,380,118	1,999,817	1,534,643

a) Capital allocation

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT

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

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

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

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

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

a) Credit risk management

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

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

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

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

(i) Retail lending

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(ii) Corporate lending

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

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

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

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

(iii) Credit review procedures and loan classification

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

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

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

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

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

(iv) Impaired loans and advances

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

(v) Past due but not impaired loans

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

(vi) Allowances for impairment

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(vii) Write-off policy

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

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

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

	<i>Due from banks*</i>		<i>Loans and advances</i>		<i>Investments in securities and other assets</i>	
	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</i>	<i>2023</i>	<i>2022</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>
Stage 3						
Impaired and not past due	-	-	-	-	-	-
Gross amount						
Substandard	-	-	4,583	4,033	-	-
Doubtful	-	-	32,874	20,206	-	-
Loss	-	-	1,086,777	1,832,916	-	-
Gross amount (note 11(d))	-	-	1,124,234	1,857,155	-	-
Interest suspended	-	-	(218,471)	(305,245)	-	-
Allowance for specific impairment	-	-	(846,974)	(1,485,097)	-	-
Net exposure	-	-	58,789	66,813	-	-
Stage 2						
Gross amount	-	-	309,781	505,466	-	-
Interest suspended	-	-	309,781	505,466	-	-
ECL allowance for collective impairment	-	-	(83,094)	(70,610)	-	-
Total	-	-	226,687	434,856	-	-
Stage 1						
Gross amount	3,240,455	4,257,120	10,962,924	9,066,339	5,564,284	4,513,157
Interest suspended	-	-	(2,530)	(2,814)	-	-
ECL allowance for collective impairment	(153)	(168)	(26,531)	(21,964)	(1,202)	(1,176)
	3,240,302	4,256,952	10,933,863	9,041,561	5,563,082	4,511,981
Carrying amount	3,240,302	4,256,952	11,219,339	9,543,230	5,563,082	4,511,981

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

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(vii) Write-off policy (continued)

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

31 December 2023

In AED'000s	Due from banks	Debt instruments at FVOCI	Debt instruments at amortised cost	Corporate lending	Small & Medium business lending	Consumer lending	Retail mortgages	Financial guarantees	Letters of credit	Undrawn commitments to lend	Total
Upside (20%)	26	-	156	16,412	1,504	-	-	130	211	220	18,658
Base case (45%)	63	-	419	38,298	3,508	-	-	337	548	584	43,757
Downside (35%)	64	-	626	35,803	3,241	-	-	465	706	904	41,809
Total Corporate and Institutional Banking	153	-	1,201	90,513	8,253	-	-	932	1,465	1,708	104,224
Upside (30%)	-	-	-	-	-	2,485	176	-	-	-	2,661
Base case (40%)	-	-	-	-	-	3,422	263	-	-	-	3,685
Downside (30%)	-	-	-	-	-	2,782	260	-	-	-	3,042
Total Consumer Lending	-	-	-	-	-	8,689	699	-	-	-	9,388
Grand Total	153	-	1,201	90,513	8,253	8,689	699	932	1,465	1,708	113,612
Effect of multiple economic scenarios	90	-	782	52,215	4,745	5,267	435	594	917	1,124	66,170

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

31 December 2022

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

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

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

31 December 2023

In AED'000s	<i>Due from banks</i>	<i>Debt instruments at FVOCI</i>	<i>Debt instruments at amortised cost</i>	<i>Corporate lending</i>	<i>Small business lending</i>	<i>Consumer lending</i>	<i>Retail mortgages</i>	<i>Financial guarantees</i>	<i>Letters of credit</i>	<i>Undrawn commitments to lend</i>	<i>Total</i>
ECL											
Corporate and Institutional Banking											
Upside (20%)	130	-	781	82,058	7,521	-	-	648	1,054	1,099	93,291
Base case (45%)	139	-	932	85,107	7,795	-	-	749	1,218	1,218	97,158
Downside (35%)	183	-	1,789	102,295	9,260	-	-	1,328	2,016	2,584	119,455
Consumer Lending											
Upside (30%)	-	-	-	-	-	8,284	585	-	-	-	8,869
Base case (40%)	-	-	-	-	-	8,534	657	-	-	-	9,191
Downside (30%)	-	-	-	-	-	9,272	866	-	-	-	10,138
Proportion of ECL in stage 2 (%) Corporate and Institutional Banking											
Upside (20%)	0%	0%	0%	17%	18%	0%	0%	5%	0%	0%	16%
Base case (45%)	0%	0%	0%	37%	39%	0%	0%	10%	0%	0%	36%
Downside (35%)	0%	0%	0%	25%	27%	0%	0%	5%	0%	0%	24%
Consumer Lending											
Upside (30%)	0%	0%	0%	0%	0%	45%	34%	0%	0%	0%	45%
Base case (40%)	0%	0%	0%	0%	0%	46%	34%	0%	0%	0%	45%
Downside (30%)	0%	0%	0%	0%	0%	43%	32%	0%	0%	0%	42%

