Bank Alfalah Limited – Dubai Branch

FINANCIAL STATEMENTS

31 DECEMBER 2023

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Bank Alfalah

MANAGEMENT REPORT 2023

We are pleased to submit this report and the audited financial statements of Bank Alfalah Limited – Dubai Branch (the "Branch" or the "Bank") for the year ended 31 December 2023.

Incorporation and registered offices

Bank Alfalah Limited (the "Head Office") is a Pakistan registered bank with its principal office in Karachi, Pakistan. It commenced its operations in the United Arab Emirates (UAE) in 2017 through a branch (the "Branch") in Dubai as a wholesale bank.

The address of the registered office of the Branch is Unit # 5, Ground Floor, Eiffel 2 Building, Sheikh Zayed Road, Umm Al Sheif– Dubai, U.A.E

Financial position and results

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

During the year ended 31 December 2023, the Branch recorded profit before tax of AED 43,859 thousand (2022: AED 19,399 thousand) and profit after tax of AED 35,063 thousand (2022: AED 15,744 thousand).

Signed on behalf of the Management

Sarfraz Nazir
Country Manager - UAE

Date: March 29, 2024

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INDEPENDENT AUDITOR'S REPORT
TO THE HEAD OFFICE OF BANK ALFALAH LIMITED, DUBAI BRANCH

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Bank Alfalah Limited - Dubai Branch (the "Bank" or the "Branch"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies information.

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

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

Other information
The other information obtained at the date of the auditor's report is the Branch's Management Report 2023. Those charged with governance are responsible for the other information.

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE HEAD OFFICE OF BANK ALFALAH LIMITED, DUBAI BRANCH (continued)

Report on the audit of the financial statements (continued)

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

In preparing the financial statements, management is responsible for assessing the Branch'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 Branch or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

INDEPENDENT AUDITOR'S REPORT
TO THE HEAD OFFICE OF BANK ALFALAH LIMITED, DUBAI BRANCH (continued)

Report on the audit of the financial statements (continued)

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other legal and regulatory requirements

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

For Ernst & Young

Signed by:
Anthony O'Sullivan
Partner
Registration No. 687

29 March 2024

Dubai, United Arab Emirates

Bank Alfalah Limited – Dubai Branch

STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 AED 000	2022 AED 000
ASSETS			
Cash and balances with the UAE Central Bank	5	**404,615**	626,651
Due from banks, net	6	**97,789**	56,075
Due from head office and its branches abroad	10	**20,201**	18,362
Loans and advances, net	7	**56,624**	795
Investment securities	8	**651,435**	528,264
Deferred tax asset	26	**2,010**	3,737
Derivative financial instruments	17	**25,450**	39,372
Other assets	9	**11,763**	7,577
Property and equipment	11	**3,337**	417
Right of use asset	11.1	**7,557**	372
TOTAL ASSETS		**1,280,781**	1,281,622
LIABILITIES AND EQUITY			
LIABILITIES			
Due to banks	12	**93,970**	2,077
Due to Head office and its branches abroad	10	**12,075**	15,805
Deposits and other accounts	13	**982,645**	1,100,679
Other liabilities	14	**42,702**	53,847
Lease liability	11.1	**6,920**	374
TOTAL LIABILITIES		**1,138,312**	1,172,782
EQUITY			
Share capital	15	**100,000**	100,000
Statutory reserve	16.1	**6,025**	2,519
Regulatory credit risk reserve	16.2	**2,392**	-
Fair value reserve		**(5,271)**	(11,709)
Retained earnings		**39,323**	18,030
TOTAL EQUITY		**142,469**	108,840
TOTAL LIABILITIES AND EQUITY		**1,280,781**	1,281,622

These financial statements were approved and authorized for issue on March 29, 2024 by

Manager Finance

Country Manager

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2023

	Notes	***2023*** ***AED 000***	*2022* *AED 000*
Interest income	20	**57,158**	29,330
Interest expense	21	**(10,968)**	(6,938)
Net interest income		**46,190**	22,392
Fee, commission and brokerage income	22	**4,547**	2,989
Net foreign exchange income		**1,981**	2,323
Other income	23	**1,498**	2,607
Total operating income		**8,026**	7,919
Net impairment reversal/(charge)	27	**649**	(2,884)
Net operating income		**54,865**	27,427
Non-interest expense			
Staff costs	24	**(6,384)**	(5,395)
Administrative and general expenses	25	**(2,931)**	(2,037)
Depreciation	11	**(1,691)**	(596)
Operating expense		**(11,006)**	(8,028)
PROFIT BEFORE TAX		**43,859**	19,399
Taxation	26	**(8,796)**	(3,655)
NET PROFIT FOR THE YEAR		**35,063**	15,744

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	***2023*** ***AED 000***	*2022* *AED 000*
NET PROFIT FOR THE YEAR		**35,063**	15,744
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss:			
Net changes in fair value of equity investments classified as FVOCI		**116**	**-**
Actuarial gain		**51**	74
Tax effect of the above	26	**(23)**	**-**
		144	74
Items that are or may be reclassified subsequently to profit or loss:			
Net changes in fair value of debt instruments classified as FVOCI		**19,725**	(53,528)
Net change in unrealised gains on IRS held as fair value hedge against debt investments classified as FVOCI		**(10,876)**	33,622
Changes in allowance for expected credit losses on debt instruments classified as FVOCI		**(981)**	3,060
Tax effect of the above	26	**(1,574)**	3,214
		6,294	(13,632)
Other comprehensive income/(loss) for the year		**6,438**	(13,558)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**41,501**	2,186

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2023

	Share capital AED 000	*Regulatory credit risk reserve AED 000*	*Fair value reserve (OCI) AED 000*	*Statutory reserve AED 000*	*Retained earnings AED 000*	*Total AED 000*
As at 1 January 2023	100,000	-	(11,709)	2,519	18,030	108,840
Net profit for the year	-	-	-	-	35,063	35,063
Other comprehensive income for the year	-	-	6,438	-	-	6,438
Total comprehensive income for the year	-	-	6,438	-	35,063	41,501
Transfer to other reserve	-	2,392	-	-	(2,392)	-
Transfer to statutory reserve	-	-	-	3,506	(3,506)	-
Profit repatriated to Head Office	-	-	-	-	(7,872)	(7,872)
As at 31 December 2023	**100,000**	**2,392**	**(5,271)**	**6,025**	**39,323**	**142,469**
As at 1 January 2022	100,000	3,246	1,849	945	2,695	108,735
Net profit for the year	-	-	-	-	15,744	15,744
Other comprehensive loss for the year	-	-	(13,558)	-	-	(13,558)
Total comprehensive loss for the year	-	-	(13,558)	-	15,744	2,186
Transfer from other reserve	-	(3,246)	-	-	3,246	-
Transfer to statutory reserve	-	-	-	1,574	(1,574)	-
Profit repatriated to Head Office	-	-	-	-	(2,081)	(2,081)
As at 31 December 2022	100,000	-	(11,709)	2,519	18,030	108,840

The attached notes 1 to 29 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	***2023*** ***AED 000***	*2022* *AED 000*
OPERATING ACTIVITIES			
Profit before tax		**43,859**	19,399
Adjustments for:			
Depreciation	11	**1,691**	596
Net impairment (gain)/loss	27	**(649)**	2,884
Gain on sale of investments classified at FVOCI	23	**(1,260)**	(429)
Gain on sale of fixed assets	23	**(24)**	(23)
Gain on sale of derivative	23	**(27)**	(60)
Interest expense on lease liability	19	**194**	9
Dividend income	13	**(136)**	-
Provision for employees' end of service benefits	14.1	**262**	279
Cash generated from operations before changes in operating assets and liabilities		**43,910**	22,655
Changes in operating assets and liabilities:			
Loans and advances		**(56,158)**	91,068
Statutory deposits with UAE Central Bank		**(25,261)**	(26,435)
Other assets		**(4,050)**	(1,035)
Due to banks		**91,893**	(36,076)
Due to Head office and other branches		**(3,730)**	7,586
Deposits and other accounts		**(118,034)**	552,956
Other liabilities		**(12,226)**	12,131
Cash generated from operations		**(83,656)**	622,850
Income tax paid	26	**(4,481)**	(1,143)
Employees' end of service benefits paid		**(208)**	(31)
Net cash (used in) / generated from operating activities		**(88,345)**	621,676
INVESTING ACTIVITIES			
Net investments		**(102,071)**	(100,591)
Purchase of property and equipment	11	**(3,087)**	(189)
Proceeds from sale of property and equipment		**22**	-
Net cash used in investing activities		**(105,136)**	(100,780)
FINANCING ACTIVITIES			
Payment against lease liability	11.1	**(2,355)**	(504)
Repatriation to head office		**(7,872)**	(2,081)
Net cash used in financing activities		**(10,227)**	(2,585)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(203,708)**	518,311
Cash and cash equivalents at beginning of the year		**648,476**	130,164
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**444,768**	648,476
Cash and cash equivalents comprise of:			
Cash and balances with the UAE Central Bank	5	**404,615**	626,651
Due from banks	6	**97,824**	56,075
Due from head office and its branches abroad	10	**20,202**	18,362
Less: Statutory reserve with UAE Central Bank	5	**(77,873)**	(52,612)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**444,768**	648,676

