National Bank of Kuwait
United Arab Emirates Branches

Report and financial statements
for the year ended 31 December 2023

These audited financial statements are subject to approval of the Central Bank of the UAE.

National Bank of Kuwait - United Arab Emirates Branches

Contents

Deloitte.

Deloitte & Touche (M.E.)
Building 2, Level 3
Emaar Square
Downtown Dubai
P.O. Box 4254
Dubai
United Arab Emirates

Tel: +971 (0) 4 376 8888
Fax:+971 (0) 4 376 8899
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Head Office
National Bank of Kuwait
United Arab Emirates Branches

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **National Bank of Kuwait – United Arab Emirates Branches** (the "Branches"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2023 and its financial performance and its cash flow 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 Branches in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 IFRS and their preparation in compliance with applicable provisions of UAE Federal Decree law no 32 of 2021, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Head office is responsible for overseeing the Branches' financial reporting process.

Cont'd…

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branches' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branches to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Head office 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.

Deloitte.

INDEPENDENT AUDITOR'S REPORT

to the Head Office of National Bank of Kuwait, United Arab Emirates Branches (continued)

Report on Other Legal and Regulatory Requirements as at 31 December 2023

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

- We have obtained all the information we considered necessary for the purposes of our audit;
- The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (32) of 2021;
- The Branches have maintained proper books of account;
- No shares were purchased or invested during the financial year ended 31 December 2023;
- Note 21 to the financial statements discloses material related party transactions and the terms under which they were conducted and principles of managing conflict of interest;
- Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Branches have contravened during the year ended 31 December 2023 any of the applicable provisions of the UAE Federal Law No. (32) of 2021 which would materially affect its activities or its financial position as at 31 December 2023; and
- Note 24 to the financial statements of the Branches discloses no social contributions made during the year ended 31 December 2023.

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

Deloitte & Touche (M.E.)

Mohammad Jallad
Registration No.: 1164
29 March 2024
Dubai
United Arab Emirates

National Bank of Kuwait - United Arab Emirates Branches

Statement of financial position
as at 31 December 2023

	Notes	2023 AED'000	2022 AED'000
ASSETS			
Cash and short-term funds	3	**1,339,531**	206,049
Deposits with banks and other financial institutions		**2,162,975**	477,424
Investments securities - at amortised cost	5	**998,609**	1,240,112
Loans and advances to customers	6	**4,094,165**	3,715,035
Premises and equipment		**37,475**	38,959
Other assets	7	**48,223**	31,413
Total Assets		**8,680,978**	5,708,992
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and other financial institutions		**614,760**	880,960
Customer deposits	8	**5,766,126**	2,732,121
Other liabilities	9	**102,072**	74,337
Total Liabilities		**6,482,958**	3,687,418
Equity			
Allocated capital		**1,420,113**	1,420,113
Statutory reserve	10	**88,925**	71,281
Retained earnings		**621,377**	474,430
General impairment reserve	10	**67,605**	55,750
Total Equity		**2,198,020**	2,021,574
Total Liabilities and Equity		**8,680,978**	5,708,992

………………………………
Mohanad Al Borno
General Manager

………………………………
Pavankumar Vyas
Head of Finance

The accompanying Notes 1 to 25 form part of these financial statements

National Bank of Kuwait - United Arab Emirates Branches

Statement of profit or loss and other comprehensive income for the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Interest income	11	**389,632**	177,981
Interest expense	12	**(191,241)**	(67,627)
Net interest income		**198,391**	110,354
Net fees and commission income	13	**21,897**	15,127
Net gains from dealing in foreign currencies		**5,732**	4,758
Total operating income		**226,020**	130,239
Staff expenses		**(30,465)**	(26,379)
Depreciation of premises and equipment		**(2,781)**	(2,526)
Other administrative expenses	15	**(26,781)**	(19,369)
Net operating expense		**(60,027)**	(48,274)
Operating profit before provision for credit loses		**165,993**	81,965
Net impairment recovery/(losses) on credit facilities and other financial assets	14	**10,453**	(15,874)
Profit for the year, representing total comprehensive comprehensive income for the year		**176,446**	66,091

National Bank of Kuwait - United Arab Emirates Branches

Statement of changes in equity
for the year ended 31 December 2023

	Allocated capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	General impairment reserve AED'000	Total AED'000
As at 31 December 2021	1,420,113	64,672	414,948	55,750	1,955,483
Profit for the year, representing total comprehensive income for the year	-	-	66,091	-	66,091
Transfer to statutory reserve (Note 10)	-	6,609	(6,609)	-	-
As at 31 December 2022	1,420,113	71,281	474,430	55,750	2,021,574
Profit for the year, representing total comprehensive income for the year	-	-	176,446	-	176,446
Transfer to general impairment reserve	-	-	(11,855)	11,855	-
Transfer to statutory reserve (Note 10)	-	17,644	(17,644)	-	-
As at 31 December 2023	**1,420,113**	**88,925**	**621,377**	**67,605**	**2,198,020**

The accompanying notes 1 to 25 form part of these financial statements

National Bank of Kuwait - United Arab Emirates Branches

Statement of cash flows
for the year ended 31 December 2023

	Note	2023 AED'000	2022 AED'000
Operating activities			
Profit for the year		**176,446**	66,091
Adjustment for non-cash items:			
- Depreciation of premises and equipment		**2,781**	2,526
- Impairment (recovery)/loss on credit facilities and other financial assets	14	**(10,453)**	15,874
		168,774	84,491
Changes in working capital:			
Increase in deposits with banks and other financial institutions		**(1,685,551)**	(477,424)
Increase in loans and advances to customers		**(368,677)**	(13,265)
Increase in other receivables		**(16,810)**	(17,647)
Increase in reserve account with Central Bank of UAE		**(46,321)**	(1,894)
Decrease in amounts due to banks and other financial institutions		**(266,200)**	(267,022)
Increase in customer deposits		**3,034,005**	596,448
Increase in other payables		**27,735**	18,838
Net cash generated from/(used in) operating activities		**846,955**	(77,475)
Investing activities			
Purchase of premises and equipment		**(1,297)**	(4,454)
Net movement in investment securities	5	**241,503**	(915,131)
Net cash generated from/(used in) investing activities		**240,206**	(919,585)
Net increase/(decrease) in cash and cash equivalents		**1,087,161**	(997,060)
Cash and cash equivalents at the beginning of the year		**141,022**	1,138,082
Cash and cash equivalents at the end of the year	4	**1,228,183**	141,022

1. Incorporation and principal activities

National Bank of Kuwait - United Arab Emirates branches (the “Branches”) relates to the activities of the Dubai and Abu Dhabi Branches of National Bank of Kuwait S.A.K (the “Head office”), a public shareholding company incorporated in Kuwait in 1952 and registered as a commercial bank with the Central Bank of Kuwait.

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of the Head Office and its other branches.

The Branches operate under a separate license issued by the UAE Central Bank and is engaged in commercial banking activities.

The registered addresses of each of the UAE branches and Head office are as follows:

- Dubai Branch: P.O. Box 9293, Dubai, United Arab Emirates
- Abu Dhabi Branch: P.O. Box 113567 Abu Dhabi, United Arab Emirates
- Head office: P.O. Box 95, Al Shuhada Street, Safat, 13001, Kuwait

2. Material Accounting Policies

2.1 Basis of Preparation

The financial statements of the Branches have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) and Interpretations (“IFRIC”) issued by the International Accounting Standard Board (“IASB”) and applicable requirements of the United Arab Emirates laws including Federal Law No. 32 of 2021 on Commercial Companies (the “Companies Law”) which was issued on 20 September 2021 and effective from 2 January 2022 and the Decretal Federal Law No. (14) of 2018.

