

Mashreqbank PSC Group

**Report and consolidated financial statements
for the year ended 31 December 2023**

These audited consolidated financial statements are subject to approval of the Central Bank of U.A.E. and adoption by shareholders at the annual general meeting.

Mashreqbank PSC Group

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BOARD OF DIRECTORS' REPORT

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2023.

Incorporation and registered offices

Mashreqbank PSC was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The address of the registered office is P.O. Box 1250, Dubai, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management. These activities are carried out through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Pakistan, Qatar, the United Kingdom and the United States of America.

Financial position and results

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

Dividend

The Board of Directors has proposed a cash dividend of 185% for the year ended 31 December 2023 at the meeting held on 29 January 2024.

Directors

The following are the Directors of the Bank as at 31 December 2023:

Chairman:	H.E. Abdul Aziz Abdulla Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Directors:	Rashed Saif Saeed Al Jarwan Al Shamsi Rashed Saif Ahmed Al Ghurair John Gregory Iossifidis Iyad Mazher Saleh Malas Saeed Saif Ahmed Majid Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2023 have been audited by Deloitte & Touche (M.E.).

By order of the Board of Directors



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H.E. Abdul Aziz Abdulla Al Ghurair

Chairman

29 January 2024

INDEPENDENT AUDITOR'S REPORT

**The Board of Directors
Mashreqbank PSC
Dubai
United Arab Emirates**

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **Mashreqbank PSC** (“the Bank”), and its subsidiaries (together “the Group”) which comprise the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of material accounting policy information.

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

Basis for Opinion

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

Key Audit Matters

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

INDEPENDENT AUDITOR'S REPORT

to the Board of Directors of Mashreqbank PSC, Dubai, United Arab Emirates (continued)

Key audit matter	Our audit approach
<p>Impairment of loans and advances at amortised cost</p> <p>The audit of the impairment of loans and advances measured at amortised (which comprises of loans and advances to banks, loans and advances to customers and Islamic financing and investment products) is a key area of our focus because of its size (representing 62% of total assets) and due to the significance and complexity of the estimates and judgments which were used in classifying these loans and advances at amortised cost into various stages and determining the ECL. Refer to Note 3 of the consolidated financial statements for the accounting policy, Note 4 for critical accounting judgements and estimates and Note 43 for disclosures on credit risk.</p> <p>The Group's loans and advances at amortised cost are carried on the consolidated statement of financial position at AED 149 billion as at 31 December 2023. The expected credit loss ("ECL") allowance was AED 3.1 billion as at this date, which comprises of an allowance of AED 1.2 billion against Stage 1 and 2 exposures and an allowance of AED 1.9 billion against exposures classified under Stage 3.</p> <p>The corporate portfolio of Loans and advances at amortised cost is assessed individually for the significant increase in credit risk ("SICR") and measurement of ECL. This requires management to make a reasonable and supportive assessment to capture all qualitative and quantitative forward-looking information while assessing SICR or while assessing credit-impaired criteria for the exposure. Management judgement is also applied in manually overriding stages in accordance with the Group's accounting policies.</p> <p>The measurement of ECL for exposures classified as Stage 1 and Stage 2 are carried out collectively by the ECL models with limited manual intervention or overrides. It is important that these ECL models and their parameters (Probability of Default, Loss Given Default, Exposure At Default and macroeconomic adjustments) are valid throughout the reporting period and are subject to a validation/monitoring process by an independent reviewer. However, the accuracy of the results produced from these ECL models is dependent on using reasonable parameters and upto date inputs (to PD, LGD, EAD and macroeconomic adjustments) which are relevant for the reporting period and subject to timely validation process.</p>	<p>We obtained a detailed business process understanding of the Group's loans and advances measured at amortised cost including a review of the post model adjustments and management overlays in order to assess the reasonableness of these adjustments along with the other critical accounting estimates and judgments that management had applied. We have involved our subject matter experts to assist us in auditing the ECL models as at 31 December 2023.</p> <p>We tested the design and implementation of relevant controls and where applicable also tested the operating effectiveness of those controls. These include:</p> <ul style="list-style-type: none"> • System-based and manual controls over the timely recognition of impaired loans and advances; • Controls over the ECL calculation models; • Controls over collateral valuation estimates; • Controls over governance and approval process related to impairment provisions and ECL models including continuous reassessment by the management. <p>We understood and evaluated the theoretical soundness of the ECL model by involving our subject matter experts to ensure its compliance with the requirements of IFRS 9. We tested the mathematical integrity of the ECL model by performing recalculations. We assessed the consistency and reasonableness of various inputs and assumptions used by the Group's management to determine impairment.</p> <p>For allowances against exposures classified as Stage 1 and Stage 2, we obtained an understanding of the Group's methodology to determine the allowance, assessed the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. We assessed the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages. For a sample of exposures, we checked the appropriateness of the Group's staging.</p> <p>For loans tested collectively, we also evaluated the design and implementation of relevant controls over the modelling process, including model inputs, monitoring, validation and approval. We challenged key assumptions, inspected the calculation methodology and traced a sample back to source data.</p>



INDEPENDENT AUDITOR'S REPORT
to the Board of Directors of Mashreqbank PSC, Dubai, United Arab Emirates (continued)

Key audit matter	Our audit approach
<p>Impairment of loans and advances at amortised cost</p> <p>The exposures are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Group in accordance with the original contractual terms.</p> <p>Impaired loans and advances at amortised cost are measured on the basis of the present value of estimated future cash flows (which in the case of stage 3 exposures also includes an assessment of the fair value and recoverability of the collaterals). The impairment loss is calculated based on the shortfall between the carrying value of loans and advances at amortised cost compared to the net present value of future estimated cash flows discounted using the original effective interest rate. The factors considered when determining impairment losses on individually assessed impaired accounts include the customer's aggregate borrowings, risk rating, value of the collateral and probability of successful repossession and the costs involved to recover the debts.</p>	<p>We selected samples of loans and advances measured at amortised cost and assessed the accuracy of the Exposure at Default ("EAD"), appropriateness of the Probability of Default ("PD") and calculations of the Loss Given Default ("LGD") used by management in their ECL calculations.</p> <p>For exposures determined to be individually impaired, we tested on a sample basis, management's assessment of the future estimated cash flows, assessed their reasonableness and assessed the resultant allowance calculations. Further, we challenged the estimates and assumptions used by management around the LGD calculation for individually impaired exposures by testing the enforceability and adequacy of valuation of underlying collaterals and estimated recovery on default.</p> <p>We also, assessed the accuracy of disclosures in the consolidated financial statements to determine if they were in compliance with the requirements of IFRS Accounting Standards.</p>
<p>IT systems and controls over financial reporting</p> <p>We identified IT systems and controls over the Bank's financial reporting as an area of focus due to the extensive volume and variety of transactions which are processed daily by the Bank and rely on the effective operation of automated and IT dependent manual controls. There is a risk that automated accounting procedures and related internal controls are not accurately designed and operating effectively. In particular, the incorporated relevant controls are essential to limit the potential for fraud and error as a result of changes to an application or underlying data.</p>	<p>Our audit approach relies on automated controls and therefore the following procedures were designed to test access and control over the relevant IT systems:</p> <p>We obtained an understanding of the applications relevant to the financial reporting business process and the IT infrastructure supporting those applications.</p> <p>We tested the general IT controls relevant to the identified automated controls and the Information Produced by the Entity (IPE) by covering access security, program changes, data centre and network operations.</p> <p>We examined certain Information Produced by Entity (IPE) used in the financial reporting process from relevant applications and key controls over their report logics.</p> <p>We performed testing on the relevant automated controls for key IT applications relevant to the financial reporting business processes.</p>



**INDEPENDENT AUDITOR'S REPORT
to the Board of Directors of Mashreqbank PSC, Dubai, United Arab Emirates (continued)**

Other information

The Directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Chairman's Report, Corporate Governance Report and Financial Highlights, which are expected to be made available to us after that date.

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

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

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

When we read the Chairman's Report, Corporate Governance Report and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those statements on 30 January 2023.

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

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

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

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

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

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

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:



INDEPENDENT AUDITOR'S REPORT

to the Board of Directors of Mashreqbank PSC, Dubai, United Arab Emirates (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosure are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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



INDEPENDENT AUDITOR'S REPORT

to the Board of Directors of Mashreqbank PSC, Dubai, United Arab Emirates (continued)

Report on Other Legal and Regulatory Requirements

As required by the UAE Federal Decree Law No. (32) of 2021, we report that for the year ended 31 December 2023:

- We have obtained all the information we considered necessary for the purposes of our audit;
- The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. (32) of 2021;
- The Group has maintained proper books of account;
- The financial information included in the board of Directors' report is consistent with the Group's books of account;
- Note 7 to the consolidated financial statements of the Group discloses its investments in shares during the financial year ended 31 December 2023;
- Note 37 to the consolidated financial statements of the Group discloses material related party transactions, the terms under which they were conducted;
- Note 32 to the consolidated financial statements discloses social contributions made during the financial year ended 31 December 2023; and
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2023 any of the applicable provisions of the UAE Federal Decree Law No. (32) of 2021 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2023.

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

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No.: 872
29 January 2024
Dubai
United Arab Emirates

**Consolidated statement of financial position
as at 31 December**

	Notes	2023 AED'000	2023 USD'000	2022 AED'000 (Restated)	2022 USD'000 (Restated)
ASSETS					
Cash and balances with central banks	5	41,760,286	11,369,531	31,435,930	8,558,652
Loans and advances to banks	6	39,127,032	10,652,609	29,053,637	7,910,056
Financial assets measured at fair value	7	26,031,869	7,087,359	10,429,765	2,839,577
Securities measured at amortised cost	7	9,951,525	2,709,372	16,422,947	4,471,262
Loans and advances to customers	8	93,603,237	25,484,137	75,630,344	20,590,891
Islamic financing and investment products	9	16,752,242	4,560,915	14,672,897	3,994,799
Acceptances		3,536,930	962,954	9,310,974	2,534,978
Reinsurance contract assets	20	2,756,863	750,575	2,373,692	646,254
Investment in associate		36,498	9,937	43,633	11,879
Investment properties	11	502,047	136,686	464,840	126,556
Property and equipment	12	1,381,735	376,187	1,395,485	379,931
Intangible assets	13	360,611	98,179	230,667	62,801
Other assets	10	4,179,734	1,137,962	5,780,589	1,573,808
Total assets		239,980,609	65,336,403	197,245,400	53,701,444
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	37,335,048	10,164,729	28,399,456	7,731,951
Repurchase agreements with banks	15	1,062,992	289,407	1,926,182	524,417
Customers' deposits	16	132,609,671	36,103,913	98,827,322	26,906,431
Islamic customers' deposits	17	13,622,484	3,708,817	14,978,941	4,078,122
Acceptances		3,536,930	962,954	9,310,974	2,534,978
Medium-term loans	19	5,158,701	1,404,493	5,223,565	1,422,152
Subordinated debt	48	1,831,027	498,510	1,831,027	498,510
Insurance and Investment contract liabilities	20	5,334,957	1,452,479	4,618,473	1,257,412
Other liabilities	18	8,171,009	2,224,614	7,620,581	2,074,757
Total liabilities		208,662,819	56,809,916	172,736,521	47,028,730
EQUITY					
<i>Capital and reserves</i>					
Issued and paid up capital	21	2,006,098	546,174	2,006,098	546,174
Tier 1 capital notes	46	1,101,900	300,000	1,101,900	300,000
Other reserves	21	567,248	154,437	(597,711)	(162,731)
Retained earnings		26,658,113	7,257,858	21,089,209	5,741,685
Equity attributable to owners of the Parent including noteholders of the Group		30,333,359	8,258,469	23,599,496	6,425,128
Non-controlling interests	22	984,431	268,018	909,383	247,586
Total equity		31,317,790	8,526,487	24,508,879	6,672,714
Total liabilities and equity		239,980,609	65,336,403	197,245,400	53,701,444

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial condition, results of operation and cashflows of the Group as of, and for, the periods presented therein:



.....
Abdul Aziz Abdulla Al Ghurair
Chairman



.....
Ahmed Abdelaal
Group Chief Executive Officer

**Consolidated statement of profit or loss
for the year ended 31 December**

	Notes	2023 AED'000	2023 USD'000	2022 AED'000 (Restated)	2022 USD'000 (Restated)
Interest income	24	11,966,493	3,257,962	6,414,941	1,746,513
Income from Islamic financing and investment products	25	1,290,888	351,453	671,640	182,859
Total interest income and income from Islamic financing and investment products		13,257,381	3,609,415	7,086,581	1,929,372
Interest expense	26	(5,051,561)	(1,375,323)	(2,256,908)	(614,459)
Distribution to depositors - Islamic products	27	(496,170)	(135,086)	(259,728)	(70,713)
Net interest income and income from Islamic products net of distribution to depositors		7,709,650	2,099,006	4,569,945	1,244,200
Fee and commission income	28	4,239,746	1,154,301	3,792,296	1,032,479
Fee and commission expense	28	(2,807,197)	(764,279)	(2,446,071)	(665,960)
Net fee and commission income		1,432,549	390,022	1,346,225	366,519
Net investment income	29	29,712	8,089	91,894	25,019
Other income, net	30	1,631,156	444,094	1,298,537	353,536
Operating income		10,803,067	2,941,211	7,306,601	1,989,274
General and administrative expenses	32	(3,341,855)	(909,843)	(2,870,834)	(781,605)
Operating profit before impairment		7,461,212	2,031,368	4,435,767	1,207,669
Net impairment reversal/ (charge)	31	1,368,794	372,664	(467,769)	(127,353)
Profit before tax		8,830,006	2,404,032	3,967,998	1,080,316
Tax expense		(153,590)	(41,818)	(146,088)	(39,774)
Profit for the year		8,676,416	2,362,214	3,821,910	1,040,542
<i>Attributable to:</i>					
Owners of the Parent		8,589,356	2,338,512	3,729,315	1,015,332
Non-controlling interests		87,060	23,702	92,595	25,210
		8,676,416	2,362,214	3,821,910	1,040,542
Earnings per share	33	AED 42.82	USD 11.66	AED 18.59	USD 5.06

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

**Consolidated statement of other comprehensive income
for the year ended 31 December**

	2023 AED'000	2023 USD'000	2022 AED'000 (Restated)	2022 USD'000 (Restated)
Profit for the year	8,676,416	2,362,214	3,821,910	1,040,542
<i>Other comprehensive income/(loss)</i>				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments)	27,130	7,387	83,739	22,799
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Changes in currency translation reserve	(1,283)	(349)	8,745	2,381
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments)	29,260	7,966	(1,352,755)	(368,297)
Gain/(loss) on hedging instruments designated as hedges of net investment in foreign operations	(2,228)	(607)	3,282	894
Changes in insurance finance income and expenses reserve	1,605	437	3,791	1,032
Total other comprehensive income/(loss) for the year	<u>54,484</u>	<u>14,834</u>	<u>(1,253,198)</u>	<u>(341,191)</u>
Total comprehensive income for the year	<u>8,730,900</u>	<u>2,377,048</u>	<u>2,568,712</u>	<u>699,351</u>
<i>Attributed to:</i>				
Owners of the Parent	8,630,169	2,349,624	2,437,275	663,565
Non-controlling interests	100,731	27,424	131,437	35,786
	<u>8,730,900</u>	<u>2,377,048</u>	<u>2,568,712</u>	<u>699,351</u>

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

**Consolidated statement of changes in equity
for the year ended 31 December**

	Issued and paid up capital AED'000	Tier 1 capital notes AED'000	Other reserves AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2022 "as previously reported"	2,006,098	-	660,715	17,561,412	20,228,225	796,062	21,024,287
Changes on initial application of IFRS17 (Note 2.1)	-	-	4,936	27,770	32,706	18,030	50,736
Balance at 1 January 2022 (Restated)	2,006,098	-	665,651	17,589,182	20,260,931	814,092	21,075,023
Profit for the year	-	-	-	3,729,315	3,729,315	92,595	3,821,910
Other comprehensive income/(loss)	-	-	(1,292,040)	-	(1,292,040)	38,842	(1,253,198)
Total comprehensive (loss)/income for the year	-	-	(1,292,040)	3,729,315	2,437,275	131,437	2,568,712
Issuance of Tier 1 capital	-	1,101,900	-	-	1,101,900	-	1,101,900
Transfer from investment revaluation reserve to retained earnings	-	-	13,504	(13,504)	-	-	-
Transfer to statutory and legal reserves	-	-	15,174	(15,174)	-	-	-
Payment of dividends [Note 21 (f)]	-	-	-	(200,610)	(200,610)	(32,826)	(233,436)
Transaction with NCI	-	-	-	-	-	(3,320)	(3,320)
Balance at 31 December 2022 (Restated)	2,006,098	1,101,900	(597,711)	21,089,209	23,599,496	909,383	24,508,879
Balance at 1 January 2023 "as previously reported"	2,006,098	1,101,900	(605,091)	21,038,417	23,541,324	877,315	24,418,639
Changes on initial application of IFRS17 (Note 2.1)	-	-	7,380	50,792	58,172	32,068	90,240
Balance at 1 January 2023 (Restated)	2,006,098	1,101,900	(597,711)	21,089,209	23,599,496	909,383	24,508,879
Profit for the year	-	-	-	8,589,356	8,589,356	87,060	8,676,416
Other comprehensive income	-	-	40,813	-	40,813	13,671	54,484
Total comprehensive income for the year	-	-	40,813	8,589,356	8,630,169	100,731	8,730,900
Coupon payment to Tier 1 note holders	-	-	-	(93,662)	(93,662)	-	(93,662)
Transfer to impairment reserve - General	-	-	1,130,000	(1,130,000)	-	-	-
Transfer from OCI reserve to retained earnings	-	-	(5,854)	5,854	-	-	-
Payment of dividends [Note 21 (f)]	-	-	-	(1,805,488)	(1,805,488)	(32,955)	(1,838,443)
Transaction with NCI	-	-	-	2,844	2,844	(8,250)	(5,406)
Non-controlling interests on acquisition of an indirect subsidiary	-	-	-	-	-	15,522	15,522
Balance at 31 December 2023	2,006,098	1,101,900	567,248	26,658,113	30,333,359	984,431	31,317,790