Non-cash transaction:

- Recognition of right of use asset and lease liability (Note 19)

1 LEGAL STATUS AND ACTIVITIES

Bank Alfalah Limited - Dubai Branch operates as a branch of Bank Alfalah Limited with its Head Office ("Head Office") in Pakistan since 01 November 2017 through its one branch located in the emirate of Dubai under license number 770308 issued by the Central Bank of the UAE ("UAE Central Bank"). Bank Alfalah Limited, is listed on the Pakistan Stock Exchange.

The principal activity of Bank Alfalah Limited – Dubai Branch (the "Bank" or "the Branch") is to provide wholesale banking services in the UAE. The registered address of the Bank is Unit # 5, Ground Floor, Eiffel 2 Building, Sheikh Zayed Road, Umm Al Sheif– Dubai, U.A.E.

2 MATERIAL ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

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

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

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

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

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS

The Branch has consistently applied the accounting policies same as prior year except for the changes in accounting policies resulting from adoption of new standards and interpretation.

(a) *New/amended standards and interpretations effective from annual periods beginning on or after 1 January 2023*

- Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors
- Amendment to IFRS 17 Insurance contracts
- Amendment to IAS 1 and IFRS Practice Statement 2 relating to disclosure of Accounting Policies
- Deferred Tax related to Assets and liabilities arising from a Single Transaction –Amendment to IAS 12

These amendments had no material impact on the financial statements of the Bank.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

(b) *New/amended standards and interpretations issued but not yet effective*

- IAS 1 **-** Amendment regarding classification of liabilities as current or non-current liabilities with covenants (effective for annual periods beginning on or after 1 January 2024)
- IAS 7 and IFRS 7 **-** Amendment regarding supplier finance arrangements (effective for annual periods beginning on or after 1 January 2024).
- IAS 21 **-** Amendment regarding lack of exchangeability (effective for annual periods beginning on or after 1 January 2025)
- IFRS 16 **-** Amendment regarding lease liability in a sale and leaseback (effective for annual periods beginning on or after 1 January 2024)

These amendments are not expected to have a material impact on the Bank's financial statements**.**

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The principal accounting policies are set out below:

Revenue recognition

Net interest income
The Branch recognise interest income and interest expense in the statement of profit or loss and other comprehensive income for all interest-bearing financial instruments using the effective interest method.

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income/expense over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the statement of profit or loss and other comprehensive income on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

Interest income on non-performing loans and advances is suspended when realisation of such interest or the principal amount becomes doubtful. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

The effective interest rate method is a method of calculating the amortised cost of those financial instruments measured at amortised cost and of allocating income/expense over the relevant period. The effective interest rate is the rate that is used to calculate the present value of the estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financing and investing instruments, or, where appropriate, a shorter period, to arrive at the net carrying amount on initial recognition.

Income is recognised in the statement of profit or loss and other comprehensive income on an effective interest rate basis for financing and investing instruments measured subsequently at amortised cost.

Interest income on non-performing loans and advances is suspended when realisation of such interest or the principal amount becomes doubtful. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

Net fees and commission income
Fees and commission income and expenses are generally recognised in the statement of profit or loss and other comprehensive income on accrual basis as the related services are provided, for example, on completion of the underlying transaction, except those that are integral to the effective interest rate calculations. Fees and commission included in the effective interest rate calculation are those that are incremental and directly attributable to the origination of the product and which are integral to the yield of the product.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Foreign currency transactions
The Branch's financial statements are presented in the UAE Dirham (AED) which is the Branch's functional and presentation currency.

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

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

Property and equipment
Property and equipment are stated at cost less accumulated depreciation and accumulated impairment loss, if any. Additions and subsequent expenditures are capitalised only to the extent that they enhance the future economic benefits expected to be derived from the assets.

Depreciation is determined using the straight-line method over the estimated useful life as follows:

	Years
Leasehold improvement	10
Furniture and fixtures	10
Office Equipment	5
Computer and accessories	4
Motor vehicles	4

The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. The gross carrying amount of any fully depreciated property, plant and equipment are still in use.

The useful lives, methods and the residual values underlying the calculation of depreciation of items of property and equipment are reviewed at each reporting date to take account of any change in circumstances.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss and other comprehensive income.

Intangible assets
Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses if any. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category consistent with the function of the intangible asset. Estimated useful life is as follows:

	Years
Software	3

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Impairment of tangible assets
At the end of each reporting period, the Branch reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Branch estimate the recoverable amount of the cash-generating unit to which the asset belongs.

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Customer deposits
Customer deposits are initially recognised at fair value, being the fair value of the consideration received.

After initial recognition, all deposits are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs that are directly attributable to the acquisition or receipt of customer deposit.

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

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

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

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

Classification of financial assets and financial liabilities

Financial assets
On initial recognition, a financial asset is classified as measured: at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit and loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification of financial assets and financial liabilities (continued)

Financial assets (continued)
On initial recognition of an equity investment that is not held for trading, the Branch may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

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

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

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Branch's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and
- Its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branch's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Branch considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Branch's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rate.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Classification of financial assets and financial liabilities (continued)

Financial assets (continued)

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

Derecognition
Any cumulative gain/loss recognised in other comprehensive income in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss account on derecognition of such securities.

Investment securities
The investment securities' includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVTOCI; and
- equity investment securities designated as at FVTOCI.

For debt securities measured at FVTOCI, gains and losses are recognised in other comprehensive income, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

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

The Branch elects to present in other comprehensive income changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in other comprehensive income. Cumulative gains and losses recognised in other comprehensive income are transferred to retained earnings on disposal of an investment.

All financial liabilities are subsequently measured at amortised cost using the effective profit rate method.

Financial liabilities that are not held-for-trading and are not designated as at FVTPL are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective profit rate method. The Branch's financial liabilities at amortised cost include the customers' deposits, deposits and balance due to bank, due to related party and other liabilities.

Derecognition of financial liabilities
The Branch derecognises financial liabilities when, and only when, the Branch's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in statement of profit or loss and other comprehensive income.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Expected credit losses

Measurement of ECL
The Branch recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Deposits and balances and due from banks;
- Debt investment securities carried at amortised cost;
- Loans and advances to customers;
- Other financial assets;
- Loan commitments; and
- Financial guarantees and contracts

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

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

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

ECL is a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Branch under the contract and the cash flows that the Branch expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's interest rate.

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

The Branch measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The Branch employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

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

These parameters will be derived from the Branch's internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Expected credit losses (continued)

Expected life
For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Definition of default
The Branch considers a financial asset to be in default when:

- it is established that due to financial or non-financial reasons the borrower is unlikely to pay its credit obligations to the Branch in full without recourse by the Branch to actions such as realising security (if any is held); or
- the borrower is past due 90 days or more on any material credit obligation to the Branch.

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

(i) qualitative - e.g. material breaches of covenant;
(ii) quantitative - e.g. overdue status and non-payment on another obligation of the same customer / customer group to the banks; and
(iii) based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financing exposure is in default and their significance may vary over time to reflect changes in circumstances.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Expected credit losses (continued)

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

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

Write-offs
Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan. The Branch categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Branch continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Employees' end of service benefits
Provision for employees' end of service indemnity is made based on current remuneration and cumulative years of service at the end of each reporting period. The end of service provision of staffs in U.A.E, other than those deputed from Head office, is made in accordance with the Branch's policy, which is not less than the liability arising under the UAE labour laws.