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 2.5.

Accounting convention

The financial statements are prepared under the historical cost convention modified to include the measurement of derivative financial instruments and fair value through other comprehensive income (FVOCI) investments at fair value.

The financial statements are presented in UAE Dirhams (AED), which is the functional and presentation currency of the Branches, and all the values are rounded to the nearest thousand AED except where otherwise stated.

2.2 Changes in accounting policies and disclosures

New standards and amendments

In the current year, the Bank applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2023.

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements:

2. Material accounting policies (continued)

2.2 Changes in accounting policies and disclosures (continued)

New standards and amendments (continued)

- IFRS 17 Insurance Contracts
- Amendments to IFRS 17 Insurance Contracts
- Amendment to IFRS 17 Insurance Contracts Initial Application of IFRS 17 and IFRS 9 - Comparative Information
- Amendments to IFRS 4 Insurance Contracts Extension of the Temporary Exemption from Applying IFRS 9
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2.
- Amendments to IAS 12 Income Taxes relating to Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 12 Income Taxes relating to International Tax Reform - Pillar Two Model Rules
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

Certain new standards and amendments to standards and interpretations are not yet effective for the year ended 31 December 2023, with the Bank not opting for early adoption. These have, therefore, not been applied in preparing these financial statements:

New and revised IFRSs	***Effective for annual periods beginning on or after***
IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information	1 January 2024
IFRS S2 Climate-related Disclosures	1 January 2024
Amendments to IFRS 16 Leases relating to Lease Liability in a Sale and Leaseback	1 January 2024
Amendments to IAS 1 *Presentation of Financial Statements* relating to Classification of Liabilities as Current or Non-Current	1 January 2024
Amendments to IAS 1 *Presentation of Financial Statements* relating to Non-current Liabilities with Covenants	1 January 2024
Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* relating to Supplier Finance Arrangements	1 January 2024
Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from an investor to its associate or joint venture	Effective date deferred indefinitely. Adoption is still permitted.

The Bank anticipates that these new standards, interpretations and amendments will be adopted in the financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the financial statements of the Bank in the period of initial application.

2. Material accounting policies (continued)

2.3 Summary of Material Accounting Policies

2.3.1 Foreign currencies

Transactions in foreign currencies are initially recorded in the functional currency at rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into functional currency at rates of exchange prevailing at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to UAE Dirhams at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in comprehensive income, related foreign exchange differences are also recognised directly in comprehensive income. For other non-monetary assets foreign exchange differences are recognised directly in the statement of income.

2.3.2 Revenue recognition

Interest income and interest expenses

Interest income and expense for all interest-bearing financial instruments are recognised within ‘interest income’ and ‘interest expense’ in the statement of income using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. Fees which are considered an integral part of the effective yield of a financial asset are recognised using effective yield method. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.3.3 Fees and commission income

Fees and commission income are recognised when the Branches satisfy the performance obligation by transferring the promised service to customers. At inception of the contract, the Branches determine whether it satisfies the performance obligation over a period of time or at a point in time. Fees income earned from services provided over a period of time is recognised over the period of service. Fees and commissions arising from providing a transaction service are recognised at a point in time on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis.

2. Material Accounting policies (continued)

2.3 Summary of Material Accounting Policies (continued)

2.3.4 Impairment of financial assets

The Branches compute Expected Credit Losses (ECL) on the following financial instruments that are not measured at fair value through profit or loss:

- loans and advances to customers including credit commitments
- letters of credit and financial guarantee contracts including commitments
- investment in debt securities measured at amortised cost or FVOCI
- balances and deposits with banks

Equity investments are not subject to Expected Credit Losses.

Impairment of credit facilities

Credit facilities granted by the Branches consists of loans and advances to customers, letters of credit and financial guarantee contracts and commitments to grant credit facilities. Impairment on credit facilities shall be recognised in the statement of financial position at an amount equal to the ECL under IFRS 9.

Impairment of financial assets other than credit facilities

The Branches recognise ECL on investment in debt securities measured at amortised cost or FVOCI and on balances and deposits with banks.

Expected Credit Losses

The Branches apply a three-stage approach to measure the expected credit loss as follows:

Stage 1: *12-month ECL*

The Branches measure loss allowances at an amount equal to 12 month ECL on financial assets where there has not been significant increase in credit risk since their initial recognition or on exposures that are determined to have a low credit risk at the reporting date. The Branches consider a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’.

Stage 2: *Lifetime ECL - not credit impaired*

The Branches measure loss allowances at an amount equal to lifetime ECL on financial assets where there has been a significant increase in credit risk since initial recognition but are not credit impaired.

Stage 3: *Lifetime ECL - credit impaired*

The Branches measure loss allowances at an amount equal to lifetime ECL on financial assets that are determined to be credit impaired based on objective evidence of impairment.

Life-time ECL is the ECL that result from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of life-time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both lifetime ECLs and 12 month ECLs are calculated either on an individual basis or on a collective basis depending on the nature of the underlying portfolio of financial instruments.

2. Material Accounting policies (continued)

2.3 Summary of Material Accounting Policies (continued)

2.3.4 Impairment of financial assets (continued)

Determining the stage of Expected Credit Loss

At each reporting date, the Branches assess whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 90 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

At each reporting date, the Branches also assess whether a financial asset or group of financial assets is credit impaired. The Branches consider a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes. Evidence of credit impairment includes observable data about the following:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The lender having granted to the borrower a concession, that the lender would otherwise not consider, for economic or contractual reasons relating to the borrower’s financial difficulty
- The disappearance of an active market for a security because of financial difficulties
- Purchase of a financial asset at a deep discount that reflects the incurred credit loss

At the reporting date, if the credit risk of a financial asset or group of financial assets has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

Measurement of ECLs

ECL is probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Branches in accordance with the contract and the cash flows that the Branches expect to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Branches estimate these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward looking macroeconomic scenarios etc.

Incorporation of forward looking information

The Branches consider key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

2. Material Accounting policies (continued)

2.3 Summary of Material Accounting policies (continued)

2.3.4 Impairment of financial assets (continued)

Modification of loans to customers

Under certain circumstances, the Branches seek to restructure loans to customers rather than taking possession of collateral. This may involve extending the payment arrangements, reduction in the amount of principal or interest and the agreement of new loan or financing conditions. If the modifications are substantial, such a facility is derecognised and a new facility is recognised with substantially different terms and conditions. The facility will have a loss allowance measured based on 12-month ECL except in rare occasions where the new facility is considered to be originated and credit impaired. Management continuously reviews modified loans to customers to ensure that all criteria are met and that future payments are likely to occur. Management also assesses whether there has been significant increase in credit risk, or the facility should be classified in stage 3. When loans to customers have been modified but not derecognised, any impairment is measured using the original effective interest rate as calculated before the modification of terms.

Write off

The gross carrying amount of a financial asset is written off (either partially or in full) when the Branches determine that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Branches' procedures for recovery of amounts due.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for financial assets carried at amortised cost. In the case of debt instruments measured at FVOCI, the Branches recognise the ECL charge in the statement of income and a corresponding amount is recognised in other comprehensive income with no reduction in the carrying amount of the financial asset in the statement of financial position. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. When the Branches are unable to identify the ECL on the undrawn portion of credit commitments separately from drawn portion of commitments, the combined amount of ECL is presented as a deduction from the gross carrying amount of the drawn portion.

2.3.5 Recognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Branches become party to contractual provisions of the instrument and are initially measured at fair value. Transaction costs are included only for those financial instruments that are not measured at fair value through statement of income.

