Habib Bank Limited – United Arab Emirates (“UAE”) Branches

FINANCIAL STATEMENTS

For the year ended December 31, 2023

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Independent auditors' report

To the Regional General Manager of Habib Bank Limited – United Arab Emirates Branches

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Habib Bank Limited – United Arab Emirates Branches ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the income statement, the statements of other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Baank in accordance with International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical 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 Accounting Standards and their preparation in compliance with the applicable provisions of the 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.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements (continued)

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

Those charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 Bank's internal control.

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

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

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

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

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Report on Other Legal and Regulatory Requirements

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

KPMG Lower Gulf Limited

Maher AlKatout
Registration No.: 5453
Dubai, United Arab Emirates

Date: 26 March 2024

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STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	***2023 AED '000***	*2022 AED '000*
ASSETS			
Cash and balances with the UAE Central Bank	5	**377,908**	543,008
Due from other banks	6	**182,986**	80,117
Due from the Head Office and other branches	7	**59,978**	50,768
Loans and advances - net	8	**983,698**	847,637
Investment securities	9	**1,134,964**	950,288
Customer acceptances		**20,825**	26,289
Deferred tax asset	28	**10,267**	15,960
Other assets	10	**61,981**	54,054
Property, equipment and intangibles	11	**10,530**	10,884
TOTAL ASSETS		**2,843,137**	2,579,005
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	12	**261**	235,905
Due to the Head Office and other branches	13	**131,052**	164,113
Customer deposits	14	**2,287,029**	1,862,899
Customer acceptances		**20,825**	26,289
Other liabilities	15	**99,707**	62,805
TOTAL LIABILITIES		**2,538,874**	2,352,011
EQUITY			
Allocated capital	17	**373,072**	373,072
Statutory reserve	18	**26,405**	23,431
Accumulated losses		**(77,187)**	(103,953)
Fair value and other reserve	19	**(18,027)**	(65,556)
TOTAL EQUITY		**304,263**	226,994
TOTAL LIABILITIES AND EQUITY		**2,843,137**	2,579,005

These financial statements were authorised for issue on March 25, 2024 by:

Country Manager - UAE

Regional Head - Finance

The independent auditors' report is set out on pages 1 to 3.

The attached notes 1 to 32 form an integral part of these financial statements.

Habib Bank Limited - UAE Branches

INCOME STATEMENT

For the year ended 31 December 2023

	Notes	**2023** **AED '000**	2022 AED '000
Interest income	22	**144,772**	78,881
Interest expense	23	**(63,993)**	(23,681)
Net interest income		**80,779**	55,200
Fee and commission income	24	**15,099**	10,547
Foreign exchange income		**6,586**	7,854
Other income	25	**(535)**	870
Net operating income		**101,929**	74,471
Operating expenses	26	**(66,516)**	(65,801)
Profit before net impairment charge and taxation		**35,413**	8,670
Impairment reversal on loans and advances	8	**701**	23,825
Impairment (allowance)/reversal on off-balance sheet obligations		**(273)**	229
Impairment reversal/(allowance) on investments	19	**11**	(12,332)
Credit loss allowance against other assets		**(419)**	-
Net impairment reversal		**20**	11,722
Profit before taxation		**35,433**	20,392
Taxation	28	**(5,693)**	(8,901)
NET PROFIT FOR THE YEAR		**29,740**	11,491

The independent auditors' report is set out on pages 1 to 3.
The attached notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	**2023** **AED '000**	2022 AED '000
NET PROFIT FOR THE YEAR		**29,740**	11,491
Other comprehensive income/(loss)			
Other comprehensive income to be reclassified to income statement in subsequent periods			
Net unrealised gain/(loss) on investment securities measured at fair value through OCI	19	**47,540**	(83,761)
Impairment (reversal)/allowance on investments securities under IFRS 9	19	**(11)**	12,332
Other comprehensive income/(loss) for the year		**47,529**	(71,429)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**77,269**	(59,938)

The independent auditors' report is set out on pages 1 to 3.
The attached notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Allocated capital AED'000	*Statutory reserve AED'000*	*Accumulated losses AED'000*	*Fair value and other reserve AED'000*	*Total AED'000*
As at 1 January 2023	373,072	23,431	(103,953)	(65,556)	226,994
Profit for the year	-	-	29,740	-	29,740
Other comprehensive income for the year	-	-	-	47,529	47,529
Total comprehensive income for the year	-	-	29,740	47,529	77,269
Transfer to statutory reserve	-	2,974	(2,974)	-	-
As at 31 December 2023	**373,072**	**26,405**	**(77,187)**	**(18,027)**	**304,263**
As at 1 January 2022	373,072	22,282	(114,295)	5,873	286,932
Profit for the year	-	-	11,491	-	11,491
Other comprehensive loss for the year	-	-	-	(71,429)	(71,429)
Total comprehensive loss for the year	-	-	11,491	(71,429)	(59,938)
Transfer to statutory reserve	-	1,149	(1,149)	-	-
As at 31 December 2022	373,072	23,431	(103,953)	(65,556)	226,994

The independent auditors' report is set out on pages 1 to 3.
The attached notes 1 to 32 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	***2023*** ***AED '000***	*2022* *AED '000*
OPERATING ACTIVITIES			
Net profit before taxation		**35,433**	20,392
Adjustments for non-cash and other items:			
Depreciation	26	**6,974**	7,644
Amortisation	26	**189**	186
Net impairment reversal		**(20)**	(11,722)
Loss on disposal of property, equipment and intangibles		**2**	4
Loss on sale of fair value through OCI securities		**1,131**	74
Interest on lease liability against right-of-use assets		**(9)**	9
Provision for employees' end of service benefits	16	**849**	715
Cash generated from operations before changes in operating assets and liabilities		**44,549**	17,302
Changes in operating assets and liabilities:			
Reserves with the UAE Central Bank		**(34,842)**	(12,784)
Due from the Head Office and other branches		**-**	17,263
Loans and advances		**(135,360)**	522,003
Other assets		**(8,346)**	(476)
Due to other banks		**(234,903)**	234,903
Customer deposits		**424,130**	(247,886)
Lease liability against right-of-use-assets		**(306)**	(144)
Other liabilities		**36,636**	9,090
		91,558	539,271
Payments for employees' end of service benefits	16	**(541)**	(1,475)
Net cash generated from operating activities		**91,017**	537,796
INVESTING ACTIVITIES			
Proceeds from settlement of investment securities		**639,631**	137,689
Purchase of investment securities		**(777,898)**	(585,142)
Purchase of property, equipment and intangibles	11	**(6,811)**	(5,601)
Net cash used in investing activities		**(145,078)**	(453,054)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(54,061)**	84,742
Cash and cash equivalents at 1 January		**420,873**	336,131
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	29	**366,812**	420,873
Supplemental disclosure:			
Interest income received		**137,556**	74,909
Interest expense paid		**52,302**	20,274

The independent auditors' report is set out on pages 1 to 3.

The attached notes 1 to 32 form an integral part of these financial statements.

1 ESTABLISHMENT AND OPERATIONS

Habib Bank Limited - UAE Branches operates as a branch of Habib Bank Limited with its Head Office ("Head Office") in Pakistan. In the United Arab Emirates (“UAE”), it operates through its six branches (2022: six branches) located in the emirates of Abu Dhabi, Dubai and Sharjah under a license issued by the Central Bank of the UAE ("UAE Central Bank"). Habib Bank Limited, is listed on the Pakistan Stock Exchange.

The principal activities of Habib Bank Limited - UAE Branches (hereafter these branches are referred to as the “Bank”) are to provide branch and corporate banking services in the UAE. These financial statements represent the combined statement of financial position and results of the six branches (2022: six branches) of the Bank in the UAE. The registered address of the Bank is P.O. Box 888, Dubai, UAE.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

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

- derivative financial instruments are measured at fair value; and
- financial assets at fair value through other comprehensive income.

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

2.2 Changes in accounting policies

Relevant new and revised IFRS applied with no material effect on the financial statements

The following new and revised IFRS have been adopted in these financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods.

	Effective for annual periods beginning on or after
(a) Amendments to IAS 8 Accounting policies, Changes in accounting estimates and errors	1 January 2023
(b) Amendment to IFRS 17 Insurance contracts	1 January 2023
(c) Amendment to IAS 1 and IFRS Practice Statement 2 relating to disclosure of Accounting Policies	1 January 2023
(d) Deferred Tax related to Assets and liabilities arising from a Single Transaction - Amendment to IAS 12	1 January 2023

Other than the above, there are no other significant IFRSs and ammendments that were effective for the first time for the financial year begining on or after 1 January 2023.