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

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 Branch uses its incremental borrowing rate.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives; variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within 'Other liabilities' in the statement of financial position. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using effective interest method) and by reducing the carrying amount to reflect the lease payments made.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

The Branch as lessee (continued)

The Branch remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revise discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Branch did not make any such adjustments during the years presented.

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. The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Branch expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use of assets are presented as part of “Property and equipment” in the statement of financial position. The Branch applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss as described in the “Property and equipment” policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line ‘General and administrative expenses’ in the statement of profit or loss.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Branch has not used this practical expedient.

Cash and cash equivalents

Cash and cash equivalents consist of cash in hand, amounts due from banks on demand or with an original maturity of three month or less and unrestricted cash balances with the UAE Central Bank, which are subject to insignificant credit risk, and are used by the Branch in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost.

Provisions

Provisions are recognised when the Branch has a present obligation (legal or constructive) as a result of a past event, it is probable that the Branch 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When 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, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Branch have a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Acceptances
Acceptances are recognised as financial liability in the 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.

Documentary credits
Documentary credits, issued on behalf of the clients of the Branch, are contracts whereby the Branch guarantee to pay on behalf of the client money to the holder for goods supplied to the client. The payment would be made only on negotiation of documents by the supplier and the advising bank.

The income received for the issue of the credit and subsequent handling of the bills under the credit is recognised as fee and commission income as and when received.

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

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

Commitments to extend credit
These are firm commitments made by the Branch to its clients to extend credit as per the terms of the agreement and are considered as an off-balance sheet liability.

Income tax
Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.3 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

Repurchase agreements
Securities sold under agreements to repurchase at a specified future date are not categorized from the statement of financial position as the Bank retains substantially all of the risks and rewards of ownership. The corresponding cash received is categorize in the statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within cash collateral on securities lent and repurchase agreements, reflecting the transaction's economic substance as a loan to the Bank. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate.

3 FINANCIAL RISK MANAGEMENT

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

The Bank's risk management policies as approved by the Head Office are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems. These policies provide written principles for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

3.1 Credit risk

The most important types of risk are credit risk, market risk, liquidity risk, and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Bank takes on exposure to credit risk, which is the risk that a counter party will cause financial loss to the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result is losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, due from other banks, investment securities and other receivables. There is also credit risk in financial arrangements not reflected on the statement of financial position such as credit commitments.

Internal credit risk ratings
The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Internal credit risk ratings (continued)
The Bank measures credit risk of loans and advances to customers and to financial institutions at a counterparty level by using ab internally develop technique named "Obligor Risk Rating" (ORR) considering various factors over a scale of 1 to 12 points. The better the customer credit strength the lower is the grade. This credit risk measurement technique is embedded in the Bank's daily operational management.

Classification	Grades	Risk significance
Performing	1 to 9a	Exceptional
Performing	9b	Watchlist
Non-Performing	9c	OAEM
Non-performing	10	Substandard
Non-performing	11	Doubtful
Non-performing	12	Loss

Measurement of ECL
The Bank measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk. However, for financial instruments such as overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Restructured and renegotiated loans
Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans (if any) to ensure compliance with the terms at all times.

Exposure to credit risk
The Bank measures its exposure to credit risk by reference to gross carrying amount of financial assets less interest suspended and expected credit allowances, if any.

As at 31 December 2023	***Stage 1 AED'000***	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Loans and advances				
Performing	**56,953**	-	-	**56,953**
Non-performing	-	-	-	-
Allowance for expected credit loss	**(329)**	-	-	**(329)**
Net carrying amount	**56,624**	-	-	**56,624**
Unfunded advances	**35,674**	-	-	**35,674**
Allowance for expected credit loss	**(139)**	-	-	**(139)**
Net carrying amount	**35,535**	-	-	**35,535**

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Exposure to credit risk (continued)

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Debt securities				
Measured at FVOCI	**629,386**	**21,198**	**-**	**650,584**
Allowance for expected credit loss	**(504)**	**(2,353)**	**-**	**(2,857)**
Net carrying amount	**628,882**	**18,845**	**-**	**647,727**

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Equity securities				
Measured at FVOCI	**3,708**	**-**	**-**	**3,708**
Allowance for expected credit loss	**-**	**-**	**-**	**-**
Net carrying amount	**3,708**	**-**	**-**	**3,708**

As at 31 December 2022	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Loans and advances				
Performing	795	-	-	795
Non-performing	-	-	-	-
Allowance for expected credit loss	-	-	-	-
Net carrying amount	795	-	-	795
Unfunded advances	27,582	-	-	27,582
Allowance for expected credit loss	(169)	-	-	(169)
Net carrying amount	27,413	-	-	27,413

As at 31 December 2022

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Debt securities				
Measured at FVOCI	518,107	13,995	-	532,102
Allowance for expected credit loss	(634)	(3,204)	-	(3,838)
Net carrying amount	517,473	10,791	-	528,264

Amounts due from other banks and amounts due from the Head Office and other branches are neither past due nor impaired.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Risk limit control and mitigation policies
The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and countries.

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Collateral

As part of the Bank's credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The principal collateral types include:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable; Charges over financial instruments such as debt securities and equities;
- Personal and corporate guarantees; and Cash held in margin accounts and liens.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank obtains additional collaterals from the counterparty as soon as impairment indicators are observed for the relevant loans and advances.

Collaterals held as security for financial assets other than loans and advances are determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non- financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

(a) Collateral
Analysis of collateral by type is presented in the following table:

	2023	*2022*
	AED'000	*AED'000*
Guarantee	**33,919**	27,582
Cash Margin and Liens	**5,781**	22,657
	39,700	50,239

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements and entering into forward contracts with other banks, which forms as a back to back commitment to purchase and sell a contract, resulting in limited credit exposure to the Bank.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(b) Derivatives (continued)

Collateral margin is also maintained with counter parties in accordance with the International Swaps & Derivatives Association (ISDA) Master Agreement, in line with the minimum requirements of the derivative contracts. Due to change in MTM revaluation, margin call payments are called to pay to bridge the market value with the agreed transaction deal.

Net exposure to credit risk before collateral held or other credit enhancements:

	Maximum exposure	
	2023	*2022*
	AED'000	*AED'000*
Credit risk exposures relating to assets reflected on and off statement of financial position are as follows:		
Cash and balances with the UAE Central Bank	**404,615**	626,651
Due from banks, net	**97,789**	56,075
Due from head office and its branches abroad	**20,201**	18,362
Loans and advances		
- Corporate loans	**56,624**	795
Investment securities	**651,435**	528,264
Other assets	**11,111**	7,168
Unfunded advances	**35,535**	27,413
At 31 December	**1,277,310**	1,264,728

The above table represents a worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or other credit enhancements attached. For assets reflected on the statement of financial position, the exposures set out above are based on net amounts.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

Repossessed assets

The Bank policy is to determine whether a repossessed asset is used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

Investment securities

Investment securities mainly comprise of debt securities issued by various governments and local / foreign reputable organisations.

The table below presents an analysis of investment securities by rating agency designation, based on Moody's ratings or equivalent:

	2023	*2022*
	AED'000	*AED'000*
AAA to A-	**502,718**	352,863
BBB to B-	**119,581**	158,042
Below B-	**18,845**	10,791
Unrated	**10,291**	6,568
Total	**651,435**	528,264

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure
The following tables summarises the bank's main credit exposure at their carrying amounts as categorised by the industry sectors of its counterparties.