Classification and measurement of financial assets

The Branches determine the classification of financial assets based on the business model it uses to manage the financial assets and the contractual cash flow characteristics of the financial assets.

2. Material Accounting policies (continued)

2.3 Summary of Material Accounting policies (continued)

2.3.5 Recognition of financial assets and financial liabilities (continued)

Business model assessment

The Branches determine its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Branches' business model is not assessed on an instrument by instrument basis but at a higher level of aggregated portfolios and is based on a number of observable factors. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice
- 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;
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Branches' original expectations, the Branches do not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI test)

The Branches assess the contractual terms of financial assets to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset. Interest is defined as consideration for time value of money and for the credit risk associated with the principal and for other basic lending risks and costs as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Branches consider 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. The Branches consider:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Branches' 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 rates.

Contractual terms that introduce a more than the minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payment of principal and interest. In such cases, the financial asset is measured at fair value through profit or loss.

The Branches classify its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost
- Financial assets carried at fair value through other comprehensive income (FVOCI)
- Financial assets carried at fair value through profit or loss (FVTPL)

2. Material Accounting policies (continued)

2.3 Summary of Material Accounting policies (continued)

2.3.5 Recognition of financial assets and financial liabilities (continued)

Financial assets carried at Amortised cost:

A financial asset is carried at amortised cost if it meets both of the following conditions:

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

Financial assets carried at amortised cost are subsequently measured at amortised cost using the effective interest method. Interest income, foreign exchange gains and losses and charge for expected credit losses are recognised in the statement of income. Any gain or loss on de-recognition is recognised in the statement of income.

Financial assets carried at fair value through other comprehensive income (FVOCI):

Debt Securities at FVOCI

A debt security is carried at FVOCI if it meets both of the following conditions:

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

Debt Securities at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognised in the statement of income. Fair value changes which are not part of an effective hedging relationship are recognised in other comprehensive income and presented in the cumulative changes in fair values as part of equity until the asset is derecognised or reclassified. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the statement of income.

Financial assets carried at fair value through profit or loss:

Financial assets in this category are those assets which have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management designates an instrument as FVTPL that otherwise meet the requirements to be measured at amortised cost or at FVOCI only if it eliminates, or significantly reduces, an accounting mismatch that would otherwise arise. Financial assets with contractual cash flows not representing solely payment of principal and interest are mandatorily required to be measured at FVTPL.

Financial assets at FVTPL are subsequently measured at fair value. Changes in fair value are recognised in the statement of income. Interest income is recognised using the effective interest method. Dividend income from equity investments measured at FVTPL is recognised in the statement of income when the right to the payment has been established.

2. Material Accounting policies (continued)

2.3 Summary of Material Accounting policies (continued)

2.3.5 Recognition of financial assets and financial liabilities (continued)

The Branches' financial assets are classified and measured as follows:

Cash and cash equivalent

Cash and cash equivalents include cash on hand, unrestricted balances held with UAE Central Bank and other banks and highly liquid financial assets with original maturities of less than three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value and are used by the Branches in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Deposits with banks

Deposits with banks are classified and carried at amortised cost using the effective interest method.

Loans and advances to customers

Loans and advances are stated at amortised cost using the effective interest method.

Financial investments

Branches' financial investments consist of debt securities, equity investments and other investments.

Debt securities are classified as either at amortised cost or at fair value through other comprehensive income based on the business model in which these securities are managed.

Equity investments are generally carried at fair value through profit or loss except for those specific investments for which the Branches have made an election to classify at fair value through other comprehensive income.

Other investments are carried at fair value through profit or loss.

Modification of financial assets and financial liabilities

If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Branches recalculate the gross carrying amount of the financial asset using the original effective interest rate and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in the Statement of profit or loss.

The Branches derecognise a financial liability when its terms are modified, and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognised in the Statement of profit or loss.

2. Material accounting policies (continued)

2.3 Summary of Material accounting policies (continued)

Interest Rate Benchmark Reform

In the context of IBOR reform, the Branches' assessment of whether a change to a financial asset or financial liability is substantial is made after applying the practical expedient introduced by Interest Rate Benchmark Reform, Amendments to IFRS 9, Phase 2. This practical expedient allows changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform to be treated as changes to a floating interest rate to that instrument if the transition from the IBOR benchmark rate to the alternative Risk Free Rate (RFR) takes place on an economically equivalent basis. In such cases, the Branches update the effective interest rate to reflect the change in an interest rate benchmark from IBOR to RFR without adjusting the carrying amount.

When additional changes are made, which are not economically equivalent, the Branches apply accounting policy on accounting for modification of financial assets and financial liabilities.

2.3.6 Fair value measurement

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

When available, the Branches measure the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Branches use valuation techniques that include the use of valuation models that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility.

If an asset or liability measured at fair value has a bid price and an ask price, then the Branches measure assets at a bid price and liabilities at an ask price.

The Branches measure fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted prices for identical or similar instruments in market that are considered less than active or other valuation techniques in which all significant inputs are observable from market data.

2. Material accounting policies (continued)

2.3 Summary of material accounting policies (continued)

2.3.6 Fair value measurement (continued)

Level 3: valuation techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Valuation techniques include discounted cash flow models, comparison with similar instruments for which market observable prices exist, recent transaction information and net asset values. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premium used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

2.3.7 De-recognition of financial assets and financial liabilities

Financial assets

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired, or
- the Branches retain the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement, or
- the Branches have transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Branches have transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branches' continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branches could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability.

2.3.8 Derivative financial instruments

The Branches deal in interest rate swaps to manage its interest rate risk on interest bearing assets and liabilities. Similarly the Branches deal in forward foreign exchange contracts for customers and to manage its foreign currency positions and cash flows. All derivative financial instruments of the Branches are recorded in the statement of financial position at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models. Positive and negative fair values are reported as assets and liabilities respectively and are offset when there is both an intention to settle net and a legal right to offset exists.

2. Material accounting policies (continued)

2.3 Summary of material accounting policies (continued)

2.3.9 Trade and settlement date accounting

All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Branches commit to purchase or sell the asset. Regular way purchases or sales are 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.

2.3.10 Premises and equipment

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

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Leasehold improvements	5
Building on free hold land	50
Furniture and fixtures and other equipment	5
Computers	3

Residual values and useful lives of assets are reviewed, and adjusted prospectively if appropriate, at each reporting date. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of profit and loss and other comprehensive income.

2.3.11 Leases

At inception of a contract, the Branches assess whether the contract is a lease. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. If the contract is identified as a lease, the Branches recognise a right-of-use asset and a lease liability at the lease commencement date. The Branches elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value.

Right-of-use assets

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred. The right-of-use asset is subsequently depreciated using the straight-line method over the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any.

Lease Liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Branches' incremental borrowing rate. The lease liability is subsequently measured at amortised cost using the effective interest method. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, or a change in the lease payments.

2. Material accounting policies (continued)

2.3 Summary of material accounting policies (continued)

2.3.12 Due to Banks and Financial Institutions, and Customer deposits

Due to Banks and Financial Institutions, Customer Deposits & Certificates of deposit issued are stated at amortised cost using effective interest method.

2.3.13 Employees' end of service benefits

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

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

2.3.14 Provisions

Provisions are recognised when the Branches have a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.3.15 Financial guarantees

In the ordinary course of business, the Branches give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, being the premium received, in other liabilities. The premium received is recognised in the statement of income in 'net fees and commissions' on a straight line basis over the life of the guarantee. The guarantee liability is subsequently carried at initial measurement less amortisation. When a payment under the guarantee is likely to become payable, the present value of the expected net payments less the unamortised premium is charged to the statement of income.