2 ACCOUNTING POLICIES (continued)

The accounting policies set out below have been applied consistently to all the years presented in these financial statements, except for the accounting standards mentioned in note 2.2 which are applied for the first time.

2.3 Summary of material accounting policies

Financial Instruments

a) Recognition and initial measurement

The Bank initially recognises loans and advances, deposits and investments on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price.

Classification

On initial recognition, a financial asset is classified as measured in the following categories:

i) Amortised cost; and
ii) Fair value through other comprehensive income (FVOCI)
iii) Fair value through profit or loss (FVTPL)

i) **Financial assets at amortised cost**

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

ii) **Financial assets at fair value through other comprehensive income (FVOCI)**

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

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

iii) **Fair value through profit or loss (FVTPL)**

Financial assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL

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

All financial assets and liabilities are classified at amortised cost except for investment securities which are classified as FVOCI.

b) 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, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Instruments (continued)

b) Fair value measurement (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques 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 best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the difference, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Fair value hierarchy

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, which reflects the significance of inputs used in making the measurements:

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

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

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

The Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At each reporting date, the Bank analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Bank's accounting policies. For this analysis, the Bank verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

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

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets

(a) Business model assessment

The Bank makes an assessment of the objective of a business model in which a financial asset is held at portfolio level, because this reflects the way the business is managed and information is provided to the management. The assessment is not determined by a single factor or activity. Instead, the Bank considers all relevant information available at the date of the assessment. The information considered includes:

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

Assessment whether contractual cash flows is solely payments of principal and interest

In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Bank considers the contractual terms of the instrument.

For the purpose of this assessment, ‘principal’ is defined as the fair value of the financial asset on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cashflows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash from specified assets; and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

b) Subsequent measurement

The Bank measures financial instruments, such as derivatives and certain fixed income instruments, at fair value at each reporting date.

Financial asset classified as at FVOCI or FVTPL are subsequently measured at fair value. Financial assets not carried at fair value are subsequently measured at amortised cost using the effective interest method, less expected credit allowances.

c) Reclassifications

Financial assets are not reclassified subsequent to their initial recognition except in the period after the Bank changes its business model for managing financial assets. If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank’s financial assets. During the current and previous financial year there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on 'Modification of financial assets' and 'Derecognition of financial assets' described in note 2.3 (f) and 2.3 (g) respectively).

d) Impairment

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

- Loans and advances (including undrawn loan commitments)
- Debt investment securities
- Unfunded exposure (financial guarantee contracts issued, acceptance and letter of credit issued).
- Due from Banks

The Bank considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Bank has applied low credit risk exemption to cash and balances with the UAE Central Bank, due from other banks, due from the Head Office and other branches.

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

Stage 1: When loans are first recognised, the Bank recognises an allowance based on 12 months ECLs. 12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Stage 2: When a loan has shown a significant increase in credit risk since origination, the Bank records an allowance for the life time expected credit losses (LTECL). LTECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Loans considered credit-impaired. The Bank measures ECL on such assets as the difference between the asset’s gross carrying amount and the present value of estimated future cash flows from the asset discounted at the asset’s original Effective Interest Rate.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

ECLs are an unbiased probability-weighted estimate of the present value of credit losses that is determined by evaluating a range of possible outcomes. For funded exposures, ECL is measured as follows:

- for financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive; and
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

However, for unfunded exposures, ECL is measured as follows:

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

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic and credit risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original Effective Interest Rate (EIR), regardless of whether it is measured on an individual basis or a collective basis.

The key inputs into the measurement of ECL are the term structures of the following variables:

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

These parameters are generally derived from developed statistical models, other historical data and are adjusted to reflect forward-looking information.

Details of these statistical parameters / inputs are as follows:

- PD – PD is the estimate of likelihood of default over a given time horizon, which is calculated based on statistical rating models currently used by the Bank and assessed using rating tools tailored to the various categories of counterparties and exposures.
- EAD – EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. EAD is determined by the exposure at reporting date.
- LGD – LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt securities carried at FVOCI are credit-impaired.

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance; and
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment.

For financial assets where concessions are contemplated but not granted, the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

2 **ACCOUNTING POLICIES** (continued)

2.3 **Summary of material accounting policies** (continued)

Financial Assets (continued)

d) Impairment (continued)

Default definition

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers a financial asset to be in default when:

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

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

- qualitative - e.g. breaches of covenant;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank and based on data developed internally and obtained from external sources.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

The Bank formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios, one upside and one downside scenario. The central scenario is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. External information considered includes economic data and forecasts published by supranational organisations such as the International Monetary Fund.

The scenario probability weightings applied in measuring ECL are as follows.

	2023			*2022*		
At 31 December	**Base**	**Upside**	**Downside**	Base	Upside	Downside
Scenario probability weighting	**65%**	**5%**	**30%**	70%	0	30%

The Bank has identified and documented key drivers of credit risk and credit losses for financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. IFRS 9 requires the consideration of forward-looking elements and forecasts of future economic conditions that are relevant to estimate Expected Credit Losses. The Bank has applied the Vasicek Model to convert Through-the-Cycle (TTC PD) into Point-In-Time' Probability of Default (PiT PD) using current forecasts of future economic conditions. In order to derive the PiT PDs, the Bank has obtained the forecasted GDP for the five years published by the International Monetary Fund (IMF) to calculate the PIT PD for each Base, Positive and Negative scenarios. The Bank assesses Gross Domestic Product (GDP) to be the best proxy to forecast economic conditions for respective country of exposure and consequently future expected credit losses.

Non-retail portfolio

The non-retail portfolio comprises of loans which are managed individually by the Relationship Managers (RMs) with oversight from the Credit Risk team of the Bank. These loans are appraised at least annually based on the financial information, other qualitative information and account conduct of the customer.

A non-retail customer is identified as at default if the customer is materially delinquent for more than 90 days on any of its credit obligation.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

Retail portfolio

The retail portfolio comprises of loans that are managed at a product level, and based on approved product programs. A retail account is identified as default if the customer is delinquent for more than 90 days. The default rate analysis for the retail portfolio is performed at the account level.

Assessment of significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments, letters of credit and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The assessment is performed on at least quarterly basis for each individual exposure.

Quantitative thresholds are established for the significant increase in the credit based on the movement in credit rating. In addition to quantitative criteria the Bank has a proactive Early Warning Indicator (EWI) framework, based on which the Credit Risk team performs a portfolio quality review on a monthly basis. The objective of the same is to identify potentially higher risk customers within the performing customers.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the probability of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the probability of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised.

In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment. The following indicators are incorporated:

- internal risk grade;
- downgrage in internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- Customer delinquency status to be reviewed i.e. days past due status
- Certain industries to be considered as high risk.
- significant changes in the value of the collateral supporting the obligation;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the group and changes in the operating results of the borrower; and
- macroeconomic information is incorporated as part of the internal rating model.

The quantitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis. However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

d) Impairment (continued)

Improvement in credit risk profile

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

The Bank has defined below criteria in accordance with regulatory guidelines to assess any improvement in the credit risk profile which will result into upgrading of customers moving from Stage 3 to Stage 2 and from Stage 2 to Stage 1.

- Significant decrease in credit risk will be upgraded stage-wise (one stage at a time) from Stage 3 to Stage 2 after and from Stage 2 to Stage 1 after meeting the curing period of at least 12 months.
- Restructured cases will be upgraded if repayments of 3 installments (for quarterly installments) have been made or 12 months (for installments longer than quarterly) curing period is met.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve;
- for loan commitments and financial guarantee contracts: generally, as a provision in other liabilities; and
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component.

e) Write-off

Loans and advances and debt securities are written-off when the Bank has no reasonable expectations of recovering the financial asset (either partially or in full). This is the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level. A write-off constitutes a derecognition event. The Bank may apply enforcement activities to financial assets written-off.

Recoveries of amounts previously written-off are included in 'other income' in the income statement.

f) Modification of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and / or timing of the contractual cash flows either immediately or at a future date.