	Financial institutions AED'000	***Textile AED'000***	***Construction & real estate AED'000***	***Public sector AED'000***	***Wholesale & retail trade AED'000***	***Other industries AED'000***	***Individuals AED'000***	***Total AED'000***
Balances with the Central Bank of UAE	**404,615**	**-**	**-**	**-**	**-**	**-**	**-**	**404,615**
Due from banks	**97,789**	**-**	**-**	**-**	**-**	**-**	**-**	**97,789**
Due from head office and its branches abroad	**20,201**	**-**	**-**	**-**	**-**	**-**	**-**	**20,201**
Loans and advances								
-Corporate loans	**-**	**-**	**-**	**18,069**	**38,555**	**-**	**-**	**56,624**
Investment securities	**169,141**	**-**	**-**	**482,294**	**-**	**-**	**-**	**651,435**
Derivative financial assets	**25,450**	**-**	**-**	**-**	**-**	**-**	**-**	**25,450**
Other assets	**10,534**	**-**	**-**	**-**	**577**	**-**	**-**	**11,111**
As at 31 December 2023	**727,730**	**-**	**-**	**500,363**	**39,132**	**-**	**-**	**1,267,-225**

	Financial institutions AED'000	*Textile AED'000*	*Construction & real estate AED'000*	*Public sector AED'000*	*Wholesale & retail trade AED'000*	*Other industries AED'000*	*Individuals AED'000*	*Total AED'000*
Balances with the Central Bank of UAE	626,651	-	-	-	-	-	-	626,651
Due from other banks	56,075	-	-	-	-	-	-	56,075
Due from head office and its branches abroad	18,362	-	-	-	-	-	-	18,362
Loans and advances								
-Corporate loans	795	-	-	-	-	-	-	795
Investment securities	197,133	-	-	331,131	-	-	-	528,264
Derivative financial assets	39,372	-	-	-	-	-	-	39,372
Other assets	7,168	-	-	-	-	-	-	7,168
As at 31 December 2022	945,556	-	-	331,131	-	-	-	1,276,687

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure (continued)
The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of the year-end.

For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties:

	UAE AED'000	***OECD AED'000***	***Other Asian countries AED'000***	***Others AED'000***	***Total AED'000***
31 December 2023					
Balances with the UAE Central Bank	**404,615**	**-**	**-**	**-**	**404,615**
Due from banks	**50**	**66,523**	**31,217**	**-**	**97,789**
Due from head office and its branches abroad	**-**	**-**	**20,201**	**-**	**20,201**
Loans and advances:					
- Corporate loans	**56,624**	**-**	**-**	**-**	**56,624**
Investment securities	**353,824**	**90,952**	**188,950**	**17,709**	**651,435**
Derivative financial assets	**25,450**	**-**	**-**	**-**	**25,450**
Other assets	**113**	**1,839**	**546**	**8,613**	**11,111**
	840,676	**159,314**	**240,913**	**26,322**	**1,267,225**

	UAE AED'000	*OECD AED'000*	*Other Asian countries AED'000*	*Others AED'000*	*Total AED'000*
31 December 2022					
Balances with the UAE Central Bank	626,651	-	-	-	626,651
Due from banks	50	15,626	40,398	-	56,075
Due from head office and its branches abroad	-	-	18,362	-	18,362
Loans and advances:					
- Corporate loans	795	-	-	-	795
Investment securities	255,165	78,637	167,767	26,695	528,264
Derivative financial assets	39,372	-	-	-	39,372
Other assets	113	1,806	584	4,665	7,168
	922,146	96,069	227,111	31,360	1,276,687

OECD represents Organization for Economic Corporation and Development. This includes United States, Canada, Australia, Japan, United Kingdom, Turkey and other European countries.

3.2 Market risk

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

The Bank's Assets and Liability Committee (ALCO) is responsible for formalising the key financial indicators and ratios, setting the thresholds to manage and monitor the market risk and also analysing the sensitivity of the Bank's interest rate and maturity mis-matches. ALCO also guides the Bank's investment decisions and provides guidance in terms of interest rate and currency movements.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Foreign exchange risk

The Bank takes exposure on the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Head Office sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored regularly. The table below summaries the Bank's exposure to foreign exchange rate risk included in the table that are the Bank's assets and liabilities at carrying amounts, categorised by currency.

	AED	***USD***	***EURO***	***GBP***	***Total***
	AED'000	***AED'000***	***AED'000***	***AED'000***	***AED'000***
As at 31 December 2023					
Assets					
Cash and balances with the Central Bank	**404,615**	**-**	**-**	**-**	**404,615**
Due from banks	**50**	**91,179**	**5,044**	**1,516**	**97,789**
Due from head office and its branches abroad	**-**	**20,201**	**-**	**-**	**20,201**
Loans and advances	**36,419**	**20,205**	**-**	**-**	**56,624**
Investment securities	**238,733**	**397,372**	**15,330**	**-**	**651,435**
Other assets	**2,975**	**33,925**	**313**	**-**	**37,213**
Forward foreign exchange Contracts	**119,373**	**-**	**9,174**	**3,512**	**132,059**
	802,165	**562,882**	**29,861**	**5,028**	**1,399,936**
Liabilities					
Due to banks	**93,970**	**-**	**-**	**-**	**93,970**
Due to Head office and its branches abroad	**11,800**	**262**	**13**	**-**	**12,075**
Customer deposits	**612,396**	**333,795**	**31,018**	**5,436**	**982,645**
Other liabilities	**11,154**	**31,543**	**5**	**-**	**42,702**
Lease liability	**6,920**	**-**	**-**	**-**	**6,920**
	736,240	**365,600**	**31,036**	**5,436**	**1,138,312**
Net financial position	**65,925**	**197,282**	**(1,175)**	**(408)**	**261,624**

	AED	*USD*	*EURO*	*GBP*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
As at 31 December 2022					
Assets					
Cash and balances with the	626,651	-	-	-	626,651
Due from other banks	50	54,518	193	1,314	56,075
Due from head office and its branches abroad	-	18,362	-	-	18,362
Loans and advances	-	795	-	-	795
Investment securities	97,344	416,693	14,227	-	528,264
Other assets (excluding forward)	517	44,654	1,369	-	46,540
Forward foreign exchange Contracts	-	198,342	-	-	198,342
	724,562	733,364	15,789	1,314	1,475,029
Liabilities					
Due to banks	2,077	-	-	-	2,077
Due to Head office and its branches abroad	7,720	8,079	6	-	15,805
Customer deposits	778,911	304,582	15,835	1,351	1,100,679
Other liabilities	21,781	32,068	4	-	54,227
Lease liability	374	-	-	-	374
	810,863	344,729	15,845	1,351	1,172,788
Net financial position	(86,301)	388,635	(56)	(37)	302,241

Majority of assets and liabilities are in UAE Dirham or USD (which is pegged to the UAE Dirham), the Bank is not significantly exposed to currency risk as at 31 December 2023.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Price risk
The Bank mainly holds debt securities, issued by various governments and local / foreign reputable organisations, which are carried at fair value. The Bank's exposure to price risk is dependent on the economical and political factors of these respective countries. The Bank manages the price risk through diversification and placing limits on individual and total debt securities portfolio. Reports on the debt securities portfolio are submitted to the Bank's senior management on a regular basis.

The Bank's Investment Committee reviews and approves all debt securities investment decisions. A 10% increase/decrease in value of Bank's financial assets measured at fair value through OCI will result in an increase/decrease in the Bank's equity by AED 65.06 million (2022: AED 53.21 million). Such change will have no effect on the income statement of the Bank.

The Bank's Investment Committee reviews and approves all equity investment decisions. A 5% increase/decrease in value of Bank's financial assets measured at fair value through OCI will result in an increase/decrease in the Bank's equity by AED 0.185 million (2022: Nil). Such change will have no effect on the income statement of the Bank.

Interest rate risk
Cash flow interest rate risk is the risk that the future cash flows of a floating rate assets/liabilities will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of fixed rate assets/liabilities will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The ALCO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by Treasury.