2.4 Significant accounting judgements and estimates

In the process of applying the Branches' accounting policies, management has used judgements and made estimates in determining the amounts recognised in the financial statements. The most significant use of judgements and estimates are as follows.

Accounting Judgements

Classification of financial assets

The Branches determine the classification of financial assets based on the 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.

Judgments are required in determining the business model at an appropriate level that best reflects an aggregated group or portfolio of assets which are managed together to achieve a particular business objective. The Branches also apply judgment to assess if there is a change in business model in circumstances when the assets within that business model are realised differently than the original expectations.

2. Material accounting policies (continued)

2.4 Material accounting judgements and estimates (continued)

Significant increase in credit risk

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

Estimation uncertainty and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Expected Credit Losses on financial assets

The Branches estimate Expected Credit Loss (ECL) for all financial assets carried at amortised cost or fair value through other comprehensive income except for equity instruments.

Significant judgements are required in applying the accounting requirements for measuring ECL, such as:

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

Information about significant judgements and estimates made by the Branches in the above areas is set out in Note 22.

3. Cash and short-term funds

	2023	2022
	AED'000	AED'000
Cash on hand	**9,002**	6,843
Balances with the UAE Central Bank:		
- Current accounts	**10,840**	14,057
- Cash reserve	**111,348**	65,027
Current account with banks	**38,753**	45,122
Short term deposits with banks and other financial institutions	**1,169,588**	75,000
	1,339,531	206,049

The cash reserve requirements, which are kept in UAE Dirhams, are determined in accordance with the directives of the Central Bank of UAE. Cash reserve amounts are determined and maintained on a biweekly basis, based on customer deposits position as of the end of the previous two weeks and reserve on lending to non-resident banks are refunded on a weekly basis and new amounts are kept based on each week's Dirham lending position to external banks, if any.

4. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents includes the following:

	2023 **AED'000**	2022 AED'000
Cash and short-term funds	**1,339,531**	206,049
Less: Balances with the Central Bank of UAE		
- Cash reserve	**(111,348)**	(65,027)
	1,228,183	141,022

5. Investment Securities - at amortised cost

As at 31 December 2023 the Branches have invested in UAE Treasury Bills, amounting to AED 999 million (2022: AED 1,240 million). The ECL for Stage 1 amounted to AED 57 thousand (2022: AED 673 thousand), which is included in other liabilities.

6. Loans and advances to customers

The composition of loan and advances to customers is as follows:

	Corporate **AED'000**	**Retail** **AED'000**	**Total** **AED'000**
2023			
Loans	**3,719,960**	**52,149**	**3,772,109**
Overdrafts	**288,367**	**12,069**	**300,436**
Bills discounted	**242**	**-**	**242**
Trust receipts	**60,138**	**-**	**60,138**
	4,068,707	**64,218**	**4,132,925**
Expected credit losses			**(38,760)**
			4,094,165
2022			
Loans	3,478,858	59,384	3,538,242
Overdrafts	89,906	36,179	126,085
Bills discounted	2,514	-	2,514
Trust receipts	97,404	-	97,404
	3,668,682	95,563	3,764,245
Expected credit losses			(49,210)
			3,715,035

6. Loans and advances to customers (continued)

6.1 Classification of loans and advances

The table below shows the credit quality (as guided by Note 22.1) and the maximum exposure to credit risk based on the Branches' internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and interest in suspense:

In AED '000		**2023**		
Internal rating grade	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing				
High grade	**3,725,131**	**-**	**-**	**3,725,131**
Standard grade	**123,222**	**255,779**	**-**	**379,001**
Non-performing				
Individually impaired	**-**	**-**	**28,793**	**28,793**
Total	**3,848,353**	**255,779**	**28,793**	**4,132,925**

In AED '000		2022		
Internal rating grade	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing				
High grade	1,520,305	-	-	1,520,305
Standard grade	1,821,822	397,075	-	2,218,897
Non-performing				
Individually impaired	-	-	25,043	25,043
Total	3,342,127	397,075	25,043	3,764,245

An analysis of changes in the gross carrying amount in relation to Loans and Advances is, as follows:

In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January 2023	**3,342,127**	**397,075**	**25,043**	**3,764,245**
New assets disbursed	**1,344,623**	**-**	**-**	**1,344,623**
Assets derecognized or repaid (excluding write-offs)	**(891,047)**	**(78,402)**	**(6,494)**	**(975,943)**
Transfers to Stage 1	**295,331**	**(295,331)**	**-**	**-**
Transfers to Stage 2/3	**(242,681)**	**232,437**	**10,244**	**-**
At 31 December 2023	**3,848,353**	**255,779**	**28,793**	**4,132,925**

6. Loans and advances to customers (continued)

6.1 Classification of loans and advances (continued)

An analysis of changes in the gross carrying amount in relation to Loans and Advances is, as follows (continued):

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2022	3,220,850	514,529	10,647	3,746,026
New assets disbursed	797,843	256,488	-	1,054,331
Assets derecognized or repaid (excluding write-offs)	(881,549)	(154,563)	-	(1,036,112)
Transfers to Stage 1	245,169	(245,169)	-	-
Transfers to Stage 2/3	(40,186)	25,790	14,396	-
At 31 December 2023	3,342,127	397,075	25,043	3,764,245

6.2 Impairment allowance for loans and advances

Loans and advances in the statement of financial position are stated net of impairment allowances. The movements for impairment allowances are as follows:

In AED'000	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
ECL Allowance as at 1 January 2023	**15,380**	**8,787**	**25,043**	**49,210**
Impact due to new assets disbursed	**2,630**	**-**	**-**	**2,630**
Impact due to assets derecognized or repaid (excluding write-offs)	**(8,769)**	**(7,760)**	**(6,494)**	**(23,023)**
Additional provision	**-**	**-**	**9,943**	**9,943**
Transfers to Stage 2/3	**(9)**	**(292)**	**301**	**-**
Transfers to Stage 1	**(464)**	**464**	**-**	**-**
At 31 December 2023	**8,768**	**1,199**	**28,793**	**38,760**

In AED'000	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
ECL Allowance as at 1 January 2022	15,314	2,421	10,647	28,382
Impact due to new assets disbursed	7,570	8,378	-	15,948
Impact due to assets derecognized or repaid (excluding write-offs)	(7,108)	(1,917)	-	(9,025)
Additional provision	-	-	13,905	13,905
Transfers to Stage 2/3	(734)	243	491	-
Transfers to Stage 1	338	(338)	-	-
At 31 December 2023	15,380	8,787	25,043	49,210

7. Other assets

	2023 AED'000	2022 AED'000
Interest receivable	**42,493**	28,297
Sundry debtors and prepayments	**5,730**	3,116
	48,223	31,413

8. Customer deposits

	2023 AED'000	2022 AED'000
Current accounts	**506,986**	437,766
Savings accounts	**76,058**	68,685
Time and call deposits	**5,183,082**	2,225,670
	5,766,126	2,732,121

9. Other liabilities

	2023 AED'000	2022 AED'000
Interest payable	**57,053**	25,832
Fees received in advance	**14,812**	15,682
Accrued expenses	**15,558**	16,479
Lease liabilities	**172**	1,135
Negative fair value of derivatives (Note 20)	**19**	1,490
Expected Credit losses	**14,458**	13,719
	102,072	74,337

Expected Credit loss comprise expected credit losses for a. non- cash facilities and b. Deposits with banks and other financial institutions and investment securities of AED 13.8 million (2022: AED 13.0 million) and AED 0.65 million (2022: AED 0.7 million), respectively.