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

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(vii) Write-off policy (continued)

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

31 December 2022

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

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

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

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

<i>AED'000</i>	<i>31 December 2023</i>				<i>31 December 2022</i>			
	<i>Collective 12-month ECL</i>	<i>Lifetime ECL not credit- impaired</i>	<i>Lifetime ECL credit- impaired</i>	<i>Total</i>	<i>Collective 12-month ECL</i>	<i>Lifetime ECL not credit- impaired</i>	<i>Lifetime ECL credit- impaired</i>	<i>Total</i>
As at 1 January	26,991	70,702	1,510,216	1,607,909	32,224	26,844	1,638,937	1,698,005
Allowances for impairment made during the year	13,642	30,411	73,533	117,586	7,347	57,005	141,745	206,097
Write back/ recoveries made during the year	(8,502)	(6,653)	(77,899)	(93,054)	(12,425)	(5,121)	(85,162)	(102,708)
Amounts written-off during the year	-	-	(645,262)	(645,262)	-	-	(193,485)	(193,485)
Transfers to Stage 1	147	(147)	-	-	681	(681)	-	-
Transfers to Stage 2	(178)	178	-	-	(836)	836	-	-
Transfers to Stage 3	(30)	(11,474)	11,504	-	-	(8,181)	8,181	-
As at 31 December	<u>32,070</u>	<u>83,017</u>	<u>872,092</u>	<u>987,179</u>	<u>26,991</u>	<u>70,702</u>	<u>1,510,216</u>	<u>1,607,909</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

Impairment reserve under the Central Bank of UAE (CBUAE) guidance

The CBUAE issued its IFRS 9 guidance on 30 April 2021 via Notice No. CBUAE/BSA/2019/458 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance"). Pursuant to Clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2023 <i>AED'000</i>	2022 <i>AED'000</i>
Impairment reserve: Stage 1 and 2 / Collective		
Minimum required by Collective provisions under Circular 28/2010 of CBUAE	228,039	193,378
Less: Expected credit loss (Stage 1 & 2) (note 11 (h))	(115,085)	(97,693)
	112,954	95,685
Collective provision maintained as impairment reserve* (note 11 (i))	112,954	95,685
Impairment reserve: Stage 3 / Specific		
Specific provisions under Circular 28/2010 of CBUAE	846,974	1,485,097
Less: Stage 3 provisions under IFRS 9 (note 11 (g))	(846,974)	(1,485,097)
	-	-
Specific provision maintained as impairment reserve*	-	-
Total provision maintained as impairment reserve	112,954	95,685

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

(viii) *Collaterals held (Corporate)*

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

(ix) *Collaterals held (Retail)*

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
<i>Against individually assessed loans and advances</i>		
Property	1,740,849	1,968,366
Equipment and vehicles	125,835	137,689
Cash	357,100	385,816
Others	4,200,581	4,366,168
	6,424,365	6,858,039
<i>Against collectively assessed loans and advances</i>		
Property	1,465,077	1,143,460
Cash	102,393	98,105
	1,567,470	1,241,565
Total	7,991,835	8,099,604

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

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

31 December 2023 In AED'000s	Gross carrying amount			Collateral			Net exposure		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Retail Banking									
Credit Cards	40,167	324	5,297	-	-	-	40,167	324	5,297
Housing Loans	1,465,077	25,186	55,109	1,465,077	-	10,517	-	25,186	44,592
Personal Loans	523,173	13,410	43,167	102,393	-	-	420,780	13,410	43,167
Auto Loans	50,238	562	1,309	-	-	-	50,238	562	1,309
Others	15,570	-	87	-	-	-	15,570	-	87
Total	2,094,225	39,482	104,969	1,567,470	-	10,517	526,755	39,482	94,452
Corporate & Institutional Banking									
Federal Government	-	-	-	-	-	-	-	-	-
Emirates Governments	1,039,500	-	-	-	-	-	1,039,500	-	-
GREs (Gov ownership >50%)	508,846	-	-	3,158	-	-	505,688	-	-
Other Corporates	7,512,509	228,136	985,781	5,162,714	230,568	777,747	2,349,795	(2,432)	208,034
High Net Worth Individuals	650,743	5,598	20,119	628,280	5,598	14,398	22,463	-	5,721
SMEs	591,116	36,566	13,365	630,213	37,249	13,366	(39,097)	(683)	(1)
Total	10,302,714	270,300	1,019,265	6,424,365	273,415	805,511	3,878,349	(3,115)	213,754
Grand Total	12,396,939	309,782	1,124,234	7,991,835	273,415	816,028	4,405,104	36,367	308,206