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank’s policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Bank considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or change of counterparty, the extent of change in interest rates, maturity, covenants. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is material, the Bank deems the arrangement is substantially different leading to derecognition.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

f) Modification of financial assets (continued)

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Bank determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants.

If the Bank plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the credit risk remains significantly higher than what was expected at initial recognition, the loss allowance will continue to be measured at an amount equal to lifetime ECL. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

If the modification of a financial asset measured at amortised cost or FVOCI does not result in derecognition of the financial asset, then the Bank first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in the income statement. Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

g) Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Financial Assets (continued)

g) Derecognition of financial assets (continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain / loss allocated to it that had been recognised in other comprehensive income (OCI) is recognised in income statement.

Financial liabilities

a) Classification

The Bank classifies its financial liabilities in amortised cost.

Financial liabilities at amortised cost

Financial liabilities, including deposits, borrowings and other liabilities, are initially measured at fair value, net of transaction costs. These financial liabilities are subsequently measured at amortised cost using the effective interest method.

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

b) Modification of financial liabilities

The Bank accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is materially different from the discounted present value of the remaining cash flows of the original financial liability.

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 derecognised and consideration paid is recognised in the income statement. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

c) Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank’s obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the income statement.

When the Bank exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Derivative financial instruments

a) Classification
The Bank enters into derivative financial instruments including forwards and swaps in the foreign exchange markets.

b) Initial and subsequent measurement
In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist. The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. The negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

(c) Gains and losses on subsequent measurement
The gains or losses from derivative financial instruments classified as FVPL are taken to the income statement.

Due from banks
Amounts due from banks are initially recognised at fair value and subsequently measured at amortised cost less allowance for expected credit loss, if any.

Loans and advances
Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability.

Investment securities
The ‘investment securities’ caption in the statement of financial position includes debt securities measured at FVOCI. For debt securities measured at FVOCI, gains and losses are recognised in OCI.

Acceptances
Acceptances arise when the Bank is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Bank and is therefore recognised as a financial liability in the statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset.

Acceptances have been considered within the scope of IFRS 9 - Financial Instruments for the purpose of calculation of expected credit loss and are valued at amortized cost and continued to be recognised as a financial liability in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset.

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

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents include cash on hand, balance in current and call accounts and placements with original maturity three months or less with insignificant credit risk excluding the statutory deposit required to be maintained with the UAE Central Bank and deposits under lien. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Property, equipment and intangibles

Property, equipment and intangibles are stated at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the items plus their incidental costs. Depreciation is computed on the straight line method at rates calculated to reduce the cost of assets to their estimated residual values over their expected useful live.

	Years
Leasehold improvements	5
Furniture, fixtures, and office equipment	5-10
Motor vehicles	5
Computers and accessories	3-10

Effective 1 January, 2023, the Bank has revised estimate of the useful life of vehicles from 10 years to 5 years. This revision has been accounted for as a change in accounting estimate in accordance with the requirements of IAS 8 and accordingly, has been recognised prospectively in the income statement.

The effect of this change on depreciation expense is as follows:

	2023
	AED '000
Increase in other operating expenses - depreciation	**121**

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in other income in the income statement.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of the fair value less cost to sell and value in use.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if required.

Right-of-use assets and their related lease liability

Right-of-use assets

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

On initial recognition, right-of-use assets are measured at an amount equal to initial lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to be incurred to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located.

Right-of-use assets are subsequently stated at cost less any accumulated depreciation / accumulated impairment losses and are adjusted for any remeasurement of lease liability. The remeasurement of lease liability will only occur in cases where the terms of the lease are changed during the lease tenor.

Right-of-use assets are depreciated over their expected useful lives using the straight-line method. Depreciation on additions (new leases) is charged from the month in which the leases are entered into. No depreciation is charged in the month in which the leases mature or are terminated.

Lease liability against right-of-use assets

The lease liabilities are initially measured as the present value of the remaining lease payments, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Bank's incremental borrowing rate.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. The lease liability is also remeasured to reflect any reassessment or change in lease terms. These remeasurements of lease liabilities are recognised as adjustments to the carrying amount of related right-of-use assets after the date of initial recognition.

Each lease payment is allocated between a reduction of the liability and a finance cost. The finance cost is charged to the profit and loss account as markup expense over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Taxation

Provision for taxation is made in respect of the Bank's operations in the Emirates of Abu Dhabi, Sharjah and Dubai whereby tax is payable at the rate of 20% of the adjusted taxable profit generated during the year in each of the Emirates, in accordance with the relevant legislation of the Emirate.

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

Current tax comprises the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date by the tax laws and regulation issued by the Emirates of Abu Dhabi, Sharjah and Dubai, and any adjustments to tax payable in respect of previous years.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Bank is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future;
- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Bank.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset only if certain criteria are met.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Borrowings, customer deposits and due to other banks

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received), net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the EIR.

Employees' end of service benefits

With respect to the Bank's national employees, the Bank contributes to the pension scheme for UAE nationals under the UAE General Pension and Social Security law in accordance with Federal Law No. (7), 1999 for Pension and Social Security. This is a defined contribution pension plan and the Bank's contributions are charged to the income statement in the period to which they relate. In respect of this scheme, the Bank have an obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Employees' end of service benefits (continued)
The Bank provides for end of services benefits to other employees based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement, subject to completion of minimum services period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour Laws.

Provisions
A provision is recognised if as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Revenue recognition

Interest income and expense
Interest income and expense for all interest bearing financial instruments except at FVTPL, are presented in 'interest income' and 'interest expense' in the income statement on an accrual basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

Fees and commission
Fee income, which is not an integral part of the effective interest rate of a financial instrument, is earned from a diverse range of services provided by the Bank to its customers, and are accounted for in accordance with IFRS 15 'Revenue from Contracts with Customers'. Under the IFRS 15, fee income is measured by the Bank based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Bank recognises revenue when it transfers control over a product or service to a customer.

A contract with a customer that results in a recognised financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as an arrangement for the acquisition of shares or other securities);

- income earned from the provision of services is recognised as revenue as the services are provided; and

- other fees and commission income and expense are recognised as the related services are performed or received.

Fee income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in 'Interest income' in the income statement.

Foreign currency translation

(a) Functional and presentation currency
The financial statements are presented in United Arab Emirates Dirhams(AED), which is the Bank's functional and presentation currency, rounded to the nearest thousands, unless otherwise stated.

(b) Foreign currency transactions
Foreign currency transactions are recorded at rates of exchange ruling at value dates of the transaction. All monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into UAE Dirhams at rates of exchange ruling at the reporting date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and amortised cost in foreign currency translated at the exchange rate at the end of the year.

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Foreign currency translation (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair values are translated into UAE Dirhams using the spot exchange rate at the date the values were determined. Gains or losses on translation are included in the income statement. Non-monetary assets and liabilities carried at cost are not re translated subsequent to their initial recognition. Any resultant gains or losses are taken to the income statement.

Derivative product types

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. The Bank enters into a variety of derivative financial instruments to manage the exposure to profit and foreign exchange rate risks, including unilateral promise to buy/sell currencies and interest rate swap.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets when these are quoted instruments or else by reference to recent market transactions, other valuation techniques including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Forwards

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. These are recorded at fair value.

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in income statement.

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

Interest Rate Benchmark Reform

Interbank offered rates (IBORs), notably the London Interbank Offered Rate (LIBOR), have historically played a pivotal role in global financial markets, serving as key reference rates for various financial instruments. However, concerns surrounding the integrity of IBOR rates have prompted regulators, central banks, and market participants to pursue a transition to alternative risk-free benchmark reference rates (RFRs).

2 ACCOUNTING POLICIES (continued)

2.3 Summary of material accounting policies (continued)

Interest Rate Benchmark Reform (continued)

Market-led working groups in respective jurisdictions have recommended these alternative rates, which have been gradually adopted. During 2022 and 2023, majority of IBORs have been discontinued giving way to Alternate Reference Rates (ARRs). While the transition to ARR has been largely completed for major currency pairs, the United Arab Emirates Dirham (AED) is still a work in progress. The Central Bank of United Arab Emirates (CBUAE) has already initiated the exercise to institutionalize this transition and we expect this to take effect in the months to come.