10. Reserves

a) Statutory reserves

In accordance with Decretal Federal Law No. (14) of 2018, and the Head Office's Articles of Association, a transfer equivalent to minimum of 10% of the annual profit is made annually to the statutory reserve until such reserve equals 50% of the allocated capital.

b) General impairment reserve

The reserve consists of impairment reserve of AED 67.6 million (2022: 55.7 million) [Note 22.1.1] in accordance with the Central Bank of UAE IFRS 9 guidance issued in March 2019 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE.

11. Interest income

	2023 AED'000	2022 AED'000
Interest income on:		
- Loans and advances to customers	**270,556**	136,129
- Deposits with banks and other financial institutions	**77,101**	24,808
- Investment securities	**41,975**	17,044
	389,632	177,981

12. Interest expense

	2023 AED'000	2022 AED'000
Interest expense on:		
- Customer deposits	**162,973**	54,052
- Due to banks and other financial institutions	**28,268**	13,575
	191,241	67,627

13. Net fees and commission income

	2023 AED'000	2022 AED'000
Fees and commissions income	**22,399**	15,622
Fees and commissions related expenses	**(502)**	(495)
Net fees and commissions	**21,897**	15,127

14. Net impairment recovery\(losses) on credit facilities and other financial assets

	2023 AED'000	2022 AED'000
Expected Credit loss charges on loans and advances (Note 6.2)	**10,450**	(20,828)
Recoveries of written off loans	**742**	5,371
Expected Credit loss charges on other financial assets (Note 9)	**(739)**	(417)
	10,453	(15,874)

15. Other administrative expenses

	2023 AED'000	2022 AED'000
Head Office management charges (Note 21)	**18,627**	12,838
Professional fees	**2,288**	1,401
IT costs	**2,568**	2,114
Others	**3,298**	3,016
	26,781	19,369

16. Fair value and categories of financial instruments

Financial assets and liabilities are designated at amortised cost. In the opinion of management, their carrying amounts of the financial assets and liabilities approximate their fair values as most of the assets and liabilities are short term in nature or repriced immediately based on market movement in interest rates.

Derivatives are designated at fair value through profit and loss. The positive fair value of derivative which are valued using significant inputs of observable market data amounted to AED Nil (2022: AED Nil) and the negative fair value of derivative amounted to AED 19 thousand (2022: AED 1,490 thousand) [Note 20]. The methodologies and assumptions used to determine fair values of financial instruments are described in the fair value section of Note 2: Material Accounting Policies. The Fair value of derivatives fall under Level 2 (2022: Level 2).

17. Maturity analysis of assets and liabilities

The table below summarises the maturity profile of Branches’ assets and liabilities based on contractual cash flows and maturity dates:

	Up to 3 months AED’000	*3 to 12 months AED’000*	*Over 1 year AED’000*	*Total AED’000*
31 December 2023				
Assets				
Cash and short-term funds	**1,339,531**	**-**	**-**	**1,339,531**
Deposit with banks and other financial institution	**2,162,975**	**-**	**-**	**2,162,975**
Investment securities	**998,609**	**-**	**-**	**998,609**
Loans and advances to customers	**604,608**	**1,233,815**	**2,255,742**	**4,094,165**
Premises and equipment	**-**	**-**	**37,475**	**37,475**
Other assets	**48,223**	**-**	**-**	**48,223**
	5,153,946	**1,233,815**	**2,293,217**	**8,680,978**
Liabilities				
Due to banks and other financial Institutions	**614,760**	**-**	**-**	**614,760**
Customer deposits	**5,115,331**	**650,795**	**-**	**5,766,126**
Other liabilities	**102,072**	**-**	**-**	**102,072**
	5,832,163	**650,795**	**-**	**6,482,958**
Net liquidity gap	**(678,217)**	**583,020**	**2,293,217**	**2,198,020**
Represented by equity				**2,198,020**
31 December 2022				
Assets				
Cash and short-term funds	206,049	-	-	206,049
Deposit with banks and other financial institution	477,424	-	-	477,424
Investment securities	290,112	950,000	-	1,240,112
Loans and advances to customers	432,890	525,937	2,756,208	3,715,035
Premises and equipment	-	-	38,959	38,959
Other assets	31,413	-	-	31,413
	1,437,888	1,475,937	2,795,167	5,708,992

17. Maturity analysis of assets and liabilities (continued)

The table below summarises the maturity profile of Branches' assets and liabilities based on contractual cash flows and maturity dates (continued):

	Up to 3 months AED'000	*3 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
31 December 2022				
Liabilities				
Due to banks and other financial Institutions	880,960	-	-	880,960
Customer deposits	2,504,422	224,699	3,000	2,732,121
Other liabilities	74,337	-	-	74,337
	3,459,719	224,699	3,000	3,687,418
Net liquidity gap	(2,021,831)	1,251,238	2,792,167	2,021,574
Represented by equity				2,021,574

18. Commitments and contingent liabilities

	2023 AED'000	2022 AED'000
Letters of credit	**291,524**	191,444
Guarantees	**1,201,382**	604,236
	1,492,906	795,680
Irrevocable commitments to extend credit	**908,070**	444,670
	2,400,976	1,240,350
Less: Expected credit losses	**(13,807)**	(13,000)
	2,387,169	1,227,350

In the normal course of business, the Branches have exposure to various credit commitments which, though not reflected in the statement of financial position, are subject to normal credit standards, financial controls and monitoring procedures. These credit commitments do not necessarily represent future cash requirements since many of these commitments will expire or terminate without being funded. Credit losses, if any, which may result from exposure to such commitments are not expected to be significant.

As at 31 December 2023, the gross balance of contingent liabilities in Stage 1 and Stage 2 amounted to AED 1,425 million (2022: AED 641 million) and AED 57 million (2022: AED 144 million) and in Stage 3 of AED 10.3 million (2022: 10.3 million) respectively. The ECL for Stage 1 and Stage 2 amounted to AED 3.3 million (2022: AED 1.8 million) and AED 0.15 million (2022: AED 0.9 million), in Stage 3 of AED 10.3 million (2022: AED 10.3 million), respectively.

19. Taxation

In accordance with the UAE Tax Regulation number (2) issued by the Government of Dubai, on 31 December 1996 for the assessment of tax on the branches of foreign banks operating in the Emirate of Dubai and regulation Number (2) of 2007 for the assessment of Fees on the Bank of Foreign Banks Operating in the Emirate of Abu Dhabi, dated 30 August 2007, all foreign branches of banks operating in the Emirates of Dubai and Abu Dhabi are required to pay tax at 20% on taxable income. However, the Economic Agreement between GCC states requires all GCC natural and legal citizens to be treated uniformly in all economic activities including tax. Management of the Branches has applied this Economic Agreement and has not accounted for any tax on the profits for the current or prior years.

Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. On 3 October 2022, the United Arab Emirates (UAE) Ministry of Finance (“MoF”) issued Federal Decree-Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law (“CT Law”) to implement a new CT regime in the UAE. The new CT regime is applicable for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate, however a rate of 0% could be applied to taxable income not exceeding a particular threshold or to certain types of entities, to be prescribed by way of a Cabinet Decision.

The Branches are currently assessing the impact of these laws and regulations and will apply the requirements as provided by the relevant tax authorities.

20. Derivative financial instruments

Derivatives are financial instruments that derive their value by referring the interest rate, foreign exchange rate or other indices. Notional principal amounts merely represent amounts to which a rate or price is applied to determine the amounts of cash flows to be exchanged and do not represent the potential gain or loss associated with the market or credit risk of such instruments.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations.