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

The table below summarises the Bank's exposure to interest rate risk. It includes the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Upto 3 Months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non- interest bearing AED'000*	*Total AED'000*
At 31 December 2023						
Assets						
Cash and balances with the UAE Central Bank	**325,000**	**-**	**-**	**-**	**79,615**	**404,615**
Due from banks, net	**97,789**	**-**	**-**	**-**	**-**	**97,789**
Due from head office and its branches abroad	**20,201**	**-**	**-**	**-**	**-**	**20,201**
Loans and advances	**38,555**	**18,069**	**-**	**-**	**-**	**56,624**
Investment securities	**81,936**	**184,148**	**247,338**	**134,305**	**3,708**	**651,435**
Other assets	**108**	**664**	**1,833**	**1,070**	**8,089**	**11,763**
Unfunded advances	**4,126**	**31,409**	**-**	**-**	**-**	**35,535**
Total financial assets	**567,715**	**234,290**	**249,171**	**135,375**	**91,412**	**1,277,962**
Liabilities						
Due to banks	**93,970**	**-**	**-**	**-**	**-**	**93,970**
Due to Head office and its branches abroad	**12,075**	**-**	**-**	**-**	**-**	**12,075**
Deposits and other account	**84,715**	**17,200**	**-**	**-**	**880,730**	**982,645**
Other liabilities	**578**	**123**	**-**	**-**	**42,001**	**42,702**
Lease liability	**-**	**1,711**	**6,844**	**-**	**-**	**8,555**
Total liabilities	**191,338**	**19,034**	**6,844**	**-**	**922,731**	**1,139,947**
Interest sensitivity gap	**376,377**	**215,256**	**242,327**	**135,375**	**(831,319)**	**138,015**

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

	Upto 3 Months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non- interest bearing AED'000*	*Total AED'000*
At 31 December 2022						
Assets						
Cash and balances with the UAE Central Bank	420,000	-	-	-	206,651	626,651
Due from other banks, net	40,397	-	-	-	15,678	56,075
Due from head office and its branches abroad	18,362	-	-	-	-	18,362
Loans and advances	290	505	-	-	-	795
Investment securities	-	108,278	253,721	166,265	-	528,264
Other assets	874	126	2,405	1,160	3012	7,577
Unfunded advances	9,537	13,119	4,914	-	-	27,570
Total financial assets	489,460	122,028	261,040	167,425	225,341	1,265,294
Liabilities						
Due to banks	2,077	-	-	-	-	2,077
Due to Head office and its branches abroad	15,805	-	-	-	-	15,805
Deposits and other account	39,727	-	-	-	1,060,952	1,100,679
Other liabilities	103	1873	-	-	51,871	53,847
Lease liability	126	252	-	-	-	378
Total liabilities	57,838	2,125	-	-	1,112,823	1,172,786
Interest sensitivity gap	431,622	119,903	261,040	167,425	(887,484)	92,506

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

Interest rate risk is also assessed by measuring the impact of a reasonably possible change in interest rate movements. The Bank assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	Interest Income AED'000	*Interest Expense AED'000*
As at 31 December 2023		
Fluctuation in yield by 25 bps	**1,585**	**2,718**
As at 31 December 2022		
Fluctuation in yield by 25 bps	1,406	2,061

3.3 Liquidity risk

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Bank manages its liquidity in accordance with UAE Central Bank requirements and Bank's internal guidelines mandated by ALCO. The UAE Central Bank has prescribed reserve requirements on deposits at 1% and 11% on time and demand deposits respectively. The UAE Central Bank also imposes mandatory 1:1 lending to stable resources ratio whereby loans and advances (combined with financial guarantees and inter- bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the UAE Central Bank. ALCO of the Bank monitors liquidity ratios on a regular basis.

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash outflows based on the current applicable interest rates.

	Upto 3 Months AED'000	***3 months to 1 year AED'000***	***1 year to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
At 31 December 2023					
Due to banks	**93,970**	**-**	**-**	**-**	**93,970**
Due to Head office and its branches abroad	**12,075**	**-**	**-**	**-**	**12,075**
Deposits and other accounts	**965,445**	**17,200**	**-**	**-**	**982,645**
Other liabilities (including lease liability)	**47,788**	**1,834**	**-**	**-**	**49,622**
	1,119,278	**19,034**	**-**	**-**	**1,138,312**

	Upto 3 Months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
At 31 December 2022					
Due to banks	2,077	-	-	-	2,077
Due to Head office and its branches abroad	15,805	-	-	-	15,805
Deposits and other accounts	1,100,679	-	-	-	1,100,679
Other liabilities (including lease liability)	52,102	2,119	-	-	54,221
	1,170,663	2,119	-	-	1,172,782

3 FINANCIAL RISK MANAGEMENT (continued)

3.4 Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization, and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

3.5 Fair value of financial assets and liabilities

Financial assets consist of cash and balances with the UAE Central Bank, balances with other banks, lendings to financial institutions, loans and advances, investment securities, accrued interest and other receivables. Financial liabilities consist of borrowings, customer deposits, accrued interest and other payables.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

The fair values of financial instruments are not materially different from their carrying values. Analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments which are carried at fair value by the following valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As at year end, investment securities classified as FVOCI amounted to AED 651,435 thousand mentioned in note 8 of which AED 651,435 thousand (2022: 528,264 thousand) were falling under level 1.

During the year, there was no movement between the level 1 and level 2 of the fair value hierarchy. During the current or prior year, bank has not classified any financial instrument in level 3 of the fair value hierarchy.

3.6 Capital management

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

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

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the UAE Central Bank. The required information is filed with the regulators on a quarterly and annual basis.

The UAE Central Bank issued Basel III capital regulation which came into effect from 31 December 2017, introducing minimum capital requirement at three level: common equity tier 1 (CET1, Tier 1 (T1) and Total Capital.

3 FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management (continued)

Minimum transitional arrangements as per UAE Central Bank are as follows:

Capital element	*2023*	*2022*
Minimum common equity tier 1 ratio	**7.00%**	7.00%
Minimum tier 1 capital ratio	**8.50%**	8.50%
Minimum capital adequacy ratio	**10.50%**	10.50%
Capital conservation buffer	**2.50%**	2.50%

The capital adequacy ratio as per Basel III framework is given below:

	2023 *AED'000*	*2022* *AED'000*
Tier 1 capital		
Allocated capital	**100,000**	100,000
Statutory reserves	**6,025**	2,439
Retained earnings	**39,323**	17,301
Fair value and other reserves	**(5,271)**	(11,709)
Total Tier 1 capital	**140,077**	108,031
Deductions from Tier 1 Capital	**(2,142)**	(3,737)
Total Tier 1 capital	**137,935**	105,103
Tier 2 capital		
Eligible general provision	**2,392**	-
Total Tier 2 capital	**2,392**	-
Total capital base	**140,327**	105,103
Risk Weighted Assets		
Credit risk	**381,521**	264,579
Market risk	**670**	3,944
Operational risk	**61,206**	34,130
Total risk weighted assets	**443,397**	302,654
Capital Adequacy Ratio (%)	**31.65**	34.73
Tier 1 capital to risk weighted assets ratio (%)	**31.11**	34.73

3 FINANCIAL RISK MANAGEMENT (continued)

3.7 Credit Quality Analysis

As of 31 December 2023

	Stage 1		***Stage 2***		***Total***	
	Exposure	***ECL***	***Exposure***	***ECL***	***Exposure***	***ECL***
Cash and balances with the UAE Central Bank	**404,615**	**-**	**-**	**-**	**404,615**	**-**
Balances with other banks	**97,824**	**(35)**	**-**	**-**	**97,824**	**(35)**
Due from head office and its branches abroad	**20,202**	**(1)**	**-**	**-**	**20,202**	**(1)**
Loans and advances	**56,953**	**(329)**	**-**	**-**	**56,953**	**(329)**
Investment securities	**632,590**	**(505)**	**18,845**	**(2,352)**	**651,435**	**(2,857)**
Other assets	**11,111**	**-**	**-**	**-**	**11,111**	**-**
Unfunded exposure	**35,674**	**(139)**	**-**	**-**	**35,674**	**(139)**
	1,258,969	**(1,009)**	**18,845**	**(2,352)**	**1,277,814**	**(3,361)**

As of 31 December 2022

	Stage 1		*Stage 2*		*Total*	
	Exposure	*ECL*	*Exposure*	*ECL*	*Exposure*	*ECL*
Cash and balances with the UAE Central Bank	626,651	-	-	-	626,651	-
Balances with other banks	56,075	-	-	-	56,075	-
Due from head office and its branches abroad	18,362	-	-	-	18,362	-
Loans and advances	795	-	-	-	795	-
Investment securities	518,107	(634)	13,995	(3,204)	532,102	(3,838)
Other assets	7,168	-	-	-	7,168	-
Unfunded exposure	27,582	(169)	-	-	27,582	(169)
	1,254,740	(803)	13,995	(3,204)	1,268,735	(4,007)

The expected credit loss against financial instruments classified as FVOCI is routed through other comprehensive income and not deducted from carrying value in the statement of financial position.