While the transition away from IBORs had market-wide implications, this way swiftly managed by implementing project groups dedicated to this changeover. HBL UAE stays committed to the adoption of best practices and will continue to address any challenges through:

- Implementing risk mitigation measures and contingency plans.
- Enhancing communication with clients, counterparties, investors, and regulators; and
- Ensuring compliance with relevant regulatory requirements and guidance.

We remain committed to managing the remaining transition for AED effectively and maintaining transparency with all stakeholders throughout the process.

2.4 New standards and interpretations not yet adopted

The Bank has not applied the following new and revised IFRS, amendments and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Classification of Liabilities as Current or Non-Current Liabilities with Covenants (Amendments to IAS 1)	1 January 2024
Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)	1 January 2024
Lack of Exchangeability (Amendment to IAS 21)	1 January 2024
Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)	1 January 2024

Management anticipates that these IFRS and amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management of the Bank.

3 FINANCIAL RISK MANAGEMENT

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

The Bank's risk governance structure emphasises the strong oversight and control of risk with clear accountability for ownership of risk within each business unit. Under this approach, the business primarily owns the risk that it generates and is equally responsible for assessing risk, designing and implementing controls, monitoring and reporting their ongoing effectiveness to safeguard the Bank from exceeding its risk appetite.

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

The UAE Governance Committee (UAEGC) of the Bank has primary responsibility for implementing, overseeing and taking ownership for the enforcement of risk strategy and internal control directives laid down by the Board and Board committees. The Bank also comprises of other management level committees which actively manage and monitor risk particularly the Assets and Liabilities Management Committee (ALCO), Integrated Risk Management Committee (IRMC), Management Committee (MANCOM) and Branch Risk and Control Committee (BRCC). The Risk Management function headed by the Head Risk Management UAE reports to Head International and FI Risk Head Office. The risk function is independent of the origination, trading and sales function to ensure balance in risk and reward decision is not compromised and to ensure transparency of decisions in accordance with laid down standards and policies. The risk function manages risk related policies, market, liquidity, operational and fraud risk. The Risk function is also independent of the credit underwriting division which is managed by the dedicated Credit Risk Manager.

3.1 Credit risk

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

The Bank considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes. The Bank Limit concentrations of exposure by type of asset, counterparties, industry, credit rating through setting-up approrpriate Risk Appetite. The Bank has a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities which is supported by the credit policies to protect the Bank against the identified risks, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Internal credit risk ratings

In order to minimise credit risk, the Bank maintains the Bank's credit risk grading to categorise exposures according to their degree of risk of default. The Bank's credit risk grading framework comprises various categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

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

Classification	Grades	Risk significance
Performing	1 - 8	Exceptional to Weak
Performing	9	Watch list / OLEM
Non-performing	10	Substandard
Non-performing	11	Doubtful
Non-performing	12	Loss

Measurement of ECL

As explained in note 2.3, the Bank measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk. However, for financial instruments such as overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance to terminate a loan commitment or guarantee.

Restructured and renegotiated loans

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Exposure to credit risk

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

2023	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Loans and advances		***AED'000***		
Performing	**725,064**	**269,972**	**-**	**995,036**
Non-performing	**-**	**-**	**252,831**	**252,831**
Allowance for impairment losses	**(6,218)**	**(5,120)**	**(252,831)**	**(264,169)**
Net carrying amount	**718,846**	**264,852**	**-**	**983,698**

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Unfunded advances		***AED'000***		
Performing	**87,110**	**146,249**	**-**	**233,359**
Allowance for impairment losses	**(32)**	**(291)**	**-**	**(323)**
Net carrying amount	**87,078**	**145,958**	**-**	**233,036**

	Stage 1	***Stage 2***	***Stage 3***	***Total***
Debt securities		***AED'000***		
Performing	**1,011,402**	**123,562**	**-**	**1,134,964**
Allowance for impairment losses	**(1,533)**	**(17,731)**	**-**	**(19,264)**

2022	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Loans and advances		*AED'000*		
Performing	655,858	202,584	-	858,442
Non-performing	-	-	306,338	306,338
Allowance for impairment losses	(3,972)	(7,628)	(305,543)	(317,143)
Net carrying amount	651,886	194,956	795	847,637

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Unfunded advances		*AED'000*		
Performing	36,786	75,178	-	111,964
Allowance for impairment losses	(15)	(35)	-	(50)
Net carrying amount	36,771	75,143	-	111,914

	Stage 1	*Stage 2*	*Stage 3*	*Total*
Debt securities		*AED'000*		
Performing	873,817	76,471	-	950,288
Allowance for impairment losses	(2,543)	(16,732)	-	(19,275)

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Risk limit control and mitigation policies

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

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

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

(a) Collateral

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

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

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

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

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Analysis of collateral by type is presented in the following table:

	2023	*2022*
	AED '000	*AED '000*
Cash Margin and Liens	**82,176**	111,595
Guarantee	**46,023**	72,141
Mortgage	**7,300**	4,564
	135,499	188,300

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

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

Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	2023	*2022*
	AED '000	*AED '000*
Credit risk exposures relating to assets reflected on and off statement of financial position are as follows:		
Balances with the UAE Central Bank	**354,267**	524,832
Due from other banks	**182,986**	80,117
Due from the Head Office and other branches	**59,978**	50,768
Loans and advances (gross):		
Corporate loans	**1,246,990**	1,163,043
Retail loans	**877**	1,737
Investment securities	**1,134,964**	950,288
Customer acceptances	**20,825**	26,289
Other assets	**57,571**	50,130
	3,058,458	2,847,204
Contingent liabilities	**212,534**	85,675
Undrawn credit commitments	**498,026**	591,731
	710,560	677,406
At 31 December	**3,769,018**	3,524,610

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

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Repossessed assets

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

Repossessed collateral

During the year, the Bank has not taken possession of any collateral held as security in settlement of credit facilities (2022: Nil).

Investment securities

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

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

	2023	*2022*
	AED '000	*AED '000*
AAA to A-	**785,478**	604,423
BBB to B-	**250,071**	299,458
CCC+	**99,415**	46,407
Total	**1,134,964**	950,288

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

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

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

	2023	***2022***
	AED '000	***AED '000***
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	**24,737**	**20,180**
Less: Stage 1 and Stage 2 provisions under IFRS 9	**30,925**	**30,925**
General provision transferred to the impairment reserve*	**-**	**-**
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**252,831**	**305,543**
Less: Stage 3 provisions under IFRS 9	**252,831**	**305,543**
Specific provision transferred to the impairment reserve	**-**	**-**
Total provision transferred to the impairment reserve	**-**	**-**

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure

The following tables summarise the Bank's main credit exposure at their gross amounts as categorised by the industry sectors of its counterparties.

2023	***Financial institutions AED '000***	***Construction & real estate AED '000***	***Wholesale & retail trade AED '000***	***Other industries AED '000***	***Individuals AED '000***	***Total AED '000***
Balances with the UAE Central Bank	**354,267**	**-**	**-**	**-**	**-**	**354,267**
Due from other banks	**182,986**	**-**	**-**	**-**	**-**	**182,986**
Due from the Head Office and other branches	**59,978**	**-**	**-**	**-**	**-**	**59,978**
Loans and advances						
- Corporate loans	**626,148**	**22,079**	**178,364**	**419,353**	**1,046**	**1,246,990**
- Retail loans	**-**	**-**	**-**	**-**	**877**	**877**
Investment securities	**27,236**	**-**	**-**	**1,107,728**	**-**	**1,134,964**
Customer acceptances	**-**	**1,722**	**9,625**	**9,478**	**-**	**20,825**
Other assets	**33,083**	**-**	**-**	**24,488**	**-**	**57,571**
As at 31 December 2023	**1,283,698**	**23,801**	**187,989**	**1,561,047**	**1,923**	**3,058,458**

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure (continued)

2022	*Financial institutions AED '000*	*Construction & real estate AED '000*	*Wholesale & retail trade AED '000*	*Other industries AED '000*	*Individuals AED '000*	*Total AED '000*
Balances with the UAE Central Bank	524,832	-	-	-	-	524,832
Due from other banks	80,117	-	-	-	-	80,117
Due from the Head Office and other branches	50,768	-	-	-	-	50,768
Loans and advances						
- Corporate loans	452,827	19,393	125,378	495,391	70,054	1,163,043
- Retail loans	-	-	-	-	1,737	1,737
Investment securities	33,576	-	-	916,712	-	950,288
Customer acceptances	-	672	18,565	7,052	-	26,289
Other assets	33,083	-	-	17,047	-	50,130
As at 31 December 2022	1,175,203	20,065	143,943	1,436,202	71,791	2,847,204

3 FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Concentration of risks of financial assets with credit risk exposure (continued)

The following table breaks down the Bank's main credit exposure at their gross amounts, as categorised by geographical region as of the year-end.