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

**Consolidated statement of cash flows
for the year ended 31 December**

	2023 AED'000	2023 USD'000	2022 AED'000 (Restated)	2022 USD'000 (Restated)
<i>Cash flows from operating activities</i>				
Profit before taxation for the year	8,830,006	2,404,032	3,967,998	1,080,315
<i>Adjustments for:</i>				
Depreciation and amortisation	269,883	73,478	329,649	89,749
Allowances for impairment, net	(1,368,794)	(372,664)	467,768	127,353
Gain on disposal of property and equipment	(1,166)	(317)	(341)	(93)
Gain on disposal of investment properties	2,295	625	-	-
Unrealised (gain)/loss on other financial assets held at FVTPL	(15,805)	(4,303)	36,119	9,834
Fair value adjustments of investment properties	(13,005)	(3,541)	(2,011)	(548)
Net realized gain from sale of financial assets measured at FVTPL	(63,697)	(17,342)	(38,757)	(10,552)
Dividend income from financial assets measured at FVTOCI	(48,537)	(13,215)	(34,615)	(9,424)
Net realised loss/(gain) from sale of financial assets measured at FVTOCI and securities measured at amortised cost	99,711	27,147	(53,783)	(14,643)
Share of loss on investment in associate	7,135	1,943	1,280	348
Unrealised loss/(gain) on derivatives	8,548	2,327	(58,612)	(15,958)
Gain on Sale of property acquired in settlement of debts	(55,158)	(15,017)	-	-
Gain on bargain purchase	(7,700)	(2,096)	-	-
Loss from sale of subsidiary	-	-	25,960	7,068
Operating cash flows before tax paid and changes in operating assets and liabilities	7,643,716	2,081,057	4,640,655	1,263,449
Tax paid	(184,080)	(50,117)	(141,740)	(38,590)
<i>Changes in operating assets and liabilities</i>				
Increase in deposits with central banks	(5,012,257)	(1,364,622)	(766,513)	(208,689)
(Increase)/decrease in loans and advances to banks with original maturity after three months	(15,705,470)	(4,275,924)	3,796,367	1,033,588
Increase in loans and advances to customers	(16,782,916)	(4,569,267)	(9,424,717)	(2,565,945)
(Increase)/decrease in Islamic financing and investment products	(1,936,435)	(527,208)	453,921	123,583
(Increase)/decrease in reinsurance assets	(364,181)	(99,151)	326,274	88,830
Decrease/(increase) in other assets	1,719,600	468,173	(2,431,893)	(662,100)
Increase in financial assets carried at FVTPL	(103,529)	(28,186)	(376,172)	(102,415)
Decrease in repurchase agreements with banks	(863,190)	(235,010)	(802,965)	(218,613)
Increase in customers' deposits	33,782,349	9,197,481	11,675,420	3,178,715
(Decrease)/increase in Islamic customers' deposits	(1,356,457)	(369,305)	646,854	176,111
Increase in deposits and balances due to banks	8,935,592	2,432,778	8,832,970	2,404,838
Increase in Insurance and Investment contract liabilities	569,702	155,105	51,871	14,122
Increase in other liabilities	642,635	174,962	1,328,824	361,782
Net cash generated from operating activities	10,985,079	2,990,766	17,809,156	4,848,666
<i>Cash flows from investing activities</i>				
Purchase of property and equipment	(136,841)	(37,256)	(146,032)	(39,758)
Purchase on intangible assets	(201,174)	(54,771)	(130,282)	(35,470)
Proceeds from sale of property and equipment	7,268	1,979	27,384	7,455
Purchase of other financial assets measured at fair value or amortised cost	(70,415,067)	(19,170,996)	(47,397,026)	(12,904,173)
Proceeds from sale of other financial assets measured at fair value or amortised cost	61,378,480	16,710,721	46,343,690	12,617,395
Dividend income from other financial assets measured at FVTOCI	48,537	13,215	34,615	9,424
Proceeds from sale of investment properties	106,167	28,905	-	-
Investment in associate	-	-	(8,824)	(2,402)
(Purchase)/disposal of subsidiary	(165,309)	(45,007)	50,183	13,663
Net cash used in investing activities	(9,377,939)	(2,553,210)	(1,226,292)	(333,866)

**Consolidated statement of cash flows
for the year ended 31 December (continued)**

	2023	2023	2022	2022
	AED'000	USD'000	AED'000	USD'000
			(Restated)	(Restated)
<i>Cash flows from financing activities</i>				
Transaction with NCI	(5,406)	(1,472)	(3,320)	(904)
Dividends paid	(1,838,443)	(500,529)	(233,436)	(63,555)
Medium term notes issued	480,586	130,843	139,155	37,886
Medium term notes redeemed	(545,450)	(148,503)	(2,230,710)	(607,326)
Subordinated notes issued	-	-	1,831,027	498,510
Tier 1 notes issued	-	-	1,101,900	300,000
Coupon payment to Tier 1 note holders	(93,662)	(25,500)	-	-
Net cash (used in)/ generated from financing activities	(2,002,375)	(545,161)	604,616	164,611
Net (decrease)/increase in cash and cash equivalents	(395,235)	(107,605)	17,187,480	4,679,411
Net foreign exchange difference	(3,511)	(956)	14,688	3,999
Cash and cash equivalents at beginning of the year	38,505,206	10,483,312	21,302,038	5,799,629
Cash and cash equivalents at end of the year (Note 35)	38,106,460	10,374,751	38,504,206	10,483,039

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

Notes to the consolidated financial statements for the year ended 31 December 2023

1. General information

Mashreqbank PSC (the “Bank”) was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank operates through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Pakistan, Qatar, the United Kingdom and the United States of America. The address of the Bank’s registered office is P.O. Box 1250, Dubai, United Arab Emirates.

2. Application of new and revised International Financial Reporting Standards (“IFRS Accounting Standards”)

2.1 New and revised IFRS adopted in the consolidated 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 this interim financial information. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods.

Initial Application of IFRS17 - Comparative Information

The Group has adopted IFRS 17 *Insurance Contracts* from 1 January 2023 which has resulted in changes in the accounting policies for recognition, measurement, presentation and disclosure of insurance contracts and reinsurance contracts and supersedes IFRS 4 *Insurance Contracts*.

The key objectives of IFRS 17 are comparable recognition and measurement of contracts in the scope of the standard, the recognition of insurance service results based on the services provided to the policyholder and provision of disclosures that will enable the users of the financial statements to assess the impact of these contracts on the financial position, financial results and cash flows of the entity. The standard distinguishes between the sources of profit and quality of earnings between insurance service results and insurance finance income and expense (reflecting the time value of money and financial risk).

As permitted by the transition provisions in IFRS 17, the Group has applied the modified retrospective approach for group of contracts by aggregating only those contracts issued more than one year apart. As of the transition date, the Group did not have supportable information to aggregate all contracts into groups of contracts (except for the ones issued more than one year apart) or to an asset for insurance acquisition cash flows due to factors such as the lack of historical data, use of simplification to the extent reasonable and supportable available information, data & assumptions, etc.

The Group has not performed recoverability assessment before the transition date. At transition date, a recoverability assessment was performed, and no impairment loss was identified.

The Group has elected to disaggregate insurance finance income or expenses between amounts included in profit or loss and amounts included in other comprehensive income and reset the cumulative amount of insurance finance income or expenses recognised in other comprehensive income at the transition date to zero.

As required by IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Group has applied various adjustments and reclassifications permitted under the modified retrospective approach of the transitional provisions of IFRS 17 on its group of insurance contracts which has resulted in the following adjustments to the amounts reported as at 1 January 2022 and 31 December 2022 and for the year ended 31 December 2022. Further details of the specific IFRS 17 policies applied in the current period are described in more details in Note 3 and the areas of significant accounting judgments and estimates in note 5.

Condensed consolidated statement of financial position as at 1 January 2022:

The following table summarises the impact of various adjustments and reclassifications on the amounts as at 31 December 2021:

	As previously reported AED’000	Effect of restatement AED’000	As restated AED’000
Equity			
Insurance finance income and expenses reserve	-	4,936	4,936
Retained earnings	17,561,412	27,770	17,589,182
Non-controlling interests	796,062	18,030	814,092
	<u> </u>	<u> </u>	<u> </u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRS Accounting Standards”) (continued)

2.1 New and revised IFRS adopted in the consolidated financial statements (continued)

The following table summarise the impact of various adjustments and reclassifications on the amounts for the year ended 31 December 2022.

Condensed consolidated statement of profit or loss for the year ended 31 December 2022:

	As previously reported AED'000	Effect of restatement AED'000	As restated AED'000
Interest expense	(2,254,895)	(2,013)	(2,256,908)
Fee and commission income	4,044,130	(251,834)	3,792,296
Fee and commission expense	(2,302,954)	(143,117)	(2,446,071)
Other income, net	1,090,991	207,546	1,298,537
General and administrative expenses	(3,066,256)	195,422	(2,870,834)
Allowances for impairment, net	(497,478)	29,709	(467,769)
Profit for the year	3,786,197	35,713	3,821,910

The following tables summarise the impact of various adjustments and reclassifications on the amounts as at 31 December 2022:

Condensed consolidated statement of financial position as at 31 December 2022:

	As previously reported AED'000	Effect of restatement AED'000	As restated AED'000
<i>Assets</i>			
Other assets*	6,799,304	(1,018,715)	5,780,589
Reinsurance contract assets	3,128,009	(754,317)	2,373,692
<i>Liabilities</i>			
Other liabilities	8,253,044	(632,463)	7,620,581
Insurance and investment contract liabilities	5,642,093	(1,023,620)	4,618,473
<i>Equity</i>			
Insurance finance income and expenses reserve	-	7,380	7,380
Retained earnings	21,038,417	50,792	21,089,209
Non-controlling interests	877,315	32,068	909,383

*Also included in the effect of restatement is an amount of AED 207 million which is related to interest receivables from banks which has been reclassified to loan and advances to banks to conform with the current year presentation.

IFRS 17 also allows entities, in limited circumstances, that have applied IFRS 9 ‘Financial instruments’ to annual reporting period before the initial application of IFRS 17, to redesignate their financial assets associated with insurance. The Group has not redesignated any of its financial assets as a result of the first-time adoption of IFRS 17.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

2. Application of new and revised International Financial Reporting Standards (“IFRS Accounting Standards”) (continued)

2.1 New and revised IFRS adopted in the consolidated financial statements (continued)

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

The amendments require that an entity discloses its material accounting policies, instead of its material accounting policy information. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. To support the amendment, the Board has also developed guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ described in IFRS Practice Statement 2.

Definition of Accounting Estimates (Amendments to IAS 8)

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

2.2 New and revised IFRS in issue but not yet effective and not early adopted

<u><i>New and revised IFRS</i></u>	<u><i>Effective for annual periods beginning on or after</i></u>
<i>Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)</i>	1 January 2024
The amendment clarifies how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.	
<i>Non-current Liabilities with Covenants (Amendments to IAS 1)</i>	1 January 2024
The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	
<i>International Tax Reform - Pillar Two Model Rules (Amendments to IAS 12)</i>	1 January 2023, but not required in any interim financial statements for 2023
The amendments provide a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes.	
<i>Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)</i>	1 January 2024
The amendments add disclosure requirements, and ‘signposts’ within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.	
<i>Lack of Exchangeability (Amendments to IAS 21)</i>	1 January 2025
The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.	

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information****3.1 Statement of compliance**

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) as issued by International Accounting Standards Board (“IASB”) and also complies with the applicable requirements of the laws in the U.A.E including the UAE Federal Law No. 32 of 2021 on Commercial Companies and the Decretal Federal Law No. 14 of 2018.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2022.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries made up to 31 December each year. Control is achieved when the Bank:

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

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

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

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

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group’s accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.3 Basis of consolidation (continued)**

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity.

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

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in a loss of control is accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Parent.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognised in profit or loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.3 Basis of consolidation (continued)***Investment in associate and joint venture*

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

Under the equity method of accounting, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

The Group applies IFRS 9, including the impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied and which form part of the net investment in the investee. Furthermore, in applying IFRS 9 to long-term interests, the Group does not take into account adjustments to their carrying amount required by IAS 28 Investments in Associates and Joint Ventures (i.e. adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).

3.4 Revenue recognition*(a) Interest income and expense*

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss.

(b) Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in Note 3.18 (iii).

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.4 Revenue recognition (continued)***(c) Fee and commission income and expenses*

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

- i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.
- ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) Dividend income

Dividend income from investments is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

(e) Gain or loss from redemption of medium-term loans

Gain or loss from redemption of medium-term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

(f) Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.5 Leasing

The Group leases various branches, offices and premises for ATMs. Rental contracts are typically made for fixed periods of 12 months to 5 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The incremental borrowing rate depends on the term, currency and start date of the lease and is determined based on a series of inputs including: the risk-free rate based on government bond rates; a country-specific risk adjustment; a credit risk adjustment based on bond yields; and an entity-specific adjustment when the risk profile of the entity that enters into the lease is different to that of the Group and the lease does not benefit from a guarantee from the Group.

The lease liability is presented as a separate line in the consolidated statement of financial position.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.5 Leasing (continued)**

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

3.6 Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in UAE Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The presentation currency of the Group is the UAE Dirham (AED); however, for presentation purposes only, additional columns for US Dollar (USD) equivalent amounts have been presented in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a fixed conversion rate of USD 1.00 = AED 3.673.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's Currency translation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in a foreign exchange translation reserve in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Goodwill and fair value arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

3.7 Borrowing costs

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

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and reclassified to profit or loss when the qualifying asset affects profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

3. Summary of material accounting policy information (continued)

Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognised for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

3.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) are recognised in the profit or loss in the period of retirement or disposal.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker's quotes.

3.9 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and capital work in progress are not depreciated.

Depreciation is recognised so as to write off the cost of assets or valuation of assets (other than land and capital work in progress), less their residual values over their useful lives, using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	<u>Years</u>
Properties for own use	20 - 50
Furniture, fixtures, equipment and vehicles	4 - 15
Improvements to freehold properties and others	5 - 10

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.9 Property and equipment (continued)**

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3.10 Impairment of non-financial assets

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

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

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

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

When 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, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years. Any increase in excess of this amount is treated as a revaluation increase.

3.11 Intangible assets

Intangible assets consists of software which are stated at cost less amortisation and any accumulated impairment losses. Amortisation is charged on a straight lines over the estimated useful lives of 5 to 10 years. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

3. Summary of material accounting policy information (continued)

3.12 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

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

3.13 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated statement of profit or loss. Immediately after initial recognition, an expected credit loss (“ECL”) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, as described in note 43, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

- a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement.

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

i) 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 are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans and government and corporate bonds.

Debt instruments:

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.13 Financial instruments (continued)**

3.13.1 Financial assets (continued)

*i) Classification of financial assets (continued)**Debt instruments: (continued)*

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 43.
- **Fair value through other comprehensive income (FVTOCI):** financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movements in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.
- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassification during the year.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.13 Financial instruments (continued)**

3.13.1 Financial assets (continued)

i) Classification of financial assets (continued)

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVTOCI reserve is reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Amortised cost and effective interest method

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

i) Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 43 provides more detail of how the expected credit loss allowance is measured.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.13 Financial instruments (continued)**

3.13.1 Financial assets (continued)

(iii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.13 Financial instruments (continued)**

3.13.2 Financial liabilities

Classification and subsequent measurement

Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans, subordinated debt and customer deposits) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

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

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS Accounting Standards) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is “substantial” or whether the original debt has been replaced by another debt with “substantially” different terms.

3.13.3 Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in Note 43).

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.13 Financial instruments (continued)**

3.13.4 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss;
- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.14 Offsetting of financial assets and liabilities

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

3.15 Derivative financial instruments

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Derivatives are not offset in the financial statements unless the Group has both a legally enforceable right and intention to offset.

(a) Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.16 Hedge accounting**

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 41 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidated statement of profit or loss from that date.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of profit or loss, and is included in the other income line item.

Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated statement of profit or loss on the disposal of the foreign operation.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.17 Insurance contracts (as a result of first-time adoption of IFRS 17)**

To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks and that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts. IFRS 17 consists of 3 measurement models:

- The general measurement model (GMM), also known as the building block approach, consists of the fulfilment cash flows and the contractual service margin (CSM).
- The variable fee approach (VFA) is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate insurance contracts with direct participating features.
- The premium allocation approach is an optional simplified approach for the measurement of the liability for remaining coverage. An entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting. An explicit risk adjustment for non-financial risk is estimated separately from the other estimates for the liability for incurred claims. This risk adjustment represents compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment forms part of the fulfilment cash flows for a group of insurance contracts.

The Group applies the premium allocation approach (PAA) to groups of insurance contracts that it issues and groups of reinsurance contracts that it holds where the coverage period is 12 months or less. The Group performed PAA eligibility assessment for the groups of contracts where the coverage period is more than 12 months. Based on the assessment performed, the Group expects all of its contracts to be eligible for PAA measurement model, except for long term individual life business which will be measured under the GMM. The Group plans to apply the GMM for long term individual life insurance policies and the (VFA) for unit linked insurance policies.

The Group does not apply the PAA if, at the inception of the group of contracts, it expects significant variability in the fulfilment cash flows that would affect the measurement of the liability for the remaining coverage during the period before a claim is incurred.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard requires losses to be recognised immediately on contracts that are expected to be onerous. For insurance contracts measured under the PAA, it is assumed that contracts are not onerous at initial recognition, unless facts and circumstances indicate otherwise. The Group's focus is to grow a profitable and sustainable business and does not anticipate the recognition of onerous contracts except where the following have been identified:

- Relevant pricing decisions.
- Initial stages of a new business acquired where the underlying contracts are onerous.
- Any other strategic decisions the board considers appropriate.

Insurance acquisition cash flows

The Group includes insurance acquisition cash flows in the measurement of a group of insurance contracts if they are directly attributable to either the individual contracts in a group, the group itself or the portfolio of insurance contracts to which the group belongs. The Group estimates, at a portfolio level, insurance acquisition cash flows not directly attributable to the group but directly attributable to the portfolio. The Group then allocates them to the group of newly written and renewed contracts on a systematic and rational basis.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.17 Insurance contracts (as a result of first-time adoption of IFRS 17) (continued)***Liability for Remaining Coverage (“LRC”) adjusted for financial risk and time value of money*

For all contracts measured under the PAA, there is no allowance as the premiums are expected to be received within one year of the coverage period.

Liability for Incurred Claims (“LIC”) adjusted for time value of money

The LIC is discounted and adjusted for the time value of money.