3.8. Fair value of financial instruments

As of 31 December 2023	***FVOCI***	***Amortised Cost***	***Carrying Value***
Financial Assets			
Cash and balances with the UAE Central Bank	**-**	**404,615**	**404,615**
Due from banks	**-**	**97,789**	**97,789**
Due from head office and its branches abroad	**-**	**20,201**	**20,201**
Loans and advances	**-**	**56,624**	**56,624**
Investment securities	**651,435**	**-**	**651,435**
Other assets	**-**	**11,111**	**11,111**
	651,435	**590,340**	**1,241,775**
Financial Liabilities			
Due to banks	**-**	**93,970**	**93,970**
Due to Head office and its branches abroad	**-**	**12,075**	**12,075**
Deposits and other account	**-**	**982,645**	**982,645**
Other liabilities (including lease liability)	**-**	**49,622**	**49,622**
	-	**1,138,312**	**1,138,312**

3 FINANCIAL RISK MANAGEMENT (continued)

3.8 Fair value of financial instruments (continued)

As of 31 December 2022	*FVOCI*	*Amortised Cost*	*Carrying Value*
Financial Assets			
Cash and balances with the UAE Central Bank	-	626,651	626,651
Balances with other banks	-	56,074	56,074
Due from head office and its branches abroad	-	18,362	18,362
Loans and advances	-	795	795
Investment securities	528,264	-	528,264
Other assets	-	7,168	7,168
	528,264	709,050	1,237,314
Financial Liabilities			
Due to banks	-	2,077	2,077
Due to Head office and its branches abroad	-	15,805	15,805
Deposits and other account	-	1,100,679	1,100,679
Other liabilities (including lease liability)	-	54,227	54,227
	-	1,172,788	1,172,788

*The carrying values of the financial assets and liabilities (that are not stated at fair value) are not significantly different to their fair values due to several factors including short term nature of the portfolio, and also no increase in risk profile of the financial instruments and the respective market rates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may therefore differ, resulting in future changes in these estimates.

In particular, considerable management judgment is required in respect of the following issues:

Going concern
The Bank's management has made an assessment of its ability to continue as going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or GCU's fair value less costs to sell and its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by other available fair value indicators.

Financial asset classification
Financial asset classification requires management to make an assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

Models and assumptions used
The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Key sources of estimation uncertainty
The following are the key estimations that have been used in the process of applying the Bank's accounting policies:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral.

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK

	2023 *AED'000*	*2022* *AED'000*
Cash in hand	**1,742**	1,126
With the UAE Central Bank in:		
Statutory reserves (see note (a))	**78,851**	52,612
Current accounts (see note (b))	**(978)**	152,913
Overnight placement	**325,000**	420,000
	404,615	626,651

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

b) The current account was temporarily overdrawn at 31 December 2023, and was subsequently cleared post year end.

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

6 DUE FROM BANKS, NET

	2023 *AED'000*	*2022* *AED'000*
Current accounts	**66,603**	15,682
Time deposits	**31,221**	40,397
	97,824	56,079
Less: allowance for expected credit loss	**(35)**	(4)
	97,789	56,075

Due from banks were classified as Stage 1 financial assets throughout the year. Interest rate was ranging between 4.1% and 7.3% in 2023 (2022: between 1.0% and 5.4%)

7 LOANS AND ADVANCES, NET

	Note	2023 AED'000	2022 AED'000
Loans and advances, gross		**56,953**	795
Less: allowance for expected credit loss	27	**(329)**	-
		56,624	795

Gross loans and advances represented by:

	2023 AED'000	2022 AED'000
Term loans	**36,730**	-
Loans against trust receipts	**20,223**	-
Bills discounted	**-**	795
	56,953	795

For credit risk assessments, please refer Note 3.1.

8 INVESTMENT SECURITIES

	2023 AED'000	2022 AED'000
Debt instruments - measured at fair value through other comprehensive income	**650,584**	532,102
Less: allowance for expected credit loss	**(2,857)**	(3,838)
	647,727	528,264
Equity investment - measured at fair value through other comprehensive income	**3,708**	-
	651,435	528,264

Included in the above are debt instruments amounting to AED 97,010 thousand (2022: AED Nil) secured under repurchase agreement with the lender for an amount of AED 91,347 (Note 12) . The Bank holds an ECL allowance of AED 32 thousand (2022: AED Nil) on these investment securities secured under repurchase agreements.

The net change in fair value of equity investment amounted to AED 116 thousand has been accounted in other comprehensive income (2022: AED Nil)

9 OTHER ASSETS

	2023 AED'000	2022 AED'000
Interest receivable	**4,578**	3,912
Interest receivable on interest rate swaps	**4,612**	2,779
Other receivables from Head office	**1,597**	465
Prepayments	**652**	409
Margin with cash collateral	**12**	12
Dividend receivable	**136**	-
Other receivable	**176**	-
	11,763	7,577

10 RELATED PARTIES BALANCES AND TRANSACTIONS

Related parties include the Head Office, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties. A number of banking transactions are entered into with the Head Office and other branches in the normal course of business. The terms and conditions of these transactions are agreed between the Bank and related parties.

	2023 AED'000	*2022 AED'000*
*Due from Head office and its branches abroad**		
Time deposit	**20,202**	18,362
Less: allowance for expected credit loss	**(1)**	-
	20,201	18,362
Due to Head office and its branches abroad		
Current account	**12,075**	15,805
Other liabilities		
Cash collateral payable on derivative instruments (Note 14)	**29,586**	29,877
Other assets		
Other receivables from Head Office (Note 9)	**1,597**	465

Significant transactions with related parties during the year are as follows:

Interest income	**219**	-
Interest expense	**1,181**	-

*Due from head office and its branches abroad were classified as Stage 1 financial assets throughout the year.

As at 31 December 2023, the Bank holds investment securities under fiduciary capacity on behalf of other overseas branches amounted to equivalent AED 348.06 million (2022: AED 404.20 million).

During the year, the Bank has not recorded any impairment of the amounts due from related parties.

The Bank's key decisions are taken at Head Office level by the key management personnel of the Head Office, therefore, key management compensation disclosure is not included in these financial statements.

11 PROPERTY AND EQUIPMENT

	2023 AED'000	*2022 AED'000*
Property and equipment	**3,292**	417
Capital work-in-progress	**45**	-
	3,337	417

The cost of fully depreciated assets that are still in the Bank's use are as follows:

	2023 AED'000	*2022 AED'000*
Furniture, fixture and office equipment	**47**	47
Computer and accessories	**8**	8
	55	55

11 PROPERTY AND EQUIPMENT (continued)

	Leasehold improvements AED'000	***Furniture, fixture and office equipment AED'000***	***Computer and accessories AED'000***	***Motor vehicles AED'000***	***Total AED'000***
Cost					
1 January 2023	-	197	157	295	649
Additions	2,600	379	108	-	3,087
Disposals	-	(52)	(16)	(75)	(143)
31 December 2023	**2,600**	**524**	**249**	**220**	**3,593**
Accumulated depreciation:					
1 January 2023	-	121	46	65	232
Charge for the year	47	26	39	57	169
Disposals	-	(52)	(16)	(32)	(100)
31 December 2023	**47**	**95**	**69**	**90**	**301**
Net book value:					
31 December 2023	**2,553**	**429**	**180**	**130**	**3,292**

	Leasehold improvements AED'000	*Furniture, fixture and office equipment AED'000*	*Computer and accessories AED'000*	*Motor vehicles AED'000*	*Total AED'000*
Cost					
1 January 2022	-	156	63	299	518
Additions	-	41	97	220	358
Disposals	-	-	(3)	(224)	(227)
31 December 2022	-	197	157	295	649
Accumulated depreciation:					
1 January 2022	-	98	32	229	359
Charge for the year	-	23	17	60	100
Disposals	-	-	(3)	(224)	(227)
31 December 2022	-	121	46	65	232
Net book value:					
31 December 2022	-	76	111	230	417

11.1 LEASES

The Bank leases office premises. The leases typically run for a period of five years. Information about leases for which the Bank is a lessee is presented below.