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

	UAE AED'000	***OECD AED'000***	***Other Asian countries AED '000***	***Others AED'000***	***Total AED'000***
31 December 2023					
Balances with the UAE Central Bank	**354,267**	**-**	**-**	**-**	**354,267**
Due from other banks	**73,460**	**47,268**	**61,734**	**524**	**182,986**
Due from the Head Office and other branches	**-**	**511**	**59,467**	**-**	**59,978**
Loans and advances:					
- Corporate loans	**372,165**	**335,216**	**310,842**	**228,767**	**1,246,990**
- Retail loans	**877**	-	-	-	**877**
Investment securities	**838,992**	**-**	**231,680**	**64,292**	**1,134,964**
Customer acceptances	**20,825**	**-**	**-**	**-**	**20,825**
Other assets	**57,571**	**-**	**-**	**-**	**57,571**
	1,718,157	**382,995**	**663,723**	**293,583**	**3,058,458**

	UAE AED'000	*OECD AED'000*	*Other Asian countries AED '000*	*Others AED'000*	*Total AED'000*
31 December 2022					
Balances with the UAE Central Bank	524,832	-	-	-	524,832
Due from other banks	-	21,090	55,146	3,881	80,117
Due from the Head Office and other branches	-	870	49,898	-	50,768
Loans and advances:					
- Corporate loans	439,328	203,703	394,249	125,763	1,163,043
- Retail loans	1,737	-	-	-	1,737
Investment securities	656,906	-	213,304	80,078	950,288
Customer acceptances	26,289	-	-	-	26,289
Other assets	50,130	-	-	-	50,130
	1,699,222	225,663	712,597	209,722	2,847,204

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk

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

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

Foreign exchange risk

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

	AED	***USD***	***Euro***	***GBP***	***Other***	***Total***
	AED '000	***AED '000***	***AED '000***	***AED '000***	***AED '000***	***AED '000***
As at 31 December 2023						
Assets						
Cash and balances with the UAE Central Bank	**377,890**	**18**	**-**	**-**	**-**	**377,908**
Due from other banks	**-**	**156,375**	**1,061**	**-**	**25,550**	**182,986**
Due from the Head Office and other branches	**-**	**58,769**	**66**	**325**	**818**	**59,978**
Loans and advances	**269,060**	**505,780**	**208,858**	**-**	**-**	**983,698**
Investment securities	**785,478**	**349,486**	**-**	**-**	**-**	**1,134,964**
Customer acceptances	**1,722**	**19,103**	**-**	**-**	**-**	**20,825**
Other assets	**23,262**	**57,902**	**1,554**	**-**	**60**	**82,778**
	1,457,412	**1,147,433**	**211,539**	**325**	**26,428**	**2,843,137**
Liabilities						
Due to other banks	**77**	**184**	**-**	**-**	**-**	**261**
Due to the Head Office and other branches	**21,093**	**109,959**	**-**	**-**	**-**	**131,052**
Customer deposits	**1,281,065**	**935,937**	**50,312**	**19,567**	**148**	**2,287,029**
Customer acceptances	**1,722**	**19,103**	**-**	**-**	**-**	**20,825**
Other liabilities	**58,074**	**13,113**	**2,805**	**1,094**	**24,621**	**99,707**
	1,362,031	**1,078,296**	**53,117**	**20,661**	**24,769**	**2,538,874**
Net financial position	**95,381**	**69,137**	**158,422**	**(20,336)**	**1,659**	**304,263**

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Foreign exchange risk (continued)

	AED	*USD*	*Euro*	*GBP*	*Other*	*Total*
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
As at 31 December 2022						
Assets						
Cash and balances with the UAE Central Bank	542,990	18	-	-	-	543,008
Due from other banks	-	75,454	665	-	3,998	80,117
Due from the Head Office and other branches	-	48,485	126	684	1,473	50,768
Loans and advances	276,235	413,829	157,573	-	-	847,637
Investment securities	604,423	345,865	-	-	-	950,288
Customer acceptances	-	26,289	-	-	-	26,289
Other assets	32,084	47,967	847	-	-	80,898
	1,455,732	957,907	159,211	684	5,471	2,579,005
Liabilities						
Due to other banks	267	235,638	-	-	-	235,905
Due to the Head Office and other branches	18,752	145,361	-	-	-	164,113
Customer deposits	1,054,595	692,022	91,722	23,208	1,352	1,862,899
Customer acceptances	-	26,289	-	-	-	26,289
Other liabilities	52,704	8,490	1,448	153	10	62,805
	1,126,318	1,107,800	93,170	23,361	1,362	2,352,011
Net financial position	329,414	(149,893)	66,041	(22,677)	4,109	226,994

The tables below indicate the currencies to which the Bank has exposure on assets and liabilities. The analysis calculates the effect of a reasonably possible increase in the currency rate against the AED, with all other variables held constant (a possible equal decrease in the currency rate against the AED will have an equal and opposite effect). A negative amount in the table reflects a potential net reduction in profit and loss, while a positive amount reflects a net potential increase in profit and loss. As AED and USD are pegged currencies, these do not embed any foreign exchange risk.

	2023		*2022*	
Currency	***Change in currency rate in %***	***Effect on profit and loss AED'000***	*Change in currency rate in %*	*Effect on profit and loss AED'000*
Euro	**±10**	**15,842**	±10	6,604
GBP	**±10**	**(2,034)**	±10	(2,268)
Others	**±10**	**166**	±10	411

Price risk

The Bank mainly holds debt securities, issued by various governments and local / foreign reputable organisations, which are carried at fair value. The Bank's exposure to price risk is dependent on the economical and political factors of these respective countries. The Bank manages the price risk through diversification and placing limits on individual and total debt securities portfolio. Reports on the debt securities portfolio are submitted to the Bank's senior management on a regular basis. The ALCO Sub-Committee for Investment reviews and approves all debt securities investment decisions. A 10% increase / decrease in value of Bank's financial assets measured at fair value through OCI will result in an increase / decrease in the Bank's equity by AED 113,496 thousand (2022: AED 95,029 thousand).

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk

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

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

	Upto 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*	*Effective interest rate (%)*
At 31 December 2023							
Assets							
Cash and balances with the UAE Central Bank	**205,000**	**-**	**-**	**-**	**172,908**	**377,908**	**5.40**
Due from other banks	**119,645**	**36,730**	**-**	**-**	**26,611**	**182,986**	**6.16**
Due from the Head Office and other branches	**18,364**	**40,404**	**-**	**-**	**1,210**	**59,978**	**7.68**
Loans and advances	**151,012**	**617,785**	**214,901**	**-**	**-**	**983,698**	**7.63**
Investment securities	**93,887**	**691,591**	**296,475**	**53,011**	**-**	**1,134,964**	**5.30**
Customer acceptances	**-**	**-**	**-**	**-**	**20,825**	**20,825**	**-**
Other assets	**-**	**-**	**-**	**-**	**82,778**	**82,778**	**-**
Total financial assets	**587,908**	**1,386,510**	**511,376**	**53,011**	**304,332**	**2,843,137**	
Liabilities							
Due to other banks	**-**	**-**	**-**	**-**	**261**	**261**	**-**
Due to the Head Office and other branches	**46,023**	**35,797**	**-**	**-**	**49,232**	**131,052**	**4.54**
Customer deposits	**392,096**	**1,106,139**	**49,459**	**-**	**739,335**	**2,287,029**	**2.37**
Customer acceptances	**-**	**-**	**-**	**-**	**20,825**	**20,825**	**-**
Other liabilities	**-**	**-**	**-**	**-**	**99,707**	**99,707**	**-**
Total liabilities	**438,119**	**1,141,936**	**49,459**	**-**	**909,360**	**2,538,874**	
Interest sensitivity gap	**149,789**	**244,574**	**461,917**	**53,011**	**(605,028)**	**304,263**	