Insurance finance income and expenses

For contracts measured under the PAA, The Group applies the changes in discount rates and other financial changes within OCI. For contracts measured under the GMM and VFA, the Group includes all insurance finance income or expenses for the period in profit or loss.

Disaggregation of risk adjustment

The Group disaggregates changes in the risk adjustment for non financial risk between insurance service result and insurance finance income or expenses.

Discount rates

The Group uses the bottom-up approach for the groups of contracts measured under PAA and GMM and the top-down approach for the groups of contracts measured under VFA to derive the discount rates.

Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundaries of each contract in a group.

Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Group can compel the policyholder to pay the premiums, or in which the Group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation to provide insurance contract services ends when:

- The Group has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or
- Both of the following criteria are satisfied:
 - i. The Group has the practical ability to reassess the risks of the portfolio of insurance contracts that contain the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and
 - ii. The pricing of the premiums up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract are not recognised. Such amounts relate to future insurance contracts.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.17 Insurance contracts (as a result of first-time adoption of IFRS 17) (continued)*****Reinsurance contracts held***

Reinsurance contracts transfer significant insurance risk only if they transfer to the reinsurer substantially all the insurance risk relating to the reinsured portions of the underlying insurance contracts, even if a reinsurance contract does not expose the issuer (reinsurer) to the possibility of a significant loss. Portfolios of reinsurance contracts held are assessed for aggregation separately from portfolios of insurance contracts issued. The Group aggregates contracts for which there is a net gain at initial recognition, if any, contracts for which at initial recognition there is no significant possibility of a net gain arising subsequently, and remaining contracts in the portfolio, if any.

Modification and derecognition

The Group derecognises insurance contracts when:

- The rights and obligations relating to the contract are extinguished (i.e., discharged, cancelled or expired); or
- The contract is modified such that the modification results in a change in the measurement model, or the applicable standard for measuring a component of the contract. In such cases, the Group derecognises the initial contract and recognises the modified contract as a new contract

When a modification is not treated as a derecognition, the Group recognises amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

3.18 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers a variety of non-interest based banking products, which are approved by its Internal Shari'ah Supervision Board.

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

Murabaha is a sale of goods with an agreed upon profit mark-up on the cost.

The arrangement is referred to as a Murabaha to the Purchase Orderer where the company sells to a customer a commodity or an asset, which the company has purchased and acquired, based on a promise received from customer.

Commodity Murabaha

Commodity Murabaha is a financing transaction based on purchase and sale, whereby the bank purchases a commodity from a broker and sells it to the customer through the Murabaha agreement with a disclosed cost and profit. After signing the Murabaha agreement, the Customer sells the commodity to another broker through the bank, which acts as the Customer's messenger.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****3. Summary of material accounting policy information (continued)****3.18 Islamic financing and investment products (continued)***Ijarah*

Ijarah is a contract, or part of contractual agreement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from lessor (the owner of underlying asset i.e. the company) to a lessee (the customer).

This may involve a hybrid Ijarah arrangement (known as Ijarah Muntahia Bittamleek) which, in addition to the Ijarah contract, includes a promise (by the company) resulting in transfer of the ownership of the underlying asset to the lessee (the customer) through a sale or gift – independent of Ijarah Contract.

Istisna'

Istisna' is a contract of sale of specified items to be manufactured or constructed, with an obligation on part of the manufacturer or builder (contractor) to deliver them to the customer upon completion.

Under this arrangement, the Group provides funds to a customer for construction of a real estate and/or manufacturing of any other assets. Istisna' requires properly specifying the finished product. The customer is required to arrange/employ all the resources required to produce the specified asset(s).

Mudarabah

Mudarabah is a partnership in profit whereby one party provides capital (Rab al-Mal) and the other party provides labour (Mudarib). The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. In case of loss, the same is borne by Rab-al-Mal. The Mudarib is not liable for losses except in case of misconduct in respect to Mudarabah fund, negligence and breach of the terms of Mudarabah contract.

Wakalah

Wakalah is an act of one party (principal) delegating another party (the agent) to perform a permissible activity on his behalf. This may involve Al-Wakalah Bi Al-Istithmar, in which the Company appoints another person an agent to invest its funds with an intention to earn profit, in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakalah.

(ii) Accounting policy

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(iii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated statement of profit or loss using the effective profit method.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

3. Summary of material accounting policy information (continued)

3.18 Islamic financing and investment products (continued)

(iii) Revenue recognition policy (continued)

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Commodity Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Mudarabah

Income or losses on Mudarabah financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakalah

Estimated income from Wakalah is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

(iv) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Internal Shari'ah Supervision Committee.

(v) Profit calculation, asset allocation, mechanics of equalization of returns investment account holders

- The Group has invested all the funds generated from Investment Account Holders in the Financing done by way of Shari'ah compliant structures including Murabaha , Commodity Murabaha, Wakala & Ijarah, and the returns are managed by the Bank in a central profit pool. Subsequently the profits are allocated to Investment Account Holders using the Internal Shariah Supervisory Committee approved profit allocation mechanism for Investment Account Holders.
- Profit Equalization Reserve: The Bank maintains a Profit Equalization Reserve (PER) for the purpose of smoothening the returns to the Mudarabah account holders. The PER is deducted from Mudarabah income before deduction of the Bank's share.
- Investment Risk Reserve: The Bank maintains an Investment Risk Reserve (IRR) for the purpose of protecting the Mudarabah account holders from any investment losses in the future. The IRR is deducted from Mudarabah income after deduction of the Bank's share.

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

3. Summary of material accounting policy information (continued)

3.19 Provision for employees' end of service indemnity

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2022 is not materially different from the provision computed in accordance with the UAE Labour Law.

The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'other liabilities' (Note 18).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

3.20 Acceptances

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

3.21 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the UAE Central Bank (excluding statutory reserve) and money market placements which are maturing within three months from the value date of the deposit or placement. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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 judgements are as follows:

4.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in note 43.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL, including measurement of ECL for default exposures;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****4. Critical accounting judgements and key sources of estimation uncertainty (continued)****4.2 Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the consolidated 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. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

4.3 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, recognised market accepted pricing models and from counterparty statements. 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 and other valuation techniques commonly used by market participants.

4.4 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

4.5 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Additional Tier 1 (AT1) capital securities listed on the Luxembourg Stock Exchange, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity;
- payment of interest and/or capital is solely at the discretion of the Bank;
- the instruments are subordinated and rank just above the ordinary shareholders; and
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of CBUAE.

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed for the purpose of determining the debt vs equity classification and appropriate independent advice was obtained in forming judgement around this matter.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

5. Cash and balances with central banks

a) The analysis of the Group's cash and balances with central banks is as follows:

	2023 AED'000	2022 AED'000
Cash on hand	1,677,242	1,249,478
<i>Balances with central banks:</i>		
Current accounts and other balances	29,747,449	24,413,114
Statutory deposits	10,235,595	5,223,338
Certificates of deposit	100,000	550,000
	41,760,286	31,435,930

b) The geographical analysis of the cash and balances with central banks is as follows:

	2023 AED'000	2022 AED'000
Within the UAE	24,281,412	13,859,877
Outside the UAE	17,478,874	17,576,053
	41,760,286	31,435,930

c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current account balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 5.59% (31 December 2022: 4.5%) per annum.

6. Loans and advances to banks

a) The analysis of the Group's Loans and advances to banks is as follows:

	2023 AED'000	2022 AED'000 (Restated)
Demand	2,393,637	1,787,939
Time	36,872,794	27,386,634
	39,266,431	29,174,573
Less: Allowance for impairment	(139,399)	(120,936)
	39,127,032	29,053,637

b) The above represent loans and advances to:

	2023 AED'000	2022 AED'000 (Restated)
Banks within the UAE	3,351,384	5,677,721
Banks outside the UAE	35,915,047	23,496,852
	39,266,431	29,174,573
Less: Allowance for impairment	(139,399)	(120,936)
	39,127,032	29,053,637

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

6. Loans and advances to banks (continued)

c) Allowance for impairment movement:

	2023 AED'000	2022 AED'000
At beginning of the year	120,936	167,499
Charge/(reversal) during the year (Note 31)	22,285	(3,408)
Interest in suspense	476	1,878
Exchange rate and other adjustments	(4,298)	(451)
Written off during the year	-	(44,582)
At end of the year	139,399	120,936

7. Other financial assets

a) The analysis of the Group's other financial assets is as follows:

Financial assets measured at fair value

i) Financial assets measured at fair value through profit and loss (FVTPL):

	2023 AED'000	2022 AED'000
Debt securities	1,500,907	1,348,137
<i>Equities</i>		
Quoted	22,530	16,667
Unquoted	1,132	707
Funds	1,310,716	1,286,743
	2,835,285	2,652,254

ii) Financial assets measured at fair value through other comprehensive income (FVTOCI):

	2023 AED'000	2022 AED'000
Debt securities	22,343,507	6,934,735
<i>Equities</i>		
Quoted	705,698	699,587
Unquoted	56,049	63,117
Funds	91,330	80,072
	23,196,584	7,777,511
Total financial assets measured at fair value (A)	26,031,869	10,429,765

At 31 December 2023, debt securities held at FVTOCI includes the allowance for expected credit loss amounting to AED 9 million (31 December 2022: AED 5 million) and is recorded as stage 1.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

7. Other financial assets (continued)

iii) Securities measured at amortised cost:

	2023 AED'000	2022 AED'000
Debt securities	9,996,660	16,451,362
Less: Allowance for impairment	(45,135)	(28,415)
Total securities measured at amortised cost (B)	9,951,525	16,422,947
Total other financial assets [(A) + (B)]	35,983,394	26,852,712

b) The geographical analysis of other financial assets is as follows:

	2023 AED'000	2022 AED'000
Within the UAE	21,407,372	12,568,304
Outside the UAE	14,621,157	14,312,823
	36,028,529	26,881,127
Less: Allowance for impairment	(45,135)	(28,415)
	35,983,394	26,852,712

c) The analysis of other financial assets by industry sector is as follows:

	2023 AED'000	2022 AED'000
Government and public sector	15,036,030	14,602,907
Commercial and business	1,574,185	1,194,980
Financial institutions	19,338,440	11,021,809
Other	34,739	33,016
	35,983,394	26,852,712

d) The movement of the allowance for impairment of other financial assets measured at amortised cost during the year was as follows:

	2023 AED'000	2022 AED'000
At the beginning of the year	28,415	24,508
Charge during the year (Note 31)	18,925	3,946
Exchange rate and other adjustments	-	(39)
Written off during the year	(2,205)	-
At end of the year	45,135	28,415

e) The fair value of securities measured at amortised cost amounted to AED 9.72 billion as of 31 December 2023 (31 December 2022: AED 16.05 billion) (Note 43).

f) At 31 December 2023, certain financial assets measured at amortized cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 864 million (fair value of AED 890 million) [31 December 2022: Carrying value of AED 1,497 million (fair value of AED 1,472 million)] which were collateralized as at that date against repurchase agreements with banks ("Repo") of AED 751 million (31 December 2022: AED 1,305 million).

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

7. Other financial assets (continued)

- g) During the year ended 31 December 2023, the Group has reviewed its portfolio and sold certain other financial assets measured at amortized cost, resulting in a loss of AED 0.42 million (31 December 2022: Loss of AED 1.1 million) on the sale.
- h) As of 31 December 2023, there are no significant concentrations of credit risk for debt securities measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.
- i) During the year ended 31 December 2023, dividends received from financial assets measured at FVTOCI amounting to AED 48.5 million (31 December 2022: AED 34.6 million) were recognized as net investment income in the consolidated statement of profit or loss.
- j) As of 31 December 2023, change in fair value of other financial assets measured at FVTPL resulted in gain of AED 16 million (31 December 2022: A Loss of AED 36 million) and was recognized as investment income in the consolidated statement of profit or loss (Note 29).
- k) As of 31 December 2023, change in fair value of other financial assets measured at FVTOCI resulted in a gain of AED 56 million (31 December 2022: A loss of AED 1,269 million) and was recognised in the consolidated statement of comprehensive income.
- l) During the year ended 31 December 2023, the Group purchased and disposed equity shares amounting to AED 306 million (31 December 2022: AED 818 million) and AED 327 million (31 December 2022: AED 778 million), respectively.

8. Loans and advances to customers

- a) The analysis of the Group's loans and advances to customers is as follows:

	2023	2022
	AED'000	AED'000
Loans	88,030,519	72,164,096
Overdrafts	4,384,895	4,655,624
Credit cards	2,899,433	2,277,205
Others	913,077	845,785
	<hr/>	<hr/>
Total	96,227,924	79,942,710
Less: Allowance for impairment	(2,624,687)	(4,312,366)
	<hr/>	<hr/>
	93,603,237	75,630,344
	<hr/> <hr/>	<hr/> <hr/>

- b) The analysis of loans and advances to customers by industry sector is as follows:

	2023	2022
	AED'000	AED'000
		(Restated)
Manufacturing	17,899,380	15,091,947
Construction	7,030,366	6,012,195
Trade	22,015,486	17,924,794
Transport and communication	2,247,645	2,353,057
Services	9,765,307	8,876,049
Financial institutions	3,410,506	2,661,414
Personal	9,535,850	8,462,730
Residential mortgage	10,640,029	8,805,210
Government and related enterprises	13,683,355	9,755,314
	<hr/>	<hr/>
Total	96,227,924	79,942,710
Less: Allowance for impairment	(2,624,687)	(4,312,366)
	<hr/>	<hr/>
	93,603,237	75,630,344
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**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

8. Loans and advances to customers (continued)

- c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2023 and 2022, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.
- d) The movements in the allowance for impairment and suspended interest on loans and advances to customers are as follows:

	2023 AED'000	2022 AED'000
At beginning of the year	4,312,366	6,094,077
(Reversal)/charge of impairment allowance for the year (Note 31)	(1,238,374)	298,051
Interest in suspense	93,195	211,319
Exchange rate and other adjustments	18,993	(49,525)
Written off during the year	(561,493)	(2,241,556)
At end of the year	2,624,687	4,312,366

- e) The allowance for impairment includes a specific provision of AED 1,612 million for stage 3 loans of the Group as at 31 December 2023 (31 December 2022: AED 2,263 million).
- f) At 31 December 2022, certain loans and advances measured at amortized cost with an aggregate carrying value of AED 1,059 million (fair value of AED 1,048 million) were collateralized as at that date against repurchase agreements with banks ("Repo") of AED 497 million. There were no repurchase agreements with banks outstanding as of 31 December 2023 related to loans.

9. Islamic financing and investment products

- a) The analysis of the Group's Islamic financing and investment products is as follows:

	2023 AED'000	2022 AED'000
Financing		
Murabaha	13,776,759	12,970,564
Ijarah	4,291,091	4,380,730
	18,067,850	17,351,294
Investment		
Wakalah	1,583,931	372,294
Total	19,651,781	17,723,588
Less: Unearned income	(2,550,451)	(2,581,225)
Allowance for impairment	(349,088)	(469,466)
	16,752,242	14,672,897

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

9. Islamic financing and investment products

b) The analysis of Islamic financing and investment products by industry sector is as follows:

	2023 AED'000	2022 AED'000 (Restated)
Manufacturing	1,382,668	1,174,668
Construction	2,220,566	1,393,314
Trade	1,917,377	906,624
Transport and communication	114,991	121,458
Services	2,639,136	2,394,551
Financial institutions	1,011,679	957,899
Personal	6,597,675	6,840,636
Residential mortgage	1,209,607	1,386,626
Government and related enterprises	2,558,082	2,547,812
Total	19,651,781	17,723,588
Less: Unearned income	(2,550,451)	(2,581,225)
Allowance for impairment	(349,088)	(469,466)
	16,752,242	14,672,897

c) The movement in the allowance for impairment of Islamic financing and investment products are as follows:

	2023 AED'000	2022 AED'000
At beginning of the year	469,466	626,963
Reversal of impairment allowance for the year (Note 31)	(96,973)	(71,452)
(Reversal of)/profit in suspense	(23,489)	23,102
Exchange and other adjustment	84	71,014
Written off during the year	-	(180,161)
At end of the year	349,088	469,466

d) The allowance for impairment includes a specific provision of AED 300 million for stage 3 Islamic financing and investment exposure of the Group as at 31 December 2023 (31 December 2022: AED 439 million).

10. Other assets

	2023 AED'000	2022 AED'000 (Restated)
Interest receivable	194,712	194,257
Property acquired in settlement of debts	383	286,830
Prepayments	163,159	126,933
Positive fair value of derivatives (Note 41)	2,011,891	2,623,722
Credit card related receivables	543,505	526,003
Taxes paid in advance	106,467	102,345
Commission/income receivable	40,128	45,475
Advances to suppliers/vendors	281,876	158,179
Others	837,613	1,716,845
	4,179,734	5,780,589

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

11. Investment properties

	2023 AED'000	2022 AED'000
<i>At fair value</i>		
At beginning of the year	464,840	462,829
Purchases	143,873	-
Change in fair value during the year (Note 30)	13,005	2,011
Sale of investment property	(119,671)	-
	502,047	464,840
At end of the year	502,047	464,840

All of the Group's investment properties are freehold properties and located in the U.A.E these were classified as level 3 in the fair value hierarchy.

Valuation processes

The Group's investment properties were valued as at 31 December 2023 by independent external professionally qualified valuers who hold recognized relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. The fair value is in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

Valuation techniques underlying management's estimation of fair value

Valuation of the Group's investment properties was determined using either of Discounted Cash Flow ("DCF"), Residual valuation, and sales comparison methods based on the available inputs.

The DCF method involves forecasting future cash flows from the property based on precisely stated market-based assumptions by adopting an appropriate discount rate and capitalisation rate. Residual method considers construction costs for development, capitalisation rate based on the location, size, quality of the properties and market data, operational cost estimates to maintain the property for its useful life and estimated vacancy rates. Sales comparison method considers the value of comparable properties in proximity adjusted for differences in key attributes such as property size and quality of interior fittings.

Sensitivity on the fair value of investment properties based on each methodology is as follows:

For the sales comparison method, if the prices of the comparable properties were to increase / decrease by 1% and considering all other assumptions to remain constant, the fair value would increase / decrease by +1%/-1% (31 December 2022: the fair value would increase /decrease by +1%/-1%)

For the DCF method, if the capitalisation rate were to decrease / increase by 0.25% and considering all other assumptions to remain constant, the fair value would increase / decrease by 2.5% / 2.3% respectively (31 December 2022: the fair value would increase / decrease by 2.6% / 2.4% respectively).