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

31 December 2022 In AED'000s	<i>Gross carrying amount</i>			<i>Collateral</i>			<i>Net exposure</i>		
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>
Retail Banking									
Credit Cards	45,428	324	11,126	-	-	-	45,428	324	11,126
Housing Loans	1,143,460	25,186	53,346	1,143,460	-	10,517	-	25,186	42,829
Personal Loans	565,266	13,410	71,576	98,105	-	-	467,161	13,410	71,576
Auto Loans	48,944	562	2,614	-	-	-	48,944	562	2,614
Others	22,104	-	66	-	-	-	22,104	-	66
Total	1,825,202	39,482	138,728	1,241,565	-	10,517	583,637	39,482	128,211
Corporate & Institutional Banking									
Federal Government	-	-	-	-	-	-	-	-	-
Emirates Governments	1,095,000	-	-	-	-	-	1,095,000	-	-
GREs (Gov ownership >50%)	170,720	-	-	-	-	-	170,720	-	-
Other Corporates	6,898,292	342,113	1,462,798	5,959,319	225,993	140,862	938,973	116,120	1,321,936
High Net Worth Individuals	541,472	32,393	5,340	485,144	32,393	-	56,328	-	5,340
SMEs	898,274	91,478	250,289	413,576	64,492	1	484,698	26,986	250,288
Total	9,603,758	465,984	1,718,427	6,858,039	322,878	140,863	2,745,719	143,106	1,577,564
Grand Total	11,428,960	505,466	1,857,155	8,099,604	322,878	151,380	3,329,356	182,588	1,705,775

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

(x) Geographical concentration

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

	<i>U.A.E. AED'000</i>	<i>Total AED'000</i>
2023		
Impaired loans – Gross (see note 33 (a))	1,124,234	1,124,234
Interest suspended	221,001	221,001
Stage 3 provision (Specific)	846,974	846,974
Stage 1 and 2 provision (Collective)	109,625	109,625
	<hr/> <hr/>	<hr/> <hr/>
	<i>U.A.E. AED'000</i>	<i>Total AED'000</i>
2022		
Impaired loans – Gross (see note 33 (a))	1,857,155	1,857,155
Interest suspended	308,059	308,059
Stage 3 provision (Specific)	1,485,097	1,485,097
Stage 1 and 2 provision (Collective)	92,574	92,574
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(xi) Concentration of credit risk by industry

The following table breaks down the Bank's main credit exposures on loans and advances, due from other banks and due from related parties and off balance sheet items categorised by industry as of 31 December 2023 and 2022.

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

	<i>On balance sheet items</i>					
	<i>Loans and advances AED'000</i>	<i>Amounts due from other banks and group entities AED'000</i>	<i>Other financial assets at amortised cost AED'000</i>	<i>Total funded AED'000</i>	<i>Off balance sheet items AED'000</i>	<i>Total AED'000</i>
31 December 2023						
Mining and manufacturing	1,824,432	-	-	1,824,432	1,794,916	3,619,348
Construction	1,214,276	-	-	1,214,276	4,461,728	5,676,004
Real estate	882,361	-	-	882,361	174,100	1,056,461
Telecommunication and transportation	723,186	-	-	723,186	368,768	1,091,954
Financial institutions	223,122	3,323,893	5,561,405	9,108,420	2,569,173	11,677,593
Governmental	1,122,619	-	-	1,122,619	-	1,122,619
Individuals	2,094,225	-	-	2,094,225	-	2,094,225
Services	4,312,718	-	-	4,312,719	4,563,969	8,876,688
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	12,396,939	3,323,893	5,561,405	21,282,238	13,932,654	35,214,892