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

	Upto 3 months AED'000	*3 months to 1 year AED'000*	*1 year to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*	*Effective interest rate (%)*
At 31 December 2022							
Assets							
Cash and balances with the UAE Central Bank	440,000	-	-	-	103,008	543,008	4.40
Due from other banks	75,454	-	-	-	4,663	80,117	7.75
Due from the Head Office and other branches	8,080	40,404	-	-	2,284	50,768	7.08
Loans and advances	117,536	604,005	126,096	-	-	847,637	3.73
Investment securities	353,514	250,909	315,942	29,923	-	950,288	4.10
Customer acceptances	-	-	-	-	26,289	26,289	-
Other assets	-	-	-	-	80,898	80,898	-
Total financial assets	994,584	895,318	442,038	29,923	217,142	2,579,005	
Liabilities							
Due to other banks	-	234,903	-	-	1,002	235,905	7.61
Due to the Head Office and other branches	72,177	35,797	-	-	56,139	164,113	4.29
Customer deposits	367,490	666,050	24,549	-	804,810	1,862,899	1.07
Customer acceptances	-	-	-	-	26,289	26,289	-
Other liabilities	-	-	-	-	62,805	62,805	-
Total liabilities	439,667	936,750	24,549	-	951,045	2,352,011	
Interest sensitivity gap	554,917	(41,432)	417,489	29,923	(733,903)	226,994	

3 FINANCIAL RISK MANAGEMENT (continued)

3.2 Market risk (continued)

Interest rate risk (continued)

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

	Interest income AED '000	***Interest expense AED '000***
As at 31 December 2023		
Fluctuation in yield by 25 bps	**5,813**	**3,778**
As at 31 December 2022		
Fluctuation in yield by 25 bps	5,524	3,078

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

3.3 Liquidity risk

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

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

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

At 31 December 2023	***Up to 3 months AED '000***	***3 months to 1 year AED '000***	***1 – 5 years AED '000***	***Over 5 years AED '000***	***Total AED '000***
Due to other banks	**261**	**-**	**-**	**-**	**261**
Due to the Head Office and other branches	**95,255**	**35,797**	**-**	**-**	**131,052**
Customer deposits	**1,163,426**	**1,207,583**	**-**	**-**	**2,371,009**
Other liabilities	**99,544**	**163**	**-**	**-**	**99,707**
	1,358,486	**1,243,543**	**-**	**-**	**2,602,029**

3 FINANCIAL RISK MANAGEMENT (continued)

3.3 Liquidity risk (continued)

At 31 December 2022	*Up to 3 months AED '000*	*3 months to 1 year AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*Total AED '000*
Due to other banks	235,905	-	-	-	235,905
Due to the Head Office and other branches	128,316	35,797	-	-	164,113
Customer deposits	1,212,430	677,369	-	-	1,889,799
Other liabilities	62,805	-	-	-	62,805
	1,639,456	713,166	-	-	2,352,622

3.4 Operational risk

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

3.5 Fair value of financial assets and liabilities

Financial assets consist of cash and balances with the UAE Central Bank, due from other banks, due from the Head Office and other branches, loans and advances, investment securities, accrued interest, other receivables and customer acceptances. Financial liabilities consist of due to other banks, due to the Head Office and other branches, customer deposits, customer acceptances, accrued income and other payables.

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

The fair values of financial instruments are not materially different from their carrying values.

Analysis of financial instruments recorded at fair value by level of the fair value hierarchy

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

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

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

As at year end, investment securities classified as FVOCI amounted to AED 1,134,964 thousand (2022: AED 950,288 thousand) as mentioned in note 9, of which investment securities amounting to AED 1,134,964 thousand (2022: 950,288 thousand) were falling under level 1 category and no investments securities were falling under level 2 (2022: nil). There were no investment securities were falling under level 3 (2022: nil).

During current or prior year, bank has not classified any financial instrument in level 3 of the fair value hierarchy.

3 FINANCIAL RISK MANAGEMENT (continued)

3.6 Capital management

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

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

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

Minimum transitional arrangements as per CBUAE are as follows:

Capital element	
Minimum common equity tier 1 ratio	7.00%
Minimum tier 1 capital ratio	8.50%
Minimum capital adequacy ratio	10.50%
Capital conservation buffer	2.50%
Countercyclical buffer	0.01%

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

	2023	*2022*
	AED '000	*AED '000*
Tier 1 capital		
Allocated capital	**373,072**	373,072
Statutory reserves	**26,405**	23,431
Accumulated losses	**(77,187)**	(103,953)
Fair value and other reserves	**(37,291)**	(84,831)
Regulatory adjustments		
Deferred tax assets	**(4,700)**	(1,542)
Goodwill and other intangibles	**(1,297)**	(694)
IFRS 9 transitional arrangement	**1,984**	2,976
Total Tier 1 capital	**280,986**	208,459
Tier 2 capital		
Collective impairment provision	**20,614**	16,817
Total Tier 2 capital	**20,614**	16,817
Total capital base	**301,600**	225,276
Risk Weighted Assets		
Credit risk	**1,649,127**	1,345,354
Market risk	**6,071**	3,724
Operational risk	**143,373**	117,058
Total risk weighted assets	**1,798,571**	1,466,136
Capital Adequacy Ratio (%)	**16.77**	15.37
Tier 1 capital to risk weighted assets ratio (%)	**15.62**	14.22

3 FINANCIAL RISK MANAGEMENT (continued)

3.7 Credit Quality Analysis

As of 31 December 2023

	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Exposure AED '000	*ECL AED '000*	*Exposure AED '000*	*ECL AED '000*	*Exposure AED '000*	*ECL AED '000*	*Exposure AED '000*	*ECL AED '000*
Cash and balances with the UAE Central Bank	**377,908**	**-**	**-**	**-**	**-**	**-**	**377,908**	**-**
Due from other banks	**182,986**	**-**	**-**	**-**	**-**	**-**	**182,986**	**-**
Due from the Head Office and other branches	**59,978**	**-**	**-**	**-**	**-**	**-**	**59,978**	**-**
Loans and advances	**725,064**	**6,218**	**269,972**	**5,120**	**252,831**	**252,831**	**1,247,867**	**264,169**
Investment securities	**1,011,402**	**1,533**	**123,562**	**17,731**	**-**	**-**	**1,134,964**	**19,264**
Other assets	**57,571**	**-**	**-**	**-**	**-**	**-**	**57,571**	**-**
Unfunded exposure	**87,110**	**32**	**146,249**	**291**	**-**	**-**	**233,359**	**323**
	2,502,019	**7,783**	**539,783**	**23,142**	**252,831**	**252,831**	**3,294,633**	**283,756**

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.7 Credit Quality Analysis (continued)

As of 31 December 2022

	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Exposure AED '000	*ECL AED '000*	*Exposure AED '000*	*ECL AED '000*	*Exposure AED '000*	*ECL AED '000*	*Exposure AED '000*	*ECL AED '000*
Cash and balances with the UAE Central Bank	543,008	-	-	-	-	-	543,008	-
Due from other banks	80,117	-	-	-	-	-	80,117	-
Due from the Head Office and other branches	50,768	-	-	-	-	-	50,768	-
Loans and advances	655,858	3,972	202,584	7,628	306,338	305,543	1,164,780	317,143
Investment securities	873,817	2,543	76,471	16,732	-	-	950,288	19,275
Other assets	50,130	-	-	-	-	-	50,130	-
Unfunded exposure	36,786	15	75,178	35	-	-	111,964	50
	2,290,484	6,530	354,233	24,395	306,338	305,543	2,951,055	336,468

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

3 FINANCIAL RISK MANAGEMENT (continued)

3.8 Fair value of financial instruments

As of 31 December 2023	***FVTPL***	***FVOCI - Debt instruments***	***Amortised Cost***	***Carrying Value***
	AED '000	***AED '000***	***AED '000***	***AED '000***
Financial Assets				
Cash and balances with the UAE Central Bank	**-**	**-**	**377,908**	**377,908**
Due from other banks	**-**	**-**	**182,986**	**182,986**
Due from the Head Office and other branches	**-**	**-**	**59,978**	**59,978**
Loans and advances - net	**-**	**-**	**983,698**	**983,698**
Investment securities	**-**	**1,134,964**	**-**	**1,134,964**
Customer acceptances	**-**	**-**	**20,825**	**20,825**
Other assets	**366**	**-**	**57,205**	**57,571**
	366	**1,134,964**	**1,682,600**	**2,817,930**
Financial Liabilities				
Due to other banks	**-**	**-**	**261**	**261**
Due to the Head Office and other branches	**-**	**-**	**131,052**	**131,052**
Customer deposits	**-**	**-**	**2,287,029**	**2,287,029**
Customer acceptances	**-**	**-**	**20,825**	**20,825**
Other liabilities	**3,609**	**-**	**96,098**	**99,707**
	3,609	**-**	**2,535,265**	**2,538,874**