As at 31 December 2023, for the residual method, if the capitalisation rates were to decrease / increase by 0.25% and considering all other assumptions to remain constant, the fair value would increase / decrease by 3.8%/3.5%.

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

12. Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment and vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in- progress AED'000	Total AED'000
<i>Cost</i>						
At 31 December 2021	1,189,032	417,972	232,336	168,500	52,950	2,060,790
Additions during the year	177	31,707	40,135	42,089	31,924	146,032
Transfers	3,945	1,512	(818)	-	(4,639)	-
Disposals/write-offs/elimination	(2,730)	(36,936)	(23,266)	(60,212)	-	(123,144)
	1,190,424	414,255	248,387	150,377	80,235	2,083,678
Additions during the year	6	53,545	28,948	40,500	22,140	145,139
Transfers	962	3,250	9,390	-	(13,602)	-
Disposals/write-offs/elimination	(438)	(34,032)	(11,756)	(32,976)	-	(79,202)
At 31 December 2023	1,190,954	437,018	274,969	157,901	88,773	2,149,615
<i>Accumulated depreciation and impairment</i>						
At 31 December 2021	253,242	219,741	63,520	98,191	-	634,694
Charge for the year (Note 32)	29,906	47,779	33,441	38,160	-	149,286
Disposals/write-offs/elimination	(1,826)	(30,127)	(17,068)	(46,766)	-	(95,787)
	281,322	237,393	79,893	89,585	-	688,193
Charge for the year (Note 32)	29,772	53,696	35,695	36,875	-	156,038
Disposals/write-offs/elimination	(306)	(31,412)	(11,658)	(32,975)	-	(76,351)
At 31 December 2023	310,788	259,677	103,930	93,485	-	767,880
<i>Carrying amount</i>						
At 31 December 2023	880,166	177,341	171,039	64,416	88,773	1,381,735
At 31 December 2022	909,102	176,862	168,494	60,792	80,235	1,395,485

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

13. Intangible assets

	Software AED'000
<i>Cost</i>	
At 31 December 2021	669,654
Additions during the year	130,282
Disposals/write-offs/elimination	(312,289)
	<hr/>
At 31 December 2022	487,647
Additions during the year	247,039
Disposals/write-offs/elimination	(77,365)
	<hr/>
At 31 December 2023	657,321
	<hr/> <hr/>
<i>Accumulated amortization and impairment</i>	
At 31 December 2021	388,318
Charge for the year (Note 32)	124,202
Disposals/write-offs/elimination	(255,540)
	<hr/>
At 31 December 2022	256,980
Charge for the year (Note 32)	113,845
Disposals/write-offs/elimination	(74,115)
	<hr/>
At 31 December 2023	296,710
	<hr/> <hr/>
<i>Carrying amount</i>	
At 31 December 2023	360,611
	<hr/> <hr/>
At 31 December 2022	230,667
	<hr/> <hr/>

14. Deposits and balances due to banks

a) The analysis of deposits and balances due to banks is as follows:

	2023 AED'000	2022 AED'000
Time	23,646,123	16,559,285
Demand	8,473,770	8,805,301
Overnight	5,215,155	3,034,870
	<hr/>	<hr/>
	37,335,048	28,399,456
	<hr/> <hr/>	<hr/> <hr/>

a) The above represent deposits and balances due to banks from:

	2023 AED'000	2022 AED'000
Banks within the UAE	5,884,355	4,443,908
Banks outside the UAE	31,450,693	23,955,548
	<hr/>	<hr/>
	37,335,048	28,399,456
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

15. Repurchase agreements with banks

	2023 AED'000	2022 AED'000
Repurchase agreements	1,062,992	1,926,182

The above repurchase agreements with banks are at an average interest rate of 5.7% (2022: 3.87%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f) and 8(f) to the consolidated financial statements.

16. Customers' deposits

a) The analysis of customers' deposits is as follows:

	2023 AED'000	2022 AED'000
Current and other accounts	76,292,432	62,482,606
Saving accounts	6,650,330	5,786,550
Time deposits	49,666,909	30,558,166
	132,609,671	98,827,322

b) Analysis by industry sector:

	2023 AED'000	2022 AED'000
Government and public sector	12,961,466	7,528,997
Commercial and business	84,724,846	62,473,668
Personal	30,758,554	25,463,727
Financial institutions	3,898,712	3,104,591
Other	266,093	256,339
	132,609,671	98,827,322

17. Islamic customers' deposits

a) The analysis of Islamic customers' deposits is as follows:

	2023 AED'000	2022 AED'000
Current and other accounts	5,292,200	3,876,915
Saving accounts	225,748	232,925
Time deposits	8,104,536	10,869,101
	13,622,484	14,978,941

The amount under time deposits include AED 0.95 million relating to Investment risk reserve (31 December 2022: AED 11 million).

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

17. Islamic customers' deposits (continued)

b) Analysis by industry sector:

	2023 AED'000	2022 AED'000
Government and public sector	2,623,643	2,588,271
Commercial and business	8,516,616	7,859,337
Personal	2,325,452	2,497,201
Financial institutions	156,773	2,034,132
	<u>13,622,484</u>	<u>14,978,941</u>

18. Other liabilities

	2023 AED'000	2022 AED'000 (Restated)
Interest payable	829,669	473,596
Negative fair value of derivatives (Note 41)	1,399,096	1,699,015
Accrued expenses	1,249,435	955,209
Income received in advance	672,350	612,987
Pay orders issued	961,370	641,711
Provision for employees' end of service indemnity*	284,207	253,599
Provision for taxation	86,050	112,661
Lease liability	52,583	48,983
Others	1,845,605	1,951,573
Allowance for impairment – off balance sheet**	790,644	871,247
	<u>8,171,009</u>	<u>7,620,581</u>

*Provision for employees' end of service indemnity included AED 259 million (2022: AED 231 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside UAE and is computed based on the local laws and regulations of respective jurisdictions.

**The net reversal of allowance for impairment on off balance sheet and acceptance during the year ended 31 December 2023 amounted to AED 81 million (2022: allowance for impairment of AED 314 million) Refer to note 31.

19. Medium-term loans

	2023 AED'000	2022 AED'000
Medium term notes	5,158,701	5,223,565

The maturities of the medium-term notes (MTNs) issued under the programme are as follows:

<i>Year</i>	2023 AED'000	2022 AED'000
2023	-	424,148
2024	4,332,006	3,944,001
2025	727,299	752,951
2027	62,800	64,800
2029	36,596	37,665
	<u>5,158,701</u>	<u>5,223,565</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

19. Medium-term loans (continued)

	2023 AED'000	2022 AED'000
U.S. Dollars	3,753,460	3,637,992
Japanese Yen	312,840	409,822
Australian Dollars	-	50,004
Chinese Yuan	1,060,259	1,091,235
South African Rand	32,142	34,512
	<u>5,158,701</u>	<u>5,223,565</u>

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the year ended 31 December 2023, medium-term notes of AED 546 million were redeemed (31 December 2022: AED 2 billion).

20. Insurance and investment contract liabilities and reinsurance contract assets

	2023 AED'000	2022 AED'000 (Restated)
Insurance and investment contract liabilities		
<i>Liabilities for Incurred Claims (LIC) under Premium Allocation Approach (PAA)</i>		
Present value of their future cashflows	3,167,348	2,537,246
Risk adjustment for non-financial risk	234,587	194,707
	<u>3,401,935</u>	<u>2,731,953</u>
<i>Liabilities for Incurred Claims (LIC) not under Premium Allocation Approach (PAA)</i>		
	<u>2,673</u>	<u>3,383</u>
<i>Liabilities for Remaining Coverage (LRC)</i>		
Excluding loss component	816,881	882,251
Loss component	22,678	534
	<u>839,559</u>	<u>882,785</u>
Investment contract liabilities	<u>1,090,790</u>	<u>1,000,352</u>
	<u>5,334,957</u>	<u>4,618,473</u>
Reinsurance contract assets		
<i>Incurred claims for contracts under Premium Allocation Approach (PAA)</i>		
Present value of future cashflows	2,463,108	2,020,931
Risk adjustment for non-financial risk	187,756	158,603
	<u>2,650,864</u>	<u>2,179,534</u>
<i>Remaining coverage excluding loss-recovery component</i>	<u>101,908</u>	<u>192,112</u>
<i>Remaining coverage loss recovery component</i>	<u>2,226</u>	<u>-</u>
<i>Incurred claims for contracts not under PAA</i>	<u>1,865</u>	<u>2,046</u>
	<u>2,756,863</u>	<u>2,373,692</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

21. Issued and paid-up capital and other reserves

(a) Issued and paid-up capital

As at 31 December 2023, 200,609,830 ordinary shares of AED 10 each (2022: 200,609,830 ordinary shares of AED 10 each) were fully issued and paid up.

Other reserves:

The movement in these reserves is as follows:

	Statutory and legal reserve AED'000	General reserve AED'000	Insurance income and expenses reserve AED'000	Impairment reserve – General* AED'000	Currency translation reserve AED'000	Investment revaluation reserve AED'000	Total AED'000
2022							
As at 1 January (Restated)	1,012,320	312,000	4,936	-	(116,116)	(547,489)	665,651
Other comprehensive income/(loss)	-	-	2,444	-	(14,688)	(1,279,796)	(1,292,040)
Transfer from investment revaluation reserve to retained earnings	-	-	-	-	-	13,504	13,504
Transfer to statutory and legal reserves	15,174	-	-	-	-	-	15,174
As at 31 December (Restated)	1,027,494	312,000	7,380	-	(130,804)	(1,813,781)	(597,711)
2023							
As at 1 January (Restated)	1,027,494	312,000	7,380	-	(130,804)	(1,813,781)	(597,711)
Other comprehensive income/(loss)	-	-	1,074	-	(3,511)	43,250	40,813
Transfer from OCI reserve to retained earnings	-	-	-	-	-	(5,854)	(5,854)
Transfer to impairment reserve - General	-	-	-	1,130,000	-	-	1,130,000
As at 31 December	1,027,494	312,000	8,454	1,130,000	(134,315)	(1,776,385)	567,248

*** Impairment reserve – General**

Impairment reserve – General is a non-distributable reserve held to meet provision requirement under Central Bank of UAE (CBUAE) circular 28/2010.

As per Guidance Note to Banks for the Implementation of IFRS 9 issued by CBUAE, in case where provision for impairment required under CBUAE circular 28/2010 exceed expected credit loss under IFRS 9, the excess amount is required to be transferred to a non-distributable impairment reserve.

	2023 AED'000	2022 AED'000
Regulatory general provision - under CBUAE circular 28/2010	2,382,553	2,160,494
Aggregate expected credit loss for stage 1 and 2	1,395,215	2,374,672
Impairment reserve - General	1,130,000	-
As at 31 December	2,525,215	2,374,672

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

21. Issued and paid-up capital and other reserves (continued)

(b) Statutory and legal reserves

In accordance with UAE Federal Law No. 32 of 2021, 10% of net profit for the year is to be transferred to the statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE, this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

(d) *Currency translation reserve*

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the Currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the Currency translation reserve. Exchange differences previously accumulated in the Currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) *Investments revaluation reserve*

Investments revaluation reserve shows the effects from the fair value measurement of financial assets measured at FVTOCI. The change in fair value for the year amounted to a gain of AED 56 million (2023: loss of AED 1,269 million) and was reflected in the consolidated statement of comprehensive income [Note 7(k)].

(f) *Dividends on equity instruments*

At the Annual General Meeting of the shareholders held on 22 February 2023, the shareholders approved a cash dividend of 90% for the year ended 31 December 2022 (31 December 2021: Cash dividend of 10%) of the issued and paid up capital amounting to AED 1.8 billion (31 December 2021: AED 201 million).

22. Non-controlling interests

	2023	2022
	AED'000	AED'000
		(Restated)
At beginning of the year	909,383	814,092
Share of profit for the year	87,060	92,595
Share of other comprehensive income for the year	13,671	38,842
Dividend paid	(32,955)	(32,826)
Transaction with NCI	(8,250)	(3,320)
Non-controlling interests of a subsidiary	15,522	-
	<hr/>	<hr/>
At end of the year	984,431	909,383
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

23. Contingent liabilities and commitments

(a) The analysis of the Group's contingent liabilities and commitments is as follows:

	2023 AED'000	2022 AED'000
Guarantees	26,275,568	31,075,131
Letters of credit	13,286,749	15,698,423
Commitments for capital expenditure	263,099	183,940
At end of the year	39,825,416	46,957,494

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2023 amounted to AED 11.96 billion (2022: AED 10.59 billion).

The analysis of contingent liabilities and commitments by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

24. Interest income

	2023 AED'000	2022 AED'000
Loans and advances to customers	6,330,191	3,856,803
Loans and advances to banks	2,723,576	1,248,546
Central banks	1,282,955	351,223
Securities measured at amortised cost	519,903	534,711
Financial assets measured at fair value	1,109,868	423,658
	11,966,493	6,414,941

25. Income from Islamic financing and investment products

	2023 AED'000	2022 AED'000
<i>Financing</i>		
Murabaha	776,676	461,820
Ijarah	285,674	184,550
Other	10,902	1,327
	1,073,252	647,697
<i>Investment</i>		
Wakalah	153,926	23,943
Other	63,710	-
	217,636	23,943
Total	1,290,888	671,640

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

26. Interest expense

	2023	2022
	AED'000	AED'000 (Restated)
Customers' deposits	3,283,288	1,379,559
Deposits and balances due to banks	1,363,864	573,851
Medium-term loans	260,149	287,867
Subordinated debt	144,260	15,631
	5,051,561	2,256,908

27. Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Internal Shari'ah Supervision Committee.

28. Net fee and commission income

	2023	2022
	AED'000	AED'000 (Restated)
<i>Fee and commission income</i>		
Commission income	699,576	619,618
Fees and charges on banking services	957,937	792,283
Credit card related fees	2,405,662	2,168,032
Others	176,571	212,363
Total	4,239,746	3,792,296
<i>Fee and commission expenses</i>		
Commission expense	(33,053)	(72,625)
Insurance commission	(583,969)	(477,858)
Credit card related expenses	(2,004,181)	(1,749,568)
Others	(185,994)	(146,020)
Total	(2,807,197)	(2,446,071)
Net fee and commission income	1,432,549	1,346,225

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

29. Net investment income

	2023 AED'000	2022 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	63,697	38,757
Unrealised gain/(loss) on other financial assets measured at FVTPL [Note 7(j)]	15,805	(36,119)
Dividend income from other financial assets measured at FVTPL	1,384	858
Net realised (loss)/gain from sale of other financial assets measured at amortised cost/ FVTOCI	(99,711)	53,783
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	48,537	34,615
	<u>29,712</u>	<u>91,894</u>

30. Other income, net

	2023 AED'000	2022 AED'000 (Restated)
Foreign exchange gains	667,607	420,397
Insurance related income	794,511	738,363
Gain on disposal of property and equipment	56,324	341
Unrealised (loss)/gain on derivatives	(8,548)	58,612
Unrealised gain on investment properties (Note 11)	13,005	2,011
Others	108,257	78,813
	<u>1,631,156</u>	<u>1,298,537</u>

31. Net impairment reversal/ (charge)

	2023 AED'000	2022 AED'000 (Restated)
Loans and advances to banks [Note 6(c)]	22,285	(3,408)
Securities measured at amortised cost [Note 7(d)]	18,925	3,946
Financial assets measured at FVTOCI	4,003	21
Loans and advances to customers [Note 8(d)]	(1,238,374)	298,051
Islamic financing and investment products [Note 9(c)]	(96,973)	(71,452)
Other assets	(4,184)	(18,745)
Change in impairment allowance on off-balance sheet items	(76,936)	332,374
Loans and advances to customers including Islamic financing and investment products written off	249,199	275,215
Recovery of loans and advances to customers including Islamic financing and investment products previously written off	(246,739)	(348,233)
	<u>(1,368,794)</u>	<u>467,769</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

32. General and administrative expenses

	2023	2022
	AED'000	AED'000 (Restated)
Salaries and employees related expenses	1,929,004	1,765,340
Depreciation on property and equipment (Note 12)	156,038	149,286
Amortisation on intangible assets (Note 13)	113,845	124,202
Social contribution	533	941
Others	1,142,435	831,065
	3,341,855	2,870,834

33. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year:

	2023	2022
	AED'000	AED'000 (Restated)
Profit for the year (AED'000) (Attributed to owners of the Parent)	8,589,356	3,729,315
Weighted average number of shares in issue	200,609,830	200,609,830
Basic earnings per share (AED)	42.82	18.59

34. Proposed dividends

The board of Directors has proposed 185% cash dividend for the year ended 31 December 2023 at their meeting held on 29 January 2024.

35. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central banks, certificates of deposits, balances with banks and money market placements which are maturing within three months from the date of the deposit or placement, as below:

	2023	2022
	AED'000	AED'000
Cash on hand	1,677,242	1,249,478
Current accounts and other balances with central banks	29,747,449	24,413,114
Certificates of deposit maturing within 3 months	100,000	550,000
Loans and advances to banks with original maturity of less than 3 months	6,581,769	12,292,614
	38,106,460	38,505,206

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

36. Investment in subsidiaries and associate

At 31 December 2023 and 31 December 2022, Mashreqbank PSC Group (the “Group”) comprises of the Bank and the following direct subsidiaries:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest (%)		Principal activity
		31 December 2023	31 December 2022	
<i>Subsidiary</i>				
Sukoon Insurance (PJSC)*	United Arab Emirates	64.76%	64.46%	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00%	100.00%	IT services
Mashreq Securities LLC	United Arab Emirates	100.00%	100.00%	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00%	100.00%	Asset and fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80%	99.80%	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00%	100.00%	Service provider
Invictus Limited	Cayman Islands	100.00%	100.00%	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00%	100.00%	Employment services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00%	100.00%	Employment services
Mashreq Global Network	Egypt	100.00%	100.00%	Employment services
Mashreq Global Services (SMC Private) Limited	Pakistan	100.00%	100.00%	Employment services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00%	100.00%	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00%	100.00%	Payment service provider
Osool – A Finance Company (PJSC)**	United Arab Emirates	100.00%	100.00%	Finance
Mashreq Bank Pakistan Limited	Pakistan	100.00%	-	Banking
Mashreq Neo venture	United Arab Emirates	100.00%	-	Corporate venture capital company

* On 18 May 2023 (“the acquisition date”), the Group’s subsidiary Sukoon Insurance (PJSC) acquired a 93.0432% of the share capital and voting interests of ASCANA for a cash consideration of AED 186 million towards identifiable net assets of AED 208 million and NCI acquired of AED 14.4 million.