Leases as lessee (IFRS 16)

i. Right-of-use asset

Right-of-use assets relate to leased office premises that are presented within property and equipment (note 11).

	2023 AED'000	*2022 AED'000*
Balance at 1 January	**372**	868
Additions	**8,707**	-
Depreciation charge for the year	**(1,522)**	(496)
Balance at 31 December	**7,557**	372

ii. Lease liability

	2023 AED'000	*2022 AED'000*
As at 1 January	**374**	869
Additions	**8,707**	-
Interest expense	**194**	9
Payments	**(2,355)**	(504)
As at 31 December	**6,920**	374

Maturity analysis as at 31 December

	2023 AED'000	*2022 AED'000*
Not later than 1 year	**1,542**	374
Later than 1 year and not later than 5 years	**5,378**	-
Total lease liability at 31 December	**6,920**	374

iii. Amounts recognised in statement of profit or loss and other comprehensive income

Leases under IFRS 16

	2023 AED'000	*2022 AED'000*
Interest expense	**194**	9
Depreciation expense	**1,522**	2,127

12 DUE TO BANKS

	2023 AED'000	*2022 AED'000*
Current account	**2,623**	2,077
Repurchase agreements with a bank (Note 8)	**91,347**	-
	93,970	2,077

13 DEPOSITS AND OTHER ACCOUNTS

	2023 AED'000	*2022 AED'000*
Current deposits	**876,705**	1,038,295
Time deposits	**101,915**	39,727
Others	**4,025**	22,657
	982,645	1,100,679

14 OTHER LIABILITIES

	2023 AED'000	*2022 AED'000*
Cash collateral payable on derivative instruments (note 10)	**29,586**	29,877
Bankers Cheque	**150**	15,630
Provision for taxation (note 26)	**8,642**	4,457
Interest payable on interest rate swaps	**1,834**	2,125
Provision for employees' end of service benefits (note 14.1)	**798**	795
Bonus payable	**318**	266
Professional & audit remuneration	**470**	250
Expected credit losses on off-balance sheet items (Note 3.1)	**139**	169
Accrued interest payable	**439**	60
VAT payable	**-**	32
Others	**326**	186
	42,702	53,847

14.1 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2023 AED'000	*2022 AED'000*
Balance as at 1 January	**795**	621
Payment	**(208)**	(31)
Charge for the year	**262**	217
Actuarial gain	**(51)**	(74)
At 31 December	**798**	795

14.1 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The Bank provides for staff terminal benefits based on an estimate of the amount of future benefit that the employees have earned in return for their service until their retirement. The calculation is performed based on a projected unit credit method.

UAE national employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labor Law No. 7 of 1999, the Bank is required to contribute between 12.5% - 15% of the "contribution calculation salary" of UAE payroll costs to the retirement benefit scheme to fund the benefits. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Bank with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the income statement.

15 SHARE CAPITAL

The assigned capital of the Bank is AED 100 million (2022: AED 100 million) and is provided by the Head Office.

16.1 STATUTORY RESERVE

In accordance with applicable law, 10% of the profit for the year is required to be transferred to a statutory reserve which is non-distributable. Allocations to this reserve are required to be made until such time as the balance in this reserve equals 50% of the allocated capital. During the current year AED 3,506 thousand (2022: AED XXX) at rate of 10% (2022: 10%) of profit for the year has been transferred to the statutory reserve.

16.2 REGULATORY RISK RESERVE

Impairment reserve under the Central Bank of UAE (CBUAE) guidance
The CBUAE has issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE ("the guidance").

Pursuant to clause 6.4 of the guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2023	*2022*
	AED'000	*AED'000*
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**5,753**	3,800
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(3,361)**	(4,010)
General provision transferred to the regulatory credit risk reserve	**2,392**	**-**

Impairment reserve: Specific
The Bank does not have any specific provision.

17 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, records gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk. All such derivatives are due less than one year.

17 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Assets 2023 AED'000	***Liabilities 2023 AED'000***	***Notional amount 2023 AED'000***
Derivatives - liquidity management:			
Forward foreign exchange contracts	**52**	**-**	**132,007**
Interest rate swaps	**25,450**	**-**	**305,308**

	Assets 2022 AED'000	*Liabilities 2022 AED'000*	*Notional amount 2022 AED'000*
Derivatives - liquidity management:			
Forward foreign exchange contracts	7	-	198,316
Interest rate swaps	39,372	-	391,055

The following table outlines the notional amounts and average rates of derivatives:

As at 31 December 2023:

			Remaining term to maturity		
	Within 1 year AED'000	*1 to 3 years AED'000*	*3 to 5 years AED'000*	*Over 5 years AED'000*	***2023 Total AED'000***
Fair Value Hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	**26,078**	**71,706**	**104,681**	**102,843**	**305,308**

			Remaining term to maturity		
	Within 1 year AED'000	*1 to 3 years AED'000*	*3 to 5 years AED'000*	*Over 5 years AED'000*	***2023 Total AED'000***
Forward foreign exchange contracts					
Notional amount	**132,007**	**-**	**-**	**-**	**132,007**

As at 31 December 2022:

			Remaining term to maturity		
	Within 1 year AED'000	*1 to 3 years AED'000*	*3 to 5 years AED'000*	*Over 5 years AED'000*	***2022 Total AED'000***
Fair Value Hedges					
Interest rate risk					
Interest rate swaps					
Notional amount	13,676	108,741	97,843	170,795	391,055

17 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Remaining term to maturity				
	Within 1 year AED'000	*1 to 3 years AED'000*	*3 to 5 years AED'000*	*Over 5 years AED'000*	***2022 Total AED'000***
Forward foreign exchange contracts					
Notional amount	198,316	-	-	-	198,316

18 CONTINGENCIES AND COMMITMENTS

	2023 AED'000	*2022 AED'000*
Letters of guarantee	**19,705**	27,582
Letter of Credit	**15,969**	-

ECL of AED 139 thousand (Note 14) (2022: AED 169 thousand) against off balance sheet items has been recognised under other liabilities.

Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet his obligations to third parties. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Forward foreign exchange contracts comprise commitments to purchase or sell foreign currencies on behalf of customers and in respect of the Bank's propriety activity.

Undrawn credit commitments represent unused portions of authorisations to extend credit in the form of loans. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss for an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers' maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as low, since it results from the possibility of unused portions of loan authorisations being drawn by the customer and only if such drawings subsequently are not paid as due. The Bank monitors the term to maturity of the credit commitments because longer term commitments generally have a greater degree of credit risk than the shorter term commitments. The total outstanding contractual amount of the commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

20 INTEREST INCOME

	2023 AED'000	*2022 AED'000*
Interest income:		
- investment securities	**20,970**	14,092
- due from banks	**16,875**	6,086
- loans and advances	**1,886**	2,158
- interest rate swaps	**17,427**	6,994
	57,158	29,330

21 INTEREST EXPENSE

	2023	*2022*
	AED'000	*AED'000*
Interest expense on:		
- interest rate swaps	**6,861**	5,879
- due to banks	**2,383**	376
- customer deposits	**1,530**	674
- lease liability	**194**	9
	10,968	6,938

22 FEE, COMMISSION AND BROKERAGE INCOME

	2023	*2022*
	AED'000	*AED'000*
Trade related fee	**1,798**	1,286
Letters of credit / guarantees	**982**	966
Remittance income	**959**	737
Advisory fee	**808**	-
	4,547	2,989

23 OTHER INCOME

	2023	*2022*
	AED'000	*AED'000*
Gain on sale of investment	**1,260**	429
Gain on derivatives	**27**	60
Gain on sale of fixed assets, net	**24**	23
Dividend income	**136**	-
Miscellaneous income	**51**	2,095
	1,498	2,607

24 STAFF COSTS

	2023	*2022*
	AED'000	*AED'000*
Salaries and allowances	**6,122**	5,221
Charge for employees' end of service benefits (note 14.1)	**262**	174
	6,384	5,395

25 ADMINISTRATIVE AND GENERAL EXPENSES

	2023 *AED'000*	*2022* *AED'000*
Legal and professional consultancy	**742**	339
Communication costs	**383**	341
Insurance	**373**	358
Branch license fee	**104**	102
Others	**1,329**	897
	2,931	2,037

26 TAXATION

The taxable income is calculated after making certain adjustments to the net profit before tax for the year and is based on management's best estimate. The components of income tax expense for the year are:

	2023 *AED'000*	*2022* *AED'000*
Current tax:		
- For current year	**(8,642)**	(4,457)
- Prior year current tax	**(24)**	-
	(8,796)	(3,655)
Deferred tax:		
- Relating to origination and reversal of temporary differences	**(130)**	802
Relating to profit and loss account	**(8,796)**	(3,655)

26.1. Reconciliation between accounting profit and tax expense:

	2023 *AED'000*	*2022* *AED'000*
Profit before tax	**43,859**	19,399
Add: (Reversal of ECL)/ ECL disallowed	**(649)**	2,884
Profit subject to tax	**43,210**	22,283
Tax on income @ 20%	**8,642**	4,457
Prior year charge	**24**	-
	8,666	4,457
Deferred tax		
Relating to origination and reversal of temporary differences *	**130**	(802)
Income tax expense for the year	**8,796**	3,655

* For the year ended 31 December 2022, balance included in deferred tax an amount of AED 225 thousand relating to prior years.