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

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

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

31 December 2023	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>In AED'000</i>				
Due from Central Bank	2,154,666	-	-	2,154,666
Debt instruments at amortised cost	5,561,405	-	-	5,561,405
Due from banks	992,255	-	-	992,255
Due from the Head Office and branches abroad	176,972	-	-	176,972
Loans and advances	10,962,923	309,782	1,124,234	12,396,939
<i>Corporate lending</i>	8,224,848	224,429	1,005,899	9,455,176
<i>Small & Medium Entities</i>	788,301	45,871	13,366	847,538
<i>Consumer lending</i>	564,992	14,296	49,860	629,148
<i>Residential mortgages</i>	1,384,782	25,186	55,109	1,465,077
Financial guarantees	6,324,238	51,273	69,131	6,444,642
Letters of credit	1,187,558	7,733	-	1,195,291
Undrawn commitments to lend	3,274,727	7,671	-	3,282,398
Derivative contracts	4,556	-	-	4,556
	<u>30,639,300</u>	<u>376,459</u>	<u>1,193,365</u>	<u>32,209,124</u>

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

31 December 2023 <i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Per industry segment (*)				
Industry and mining	3,458,527	145,465	15,356	3,619,348
Construction	5,166,056	26,067	483,881	5,676,004
Real estate	996,223	45,840	14,398	1,056,461
Telecommunication and transportation	916,425	81,940	93,589	1,091,954
Financial institutions	11,677,593	-	-	11,677,593
Governmental	1,122,619	-	-	1,122,619
Individuals	1,949,774	39,482	104,969	2,094,225
Services	8,357,853	37,663	481,173	8,876,689
	33,645,070	376,457	1,193,366	35,214,893
Per region				
UAE	29,781,970	376,457	1,193,366	31,351,793
Gcountries	2,097,463	-	-	2,097,463
Other Arab countries	399,118	-	-	399,118
Asia	861,407	-	-	861,407
Europe	5,372	-	-	5,372
Africa	106,189	-	-	106,189
America	56,113	-	-	56,113
Other	337,438	-	-	337,438
	33,645,070	376,457	1,193,366	35,214,893

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

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

31 December 2022 <i>In AED'000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Due from Central Bank	2,166,440	-	-	2,166,440
Debt instruments at amortised cost	4,510,535	-	-	4,510,535
Due from banks	1,984,173	-	-	1,984,173
Due from the Head Office and branches abroad	106,507	-	-	106,507
Loans and advances	9,066,338	505,465	1,857,157	11,428,960
<i>Corporate lending</i>	6,725,338	354,827	1,461,790	8,541,955
<i>Small & Medium Entities</i>	694,007	111,156	256,639	1,061,802
<i>Consumer lending</i>	582,065	14,296	85,382	681,743
<i>Residential mortgages</i>	1,064,928	25,186	53,346	1,143,460
Financial guarantees	5,683,591	28,308	68,161	5,780,060
Letters of credit	694,857	992	-	695,849
Undrawn commitments to lend	2,490,781	2,043	-	2,492,824
Derivative contracts	2,803	-	-	2,803
	26,706,025	536,808	1,925,318	29,168,151

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

a) Credit risk management (continued)

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

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

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

b) Liquidity risk management

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

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

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

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

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

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

<i>31 December 2023</i>	<i>Within 3 months AED'000</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
Assets						
Cash and balances with Central Bank of UAE	-	-	-	-	2,154,666	2,154,666
Deposits and balances due from banks, net	421,855	-	-	-	570,247	992,102
Deposits and balances due from Head Office and branches abroad	110,175	-	-	-	66,797	176,972
Loans and advances, net	4,711,853	897,417	549,164	5,060,905	-	11,219,339
Other financial assets	2,008,794	1,848,259	766,159	936,991	2,879	5,563,082
Other assets	-	-	-	-	570,958	570,958
Right-of-use assets	-	-	-	40,804	-	40,804
Deferred tax assets	-	-	-	-	265,176	265,176
Property and equipment	-	-	-	-	6,871	6,871
Total assets	7,252,677	2,745,676	1,315,323	6,038,700	3,637,594	20,989,970
Liabilities and Head Office equity						
Due to banks	-	-	-	-	262,819	262,819
Due to Head Office and branches abroad	2,000	-	-	-	23,161	25,161
Customers' deposits	7,065,905	1,533,427	2,314,856	340,281	5,072,390	16,326,859
Security deposits from customers	469,788	212,496	304,548	118,516	-	1,105,348
Other liabilities	-	-	-	-	681,102	681,102
Deferred tax liability	-	-	-	-	223	223
Lease liability	4,307	4,307	8,614	17,430	-	34,658
Provisions	-	-	-	-	35,817	35,817
Head Office equity	-	-	-	-	2,517,983	2,517,983
Total liabilities and Head Office equity	7,542,000	1,750,230	2,628,018	476,227	8,593,495	20,989,970