** Under liquidation.

As at 31 December 2023 and 31 December 2022, the Bank had the following associates and joint venture:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest (%)	Principal activity
Emirates Digital Wallet LLC	United Arab Emirates	23.61%	Digital wallet service
<i>Joint venture</i>			
Noon Digital Pay LLC	United Arab Emirates	51.00%	Digital wallet service

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

37. Related party transactions

a) Certain related parties (such as, directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

b) Related party balances included in the consolidated statement of financial position are as follows:

	2023	2022
	AED'000	AED'000
<i>Balances with major shareholders</i>		
Loans and advances to customers	2,841,401	3,216,692
Deposits/financial instruments under lien	791,963	1,198,230
Letter of credit and guarantees	1,383,801	1,449,059
<i>Balances with directors and key management personnel</i>		
Loans and advances to customers	123,089	135,248
Deposits/financial instruments under lien	391,189	364,835
Letter of credit and guarantees	251	251
<i>Balances with associates and joint venture</i>		
Deposits/financial instruments under lien	76,625	99,372
Letter of credit and guarantees	25,000	25,000

c) Profit for the period includes related party transactions as follows:

	2023	2022
	AED'000	AED'000
<i>Transactions with major shareholders</i>		
Interest income	89,069	104,007
Interest expense	3,650	962
Other income	17,448	33,427
<i>Transactions with directors and key management personnel</i>		
Interest income	2,843	3,419
Interest expense	724	601
Other income	2	302
<i>Transactions with associates and joint venture</i>		
Other income	-	2

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

e) Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 76 million (2022: AED 55 million).

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

38. Concentration of assets, liabilities and off-balance sheet items

	31 December 2023			31 December 2022 (Restated)		
	Assets AED'000	Liabilities AED'000	Letter of credit and guarantees AED'000	Assets AED'000	Liabilities AED'000	Letter of credit and guarantees AED'000
<i>a) Geographic regions</i>						
UAE	129,440,550	138,304,360	22,739,543	97,060,722	95,648,455	31,705,164
Other Middle East countries	51,263,373	25,315,371	5,204,523	41,399,887	32,311,837	4,139,766
O.E.C.D.	30,466,026	18,201,266	5,802,239	32,031,472	24,529,048	5,016,388
Others	28,810,660	26,841,822	5,816,012	26,753,319	20,247,181	5,912,236
	<u>239,980,609</u>	<u>208,662,819</u>	<u>39,562,317</u>	<u>197,245,400</u>	<u>172,736,521</u>	<u>46,773,554</u>
<i>b) Industry sectors</i>						
Government and public sector	31,071,637	15,873,822	-	26,129,404	10,508,040	63,269
Commercial and business	69,880,726	98,982,252	24,753,810	60,188,914	79,056,754	31,833,750
Personal	26,563,307	34,442,362	195,587	23,397,222	28,716,545	214,634
Financial institutions	110,365,897	58,139,572	14,612,920	85,166,896	52,971,671	14,614,287
Others	2,099,042	1,224,811	-	2,362,964	1,483,511	47,614
At 31 December 2023	<u><u>239,980,609</u></u>	<u><u>208,662,819</u></u>	<u><u>39,562,317</u></u>	<u><u>197,245,400</u></u>	<u><u>172,736,521</u></u>	<u><u>46,773,554</u></u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****39. Segmental information**

IFRS 8 – Operating Segments – requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Reportable segments

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 are therefore as follows:

- a) Wholesale segment comprises of corporate and commercial banking. It also includes global Financial Institution and corporate business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking and Islamic products.
- b) The Retail segment includes products and services offered to individuals or small businesses within U.A.E and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking, wealth management services and Islamic products.
- c) The Treasury & Capital Markets segment consists of customer flow business and proprietary business and funding centre management. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.
- d) Insurance & Others consist of the insurance subsidiary, Sukoon Insurance Group whose product offerings include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance. It also consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

39. Segmental information (continued)

	31 December 2023				
	Wholesale banking AED'000	Retail AED'000	Treasury and capital markets AED'000	Insurance & others AED'000	Total AED'000
Net interest income and earnings from Islamic products	3,370,323	2,656,619	697,415	985,293	7,709,650
Fee and commission, net investment and other income	1,095,906	1,296,875	294,931	405,705	3,093,417
Operating income	4,466,229	3,953,494	992,346	1,390,998	10,803,067
General and administrative expenses	(1,118,236)	(1,717,776)	(154,591)	(351,252)	(3,341,855)
Operating profit before impairment					7,461,212
Net impairment reversal					1,368,794
Profit before taxes					8,830,006
Tax expense					(153,590)
Profit for the year					8,676,416
<i>Attributed to:</i>					
Owners of the Parent					8,589,356
Non-controlling interests					87,060
					8,676,416
Segment Assets	126,500,499	28,896,099	59,412,605	25,171,406	239,980,609
Segment Liabilities	113,844,776	63,595,569	18,706,914	12,515,560	208,662,819

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

39. Segmental information (continued)

	31 December 2022 (Restated)				
	Wholesale banking AED'000	Retail AED'000	Treasury and capital markets AED'000	Insurance & others AED'000	Total AED'000
Net interest income and earnings from Islamic products	2,226,099	1,658,328	355,392	330,126	4,569,945
Fee and commission, net investment and other income	947,539	1,178,426	262,685	348,006	2,736,656
Operating income	<u>3,173,638</u>	<u>2,836,754</u>	<u>618,077</u>	<u>678,132</u>	<u>7,306,601</u>
General and administrative expenses	(1,025,628)	(1,494,899)	(145,398)	(204,909)	(2,870,834)
Operating profit before impairment					4,435,767
Net impairment charge					(467,769)
Profit before taxes					3,967,998
Tax expense					(146,088)
Profit for the year					<u>3,821,910</u>
<i>Attributed to:</i>					
Owners of the Parent					3,729,315
Non-controlling interests					92,595
					<u>3,821,910</u>
Segment Assets	<u>95,593,672</u>	<u>25,718,464</u>	<u>48,696,901</u>	<u>27,236,363</u>	<u>197,245,400</u>
Segment Liabilities	<u>84,194,570</u>	<u>52,527,388</u>	<u>18,153,742</u>	<u>17,860,821</u>	<u>172,736,521</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

39. Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas - UAE. (Country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income from external customers*		Non-current assets**	
	2023 AED'000	2022 AED'000 (Restated)	2023 AED'000	2022 AED'000
UAE	8,183,177	5,918,441	2,165,513	2,005,865
Other Middle East countries	1,791,784	921,280	55,013	57,079
O.E.C.D.	669,561	324,746	14,424	20,045
Other countries	158,545	142,134	9,443	8,003
	10,803,067	7,306,601	2,244,393	2,090,992

*Operating income from external customers is based on the Group's operational centres.

**Non-current assets include property & equipment, intangible assets and investment properties. The additions to non-current assets during the year relate to investment properties, property & equipment and intangible assets which has been disclosed in note 11, 12 and 13. Refer to note 12 and 13 for depreciation and amortisation, and note 11 for the sale of investment property.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2023 and 2022.

40. Classification of financial assets and liabilities

a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2023:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
<i>Financial assets:</i>				
Cash and balances with central banks	-	-	41,760,286	41,760,286
Loans and advances to banks	-	-	39,127,032	39,127,032
Financial assets measured at fair value	2,835,285	23,196,584	-	26,031,869
Securities measured at amortised cost	-	-	9,951,525	9,951,525
Loans and advances to customers	-	-	93,603,237	93,603,237
Islamic financing and investment products	-	-	16,752,242	16,752,242
Acceptances	-	-	3,536,930	3,536,930
Other assets	2,011,891	-	1,616,341	3,628,232
Total	4,847,176	23,196,584	206,347,593	234,391,353

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

40. Classification of financial assets and liabilities (continued)

- a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2023 (continued):

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
<i>Financial liabilities:</i>				
Deposits and balances due to banks	-	-	37,335,048	37,335,048
Repurchase agreements with banks	-	-	1,062,992	1,062,992
Customers' deposits	-	-	132,609,671	132,609,671
Islamic customers' deposits	-	-	13,622,484	13,622,484
Acceptances	-	-	3,536,930	3,536,930
Medium-term loans	-	-	5,158,701	5,158,701
Subordinated debt	-	-	1,831,027	1,831,027
Other liabilities	1,399,096	-	5,729,306	7,128,402
Total	1,399,096	-	200,886,159	202,285,255

- b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2022:

(Restated)	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
<i>Financial assets:</i>				
Cash and balances with central banks	-	-	31,435,930	31,435,930
Loans and advances to banks	-	-	29,053,637	29,053,637
Financial assets measured at fair value	2,652,254	7,777,511	-	10,429,765
Securities measured at amortised cost	-	-	16,422,947	16,422,947
Loans and advances to customers	-	-	75,630,344	75,630,344
Islamic financing and investment products	-	-	14,672,897	14,672,897
Acceptances	-	-	9,310,974	9,310,974
Other assets	2,623,722	-	2,769,411	5,393,133
Total	5,275,976	7,777,511	179,296,140	192,326,627
<i>Financial liabilities:</i>				
Deposits and balances due to banks	-	-	28,399,456	28,399,456
Repurchase agreements with banks	-	-	1,926,182	1,926,182
Customers' deposits	-	-	98,827,322	98,827,322
Islamic customers' deposits	-	-	14,978,941	14,978,941
Acceptances	-	-	9,310,974	9,310,974
Medium-term loans	-	-	5,223,565	5,223,565
Subordinated debt	-	-	1,831,027	1,831,027
Other liabilities	1,699,015	-	4,942,319	6,641,334
Total	1,699,015	-	165,439,786	167,138,801

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****41. Derivatives**

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes. These derivative financial instruments are based on observable market inputs - i.e. Level 2:

- (a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.
- (b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.
- (c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.
- (d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.
- (e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

The Group measures a net Credit Value Adjustment (CVA) on outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is computed on all OTC derivatives asset classes including Foreign Exchange, Interest Rates, Equities and Commodities etc. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses in the derivatives portfolios. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. Internally the Group manages and monitor the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA).

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

41. Derivatives (continued)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 - 5 years AED'000	Over 5 years AED'000
<i>31 December 2023</i>								
<i>Derivatives held for trading</i>								
Forward foreign exchange contract	260,010	231,590	65,196,411	55,681,660	3,415,064	4,607,736	1,418,011	73,940
Foreign exchange options (bought)	1,825	1,825	2,155,314	1,937,040	218,274	-	-	-
Foreign exchange options (sold)	-	-	1,195,570	1,079,103	116,467	-	-	-
Interest rate swaps	1,711,800	1,039,475	32,173,976	177,091	663,471	703,557	15,683,937	14,945,920
Credit default swaps	-	3,001	55,095	-	-	-	36,730	18,365
Futures contracts purchased (Customer)	2,561	12,451	1,092,242	1,089,731	2,511	-	-	-
Futures contracts sold (Customer)	592	1,319	115,030	113,484	1,546	-	-	-
Futures contracts purchased (Bank)	12,488	2,561	1,106,127	1,103,616	2,511	-	-	-
Futures contracts sold (Bank)	1,318	592	115,030	113,484	1,546	-	-	-
Total	1,990,594	1,292,814	103,204,795	61,295,209	4,421,390	5,311,293	17,138,678	15,038,225
<i>Held as fair value hedge</i>								
Cross-currency swap	21,297	106,282	1,735,231	17,447	104,864	719,007	816,448	77,465
Total	2,011,891	1,399,096	104,940,026	61,312,656	4,526,254	6,030,300	17,955,126	15,115,690

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

41. Derivatives (continued)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 - 6 months AED'000	6 - 12 months AED'000	1 - 5 year AED'000	Over 5 years AED'000
<i>31 December 2022</i>								
<i>Derivatives held for trading</i>								
Forward foreign exchange contract	560,057	380,540	73,311,757	59,363,324	6,767,806	4,060,475	3,045,147	75,005
Foreign exchange options (bought)	9,713	9,703	448,587	115,515	333,072	-	-	-
Foreign exchange options (sold)	-	-	210,948	47,908	163,040	-	-	-
Interest rate swaps	1,933,379	1,148,720	28,167,946	534,870	43,384	2,052,489	12,185,314	13,351,889
Credit default swaps	-	-	-	-	-	-	-	-
Futures contracts purchased (Customer)	75,556	369	818,767	733,023	85,744	-	-	-
Futures contracts sold (Customer)	909	3,143	192,811	192,811	-	-	-	-
Futures contracts purchased (Bank)	369	75,556	818,767	733,023	85,744	-	-	-
Futures contracts sold (Bank)	3,143	909	192,811	192,811	-	-	-	-
Total	2,583,126	1,618,940	104,162,394	61,913,285	7,478,790	6,112,964	15,230,461	13,426,894
<i>Held as fair value hedge</i>								
Cross-currency swap	40,596	80,075	1,822,469	-	31,220	16,528	1,696,574	78,147
Total	2,623,722	1,699,015	105,984,863	61,913,285	7,510,010	6,129,492	16,927,035	13,505,041

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

42. Capital management

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

- To comply with the capital requirements set by the Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

On June 26, 2012, the BCBS issued the Basel III rules on the information banks must publicly disclose when detailing the composition of their capital, which set out a framework to ensure that the components of banks capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III.

Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banks to hold capital in excess of regulatory minimums.

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

The Group's regulatory capital is analysed into two tiers, in line with the Central Bank regulation:

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion on AT 1 and are not included in CET 1.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.
- Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per the Central bank regulation for Basel III, the Bank is required to comply with the following minimum capital requirement:

- i) CET1 must be at least 7% of risk weighted assets (RWA);
- ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
- iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
- iv) In addition, banks are required to maintain a capital conservation buffer (CCB) of 2.5% of risk weighted assets (RWA) and Countercyclical Buffer (CCYB), calculated based on geographic composition of the bank's portfolio of credit exposures, in the form of CET 1.

The Group's assets are risk-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.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

42. Capital management (continued)

Regulatory capital (continued)

As part of its Capital Management, the Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate to the Central Bank of the UAE that the Bank has implemented methods and procedures to ensure adequate capital resources and action plans in stress conditions, with due attention to all material risks. The Central Bank of the UAE conducts a Supervisory Review and Evaluation Process (SREP) to assess the soundness of the Bank's ICAAP.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group has issued medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

a) The Group's regulatory capital positions as at 31 December 2023 and 31 December 2022 were as follows:

	2023	2022
	AED'000	AED'000
Common equity Tier 1 capital		
Issued and paid-up capital	2,006,098	2,006,098
Statutory and legal reserve	1,027,494	1,027,494
General reserve	312,000	312,000
Currency translation reserve	(134,315)	(130,804)
Investments revaluation reserve	(1,767,385)	(1,813,781)
Retained earnings	22,946,832	19,232,928
Less: Regulatory deductions	(313,924)	(214,364)
Total (A)	24,067,800	20,419,571
Additional Tier 1 capital	1,101,900	1,101,900
Total Tier 1 capital (B)	25,169,700	21,521,471
Tier 2 capital		
Subordinated debt	1,831,027	1,831,027
Collective impairment allowance	1,985,461	1,800,412
Total	3,816,488	3,631,439
Total capital base (C)	28,986,188	25,152,910
Credit risk	158,836,848	144,032,961
Market risk	2,881,726	2,655,216
Operational risk	13,813,001	10,319,049
Total risk-weighted assets (D)	175,531,575	157,007,226
Capital adequacy ratio [(C)/(D) x 100]	16.51%	16.02%

The capital adequacy ratio is calculated after deduction of proposed dividend as required by the Standards for Capital Adequacy issued by UAE Central Bank.

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

42. Capital management (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group 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 Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

43. Risk management

The Risk Management Group ("RMG") is responsible for identifying, analysing, measuring, and managing risk to ensure that the Group (i) remains within its risk appetite; and (ii) generates sustainable risk-adjusted returns as mandated by the shareholders.

The Group is exposed to the following material risks:

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

The Group's ability to consistently foster a robust risk management culture and framework is an important factor in its financial strength and stability.

Risk Management Framework

The Board of Directors (the "Board") through the Board Risk Committee ("BRC") has overall responsibility for establishment and oversight of the Group's risk management framework. They are assisted by various management committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC"). These committees are appointed by the Board and assist the Board in management of risk in the Group including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Group including recommending the Group's overall Risk Appetite.

The ERC has overall responsibility for oversight of risk management framework and risk appetite of the Group. The Enterprise Risk Committee is also responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Enterprise Risk Committee also approves policy exceptions, establishes, and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

The Risk Management Group ("RMG") is independent of business groups and is led by a Chief Risk Officer ("CRO") with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the Group. The RMG is primarily responsible for defining the framework for management of all material risks within the Group.

The Internal Audit Group ("IAG") acts as the third line of defence function within the Group, independent from both the business units ("first line of defence") and Group Operational risk team ("second line of defence"). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Group and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the Bank, in addition to Risk Management.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)*****Capital Management***

The Group's capital management approach is designed to ensure that regulatory requirements are met at all times and that the Group's operating activities, including its branches and subsidiaries, are capitalized in line with the Group's risk appetite, target ratios and in accordance with local regulatory requirements.

The Bank's capital management approach further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the Group's annual Internal Capital Adequacy Assessment Process ICAAP. The capital management approach is set and governed primarily by the ALCO.

Risk Appetite & Stress Testing

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and strategy.

Risk Appetite for the Group is set and approved by the Group's Board. The Group's risk appetite is disseminated down to business groups in alignment with business strategies for these groups.

Stress testing is a key management tool within the Group used to evaluate the sensitivity of current and forward risk profiles to shocks of varying nature and severity. Stress testing within the Group is governed by the Group's stress testing policy which sets out the approaches for stress testing and associated roles and responsibilities. The primary governance committee overseeing risk appetite and stress testing is the ERC.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the bank's aggregated Capital and the monitoring of the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less required risk capital) and recommending actions, as warranted. The risk assessment is approved by the Board as part of the ICAAP submission.

Risks that are explicitly assessed through ICAAP are credit risk, market risk, operational risk, concentration risk, funding cost risk, business risk and interest rate risk in the banking book. Preserving the capital position remains a priority from both a regulatory and management viewpoint.