As of 31 December 2022	*FVTPL*	*FVOCI - Debt instruments*	*Amortised Cost*	*Carrying Value*
	AED '000	*AED '000*	*AED '000*	*AED '000*
Financial Assets				
Cash and balances with the UAE Central Bank	-	-	543,008	543,008
Due from other banks	-	-	80,117	80,117
Due from the Head Office and other branches	-	-	50,768	50,768
Loans and advances - net	-	-	847,637	847,637
Investment securities	-	950,288	-	950,288
Customer acceptances	-	-	26,289	26,289
Other assets	809	-	49,321	50,130
	809	950,288	1,597,140	2,548,237
Financial Liabilities				
Due to other banks	-	-	235,905	235,905
Due to the Head Office and other branches	-	-	164,113	164,113
Customer deposits	-	-	1,862,899	1,862,899
Customer acceptances	-	-	26,289	26,289
Other liabilities	2,936	-	59,869	62,805
	2,936	-	2,349,075	2,352,011

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Significant increase in credit risk
As explained in note 2.3, ECL is measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics
When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. Refer to note 2.3 for details of the characteristics considered in this judgement. The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 2.3 for more details on ECL.

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

Establishing the number and relative weightings of forward-looking scenarios for each type of product / market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Income taxes
The Bank is subject to income taxes in the United Arab Emirates. Significant estimates are required to determine the provision for income taxes. The Bank recognises liabilities for anticipated tax based on significant estimates of the amount of tax that will be due. Where the final outcome is different from the amounts that were initially recorded, such differences will impact the provision for income tax.

Deferred tax
Deferred tax is recognised to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

5 CASH AND BALANCES WITH THE UAE CENTRAL BANK

	2023	*2022*
	AED '000	*AED '000*
Cash in hand	**23,641**	18,176
With the UAE Central Bank in:		
Statutory deposits	**118,141**	83,299
Current accounts	**31,126**	1,533
Placements	**205,000**	440,000
	377,908	543,008

The statutory deposits with the UAE Central Bank are not available to finance the day to day operations of the Bank.

Placements with the UAE Central Bank are at rate 5.4% per annum (2022: 4.4%).

Effective 28 October 2020, the UAE Central Bank introduced new regulations regarding reserve requirements for deposit-taking licensed financial institutions. Under the new regulation, deposit-taking licensed institutions are allowed to draw on their reserve balances held in the UAE Central Bank on any day up to 100% for daily settlement purposes or to deal with any swings on overnight money market rates, while ensuring that the daily average requirements over a 14-day reserve maintenance period is met. The level of reserves required changes periodically in accordance with business requirements and the directives of the UAE Central Bank.
Cash and balances with UAE Central Bank is classified under stage 1 as per IFRS 9. However, these are low credit risk with immaterial impact of expected credit losses and hence no provision has been recognised.

6 DUE FROM OTHER BANKS

	2023	*2022*
	AED '000	*AED '000*
Placements with original maturity equal to / less than 3 months	**73,460**	55,095
Current accounts	**109,526**	25,022
	182,986	80,117

Placements with other banks are at rates 5.15% to 7.25% per annum (2022: 7.75%).

Due from other banks is classified under stage 1 as per IFRS 9. However, these are low credit risk assets, hence no provision has been recognised.

7 DUE FROM THE HEAD OFFICE AND OTHER BRANCHES

	2023	*2022*
	AED '000	*AED '000*
Placements with original maturity over 3 months	**40,403**	40,403
Placements with original maturity equal to / less than 3 months	**18,365**	8,081
Current accounts	**1,210**	2,284
	59,978	50,768

Placements with head office and other branches are at rates 7.50% to 7.78% per annum (2022: 4.5% to 7.75%).

8 LOANS AND ADVANCES - NET

	2023	*2022*
	AED '000	*AED '000*
Corporate loans	**1,246,990**	1,163,043
Retail loans	**877**	1,737
Total	**1,247,867**	1,164,780
Less:		
Allowance for impairment	**(264,169)**	(317,143)
Net loans and advances	**983,698**	847,637

8.1 Analysis of gross loans and advances

	2023	*2022*
	AED '000	*AED '000*
Loans	**702,496**	875,638
Overdrafts	**75,683**	131,361
Loans against trust receipts	**143,210**	105,691
Bills discounted	**326,478**	52,090
Total	**1,247,867**	1,164,780

8.2 An analysis of changes in the gross carrying amount and the corresponding ECL allowances is as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	--------------------- AED'000		------------------------	
Gross exposure at 1 January 2023	**655,858**	**202,584**	**306,338**	**1,164,780**
Transfer to Stage 1	**4,844**	**(4,844)**	**-**	**-**
Transfer to Stage 2	**(59,854)**	**59,854**	**-**	**-**
Transfer to Stage 3	**(94)**	**-**	**94**	**-**
Net addition	**124,310**	**12,378**	**3,666**	**140,354**
Amounts written off	**-**	**-**	**(57,267)**	**(57,267)**
At 31 December 2023	**725,064**	**269,972**	**252,831**	**1,247,867**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	--------------------- *AED'000*		------------------------	
Gross exposure at 1 January 2022	1,070,944	309,560	332,558	1,713,062
Transfer to Stage 1	5,444	(5,444)	-	-
Transfer to Stage 2	(26,051)	26,051	-	-
Transfer to Stage 3	-	-	-	-
Net repayments	(394,479)	(127,583)	(9,370)	(531,432)
Amounts written off	-	-	(16,850)	(16,850)
At 31 December 2022	655,858	202,584	306,338	1,164,780

8.3 Allowance for impairment

	Stage 1	**Stage 2**	**Stage 3**	**Total**
	--------------------- AED'000		------------------------	
ECL allowance at 1 January 2023	**3,972**	**7,628**	**305,543**	**317,143**
Net impairment reversals	**2,246**	**(2,508)**	**(439)**	**(701)**
Other movement	**-**	**-**	**4,994**	**4,994**
Amounts written off	**-**	**-**	**(57,267)**	**(57,267)**
At 31 December 2023	**6,218**	**5,120**	**252,831**	**264,169**

8 LOANS AND ADVANCES - NET (continued)

8.3 Allowance for impairment (continued)

2022	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
	AED'000			
ECL allowance at 1 January 2022	6,301	17,401	331,442	355,144
Net impairment charge	(2,329)	(9,773)	(11,723)	(23,825)
Other movement	-	-	2,674	2,674
Amounts written off	-	-	(16,850)	(16,850)
At 31 December 2022	3,972	7,628	305,543	317,143

9 INVESTMENT SECURITIES

	2023	*2022*
	AED '000	*AED '000*
Fair value through OCI securities	**1,134,964**	950,288
Allowances for expected credit losses	**19,264**	19,275

Fiduciary activities

The Bank acts as a trustee/manager and in other capacities that results in holding or placing of assets in a fiduciary capacity on behalf of customers.

These assets and income arising from these assets are not included in the Bank's financial statements as the risk and rewards incidental to ownership of these assets lie with the client.

As at 31 December 2023, the Bank held bonds with a market value of AED 43.30 million (2022: AED 26.65 million) in a fiduciary capacity on behalf of customers' without recourse to itself. Accordingly, these bonds are not included as part of the bank's own portfolio.

10 OTHER ASSETS

	2023	*2022*
	AED '000	*AED '000*
Interest receivable	**22,929**	15,713
Prepayments	**2,180**	1,732
Others (note 10.1)	**37,614**	36,932
Less: Provision held against other assets	**(742)**	(323)
	61,981	54,054

10.1 During the year 2012, the Bank had acquired a property collateralised against loans and advances as a result of a settlement agreement with its customer. The property had been transferred to Head Office and receivable of AED 33.083 million was recognised in consideration for the transfer of the property. Total receivable from Head Office as at December 31, 2023 is AED 33.083 million (2022: AED 33.083 million).
There are no expected credit losses and hence no provision has been recognised.