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

<i>31 December 2022</i>	<i>Within 3 months AED '000</i>	<i>3 to 6 months AED '000</i>	<i>6 to 12 months AED '000</i>	<i>Over 1 year AED '000</i>	<i>No fixed maturity AED '000</i>	<i>Total AED '000</i>
Assets						
Cash and balances with Central Bank of UAE	1,450,000	-	-	-	799,825	2,249,825
Deposits and balances due from banks, net	1,333,396	-	-	-	650,609	1,984,005
Deposits and balances due from						
Head Office and branches abroad	69,778	-	-	-	36,729	106,507
Loans and advances, net	3,976,547	820,800	801,355	3,944,528	-	9,543,230
Other financial assets	1,613,805	1,464,004	748,738	682,812	2,622	4,511,981
Other assets	-	-	-	-	469,019	469,019
Right-of-use assets	-	-	-	13,320	-	13,320
Deferred tax assets	-	-	-	-	367,372	367,372
Property and equipment	-	-	-	-	5,246	5,246
Total assets	8,443,526	2,284,804	1,550,093	4,640,660	2,331,422	19,250,505
Liabilities and Head Office equity						
Due to banks	-	-	-	-	156,627	156,627
Due to Head Office and branches abroad	112,000	-	-	-	24,296	136,296
Customers' deposits	5,882,627	897,352	2,629,268	257,668	5,107,305	14,774,220
Security deposits from customers	614,815	197,519	202,919	113,699	-	1,128,952
Other liabilities	-	-	-	-	542,587	542,587
Deferred tax liability	-	-	-	-	170	170
Lease liability	6,656	533	-	3,933	-	11,122
Provisions	-	-	-	-	70,945	70,945
Subordinated loan	-	-	-	374,595	-	374,595
Head Office equity	-	-	-	-	2,054,991	2,054,991
Total liabilities and Head Office equity	6,616,098	1,095,404	2,832,187	749,895	7,956,921	19,250,505

Arab Bank PLC, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023 (continued)

33 RISK MANAGEMENT (continued)

b) Liquidity risk management (continued)

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

<i>31 December 2023</i>	<i>Within 3 months AED'00</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
Due to banks	-	-	-	-	262,976	262,976
Due to Head Office and branches abroad	2,000	-	-	-	23,164	25,164
Customers' deposits	7,258,042	1,575,124	2,377,802	349,534	5,210,320	16,770,822
Security deposits from customers	507,542	229,573	329,022	128,041	-	1,194,178
Other liabilities	-	-	-	-	562,818	562,818
Lease liability	4,307	4,307	8,614	17,431	-	34,659
Total financial liabilities	7,771,891	1,809,004	2,715,438	495,006	6,059,278	18,850,617
<i>31 December 2022</i>	<i>Within 3 months AED'00</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>No fixed maturity AED'000</i>	<i>Total AED'000</i>
Due to banks	-	-	-	-	156,627	156,627
Due to Head Office and branches abroad	112,000	-	-	-	24,606	136,606
Customers' deposits	5,989,662	913,680	2,677,108	262,357	5,200,352	15,043,159
Security deposits from customers	629,355	202,190	207,717	116,389	-	1,155,651
Other liabilities	-	-	-	-	492,117	492,117
Lease liability	6,656	533	-	3,933	-	11,122
Subordinated loan	-	-	-	375,664	-	375,664
Total financial liabilities	6,737,673	1,116,403	2,884,825	758,343	5,873,702	17,370,946