Credit risk management

Credit risk is the risk of suffering financial loss as a result of any of the Group's customers failing or unwilling to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Group is also exposed to other credit risks arising from investments in debts instruments, derivatives as well as settlement balances with market counterparties.

The Chief Credit Officer ("CCO") of the Group is responsible for overseeing all aspects of credit risk management supported by a team of experienced and trained credit risk managers. The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

Credit risk is the single largest risk from the Group's business of extending Loans and Advances (including loan commitments, LCs and LGs) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. Credit risk management and controls are centralized under the CCO function with regular governance and monitoring exercised by the Board Risk Committee ("BRC"), Board Credit Committee ("BCC") and Enterprise Risk Committee ("ERC").

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

43. Risk management (continued)

Credit risk management (continued)

Specifically, BCC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BRC and BCC monitors key elements of the Bank's credit risk profile relative to the Bank's risk appetite. The Board Committees are supported by ERC through detailed review and monitoring of credit portfolio, including exposure concentrations.

An Early Alert Committee ("EAC") is also in place to review and proactively identify potential problematic exposures within CIBG and IBG business groups and determine appropriate strategies. The EAC, along with the IFRS 9 Forum (a forum in place to oversee all aspects of Mashreq's IFRS 9 framework), plays an important role in ensuring that credit fundamentals are linked to determination of Significant Increase in Credit Risk (SICR) and staging for IFRS 9 purposes.

Loans and advances (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

Under IFRS 9, expected loss is replaced by Expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults. Over the course of 2023, IFRS 9 PD models were validated with additional data points in alignment with Model Risk Management policy. In addition, a separate IFRS 9 PD model for Qatar Corporate and Qatar SME were newly developed.

Credit risk grading

The Group uses specific internal rating models tailored to various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model. The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a PD. Non-performing borrowers are rated 50, 60, 70 and 80, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 99 for Write-off.

Borrower risk ratings are mapped into the following 5 Grades:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	High Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80	Impaired

The Group uses a bespoke Financial Institutions ("FI") internal rating model to support the lending process. The FI Rating model consists of two major components: (i) the Financial – Macro Profile Analysis Assessment; and (ii) Business Analysis Assessment. Apart from the Financial and Business analysis factors, the model incorporates sovereign caps and consideration of group and government support, where applicable.

The FI rating model is utilized to rate all FI borrowers including those that are not externally rated. This rating is used to compute ECL staging for FI borrowers.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)*****Expected credit loss measurement***

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition of a facility as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Group.
- If a Significant Increase in Credit Risk (‘SICR’) since initial recognition is identified, then the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. Amongst other factors, the identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run. Other factors include restructuring and account irregularities.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.
- Financial assets in Stage 1 have their ECL measured at an amount equal to lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime basis.
- Financial assets in Stage 3 are measured at an amount equal to lifetime expected credit losses or specific provision.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced SICR when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date. In addition, a range of qualitative criteria are also considered.

Quantitative criteria***Corporate loans:***

For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating performance
- Operating efficiency
- Debt service/ covenant breaches
- Distressed restructure
- Account performance/irregularities
- Liquidity assessment
- Capital structure.

Retail:

For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment’s expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)*****Expected credit loss measurement*****Qualitative criteria:*****Corporate Loans***

For corporate loans, the following is also considered in determining a significant increase in probability of default:

- Net worth erosion
- Fraudulent activity
- Significant operations disruption
- Departure of key members of management
- Industry outlook
- Income stability Unavailable/inadequate financial information/financial statements
- Qualified report by external auditors
- Pending significant litigation
- Increase in operational risk
- Continued delay and non-cooperation by the borrower in providing key relevant documentation

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2023 and 31 December 2022.

Backstop:

A borrower that is more than 30 days past due on its contractual obligations is presumed to have a significantly increased credit risk as a backstop unless this presumption can be reasonably rebutted based on supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

Definition of default and credit-impaired assets

The Group defines a financial corporate, retail and investment instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Banking Group.
- The obligor is past due more than 90 days on any material credit obligation to the Banking Group.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)***Definition of default and credit-impaired assets (continued)*

The criteria above have been applied to all financial instruments held by the Group and is consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

Measuring ECL – Explanation of inputs, assumptions, and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The bank has opted for a monthly granular computation of PD, EAD and LGD:

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

During economically challenging periods, the Group may choose to increase the scenario weightage of the pessimistic scenario under guidance from respective regulatory authorities in order to maintain higher level of ECL provisions & lower the scenario weightage of pessimistic scenario once a favourable trend is noticed in the macro economic climate.

The Group continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The group is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs term structure is getting updated every 6 months. The update was last made in October 2023 based on the September 2023 macros.

With respect to the Russia and Ukraine conflict, the Group's exposure to Russia and Ukraine is to Financial Institution in these countries. The Group continues to monitor the day-to-day situation with respective counterparties and is actively managing any direct exposure.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)*****Measuring ECL – Explanation of inputs, assumptions, and estimation techniques (continued)***

The Group has implemented risk rating models since 2005 which has enabled the Bank to rate borrowers based on their financial and qualitative information. The segmentation of these models was revisited in 2021 to introduce a new corporate model to rate large corporates. Ratings from rating models are used as an input into IFRS 9 macroeconomic models to derive a PD term structure for each rating grade in the IFRS 9 ECL computation.

In 2023, the Group has validated the IFRS 9 macroeconomic models for with additional data points in alignment with Model Risk Management policy. In addition, a separate IFRS 9 PD model for Qatar Corporate and Qatar SME were newly developed.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving committed products, the exposure at default is predicted by taking current drawn balance and adding a “credit conversion factor” which allows for the expected drawdown of the remaining committed limit by the time of default.
- For contingent products like LC & LG, the exposure at default is predicted using a Credit conversion factor inline with the Basel regulatory guidelines.

The LGDs are determined based on the factors which impact recoveries made following default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set by different borrower segments (e.g. Corporates, Financial Institutions etc.) in order to reflect differences in asset structures, collection strategies and historical recovery experience.

The Group has revised the Wholesale LGD framework during 2020 in order to reflect recent recovery experience and additional admissible security types. Forward-looking economic information is also included in determining the 12-month and lifetime PD.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the ECL parameters vary by geographies and borrower types. Impact of these economic variables on historical default rates is determined by performing statistical regression analysis to understand the relationship between these variables. Once the relationship has been established, the bank utilizes macroeconomic data for these variables from Moody’s (Economy.com) and other recognized external sources (e.g. IMF) to obtain historical information and forecasts under base, optimistic and pessimistic scenarios. Expert judgement is applied in the process where the economic relationship between variables is weak or the forecast is deemed imprudent.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)***Forward looking information incorporated in the ECL models (continued)*

For unbiased and probability-weighted ECL calculation, the Group uses probabilities of 60%, 20% and 20% for baseline, optimistic and pessimistic macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and an even weight to the rest.

Following are the macroeconomic variables used in the IFRS 9 PD models across different geographies:

- 1) Current Account to GDP
- 2) Equity Index (Abu Dhabi)
- 3) Budget Expenditure to GDP
- 4) Oil Price
- 5) GDP
- 6) Industrial Production.

Sensitivity analysis

The Group has calculated ECL for wholesale borrowers at an individual financial instrument level and portfolio level for retail borrowers.

The most significant macroeconomic variables affecting the ECL allowance in respect of retail and wholesale credit portfolios are as follows:

- Current Account to GDP (Change)
- Abu Dhabi Equity Index (Change)
- Oil price

The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Abu Dhabi Equity Index, Oil Price and Current Account to GDP (three key macro-factors used within IFRS 9 PD Models) by +10% / -10% in each scenario would result in an ECL reduction by AED 52 million and an ECL increase by AED 65 million respectively.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

Credit risk exposures relating to on balance sheet assets:	2023				2022			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and balances with Central Bank	41,760,286	-	-	41,760,286	31,435,930	-	-	31,435,930
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	41,760,286	-	-	41,760,286	31,435,930	-	-	31,435,930
<i>Loans and advances to banks</i>						(Restated)		
Investment-grade	14,912,035	343,226	-	15,255,261	4,365,051	121,999	-	4,487,050
BB+& below	11,196,684	5,424,443	-	16,621,127	9,199,596	2,597,768	-	11,797,364
Unrated	5,776,792	1,603,514	9,737	7,390,043	11,724,876	1,140,088	25,195	12,890,159
	31,885,511	7,371,183	9,737	39,266,431	25,289,523	3,859,855	25,195	29,174,573
Loss allowance	(66,007)	(63,655)	(9,737)	(139,399)	(71,219)	(31,496)	(18,221)	(120,936)
Carrying amount	31,819,504	7,307,528	-	39,127,032	25,218,304	3,828,359	6,974	29,053,637

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

43. Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2023			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Loans and advances to customers				
Grading 1	25,807,530	83,130	-	25,890,660
Grading 2	50,859,521	2,100,416	-	52,959,937
Grading 3	12,858,257	2,176,072	-	15,034,329
Grading 4	28,974	674,447	-	703,421
Grading 5	-	-	1,639,577	1,639,577
	89,554,282	5,034,065	1,639,577	96,227,924
Loss allowance	(553,661)	(459,159)	(1,611,867)	(2,624,687)
Carrying amount	89,000,621	4,574,906	27,710	93,603,237
<i>Islamic financing and investment products</i>				
Grading 1	2,314,718	-	-	2,314,718
Grading 2	6,281,248	58,730	-	6,339,978
Grading 3	7,295,092	607,163	-	7,902,255
Grading 4	-	226,424	-	226,424
Grading 5	-	-	317,955	317,955
	15,891,058	892,317	317,955	17,101,330
Loss allowance	(23,284)	(26,232)	(299,572)	(349,088)
Carrying amount	15,867,774	866,085	18,383	16,752,242

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2022			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
Loans and advances to customers				
Grading 1	17,984,218	26,895	-	18,011,113
Grading 2	51,797,008	2,047,580	-	53,844,588
Grading 3	2,760,209	2,264,071	-	5,024,280
Grading 4	34,242	704,854	-	739,096
Grading 5	-	-	2,323,633	2,323,633
	<u>72,575,677</u>	<u>5,043,400</u>	<u>2,323,633</u>	<u>79,942,710</u>
Loss allowance	(560,263)	(1,488,855)	(2,263,248)	(4,312,366)
Carrying amount	<u>72,015,414</u>	<u>3,554,545</u>	<u>60,385</u>	<u>75,630,344</u>
<i>Islamic financing and investment products</i>				
Grading 1	2,774,119	-	-	2,774,119
Grading 2	6,223,093	61,713	-	6,284,806
Grading 3	5,359,168	166,352	-	5,525,520
Grading 4	-	19,063	-	19,063
Grading 5	-	-	538,855	538,855
	<u>14,356,380</u>	<u>247,128</u>	<u>538,855</u>	<u>15,142,363</u>
Loss allowance	(20,796)	(9,787)	(438,883)	(469,466)
Carrying amount	<u>14,335,584</u>	<u>237,341</u>	<u>99,972</u>	<u>14,672,897</u>

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

43. Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Credit risk exposures relating to on balance sheet assets:	2023			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
<i>Securities measured at amortised cost</i>				
Investment - grade	6,058,428	-	-	6,058,428
BB+ & below	3,938,232	-	-	3,938,232
Unrated	-	-	-	-
	9,996,660	-	-	9,996,660
Loss allowance	(45,135)	-	-	(45,135)
Carrying amount	9,951,525	-	-	9,951,525
<i>Financial assets measured at FVTOCI (debt securities)</i>				
Investment - grade	21,659,736	-	-	21,659,736
BB+ & below	689,419	-	-	689,419
Unrated	3,370	-	-	3,370
	22,352,525	-	-	22,352,525
Loss allowance	(9,018)	-	-	(9,018)
Carrying amount	22,343,507	-	-	22,343,507

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Credit risk exposures relating to on balance sheet assets:	2022			Total AED'000
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	
<i>Securities measured at amortised cost</i>				
Investment - grade	12,472,587	-	-	12,472,587
BB+ & below	3,976,570	-	-	3,976,570
Unrated	-	-	2,205	2,205
	<u>16,449,157</u>	<u>-</u>	<u>2,205</u>	<u>16,451,362</u>
Loss allowance	(26,210)	-	(2,205)	(28,415)
Carrying amount	<u>16,422,947</u>	<u>-</u>	<u>-</u>	<u>16,422,947</u>
<i>Financial assets measured at FVTOCI (debt securities)</i>				
Investment - grade	6,238,239	-	-	6,238,239
BB+ & below	701,496	-	-	701,496
Unrated	19	-	-	19
	<u>6,939,754</u>	<u>-</u>	<u>-</u>	<u>6,939,754</u>
Loss allowance	(5,019)	-	-	(5,019)
Carrying amount	<u>6,934,735</u>	<u>-</u>	<u>-</u>	<u>6,934,735</u>

The table below shows the maximum exposure to credit risk for financial assets that are not subject to impairment.

	2023 AED'000	2022 AED'000
Trading assets		
- Debt securities	1,500,907	1,348,137
- Derivatives	1,990,594	2,583,126
Hedging derivatives	21,297	40,596
	<u>3,512,798</u>	<u>3,971,859</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario

The Group continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The group is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs is typically updated every 6 months. The update was last made in October 2023 based on September 2023 macros.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk.

Collateral and other credit enhancements

Collateral against loans and advances to customers is generally held 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 the collateral assessed at the time of borrowing. Collateral generally is not held over amounts loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group maintains substantial real estate and cash collateral, which also forms majority of the collateral base. The benefit of such collateral gets reflected in ECL through the LGD estimates. Allocation of both general and specific collateral is done at a facility level to estimate LGD.

Financial instruments such as Repo transactions, embedded leverage note programs, etc. receive no ECL allocation on account of them being fully collateralized after application of relevant haircuts.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to offset potential credit losses. Financial assets that are credit impaired and related collateral held in order to offset potential losses are shown below. The table below details the fair value of the collateral which is updated regularly:

	Loans and advances to customers & Islamic financing and investment products		Loans and advances to banks	
	2023	2022	2023	2022
	AED'000	AED'000	AED'000	AED'000
<i>Against individually impaired:</i>				
Properties	252,345	496,374	-	-
Cash	43,856	58,283	-	-
Others	76,813	167,527	-	-
	373,014	722,184	-	-
<i>Against not impaired:</i>				
Properties	22,997,331	22,530,951	-	-
Debt securities	2,550,686	2,909,034	-	-
Equities	1,171,573	1,464,618	-	-
Cash	8,004,986	8,758,311	2,447,118	1,747,955
Others	1,415,819	1,190,352	-	-
	36,140,395	36,853,266	2,447,118	1,747,955
Total	36,513,409	37,575,450	2,447,118	1,747,955

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowances for the year ended 31 December 2023 and 31 December 2022:

	2023			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
Loans and advances to banks:				
Loss allowance as at 1 January	71,219	31,496	18,221	120,936
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(58,152)	58,152	-	-
Transfer from Stage 2 to Stage 1	193	(193)	-	-
New financial assets originated	102,068	-	-	102,068
Changes in PDs/LGDs/EADs	(49,321)	(25,800)	(8,484)	(83,605)
Write-offs	-	-	-	-
Loss allowance as at 31 December	66,007	63,655	9,737	139,399
	2022			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January	92,130	14,417	60,952	167,499
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(31,173)	31,173	-	-
New financial assets originated	87,387	-	-	87,387
Changes in PDs/LGDs/EADs	(77,125)	(14,094)	1,851	(89,368)
Write-offs	-	-	(44,582)	(44,582)
Loss allowance as at 31 December	71,219	31,496	18,221	120,936

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Loss allowance (continued)

The following tables explain the changes in the loss allowances for the year ended 31 December 2023 and 31 December 2022 (continued):

	2023			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
Loans and advances to customers				
Loss allowance as at 1 January	560,263	1,488,855	2,263,248	4,312,366
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(110,159)	110,159	-	-
Transfer from Stage 1 to Stage 3	(34,434)	-	34,434	-
Transfer from Stage 2 to Stage 1	9,235	(9,235)	-	-
Transfer from Stage 2 to Stage 3	-	(31,699)	31,699	-
Transfer from Stage 3 to Stage 1	9	-	(9)	-
Transfer from Stage 3 to Stage 2	-	48,560	(48,560)	-
New financial assets originated	316,545	-	-	316,545
Changes in PDs/LGDs/EADs	(187,798)	(1,147,481)	(107,452)	(1,442,731)
Write-offs	-	-	(561,493)	(561,493)
Loss allowance as at 31 December	553,661	459,159	1,611,867	2,624,687
	2022			
Loans and advances to customers	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January	511,719	1,235,239	4,347,119	6,094,077
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(116,013)	116,013	-	-
Transfer from Stage 1 to Stage 3	(34,044)	-	34,044	-
Transfer from Stage 2 to Stage 1	20,858	(20,858)	-	-
Transfer from Stage 2 to Stage 3	-	(30,491)	30,491	-
Transfer from Stage 3 to Stage 2	-	97,250	(97,250)	-
New financial assets originated	368,034	-	-	368,034
Changes in PDs/LGDs/EADs	(190,291)	91,702	190,400	91,811
Write-offs	-	-	(2,241,556)	(2,241,556)
Loss allowance as at 31 December	560,263	1,488,855	2,263,248	4,312,366

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Loss allowance (continued)

The following tables explain the changes in the loss allowances for the year ended 31 December 2023 and 31 December 2022 (continued):

Islamic financing and investment products	2023			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
	Loss allowance as at 1 January	20,796	9,787	
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(4,878)	4,878	-	-
Transfer from Stage 1 to Stage 3	(565)	-	565	-
Transfer from Stage 2 to Stage 1	55	(55)	-	-
Transfer from Stage 2 to Stage 3	-	(3,300)	3,300	-
Transfer from Stage 3 to Stage 2	-	31,421	(31,421)	-
New financial assets originated	19,376	-	-	19,376
Changes in PDs/LGDs/EADs	(11,500)	(16,499)	(111,755)	(139,754)
Write-offs	-	-	-	-
Loss allowance as at 31 December	23,284	26,232	299,572	349,088
Islamic financing and investment products	2022			Total AED'000
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	
	Loss allowance as at 1 January	51,011	12,106	
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(1,311)	1,311	-	-
Transfer from Stage 1 to Stage 3	(341)	-	341	-
Transfer from Stage 2 to Stage 1	501	(501)	-	-
Transfer from Stage 2 to Stage 3	-	(1,046)	1,046	-
Transfer from Stage 3 to Stage 2	-	3,388	(3,388)	-
New financial assets originated	13,191	-	-	13,191
Changes in PDs/LGDs/EADs	(42,255)	(5,471)	57,199	9,473
Write-offs	-	-	(180,161)	(180,161)
Loss allowance as at 31 December	20,796	9,787	438,883	469,466