The Branches enter into interest rate swaps to manage its fair value interest rate risk and forward foreign exchange contracts to manage its foreign currency exposures and cash flows:

Interest rate swaps

Interest rate swaps are contractual agreements between two counter-parties to exchange interest payments on a defined principal amount for a fixed period of time.

Forward foreign exchange

Forward foreign exchange contracts are agreements to buy or sell currencies at a specified rate and at a specific future date.

The fair value of derivative financial instruments included in the financial records, together with their notional amounts as at the reporting date is as follows.

20. Derivative financial instruments (continued)

Forward foreign exchange (continued)

	Positive fair value AED'000	*Negative fair value AED'000*	*Notional AED'000*
2023			
Forward foreign exchange contracts	**-**	**19**	**312,004**
2022			
Forward foreign exchange contracts	-	1,490	299,793

21. Related party transactions and balances

The Branches enter into transactions with companies and entities that fall within the definition of a related party as contained in International Accounting Standard (IAS) 24: Related Party Disclosures. Related parties represent the Head Office, its other branches and subsidiaries, associated companies, major shareholders, directors and key management personnel of the Head Office, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the management.

Balances of related parties at 31 December as included in the statement of financial position are as follows:

	2023 AED'000	2022 AED'000
Deposits with banks and other financial institutions includes deposits with the Head Office, other branches and subsidiaries of the Head Office:		
- Maturing within seven days	**18,988**	184,403
- Maturing after seven days	**495,788**	-
Interest receivable on deposits	**7,516**	1,450
	522,292	185,853
Due to banks and other financial institutions includes due to Head Office, other branches and subsidiaries of the Head Office	**606,137**	880,311
Interest payable on deposits	**1,169**	7,598
	607,306	887,909
Customer deposits of related parties	**10,719**	8,947

Related party transactions included in the statement of income are as follows:

	2023 AED'000	2022 AED'000
Interest income -Head Office and branches abroad	**14,970**	5,501
Interest expense - Head Office and branches abroad	**25,875**	10,531
Head Office management charges	**18,627**	12,838

The Head Office remunerates key management personnel, and such remuneration is not specifically recharged to the Branches.

22. Risk management

Risk is inherent in the Branches' activities but is managed in a structured, systematic manner through the Head Office's global risk policy that embeds comprehensive risk management into organisational structure, risk measurement and monitoring processes. The overall risk management direction and oversight is provided by the Board of Directors with the support of the Management Executive Committee and the Board Audit Committee at the Head Office level together with the Head Office Risk Management and Internal Audit functions.

The Branches are exposed to credit risk, liquidity risk, market risk and operational risk.

The Branches have implemented a comprehensive system for the measurement and management of risk. This methodology helps in reflecting both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. Information compiled from all internal business groups are closely examined and analysed to identify and control risks.

Transactions and outstanding risk exposures are quantified and compared against authorised limits, whereas non- quantifiable risks are monitored against policy guidelines and key risk and control indicators. Any discrepancies, excesses or deviations are escalated to management for appropriate action.

22.1 Credit risk

As part of its overall risk management, the Branches use instruments to manage exposures resulting from changes in interest rates, foreign exchange, equity risks, credit risks and exposures arising from forecast transactions. Collaterals are used to reduce the Branches' credit risks.

Credit risk is the risk that counterparty will cause a financial loss to the Branches by failing to discharge an obligation. Credit risk arises in the Branches' normal course of business.

All policies relating to credit are reviewed and approved by the Board of Directors of the Head Office.

Credit limits are established for all customers after a careful assessment of their creditworthiness. Standing procedures, outlined in the Branches' Credit Policy Manual, require that all credit proposals be subjected to detailed screening by the Head Office or International Credit Control Division pending submission to the appropriate Credit Committee. Whenever necessary, all loans are secured by acceptable forms of collateral to mitigate the related credit risks.

The Branches have formed an internal committee comprising competent professional staff to study and evaluate existing credit facilities of each customer of the Branches. This committee is required to identify any abnormal situations and difficulties associated with a customer's position which might cause the debt to be classified as irregular and assess appropriate expected credit losses. The committee meets regularly throughout the year and studies the positions of those customers whose irregular balances exceed 25% of their total debt, in order to determine whether further provisions are required.

Assessment of expected credit losses

<u>Definition of default</u>

The Branches consider a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or
- borrower is considered as credit impaired based on qualitative assessment for internal credit risk Management purposes
- retail facilities from commencement of legal recourse.

22. Risk management (continued)

22.1 Credit risk (continued)

Assessment of expected credit losses (continued)

Definition of default *(continued)*

Any credit impaired or stressed facility that has been restructured would also be considered as in default.

The Branches consider investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Branches consider externally-rated portfolio with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

The Branches consider a variety of indicators that may indicate unlikeliness to pay as part of a qualitative assessment of whether a customer is in default. Such indicators include:

- breaches of covenants
- borrower having past due liabilities to public creditors or employees
- borrower is deceased

The Branches consider a financial asset as 'cured' (i.e. no longer be in default) and therefore reclassified out of stage 3 when it no longer meets any of the default criteria. In respect of restructured facilities which are classified in stage 3, these would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year (except for retail facilities), or as determined by the Branches for consideration for classifying the facility in stage 2/stage 1.

Significant increase in credit risk

The Branches continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or lifetime ECL, the Branches assess as whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 90 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk. Retail facilities, however, migrate to stage 2 based on days past due movement and the IFRS 9 presumption of 30 days past due is rebuttable but not rebutted.

The Branches consider a financial instrument with an external rating of "investment grade" (high grade) as at the reporting date to have low credit risk. In addition to the above quantitative criteria, the Branches apply qualitative criteria for the assessment of significant increase in credit risk based on monitoring of certain early warning signals.

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Branches in accordance with the contract and the cash flows that the Branches expects to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Branches estimates these elements using appropriate credit risk models taking into consideration the internal and external credit ratings of the assets, nature and value of collaterals, forward-looking macro-economic scenarios, etc.

The Branches calculate ECL on credit facilities classified in stage 3 at 100% of the defaulted exposure net of value of eligible collaterals after applying applicable haircuts.

22. Risk management (continued)

22.1 Credit risk (continued)

Assessment of expected credit losses (continued)

Measurement of ECLs (continued)

The Branches in estimating ECL for credit facilities has taken into consideration the following key parameters:

- Floor for estimating PDs for specific portfolios
- Eligible collateral with haircuts for determining LGD
- Deemed maturity for exposures in Stage 2
- Credit Conversion Factor on utilized and un-utilized portions for cash and non-cash facilities

Internal rating and PD estimation process

In managing its portfolio, the Branches utilise ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branches use industry-standard rating tools for assessing ratings/scores that are then leveraged for PD estimation process. The tool provides the ability to analyse a business and produces risk ratings at both the obligor and facility levels. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Branches also use external ratings by recognised rating agencies for externally-rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. IFRS 9 requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branches' estimate of the future asset quality. The through-the-cycle (TTC) PDs are generated from the rating tool based on the internal/external credit ratings. The Branches convert the TTC PDs to point-in-time (PIT) PD term structures using appropriate models and techniques.

The Branches assess the PD for its retail portfolio through behavioural scorecards. The Consumer portfolio is further segmented statistically and risk pools with shared risk characteristics are addressed with different scorecards relevant for each of the risk pool. The segmentation is based on demographic, behavioural and financial variables which distinctly rank order risk. The scorecards were developed using statistical techniques. Executing the scorecard will return an associated PD value for each of the facility. The term structure PDs are then derived using a base PD.