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

33 RISK MANAGEMENT (continued)

c) Market risk management

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

(i) Market risk - trading books

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

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

	2023	2022
	AED'000	AED'000
Other financial assets measured at FVTOCI	288	262

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

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

(iii) Market risk - interest rate risk management

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

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

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

Arab Bank plc, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

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

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

<i>31 December 2023</i>	<i>Less than 3 months AED'000</i>	<i>3 to 6 months AED'000</i>	<i>6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Non-interest sensitive AED'000</i>	<i>Total AED'000</i>
Assets						
Cash and balances with Central Bank	1	-	-	-	2,154,665	2,154,666
Deposits due from banks	408,557	-	-	-	583,545	992,102
Deposits and balances due from Head Office and branches abroad	110,175	-	-	-	66,797	176,972
Loans and advances, net	9,082,847	151,352	150,773	1,834,367	-	11,219,339
Other financial assets	2,349,908	1,848,259	700,000	662,036	2,879	5,563,082
Other assets	-	-	-	-	570,958	570,958
Right-of-use assets	-	-	-	-	40,804	40,804
Deferred tax assets	-	-	-	-	265,176	265,176
Property and equipment	-	-	-	-	6,871	6,871
Total assets	11,951,488	1,999,611	850,773	2,496,403	3,691,695	20,989,970
Customers' deposits	7,351,722	1,507,169	1,927,811	467,766	5,072,391	16,326,859
Security deposits from customers	167,932	187,567	287,237	117,470	345,142	1,105,348
Due to banks	-	-	-	-	262,819	262,819
Due to Head Office and branches abroad	2,000	-	-	-	23,161	25,161
Other liabilities	-	-	-	-	223	223
Deferred tax liability	-	-	-	-	681,102	681,102
Lease liability	4,307	4,307	8,614	17,430	-	34,658
Provisions	-	-	-	-	35,817	35,817
Head Office equity	-	-	-	-	2,517,983	2,517,983
Total liabilities and Head Office equity	7,525,961	1,699,043	2,223,662	602,666	8,938,638	20,989,970
On Balance Sheet gap	4,425,527	300,568	(1,372,889)	1,893,737	(5,246,943)	-
Cumulative interest rate sensitivity gap	4,425,527	4,726,095	3,353,206	5,246,943	-	-

Arab Bank plc, United Arab Emirates Branches

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

33 RISK MANAGEMENT (continued)

c) Market risk management (continued)

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

The impact of 1% sudden movement in benchmark interest rate on net interest income over a 12-month period as on 31 December 2023 would have been an/(a) increase/decrease in net interest income by AED 48 million (2022: AED 4.2 million).

The average effective interest rate on bank placements was 3.55% (2022: 1.25%), certificates of deposits with central bank was 4.88 % (2022: nil%), on loans and advances 4.12% (2022: 3.92%), on customer's deposits 2.53% (2022: 0.85%) and on bank borrowings 4.12% (2022: 2.82%).

(iv) IBOR Reforms

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

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

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

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

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

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

d) Foreign currency risk management

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

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

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At 31 December 2023

33 RISK MANAGEMENT (continued)

d) Foreign currency risk management (continued)

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

	<i>2023</i> <i>AED'000</i>	<i>2022</i> <i>AED'000</i>
USD	10,624	(5,877)
Sterling Pounds	(1,769)	(1,073)
Euro	(2,479)	(3,689)
Japanese Yen	(63)	(69)
Qatari Riyal	6,434	(1,052)
Other	15,086	16,024
Net risk	27,833	4,264

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

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

Currency exposure as at 31 December:

31 December 2023

	<i>Increase/decrease of 5%</i>	<i>Effect on profit</i>
		<i>AED'000</i>
Sterling Pounds	±5%	34
Japanese Yen	±5%	13
Euro	±5%	394
Others	±5%	6

31 December 2022

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

34 LEASES

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

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

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

	2023	2022
	<i>AED'000</i>	<i>AED'000</i>
Right-of-use assets		
As at 1 January (modified retrospective approach) (post modification)	13,320	24,116
Additions	38,448	-
Depreciation expense	(10,964)	(10,796)
As at 31 December	40,804	13,320

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

	2023	2022
	<i>AED'000</i>	<i>AED'000</i>
Lease Liabilities		
As at 1 January (modified retrospective approach) (post modification)	11,122	19,418
Additions	38,368	-
Accretion of interest	395	312
Payments during the year	(15,227)	(8,608)
As at 31 December	34,658	11,122

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

The following are the amounts recognised in profit or loss:

	2023	2022
	<i>AED'000</i>	<i>AED'000</i>
Depreciation expense of right-of-use assets	10,964	10,796
Interest expense on lease liabilities	395	312
Expense relating to leases of short-term and low-value assets (included in rent expenses)	8,771	8,665
Total amount recognised in profit or loss	20,130	19,773

The Bank had total cash outflows for leases of AED 14,832 thousand in 2023 (AED 8,296 thousand in 2022).

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

NOTES TO THE FINANCIAL STATEMENTS

At 31 December 2023

35 TAXATION

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

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

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

36 COMPARATIVE INFORMATION

Certain comparative amounts in the statement of cashflows and notes to the financial statement have been adjusted to conform to the current presentation.