26 TAXATION (continued)

Deferred tax balances are attributable to the following:

	2023 AED'000	*2022 AED'000*
Allowances for expected credit losses	**672**	802
Fair value reserve movement relating to investments carried at FVOCI	**1,338**	2,935
Net deferred tax asset	**2,010**	3,737

Movements in temporary differences during the year are as follows:

	Opening balance AED 000	***Recognised in profit or loss AED 000***	***Recognised in OCI/ equity AED 000***	***Closing balance AED 000***
2023				
Allowances for loan losses	**802**	**(130)**	**-**	**672**
Fair value reserve movement relating to investments carried at FVOCI	**2,935**	**-**	**(1,597)**	**1,338**
	3,737	**(130)**	**(1,597)**	**2,010**

	Opening balance AED 000	*Recognised in profit or loss AED 000*	*Recognised in OCI/ equity AED 000*	*Closing balance AED 000*
2022				
Allowances for loan losses	-	802	-	802
Fair value reserve movement relating to investments carried at FVOCI	(279)	-	3,214	2,935
	(279)	802	3,214	3,737

Movements in income tax liabilities were as follows:

	2023 AED'000	*2022 AED'000*
As at 1 January	**4,457**	1,143
Charge for the year	**8,666**	4,457
Payment during the year	**(4,481)**	(1,143)
As at 31 December	**8,642**	4,457

UAE corporate tax

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023. Decision No. 116 of 2022 (published in December 2022 and considered to be effective from 16 January 2023) specifies that taxable income not exceeding AED 375,000 would be subject to a 0% UAE CT rate, and taxable income exceeding AED 375,000 would be subject to the 9% UAE CT rate. With the publication of this Decision, the UAE CT Law is considered to have been substantively enacted for the purposes of accounting for Income Taxes. Subsequently, the UAE CT Law has been supplemented by a number of Decisions of the Cabinet of Ministers of the UAE (Decisions).

26 TAXATION (continued)

Such Decisions and other interpretive guidance of the UAE Federal Tax Authority provide important details relating to the interpretation of the UAE CT Law and are required to fully evaluate the impact of the UAE CT Law on the Bank.

Based on the assessment conducted by the Bank, it has been determined that the CT Law does not have any effect on deferred taxes in the financial statements for the year ended 31 December 2023. The Bank is in the process of assessing the potential influence of the CT Law on its financial statements, particularly focusing on both current and deferred tax implications, in light of any further explanations and instructions regarding the application of the CT Law and shall be accounted for as appropriate in the financial statements for the financial year beginning 1 January 2024.

27 NET IMPAIRMENT REVERSAL / (CHARGE)

The charge to the statement of profit or loss and other comprehensive income for the net impairment gain/(loss) on financial assets is made up as follows:

	2023 ***AED 000***	*2022* *AED 000*
(Reversal)/impairment of investments held at fair value through OCI	**(981)**	3,060
Impairment/(reversal) of loans and advances to customers	**329**	(338)
Reversal/(impairment) on unfunded exposure	**(33)**	158
Impairment of due from bank	**35**	3
Impairment from head office and its branches abroad	1	1
	(649)	2,884

28 MATURITY PROFILE OF ASSETS AND LIABILITIES

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

The table below analyses assets and liabilities of the Bank at the reporting date into relevant maturity groupings based on the remaining period to the contractual maturity date:

	Upto 3 months AED'000	*3 months to 1 year AED'000*	*Up to 1 year AED'000 Subtotal*	*1-5 years AED'000*	*Over 5 years AED'000*	*More than 1 year AED'000 Subtotal*	*No fixed maturity AED'000*	*Total AED'000*
At 31 December 2023								
Assets								
Cash and balances with the UAE Central Bank	404,615	-	404,615	-	-	-	-	404,615
Due from banks, net	97,789	-	97,789	-	-	-	-	97,789
Due from head office and its branches abroad	20,201	-	20,201	-	-	-	-	20,201
Loans and advances	20,204	18,351	38,555	-	18,069	18,069	-	56,624
Investment securities	81,936	184,148	266,084	247,238	134,405	381,643	3,708	651,435
Other assets	108	664	772	1,833	9,158	10,991	-	11,763
Property and equipment	-	-	-	-	-	-	3,337	3,337
Right of use asset	-	-	-	-	-	-	7,557	7,557
Total Assets	**624,853**	**203,163**	**828,016**	**249,171**	**161,632**	**410,703**	**14,602**	**1,253,321**
Liabilities								
Due to banks	93,970	-	93,970	-	-	-	-	93,970
Due to Head office and its branches abroad	12,075	-	12,075	-	-	-	-	12,075
Deposits and other accounts	84,715	17,200	101,915	-	-	-	880,730	982,645
Other liabilities	578	123	701	-	-	-	42,001	42,702
Lease liability	-	1,711	1,711	6,844	-	6,844	-	8,555
Total liabilities	**191,338**	**19,034**	**210,372**	**6,844**	**-**	6,844	**922,731**	**1,139,947**
Net liquidity gap	**433,515**	**184,129**	**617,644**	**242,327**	**161,632**	**403,859**	**(908,129)**	**113,374**

28 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Upto 3 months AED'000	*3 months to 1 year AED'000*	*Up to 1 year AED'000 Subtotal*	*1-5 years AED'000*	*Over 5 years AED'000*	*More than 1 year AED'000 Subtotal*	*No fixed maturity AED'000*	*Total AED'000*
At 31 December 2022								
Assets								
Cash and balances with the UAE Central Bank	626,651	-	626,651	-	-	-	-	626,651
Due from banks, net	56,075	-	56,075	-	-	-	-	56,075
Due from head office and its branches abroad	18,362	-	18,362	-	-	-	-	18,362
Loans and advances	290	505	795	-	-	-	-	795
Investment securities	108,278	108,278	216,556	166,265	145,443	311,708	-	528,264
Other assets	874	126	1,000	2,406	4,171	6,577	-	7,577
Property and equipment	-	-	-	-	-	-	789	789
Total Assets	810,530	108,909	919,439	168,671	149,614	318,285	789	1,238,513
Liabilities								
Due to banks	2,077	-	2,077	-	-	-	-	2,077
Due to Head office and its branches abroad	15,805	-	15,805	-	-	-	-	15,805
Deposits and other accounts	1,100,679	-	1,100,679	-	-	-	-	1,100,679
Other liabilities	103	1,873	1,975	-	-	-	51,871	53,847
Lease liability	126	252	378	-	-	-	-	378
Total liabilities	1,118,789	2,125	1,120,914	-	-	-	51,871	1,172,788
Net liquidity gap	(308,259)	106,784	(201,476)	168,671	149,614	318,285	(51,084)	65,726

In the above table, all current account and saving account balances have been classified as maturing in up to 3 months 'column. However, in normal course of events all of them are not withdrawn within three months.

29 COMPARATIVE FIGURES

Certain comparative information have been rearranged to confirm with presentation in the current year. This did not result in any changes to previously reported 'Net profit' and 'total comprehensive income' for the year ended 31 December 2022 and total capital and reserves as of that date.