Exposure at default

Exposure at default (EAD) represents the amount which the obligor will owe to the Branches at the time of default. The Branches consider variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off-balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, credit conversion factors, etc. EAD for retail loans incorporate prepayment assumptions whereas for credit cards portfolio, credit conversion factors are applied to estimate the future drawdowns.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss if there is a default. The Branches estimate LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

22. Risk management (continued)

22.1 Credit risk (continued)

Assessment of expected credit losses (continued)

Incorporation of forward-looking information

The Branches consider key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward-looking information into the ECL models. Key economic variables include, but not limited to, Gross Domestic Product, Equity price index, Oil prices, and Government expenditure. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL.

The Branches employ statistical models to incorporate macro-economic factors on historical default rates. The Branches consider 3 scenarios (baseline, upside and downside) of forecasts of macro-economic data separately for designated geographical segments and appropriate probability weights are applied to these scenarios to derive a probability-weighted outcome of expected credit loss. The ECL estimates have been assessed for sensitivity to changes to forecasts of macro-variables and together with changes to the weights assigned to the scenarios.

Maximum exposure to credit risk against items where collaterals are held

An analysis of loans and advances to customers and contingent liabilities before and after taking account of collateral held or other credit enhancements is as follows:

	2023		*2022*	
	Gross maximum exposure AED'000	***Net exposure AED'000 AED'000***	*Gross maximum exposure AED'000*	*Net exposure AED'000*
Loans and advances to customers (Note 6.1)	**4,132,925**	**3,957,072**	3,715,035	3,483,827
Commitments and contingent liabilities (Note 18)	**2,400,976**	**2,398,866**	1,240,350	1,235,246
	6,533,901	**6,355,938**	4,955,385	4,719,073

Collateral and other credit enhancements

The amount, type and valuation of collateral is based on guidelines specified in the risk management framework. The main types of collateral accepted includes real estate, quoted shares, cash collateral and Branches guarantees. The custody of collaterals is held, and their revaluation is performed independent of the business units.

Risk concentration of the maximum exposure to credit risk

Concentration of credit risk arises from exposure to customers having similar characteristics in terms of the geographic location in which they operate or the industry sector in which they are engaged, such that their ability to discharge contractual obligations may be similarly affected by changes in political, economic or other conditions.

The Branches have significant credit concentration whereby 13 customers represent 74% of the total portfolio of loans and advances to customers as at 31 December 2023 (2022: 13 customers representing 70%). The management of the Branches are making all efforts to mitigate the risk of credit concentration.

22. Risk management (continued)

22.1 Credit risk (continued)

Risk concentration of the maximum exposure to credit risk (continued)

The Branches' financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements can be analysed by the following geographic regions:

Geographic region	**UAE AED'000**	**Other Middle East and North African countries AED'000**	**North America AED'000**	**Europe AED'000**	**Asia AED'000**	**Total AED'000**
31 December 2023						
Cash and short term funds	**707,713**	**602,186**	**14,475**	**6,136**	**19**	**1,330,529**
Deposit with banks and other financial institutions	**290,000**	**1,524,087**	**-**	**-**	**348,888**	**2,162,975**
Investment securities - at amortized cost	**998,609**	**-**	**-**	**-**	**-**	**998,609**
Loans and advances to customers	**3,518,312**	**113,781**	**275,726**	**186,346**	**-**	**4,094,165**
Other assets	**45,744**	-	-	-	-	**45,744**
	5,560,378	**2,240,054**	**290,201**	**192,482**	**348,907**	**8,632,022**
Commitments and contingent liabilities	**1,223,267**	**1,027,988**	**10,897**	**138,824**	**-**	**2,400,976**
	6,783,645	**3,268,042**	**301,098**	**331,306**	**348,907**	**11,032,998**
31 December 2022						
Cash and short term funds	154,083	17,281	24,202	3,623	17	199,206
Deposit with banks and other financial institutions	-	477,424	-	-	-	477,424
Investment securities - at amortized cost	1,240,112	-	-	-	-	1,240,112
Loans and advances to customers	3,241,832	107,734	183,930	181,538	1	3,715,035
Other assets	31,413	-	-	-	-	31,413
	4,667,440	602,439	208,132	185,161	18	5,663,190
Commitments and contingent liabilities	748,257	300,813	102,745	77,527	11,008	1,240,350
	5,415,697	903,252	310,877	262,688	11,026	6,903,540

22. Risk management (continued)

22.1 Credit risk (continued)

Risk concentration of the maximum exposure to credit risk (continued)

The Branches' financial assets and off-balance sheet items, before taking into account any collateral held or credit enhancements, can be analysed by the following industry sectors:

	2023	2022
	AED'000	AED'000
Industry sector		
Banks and other financial institutions	**5,949,241**	2,667,119
Trading	**2,826,434**	2,419,610
Real Estate	**160,211**	184,792
Retail	**16,250**	3,943
Government	**2,080,862**	1,628,076
	11,032,998	6,903,540

Credit quality per class of financial assets

In managing its portfolio, the Branches follow the Head office methodology. The Head office utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. Credit exposures classified as 'High' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered good to excellent. Credit exposures classified as 'Standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions, and which are not 'impaired'. The ultimate risk of possible financial loss on 'Standard' quality is assessed to be higher than that for the exposures classified within the 'High' quality range.

The table below shows the credit quality by class of assets carried on statement of financial position, based on the Branches' credit rating system:

	Neither past due nor impaired			
	High AED'000	***Standard AED'000***	***Past due or impaired AED'000***	***Total AED'000***
31 December 2023				
Balances with the UAE Central Bank	**122,188**	**-**	**-**	**122,188**
Deposits and current account with banks and other financial Institutions:				
- Original maturity within seven days	**1,208,329**	**12**	**-**	**1,208,341**
- Original maturity after seven days	**1,722,275**	**440,700**	**-**	**2,162,975**
Loans and advances to customers	**3,725,131**	**379,001**	**28,793**	**4,132,925**
Investment securities	**998,609**	**-**	**-**	**998,609**
Other assets	**45,744**	**-**	**-**	**45,744**
	7,822,276	**819,713**	**28,793**	**8,670,782**

22. Risk management (continued)

22.1 Credit risk (continued)

Credit quality per class of financial assets (continued)

	Neither past due nor impaired		*Past due or*	
	High	*Standard*	*impaired*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
31 December 2022				
Balances with the UAE Central Bank	79,084	-	-	79,084
Deposits and current account with banks and other financial Institutions:				
- Original maturity within seven days	285,349	35	-	285,384
- Original maturity after seven days	312,162	-	-	312,162
Loans and advances to customers	1,520,305	2,218,897	25,043	3,764,245
Investment securities	1,240,112	-	-	1,240,112
Other assets	31,413	-	-	31,413
	3,468,425	2,218,932	25,043	5,712,400

22.1.1 Impairment Reserve under the Central Bank of UAE

The Central Bank of UAE issued its IFRS 9 guidance in March 2019 addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE. The guidance states that if the specific provision along with suspended interest and general provisions (1.5% of Total CRWA) as per CBUAE requirements (Circular 28/2010), is higher than the impairment allowance computed under IFRS 9, the difference individually shall be transferred to an Impairment reserve as an appropriation from the retained earnings. This Impairment reserve shall further be split into specific provision difference.

(Impairment Reserve: Specific) and the collective/general provision difference (Impairment Reserve: General). This Impairment reserve shall not be available for payment of dividend. Also, the regulation specifies that the Impairment Reserve: General shall be allowed to be included in regulatory capital up to a maximum of 1.25% of Risk weighted assets as per Basel, where this is not already utilized.