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2023 and 31 December 2022:

	2023			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Cash and balances with central banks</i>				
Gross carrying amount as at 1 January	31,435,930	-	-	31,435,930
Repayments and other movements	10,324,356	-	-	10,324,356
Gross carrying amount as at 31 December	41,760,286	-	-	41,760,286
	2022			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Cash and balances with central banks</i>				
Gross carrying amount as at 1 January	17,507,751	-	-	17,507,751
Repayments and other movements	13,928,179	-	-	13,928,179
Gross carrying amount as at 31 December	31,435,930	-	-	31,435,930
	2023			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Loans and advances to banks</i>				
Gross carrying amount as at January	25,289,523	3,859,855	25,195	29,174,573
Transfer from Stage 1 to Stage 2	(7,812,626)	7,812,626	-	-
Transfer from Stage 2 to Stage 1	22,305	(22,305)	-	-
New financial assets originated	37,356,001	-	-	37,356,001
Repayments and other movements	(22,969,692)	(4,278,993)	(15,458)	(27,264,143)
Write-offs	-	-	-	-
Gross carrying amount as at 31 December	31,885,511	7,371,183	9,737	39,266,431

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Gross carrying amount (continued)

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2023 and 31 December 2022 (continued):

	2022 (Restated)			
	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	AED'000	AED'000	AED'000	AED'000
<i>Loans and advances to banks</i>				
Gross carrying amount as at January	25,983,624	2,910,024	78,946	28,972,594
Transfer from Stage 1 to Stage 2	(4,020,902)	4,020,902	-	-
New financial assets originated	26,254,853	-	-	26,254,853
Repayments and other movements	(22,928,052)	(3,071,071)	(9,169)	(26,008,292)
Write-offs	-	-	(44,582)	(44,582)
Gross carrying amount as at 31 December	25,289,523	3,859,855	25,195	29,174,573
2023				
	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	AED'000	AED'000	AED'000	AED'000
<i>Financial assets measured at FVTOCI (debt securities) and securities measured at amortised cost</i>				
Gross carrying amount as at 1 January	23,388,911	-	2,205	23,391,116
New financial assets originated	18,221,239	-	-	18,221,239
Repayments and other movements	(9,260,965)	-	(3)	(9,260,968)
Write-offs	-	-	(2,202)	(2,202)
Gross carrying amount as at 31 December	32,349,185	-	-	32,349,185
2022				
	Stage 1	Stage 2	Stage 3	Total
	12-month	Lifetime	Lifetime	
	AED'000	AED'000	AED'000	AED'000
<i>Financial assets measured at FVTOCI (debt securities) and securities measured at amortised cost</i>				
Gross carrying amount as at 1 January	23,785,800	-	2,205	23,788,005
New financial assets originated	13,811,750	-	-	13,811,750
Repayments and other movements	(14,204,461)	-	-	(14,204,461)
Write-offs	(4,178)	-	-	(4,178)
Gross carrying amount as at 31 December	23,388,911	-	2,205	23,391,116

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Gross carrying amount (continued)

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2023 and 31 December 2022 (continued):

	2023			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Loans and advances to customers</i>				
Gross carrying amount as at January	72,575,677	5,043,401	2,323,632	79,942,710
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(2,841,083)	2,841,083	-	-
Transfer from Stage 1 to Stage 3	(138,026)	-	138,026	-
Transfer from Stage 2 to Stage 3	-	(355,029)	355,029	-
Transfer from Stage 3 to Stage 2	-	164,850	(164,850)	-
Transfer from Stage 2 to Stage 1	369,347	(369,347)	-	-
New financial assets originated	53,573,762	-	-	53,573,762
Repayments and other movements	(33,985,395)	(2,290,893)	(450,767)	(36,727,055)
Write-offs	-	-	(561,493)	(561,493)
Gross carrying amount as at 31 December	89,554,282	5,034,065	1,639,577	96,227,924
	2022			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Loans and advances to customers</i>				
Gross carrying amount as at January	62,421,522	5,646,447	4,458,678	72,526,647
<i>Transfers</i>				
Transfer from Stage 1 to Stage 2	(3,458,173)	3,458,173	-	-
Transfer from Stage 1 to Stage 3	(83,719)	-	83,719	-
Transfer from Stage 2 to Stage 3	-	(229,563)	229,563	-
Transfer from Stage 3 to Stage 2	-	447,342	(447,342)	-
Transfer from Stage 2 to Stage 1	1,120,386	(1,120,386)	-	-
New financial assets originated	52,279,308	-	-	52,279,308
Repayments and other movements	(39,703,647)	(3,158,613)	240,571	(42,621,689)
Write-offs	-	-	(2,241,556)	(2,241,556)
Gross carrying amount as at 31 December	72,575,677	5,043,400	2,323,633	79,942,710

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

43. Risk management (continued)

Modification of financial assets

The Group modifies terms of loans provided to customers from time-to-time primarily due to ongoing client needs, commercial renegotiations or for managing distressed loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more. The gross carrying amounts of modified financial assets held at 31 December 2023 was 40 million with a modification loss of 9 million.

Operational risk management

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

Operational Risk Governance

Whilst the Group cannot eliminate all operational risks, it has developed a comprehensive framework of identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk and consists of the following:

- Ownership of the risk & controls by businesses and functional units;
- Monitoring and validation by business;
- Oversight by Operational risk management team; and
- Independent review by Internal Audit

Operational risk management follows three lines of defence model.

The first line of defence is the Business Line Management. The operational risk governance will recognize that Business Units (BUs) are the owners of risk and hence responsible for identifying and managing the risks, inherent in the products, services and activities, within their BUs.

The second line of defence is the Operational Risk Management function, the Chief Risk Officer, the Operational Risk Committee (ORC) and the Enterprise Risk Committee. They are collectively responsible for designing, implementing, coordinating, reporting and facilitating effective Operational Risk Management on Group-wide basis.

The third line of defence is the Internal Audit who are responsible to independently assess the effectiveness and efficiency of the internal control, and for independently validate and provide an independent assurance to the Board Audit Committee (BAC) on the adequacy and effectiveness of the Operational Risk Management Framework.

The Board, through the Board Risk Committee, has the overall responsibility for managing operational risk at the Bank and ensure that the three line of defence approach is implemented and operated in an appropriate and acceptable manner.

The Group has adopted The Standardized Approach (TSA) to determine its operational risk capital requirements.

Operational Risk Appetite

The Group's operational risk appetite articulates the boundaries for quantitative and qualitative operational risks that the Bank is willing to take (or not take), with respect to pursuit of its strategic objectives. It helps in setting the risk culture across the Bank and facilitates an effective implementation of the Bank's Operational Risk Management Framework. The operational risk appetite is applied for decision-making and comprehending operational risk exposures across the Bank through implementation of policies, controls and operational risk tolerances

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)*****Operational Risk Management Framework***

The Group's Operational Risk Management Framework ("ORMF") is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Group's most material operational risks. ORMF components include the setup of the three lines of defence as well as roles and responsibilities for the Operational Risk management process and appropriate independent challenge, the Group's approach to setting Operational Risk appetite and adhering to it, the Operational Risk type and control taxonomies, the minimum standards for Operational Risk management processes including tools, independent governance, and the Bank's Operational Risk capital model. Tools implemented for the identification and assessment of Operational risk include and is not limited to:

- a) Risk and Control Self-Assessment
- b) Operational Risk Event Management
- c) Key Risk Indicator Management
- d) New Business Systems & Process Approval (NPPA); and
- e) Issues and Action Management

Incident management

The reporting of Operational risk incidents is a critical component of the Group's Operational risk management framework. This ensures greater risk transparency across the organisation and helps to identify gaps and facilitate timely remedial action for potential risk exposures.

The Central Bank of U.A.E. published final guidelines on operational risk management in October 2018. These guidelines lay out detailed supervisory expectations relating to operational risk governance, identification and assessment, systems and reporting.

The Group is in the process of assessing the Group's operational risk management framework in light of publication of operational risk management regulation by the Central Bank of U.A.E.

Market Risk Management

Market risk is the risk that fair value or cash flows of financial instruments held by the Group or its income may be adversely affected by movement in market factors, such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market risk at the Group is governed by a comprehensive control framework as defined by the approved Market Risk Framework. This function is independent of any risk taking businesses. The Market Risk function folds under Risk Management Group and reports to the Chief Risk Officer of the Group.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily manages risks arising from its proprietary trading activities. Risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are primarily concentrated in Treasury and Capital Markets (TCM) and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Appropriate limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities depending on the size and complexity of trading strategies involved. A comprehensive risk reporting framework is in place whereby, positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Framework or the concerned trading desk's limits mandate.

Each trading desk has a 'permitted product list' comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from Head of TCM, Head of Market Risk and Chief Risk Officer who assess the risks associated with the product and verify that they can be controlled effectively prior to approving the product.

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval mainly using Monte Carlo Simulations approach across its trading portfolio and open FX position. VaR results are highly dependent on assumptions around input variables used in the model and also VaR does not provide the 'worst case' possible loss.

Notes to the consolidated financial statements for the year ended 31 December 2023 (continued)

43. Risk management (continued)

Market Risk Management (continued)

Being a statistical technique, VaR is known to have limitations and therefore its interpretation needs to be further supplemented by other limits, sensitivity triggers or stress tests. Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

In 2023, VaR was being calculated regularly and as of 29th December 2023, the 99% 1-day VaR was estimated at USD 1.31 million (31 December 2022: USD 1.29 million) for the bank wide market risk positions (stemming mainly from proprietary trading FX net open position). The Bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

The 1day VaR looks comparable on a y-o-y basis.

There has been no significant change to the Group's exposure to market risks or the way these risks are managed and measured.

a) Counterparty Credit Risk

Counterparty Credit Risk is one of the most significant risks in OTC derivatives trading and securities financing transaction (SFTs) related activities. These risks are further sub categorized into two forms:

i) Pre-Settlement Risk

Counterparty credit risk is defined as the risk attributable to the downgrading and/or insolvency of a counterparty on its obligations prior to the final settlement of the transaction's cash flow. Internally the Group manages and monitors the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). PFE is an estimate of the amount, at a 95% confidence level, a counterparty may owe over the life of a derivative transaction (or portfolio of transactions).

The Group further measures a net Credit Value Adjustment (CVA) on all outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses.

ii) Settlement Risk

Settlement Risk arises when a bank, exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange until after it has paid or delivered its side of the transaction. The bank manages this exposure by dealing preferentially on a DvP/PvP basis or by defining control mechanism around settlement limits at a counterparty level.

Climate risk

The Group recognizes Climate risk as an emerging risk to the Group's assets, business, and operations. Climate risk is the risk of loss emanating from Climate change – the long-term shifts in temperatures and weather patterns. These changes occur naturally and in the recent years, have mainly been driven by human activities such as burning of fossil fuels. Climate risk is likely to have an impact on the principal risk categories discussed above (ie., credit, market, operational and liquidity risks), however, due to its pervasive nature has been identified and monitored by the Group on an overall basis.

The Group is actively working towards establishing the approach for managing Climate risk including defining a set of Sustainability Performance Indicators (SPIs), Climate risk governance, financial disclosures, and guidelines for identifying relevant risk factors. The Group is also working towards meeting stipulated regulatory reporting requirements in the relevant jurisdictions.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Libor transition

The Group is actively preparing for the transition to Alternative Reference Rates (ARR) under the supervision of a cross-functional working committee, which includes representatives from Risk, Finance, Technology, Legal, Marketing and relevant business units. Group's transition program to robust Risk-Free Reference Rates is in progress, migration of legacy cases is being carried sequentially based on next repricing opportunity.

Financial instruments impacted by IBOR reform

The exposures impacted by the LIBOR Transition as at 31 December 2023 are summarized in the table below. None of these instruments had been transitioned to an Alternative Reference Rate (SOFR) as at 31 December 2023:

	31 December 2023 AED (in million)
Non-derivative financial assets	2,984
Loans and advances measured at amortized cost	2,941
Other assets	43

As at 31 December 2023, the Group did not hold any off-balance sheet commitments and financial guarantees linked to LIBOR.

Hedge accounting

The Group did not enter into any LIBOR-linked hedging instruments since January 2022.

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial assets and liabilities to different extents. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities repricing at different times.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee ("ALCO"). Since majority of the Group's assets are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk. The Group also has a significant current and savings account balances in deposits which are largely interest free.

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2023 would be a decrease in net interest income by -2.9% (in case of decrease of interest rates) and would have been an increase in net interest income by 2.9% (in case of increase of interest rates) [31 December 2022: -4% and +4.1%] respectively.

During the year ended 31 December 2023, the effective interest rate on loans and advances to banks and certificates of deposits with central banks was 5.3% (31 December 2022: 2.6%), on loans and advances measured at amortised cost 7.0% (31 December 2022: 4.6%), on customers' deposits 2.3% (31 December 2022: 1.1%) and on due to banks (including repurchase agreements) 5.0% (31 December 2022: 2.0%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
<i>31 December 2023</i>							
<i>Assets</i>							
Cash and balances with central banks	15,861,859	-	-	-	-	25,898,427	41,760,286
Loans and advances to banks	17,073,242	10,634,450	3,314,054	5,143,191	-	2,962,095	39,127,032
Financial assets measured at fair value	8,496,553	4,103,446	4,788,392	978,761	5,636,318	2,028,399	26,031,869
Securities measured at amortised cost	1,717,683	547,483	608,199	3,627,043	3,451,117	-	9,951,525
Loans and advances to customers	65,138,163	10,745,164	3,151,029	11,857,358	1,162,923	1,548,600	93,603,237
Islamic financing and investment products	8,691,212	261,777	628,878	1,499,283	3,577,200	2,093,892	16,752,242
Acceptances	-	-	-	-	-	3,536,930	3,536,930
Reinsurance contract assets	-	-	-	-	-	2,756,863	2,756,863
Investment in associate	-	-	-	-	-	36,498	36,498
Investment properties	-	-	-	-	-	502,047	502,047
Property and equipment	-	-	-	-	-	1,381,735	1,381,735
Intangible assets	-	-	-	-	-	360,611	360,611
Other assets	-	-	-	-	-	4,179,734	4,179,734
Total assets	116,978,712	26,292,320	12,490,552	23,105,636	13,827,558	47,285,831	239,980,609

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued):

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
<i>31 December 2023</i>							
<i>Liabilities and equity</i>							
Deposits and balances due to banks	14,983,950	3,519,750	2,007,962	281,091	18,714	16,523,581	37,335,048
Repurchase agreements with banks	1,062,992	-	-	-	-	-	1,062,992
Customers' deposits	57,083,361	8,261,427	5,484,818	1,988,025	391,880	59,400,160	132,609,671
Islamic customers' deposits	6,702,805	1,050,823	1,972,313	53,035	-	3,843,508	13,622,484
Acceptances	-	-	-	-	-	3,536,930	3,536,930
Other liabilities	-	-	-	-	82,850	8,088,159	8,171,009
Medium-term loans	3,587,906	-	910,595	623,604	36,596	-	5,158,701
Subordinated debt	-	-	-	-	1,831,027	-	1,831,027
Insurance contract and investment liabilities	-	-	-	-	-	5,334,957	5,334,957
Equity attributable to shareholders of the Parent	-	-	-	-	-	30,333,359	30,333,359
Non-controlling interest	-	-	-	-	-	984,431	984,431
Total liabilities and equity	83,421,014	12,832,000	10,375,688	2,945,755	2,361,067	128,045,085	239,980,609
On balance sheet gap	33,557,698	13,460,320	2,114,864	20,159,881	11,466,491	(80,759,254)	-
Off balance sheet gap	(1,486,192)	371,444	1,004,278	110,470	-	-	-
Cumulative interest rate sensitivity gap	32,071,506	45,903,270	49,022,412	69,292,763	80,759,254	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued):

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
<i>31 December 2022 (Restated)</i>							
<i>Liabilities and equity</i>							
Deposits and balances due to banks	22,920,742	795,035	670,140	-	-	4,013,539	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	-	1,926,182
Customers' deposits	34,129,897	3,415,872	4,910,109	1,852,514	261,770	54,257,160	98,827,322
Islamic customers' deposits	5,941,328	1,237,186	4,400,590	43,800	-	3,356,037	14,978,941
Acceptances	-	-	-	-	-	9,310,974	9,310,974
Other liabilities	-	-	-	-	-	7,620,581	7,620,581
Medium-term loans	311,623	-	112,525	4,761,752	37,665	-	5,223,565
Subordinated debt	-	-	-	-	1,831,027	-	1,831,027
Insurance contract and investment liabilities	-	-	-	-	-	4,618,473	4,618,473
Equity attributable to shareholders of the Parent	-	-	-	-	-	23,599,496	23,599,496
Non-controlling interest	-	-	-	-	-	909,383	909,383
Total liabilities and equity	64,756,549	5,921,316	10,093,364	6,658,066	2,130,462	107,685,643	197,245,400
On balance sheet gap	54,759,872	4,071,754	(4,323,838)	7,005,462	10,715,904	(72,229,154)	-
Off balance sheet gap	(1,160,414)	289,293	870,474	647	-	-	-
Cumulative interest rate sensitivity gap	53,599,458	57,960,505	54,507,141	61,513,250	72,229,154	-	-

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored on a regular basis. The Group's exposures as follows:

	31 December 2023			31 December 2022		
	Net spot position	Net Forward position	Net Position	Net spot position	Net Forward position	Net Position
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
U.S. Dollars	19,131,510	(4,063,208)	15,068,302	15,947,133	(4,954,483)	10,992,650
Qatari Riyals	(157,392)	(66,126)	(223,518)	105,137	(279,698)	(174,561)
Pound Sterling	(850,793)	908,355	57,562	(907,395)	907,756	361
Euro	(5,825,213)	5,814,623	(10,590)	(5,104,078)	5,094,078	(10,000)
Bahrain Dinar	1,722,023	(1,590,647)	131,376	1,746,687	(1,621,653)	125,034
Saudi Riyal	73,884	(72,025)	1,859	(1,001,668)	1,006,271	4,603
Japanese Yen	(441,401)	450,982	9,581	(631,151)	642,576	11,425
Swiss Francs	(26,522)	26,200	(322)	6,366	46	6,412
Kuwaiti Dinar	(85,780)	(57,260)	(143,040)	(49,999)	(132,514)	(182,513)
Chinese Yuan	(1,787,618)	1,925,436	137,818	(2,191,059)	2,360,431	169,372
Other	566,635	(804,571)	(237,936)	48,553	(601,296)	(552,743)
Total	12,319,333	2,471,759	14,791,092	7,968,526	2,421,514	10,390,040

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III guidelines, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency funding plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that funding can be readily raised from a variety of sources.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)***Liquidity risk management (continued)*

In compliance with Basel Committee on Banking Supervision (“BCBS”) document titled “Principles for Sound Liquidity Management” and CBUAE “Regulations re Liquidity at Banks” (Circular Number 33/2015) and accompanying Guidance Manual, the Group has established a robust liquidity management framework that is well integrated into the bank-wide risk management process. A primary objective of the liquidity management framework is to ensure with a high degree of confidence that the Bank is in a position to address both its daily liquidity obligations as well as withstand a period of liquidity stress. In addition to maintaining sound liquidity governance and management practices, the Bank also holds an adequate liquidity cushion comprised of High Quality Liquid Assets (“HQLA”) to be in a position to survive such periods of liquidity stress. The Bank’s Liquidity Management Framework has two tiers:

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits.
2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity.