	2023	2022
	AED'000	AED'000
Impairment Reserve: General		
General provisions under Circular 28/2010 of CBUAE (at 1.5%)	**81,675**	83,288
Stage 1 and Stage 2 provision under IFRS 9	**(14,070)**	(27,538)
General provision transferred to the impairment reserve*	**67,605**	55,750
Impairment Reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**-**	-
Stage 3 Provision under IFRS 9 (net collateral value exceeds loan)	**(39,139)**	(35,389)
General provision transferred to the impairment reserve*	**-**	-
Total provision transferred to the impairment reserve	**67,605**	55,750

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

In addition, restricted category of facilities specific provisions under Circular 28/2010 of CBUAE is computed net of the value of collateral.

22. Risk management (continued)

22.2 Liquidity risk

Liquidity risk is the risk that the Branches will be unable to meet its liabilities when they fall due, to limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors liquidity on a daily basis.

The liquidity profile of non-derivative financial liabilities excluding other liabilities reflects the projected undiscounted cash flows including future interest payments over the life of these financial liabilities based on contractual repayment arrangements.

The liquidity profile of financial liabilities and contingent liabilities at 31 December was as follows:

	Up to 3 months AED'000	*3 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
31 December 2023				
Financial liabilities				
Due to banks and other financial institutions	**617,512**	**-**	**-**	**617,512**
Customer deposits	**5,139,698**	**669,951**	**-**	**5,809,649**
	5,757,210	**669,951**	**-**	**6,427,161**
Contingent liabilities and commitments				
Contingent liabilities	**316,553**	**763,391**	**412,962**	**1,492,906**
Irrecoverable commitments	**82,632**	**170,694**	**654,744**	**908,070**
	399,185	**934,085**	**1,067,706**	**2,400,976**
31 December 2022				
Financial liabilities				
Due to banks and other financial institutions	881,439	-	-	881,439
Customer deposits	2,512,322	230,401	3,174	2,745,897
	3,393,761	230,401	3,174	3,627,336
Contingent liabilities and commitments				
Contingent liabilities	240,760	420,637	134,283	795,680
Irrecoverable commitments	91,813	-	352,857	444,670
	332,573	420,637	487,140	1,240,350

Refer Note 15 'Maturity analysis of assets and liabilities' which specifies maturities of the financial liabilities shown above. The financial liabilities shown in Note 15 exclude future interest payments.

22.3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

22. Risk management (continued)

22.4 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Branches are not excessively exposed to interest rate risk as its assets and liabilities are repriced regularly and exposures arising on any medium term fixed rate lending or fixed rate borrowing are covered by derivative financial instruments. Furthermore, the reverse cumulative interest rate gap is carefully monitored on a periodic basis and adjusted where necessary to reflect changing market conditions.

Interest rate sensitivity

Interest rate sensitivity measures the effect of the assumed changes in interest rates on the net interest income for one year, based on the interest bearing financial assets and financial liabilities held at the year end. This excludes loan commitments. Sensitivity to interest rate movements will be on a symmetric basis as financial instruments giving rise to non-symmetric movements are not significant.

Based on the Branches' financial assets and liabilities held at the year end, an assumed 25 basis points increase in interest rate, with all other variables held constant, would impact the Branches' results as follows:

	Movement in basis points	***2023 AED'000***	*2022 AED'000*
USD	+25	**(3,718)**	(2,440)
AED	+25	**(1,112)**	(2,386)
EUR	+25	**(578)**	(292)

A 200 basis points upward shift in yield curve would have a net interest income impact of AED 37,848 and the equity would be AED 2.2 billion (2022: AED 40,833 and the equity would be AED 2.1 billion, respectively).

22.5 Foreign exchange risk

Foreign exchange risk is the risk that the fair value / future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risks are controlled through limits pre-established on currency position exposures. Assets are typically funded in the same currency as that of the business being transacted to eliminate exchange exposures. Appropriate segregation of duties exists between the front and back office functions, while compliance with position limits is independently monitored on an ongoing basis.

The table below analyses the effect on results and equity of an assumed 5% strengthening in value of the currency rate against the UAE Dirham from levels applicable at the year end, with all other variables held constant. A negative amount in the table reflects a potential net reduction in profit, whereas a positive amount reflects a net potential increase in profit:

22. Risk management (continued)

22.5 Foreign exchange risk (continued)

	2023		2022	
	% Change in currency rate	***Effect on profit* AED'000**	*% Change in currency rate*	*Effect on profit* AED'000
KWD	**+5**	**73**	+5	46
Other	**+5**	**(6,313)**	+5	(4,649)

There is no other impact of foreign exchange risk on the Branches' equity.

22.6 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, human error, and systems failure or from external events. The Branches have a set of policies and procedures, which are approved by the Head Office management and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Branches. Operational risk is managed by the operational risk function, which ensures compliance with policies and procedures and monitors operational risk as part of overall global risk management.

23. Capital

Introduction

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

The Central Bank of UAE ('CBUAE') issued Basel III capital regulations, which came into effect from I February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CETI'), Tier 1 ('Tl') and Total Capital. The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CETI requirement of 7%.

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

i) CET1 must be at least 7% of risk weighted assets (RWA);

ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and

iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).

iv) In addition, banks are required to maintain a capital conservation buffer (CCB) of 2.5% of risk weighted assets (RWA) and Countercyclical Buffer (CCYB), calculated based on geographic composition of the bank's portfolio of credit exposures, in the form of CET 1.

The Branches' total capital adequacy ratio as at 31 December 2023 was 38.76% against regulatory requirements of 13% and Common equity Tier 1 and Tier 1 capital ratio was 37.56.% (2022: 44.55% against regulatory requirements of 13% and Common equity Tier 1 and Tier 1 capital ratio was 43.37%).

23. Capital (continued)

Branches' structure

The core activities of the Branches are corporate, retail and private banking. The financial statements and capital adequacy regulatory reports of the Branches have been prepared on a consistent basis save as otherwise disclosed.

Capital structure

The Branches' regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes assigned capital, statutory reserve and retained earnings, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital, which includes qualifying subordinated liabilities.

During the year ended 31 December 2023, the Branches had complied with the CBUAE minimum capital requirements.

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

	2023 AED'000	2022 AED'000
Tier 1 Capital		
Allocated capital	**1,420,113**	1,420,113
Statutory reserves	**88,925**	71,281
Retained earnings and regulatory adjustments	**619,722**	473,121
Total	**2,128,760**	1,964,515
Tier 2 capital		
Impairment provision (1.25% of Risk weighted assets)	**68,062**	53,439
Total capital base	**2,196,822**	2,017,954
Risk weighted assets		
Credit risk	**5,444,974**	4,275,082
Market risk	**7,121**	3,440
Operational risk	**215,168**	251,358
Total risk weighted assets	**5,667,263**	4,529,880
Total Capital Adequacy Ratio (%)	**38.76%**	44.55%

24. Social contribution

Social contributions amounting to AED Nil were made during the year ended 31 December 2023 (2022: AED Nil).

25. Changes in reference rates (IBOR)

Financial assets and liabilities

The Branches’ exposure to its floating-rate financial assets and liabilities denominated in foreign currencies, is mainly through USD LIBOR. As at 31 December 2023, the Branches has transitioned a significant majority of its contracts to “Risk-Free Rates” (RFRs). For the remaining contracts which are mainly syndicated contracts, discussions are currently in progress with the counterparties/customers to complete transition before the next repricing date. For a limited number of contracts whose transition is not expected to be completed by next repricing date, the Branches will continue with the ‘synthetic’ Libor benchmark published by the ICE Benchmark Administration until 30 September 2024.