The Group’s Board of Directors (the “Board”) bears the ultimate responsibility for liquidity risk management within the Bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank’s overall liquidity risk.

Mashreqbank’s Head Office (“HO”) and International Banking Group (“IBG”) Asset and Liability Committees (“ALCO”) are responsible for formulating policies for implementing the Board approved liquidity risk appetite. In this regard, the following policies, procedures and systems have been implemented:

a) Robust ALCO oversight through timely, pertinent information and analysis

ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group’s asset and liability structure and funding strategy. ALCOs meet on a regular basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations. The Asset Liability Management (“ALM”) function in the Group is then responsible for implementing the ALCO policies.

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, Chief Risk Officer, Chief Credit Officer, Head of Retail Banking Group, Head of Corporate Banking Group, Head of International Banking Group and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Chief Risk Officer, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

b) Maintenance of Adequate High Quality Liquid Assets (“HQLA”) cushion

The Bank holds a portfolio of HQLA aligned with the established liquidity risk tolerance of the bank, which means at a minimum it is sufficient to meet all regulatory and internal ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by Stress tests.

c) Gap limits

The minimum size of net placements in highly liquid money market instruments and HQLA bond portfolio is based on stress testing exercise, which takes into account the stability of deposits from different sources as well as contingent funding requirements of overseas branches. The Money Book and HQLA deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet short term and intraday liquidity needs.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)*****d) Liquidity risk management over different time horizons and currencies***

The time horizons and activities over which the Bank manages liquidity risk range from intraday basis, day-to-day cashflow movements, fund raising capacity over short and medium-term (up to one year) as well as vulnerabilities to events, activities and strategies beyond one year that can put a significant strain on the Bank's cash generation capability

e) Forward looking Funding Plan ensuring effective diversification in the sources and tenor of funding

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places emphasis on diversifying the funding sources and maintaining market access to different sources of funding.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2023 has an outstanding balance of AED 5.2 billion (2022: AED 5.2 billion) [Note 19] in medium-term loans.

f) Stress Testing for a variety of short-term and protracted Group-specific and market-wide stress scenarios

Stress tests enable the Bank to analyze the impact of stress scenarios on its consolidated group wise liquidity position as well as on the liquidity position of individual entities. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the Bank is exposed. ALCO and the Board reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

g) Contingency Funding Plan outlining the Bank's step by step response to Liquidity contingency situations of different magnitudes

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO and the Board on an annual basis. The CFP provides a list of liquidity generation tools which would be used to counter liquidity stress at different stages of the contingency.

h) FTP Framework for allocating liquidity costs, benefits and risks to all business activities

Mashreqbank has a well-developed FTP policy and system that aims to create transparency in profitability and insulate Business Units from interest rate risk.

i) Regular Internal as well as CB UAE audits focused on HQLA cushion and Liquidity management policies and procedures

Mashreqbank's liquidity policies, procedures and systems are subject to end to end review by internal audit as well as by the CB UAE.

The recovery in the oil prices along with renewed access to the international capital markets by GCC sovereigns and financial institutions however, have eased the concerns regarding GCC Governments' finances and banking sector's liquidity. In this environment, Mashreqbank has taken measures to manage its liquidity carefully. The Bank's ALCO meets regularly with primary focus on monitoring cash flows and forecasts across all jurisdictions in which the Bank operates. The Bank has strengthened its liquidity buffer significantly through raising deposits.

Prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption. Recently, while high inflation readings as well as the Russia Ukraine crisis have negatively impacted the US and European capital markets, they have not had a discernable impact on liquidity in the UAE due to the accompanying rise in oil prices and the resultant increase in Government and Related Enterprises ("GRE") cash balances.

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2023 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	41,760,286	-	-	-	-	41,760,286
Loans and advances to banks	14,456,759	9,856,606	5,756,220	9,057,447	-	39,127,032
Financial assets measured at fair value	9,658,921	4,103,446	4,788,392	994,937	6,486,173	26,031,869
Securities measured at amortised cost	1,717,638	546,593	607,976	3,620,521	3,458,797	9,951,525
Loans and advances to customers	26,834,907	8,470,520	4,233,991	24,144,451	29,919,368	93,603,237
Islamic financing and investment products	7,681,017	364,259	724,658	2,169,766	5,812,542	16,752,242
Acceptances	1,730,889	1,074,135	627,583	104,323	-	3,536,930
Reinsurance contract assets	860,314	521,326	550,108	805,712	19,403	2,756,863
Investment in associate	-	-	-	-	36,498	36,498
Investment properties	-	-	-	-	502,047	502,047
Property and equipment	-	-	-	-	1,381,735	1,381,735
Intangible assets	-	-	-	-	360,611	360,611
Other assets	3,925,138	88,721	49,964	92,149	23,762	4,179,734
Total assets	108,625,869	25,025,606	17,338,892	40,989,306	48,000,936	239,980,609

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Maturity profile (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<i>Liabilities and equity</i>						
Deposits and balances due to banks	24,062,080	4,229,397	2,088,779	281,092	6,673,700	37,335,048
Repurchase agreements with banks	1,062,992	-	-	-	-	1,062,992
Customers' deposits	115,999,612	8,539,857	5,584,044	2,094,278	391,880	132,609,671
Islamic customers' deposits	10,546,293	1,050,843	1,972,313	53,035	-	13,622,484
Acceptances	1,730,888	1,074,135	627,583	104,324	-	3,536,930
Other liabilities	7,237,582	380,712	228,175	136,466	188,074	8,171,009
Medium-term loans	3,587,906	-	910,595	623,604	36,596	5,158,701
Subordinated debt	-	-	-	-	1,831,027	1,831,027
Insurance and investment contract liabilities	1,353,115	702,015	732,292	1,629,384	918,151	5,334,957
Equity attributable to shareholders of the Parent	-	-	-	-	30,333,359	30,333,359
Non-controlling interest	-	-	-	-	984,431	984,431
Total liabilities and equity	165,580,468	15,976,959	12,143,781	4,922,183	41,357,218	239,980,609
Guarantees	6,828,710	3,179,342	3,658,273	3,521,544	9,087,699	26,275,568
Letters of credit	8,994,670	2,750,866	1,325,772	209,882	5,559	13,286,749
Total	15,823,380	5,930,208	4,984,045	3,731,426	9,093,258	39,562,317

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2022 (Restated) were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	31,435,930	-	-	-	-	31,435,930
Loans and advances to banks	16,679,331	6,215,754	3,160,179	2,998,373	-	29,053,637
Financial assets measured at fair value	2,897,768	94,958	140,560	812,769	6,483,710	10,429,765
Securities measured at amortised cost	6,891,548	907,931	1,596,417	4,119,237	2,907,814	16,422,947
Loans and advances to customers	23,749,242	5,878,467	3,897,573	19,542,951	22,562,111	75,630,344
Islamic financing and investment products	5,794,521	600,367	337,571	2,615,141	5,325,297	14,672,897
Acceptances	6,746,930	1,533,632	790,045	240,145	222	9,310,974
Reinsurance contract assets	723,937	471,939	541,896	616,423	19,497	2,373,692
Investment in associate	-	-	-	-	43,633	43,633
Investment properties	-	-	-	-	464,840	464,840
Property and equipment	-	-	-	-	1,395,485	1,395,485
Intangible assets	-	-	-	-	230,667	230,667
Other assets	3,710,861	1,452,740	161,436	118,758	336,794	5,780,589
Total assets	<u>98,630,068</u>	<u>17,155,788</u>	<u>10,625,677</u>	<u>31,063,797</u>	<u>39,770,070</u>	<u>197,245,400</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Maturity profile (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<i>Liabilities and equity</i>						
Deposits and balances due to banks	26,934,282	795,035	670,139	-	-	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	1,926,182
Customers' deposits	87,938,308	3,791,476	4,959,200	1,872,480	265,858	98,827,322
Islamic customers' deposits	9,297,345	1,237,206	4,400,590	43,800	-	14,978,941
Acceptances	6,746,930	1,533,632	790,046	240,145	221	9,310,974
Other liabilities	6,501,889	347,442	385,466	166,891	218,893	7,620,581
Medium-term loans	311,623	-	112,525	4,761,752	37,665	5,223,565
Subordinated debt	-	-	-	-	1,831,027	1,831,027
Insurance and investment contract liabilities	1,429,373	741,651	782,062	1,246,237	419,150	4,618,473
Equity attributable to shareholders of the Parent	-	-	-	-	23,599,496	23,599,496
Non-controlling interest	-	-	-	-	909,383	909,383
Total liabilities and equity	<u>140,612,709</u>	<u>8,919,665</u>	<u>12,100,028</u>	<u>8,331,305</u>	<u>27,281,693</u>	<u>197,245,400</u>
Guarantees	7,624,106	3,092,458	4,918,972	4,796,054	10,643,541	31,075,131
Letters of credit	11,824,239	2,821,602	871,747	180,835	-	15,698,423
Total	<u>19,448,345</u>	<u>5,914,060</u>	<u>5,790,719</u>	<u>4,976,889</u>	<u>10,643,541</u>	<u>46,773,554</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Maturity profile (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2023:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<i>Liabilities and equity</i>						
Deposits and balances due to banks	24,080,104	4,266,416	2,104,472	281,865	6,681,434	37,414,291
Repurchase agreements with banks	1,062,992	-	-	-	-	1,062,992
Customers' deposits	116,149,390	8,702,859	5,787,433	2,484,065	441,001	133,564,748
Islamic customers' deposits	10,654,769	1,098,888	2,094,955	57,742	-	13,906,354
Acceptances	1,730,888	1,074,135	627,583	104,324	-	3,536,930
Other liabilities	7,237,582	380,712	228,175	136,466	188,072	8,171,007
Medium-term loans	3,610,302	-	950,914	628,205	37,282	5,226,703
Subordinated debt	36,156	36,156	72,312	723,122	2,286,192	3,153,938
Insurance and investment contract liabilities	1,353,115	702,015	732,292	1,629,384	918,151	5,334,957
Equity attributable to shareholders of the Parent	-	-	-	-	30,333,359	30,333,359
Non-controlling interest	-	-	-	-	984,431	984,431
Total liabilities and equity	165,915,298	16,261,181	12,598,136	6,045,173	41,869,922	242,689,710

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Maturity profile (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2022 (Restated):

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
<i>Liabilities and equity</i>						
Deposits and balances due to banks	26,954,833	805,183	689,091	-	-	28,449,107
Repurchase agreements with banks	1,452,959	473,223	-	-	-	1,926,182
Customers' deposits	87,999,074	3,836,664	5,109,008	2,148,095	274,660	99,367,501
Islamic customers' deposits	9,347,729	1,271,425	4,578,610	46,464	-	15,244,228
Acceptances	6,746,930	1,533,632	790,045	240,145	222	9,310,974
Other liabilities	6,501,889	347,442	385,466	166,891	218,893	7,620,581
Medium-term loans	316,872	-	114,248	4,826,812	38,351	5,296,283
Subordinated debt	36,156	36,156	72,312	723,122	2,430,817	3,298,563
Insurance and investment contract liabilities	1,429,373	741,651	782,062	1,246,237	419,150	4,618,473
Equity attributable to shareholders of the Parent	-	-	-	-	23,599,496	23,599,496
Non-controlling interest	-	-	-	-	909,383	909,383
Total liabilities and equity	<u>140,785,815</u>	<u>9,045,376</u>	<u>12,520,842</u>	<u>9,397,766</u>	<u>27,890,972</u>	<u>199,640,771</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****43. Risk management (continued)***Compliance Risk*

Compliance risk is the risk of an activity not being conducted in line with the applicable laws and regulations leading to reputational and/or financial losses. The Group manages compliance risk through a compliance function which is responsible for monitoring compliance of laws and regulations across the various jurisdictions in which the Group operates.

The Bank previously became aware that certain historical US dollar payment processing activities may have potentially breached US sanction laws in effect at the time. Accordingly, the Bank proactively cooperated with the UAE and the US regulators and appointed external legal advisors to assist in the review of these transactions, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US.

During the year ended 31 December 2021 the Bank reached a joint settlement with the Office of Foreign Assets Control (OFAC), the New York State Department of Financial Services (DFS) and the Federal Reserve Board of Governors (FRB). No separate financial penalty was levied by OFAC and FRB. The Bank has complied with the terms of the settlement. Dialogue with another US agency on the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Bank is likely to be subject to any further penalty or the quantum of the penalty. The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with the accounting policy for provisions as disclosed in note 3.

Fair value measurements

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability. The group measures investments in the category using various valuations techniques. These include the net assets valuation method where there is unavailability of market and comparable financial information comparable sales transactions after applying an appropriate hair cut and discounted cash flow models where appropriate

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2022.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)

43. Risk management (continued)

Fair value measurements (continued)

	Fair value as at		Fair value hierarchy
	2023 AED'000	2022 AED'000	
Financial assets measured at FVTPL			
Quoted debt investments	152,750	202,752	Level 1
Quoted equity investments	22,530	16,667	Level 1
Unquoted debt investments	1,348,157	1,145,385	Level 2
Funds	1,310,716	1,286,743	Level 2
Unquoted equity investments	1,132	707	Level 3
	2,835,285	2,652,254	
	Fair value as at		Fair value hierarchy
	2023 AED'000	2022 AED'000	
Financial assets measured at FVTOCI			
Quoted equity investments	705,698	699,587	Level 1
Quoted debt investments	22,343,507	6,934,735	Level 1
Unquoted equity investments	56,049	63,117	Level 3
Funds	91,330	80,072	Level 2
	23,196,584	7,777,511	
	26,031,869	10,429,765	

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTPL

	2023 AED'000	2022 AED'000
At 1 January	707	1,113
Change in fair value	425	(406)
At 31 December	1,132	707

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Fair value measurements (continued)

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2023 AED'000	2022 AED'000
At 1 January	63,117	613,519
Purchases	8,945	12,856
Disposals/matured	(12,429)	(573,611)
Change in fair value	(3,584)	10,353
At 31 December	56,049	63,117

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values and carry market rates of interest.

	Gross carrying amount AED'000	Level 1 AED'000	Fair value		Total AED'000
			Level 2 AED'000	Level 3 AED'000	
31 December 2023					
<i>Financial assets:</i>					
Securities measured at amortised cost	9,996,660	7,415,365	1,534,497	773,394	9,723,256
31 December 2022					
<i>Financial assets:</i>					
Securities measured at amortised cost	16,451,362	13,843,005	1,468,843	741,681	16,053,529
31 December 2023					
<i>Financial liabilities</i>					
Medium-term notes	5,158,701	4,199,191	-	955,019	5,154,210
31 December 2022					
<i>Financial liabilities</i>					
Medium-term notes	5,223,565	4,060,351	-	1,055,949	5,116,300

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)**

43. Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2023 and 31 December 2022:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2023				
Financial assets measured at fair value	28,353	(28,353)	231,966	(231,966)
Derivatives	6,128	(6,128)	-	-
31 December 2022 (Restated)				
Financial assets measured at fair value	26,523	(26,523)	77,775	(77,775)
Derivatives	9,247	(9,247)	-	-

Majority of the derivative financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44. Foreign restricted assets

Net assets equivalent to AED 555 million as at 31 December 2023 (31 December 2022: AED 549 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45. Taxation

On 31 January 2022, the UAE Ministry of Finance ("MOF") announced the introduction of a corporate income tax (the "CIT") on business profits, it is effected on 1 June 2023 and applied from such date. The CIT rate of 9% is applied on the adjusted accounting net profits of a business. The application is also dependent on the implementation of Base Erosion Profit Shifting (BEPS 2) – Pillar Two rules by the countries where the Group operates and the implementation of a top-up tax regime by UAE MOF. The Group has completed the assessment of the impact on its consolidated financial statements, both from current and deferred tax perspective in preparation for full compliance with the new Corporate tax law noting that the first tax period for the Group is starting on 1 January 2024. Based on this assessment performed, the Group has assessed the impact of on its deferred tax asset as immaterial.

46. Additional Tier 1 capital securities

In July 2022, the Bank issued US\$ 300 million (AED 1,101.9 million) regulatory Additional Tier 1 (AT1) capital securities. These securities are perpetual, conditional, subordinated and unsecured and are classified as equity. These securities are issued at a coupon rate of 8.5% p.a. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities in July 2027 subject to Central Bank approval.

During 2023, the bank held annual general meeting for the issuance of more additional Tier 1 securities which was approved by the shareholders.

47. Comparative information

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

**Notes to the consolidated financial statements
for the year ended 31 December 2023 (continued)****48. Subordinated debt**

In November 2022, the Bank issued US\$ 500 million of subordinated Tier 2 notes. The notes, which were issued at a re-offer price and yield of 99.702 and 7.95 per cent, respectively, and with a coupon of 7.875%, are callable after 5.25 years and have a final maturity of 10.25 years. They will rank pari passu among themselves, rank subordinate and junior to all senior obligations and rank in priority only to all junior obligations, subject to solvency conditions.

49. Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2023.

50. Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2023 were approved by the Board of Directors and authorised for issue on 29 January 2024.