11 PROPERTY, EQUIPMENT AND INTANGIBLES

	2023 AED'000	*2022 AED'000*
Capital work in process	**935**	258
Tangible fixed assets	**9,093**	10,072
Intangible assets	**502**	554
	10,530	10,884

	Leasehold improvements AED'000	***Furniture, fixture and office equipment AED'000***	***Computer and accessories AED'000***	***Motor vehicles AED'000***	***Right of use assets AED'000***	***Total AED'000***
Cost:						
1 January 2023	9,894	11,523	4,987	1,059	23,533	50,996
Additions during the year	-	376	162	631	4,828	5,997
Disposals during the year	-	(258)	(94)	-	-	(352)
31 December 2023	**9,894**	**11,641**	**5,055**	**1,690**	**28,361**	**56,641**
Accumulated depreciation:						
1 January 2023	7,339	9,120	4,416	664	19,385	40,924
Depreciation charge for the year (note 26)	891	916	319	263	4,585	6,974
Relating to disposals during the year	-	(256)	(94)	-	-	(350)
31 December 2023	**8,230**	**9,780**	**4,641**	**927**	**23,970**	**47,548**
Net book value:						
31 December 2023	**1,664**	**1,861**	**414**	**763**	**4,391**	**9,093**

	Leasehold improvements AED'000	***Furniture, fixture and office equipment AED'000***	***Computer and accessories AED'000***	***Motor vehicles AED'000***	***Right of use assets AED'000***	***Total AED'000***
Cost:						
1 January 2022	9,163	10,835	4,977	1,059	20,577	46,611
Additions during the year	1,751	1,016	269	-	2,956	5,992
Disposals during the year	(1,020)	(328)	(259)	-	-	(1,607)
31 December 2022	9,894	11,523	4,987	1,059	23,533	50,996
Accumulated depreciation:						
1 January 2022	7,028	8,118	4,237	562	14,938	34,883
Depreciation charge for the year (note 26)	1,330	1,327	438	102	4,447	7,644
Relating to disposals during the year	(1,019)	(325)	(259)	-	-	(1,603)
31 December 2022	7,339	9,120	4,416	664	19,385	40,924
Net book value:						
31 December 2022	2,555	2,403	571	395	4,148	10,072

12 DUE TO OTHER BANKS

	2023 AED '000	2022 AED '000
Current accounts	**261**	1,002
Repurchase agreement borrowing	**-**	234,903
	261	235,905

13 DUE TO THE HEAD OFFICE AND OTHER BRANCHES

	2023 AED '000	2022 AED '000
Current accounts	**49,232**	56,141
Borrowings with original maturity equal to / less than 3 months	**46,023**	72,175
Borrowings with original maturity over 3 months	**35,797**	35,797
	131,052	164,113

Borrowings are obtained at interest rate of 0% to 8.33% per annum (2022: 0% to 7.13%).

14 CUSTOMER DEPOSITS

	2023 AED '000	2022 AED '000
Current deposits	692,150	793,435
Time deposits	1,303,548	799,521
Savings deposits	244,146	258,568
Others	47,185	11,375
	2,287,029	1,862,899

At 31 December 2023, 10 customers accounted for 37% (2022: 34%) of total customer deposits. At 31 December 2023, deposits amounting to AED 82 million (2022: AED 112 million) were held as cash collateral for loans and advances to customers.

15 OTHER LIABILITIES

	2023 AED '000	2022 AED '000
Manager's cheques	**13,646**	15,329
Accrued interest payable	**21,873**	10,182
Provision for employees’ end of service benefits (note 16)	**4,901**	4,593
Unclaimed deposits	**6,588**	6,508
Lease liability against right-of-use-assets	**163**	469
Expected credit loss on unfunded exposure	**323**	50
Operating provision	**7,553**	7,553
Others	**44,660**	18,121
	99,707	62,805

16 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2023	*2022*
	AED '000	*AED '000*
Balance as at 1 January	**4,593**	5,353
Charge for the year (note 27)	**849**	715
Paid during the year	**(541)**	(1,475)
At 31 December	**4,901**	4,593

Provision is made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law, for their period of service up to the end of the year. The provision relating to end of service benefit is included in other liabilities.

U.A.E. National employees in the United Arab Emirates are members of the Government-managed retirement pension and social security benefit scheme. As per Federal Labour Law No. 7 of 1999, the Bank is required to contribute 12.5% of the "contribution calculation salary" to the retirement benefit scheme. The employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Bank with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the income statement.

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

In view of the requirements to implement the new Law No. (57) of 2023, applies on October 31, 2023 onwards, and in light of the joint collaboration between the General Pension and Social Security Authority (GPSSA), those staff who are registered with GPSSA for the first time, their contribution will be as follows:
• 11% of gross is the contribution of staff
• 15% of gross is the contribution of Bank

The government bears 2.5% on behalf of the employer in the private sector for Emiratis whose gross salaries are less than Dh20,000 (twenty thousand dirhams) as a form of support and motivation for employers to hire Emiratis.
In the Private sector: The contribution rate is paid according to the gross salary of the insured, if it is not less than Dh3,000 (three thousand dirhams) and does not exceed Dh70,000 (seventy thousand dirhams).

17 ALLOCATED CAPITAL

The assigned capital of the Bank is AED 373,072 thousand (2022: AED 373,072 thousand) and is provided by the Head Office. During the year, there were no fresh capital injection and repatriation from and towards the Head Office.

18 STATUTORY RESERVE

The Bank has made a transfer of 10% of annual net profits which amounts to AED 2,974 thousand (*2022: AED 1,149 thousand*) during the year to the legal reserve.

19 FAIR VALUE AND OTHER RESERVES

	2023	*2022*
	AED '000	*AED '000*
Fair value through OCI investment securities		
At 1 January	**(65,556)**	5,873
Net unrealised gain/(loss) on Fair value through OCI securities	**47,540**	(83,761)
Impairment (reversal)/allowance on investments securities under IFRS 9	**(11)**	12,332
At 31 December	**(18,027)**	(65,556)

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

		Assets 2023 AED '000	***Liabilities 2023 AED '000***	***Notional amount 2023 AED '000***	*Assets 2022 AED '000*	*Liabilities 2022 AED '000*	*Notional amount 2022 AED '000*
Derivatives held for trading:							
Forward foreign exchange							
contracts	- Purchase			**1,003,232**			1,051,045
	- Sale			**1,006,335**			1,052,644
		366	**3,609**	**2,009,567**	809	2,936	2,103,689

21 CONTINGENCIES AND COMMITMENTS

	2023	*2022*
	AED '000	*AED '000*
Letters of credit	**128,982**	19,317
Letters of guarantee *	**83,552**	66,358
Forward foreign exchange contracts - Purchase	**1,003,232**	1,051,045
Forward foreign exchange contracts - Sale	**1,006,335**	1,052,644
Undrawn credit commitments	**498,026**	591,731

* This includes financial and performance guarantees.

21 CONTINGENCIES AND COMMITMENTS (continued)

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

Forward foreign exchange contracts comprise commitments to purchase or sell foreign currencies with the customer or any other interbank counterparty at a pre-agreed price and on a specified future date.

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

22 INTEREST INCOME

	2023	*2022*
	AED '000	*AED '000*
Interest income on:		
- loans and advances	**68,176**	45,112
- due from the Head Office, branches and other banks	**27,534**	7,639
- investment securities	**49,062**	26,130
	144,772	78,881

23 INTEREST EXPENSE

	2023	*2022*
	AED '000	*AED '000*
Interest expense on:		
- customer deposits	**45,212**	20,230
- due to the Head Office, branches and other banks	**18,781**	3,451
	63,993	23,681

24 FEE AND COMMISSION INCOME

	2023	*2022*
	AED '000	*AED '000*
Letters of credit / guarantees / trade related	**7,590**	4,090
Commitment and Loan Processing fee	**3,787**	3,174
Interbank fund transfer	**1,008**	835
Incidental charges	**632**	655
Remittance income	**524**	589
Wealth Management	**449**	411
Others	**1,109**	793
	15,099	10,547

25 OTHER INCOME

	2023 AED '000	2022 AED '000
Loss on sale of investment	**(1,131)**	(74)
Miscellaneous income	**596**	944
	(535)	870

26 OPERATING EXPENSES

	2023 AED '000	2022 AED '000
Staff costs (note 27)	**45,820**	44,031
Depreciation (note 11)	**6,974**	7,644
Premise cost	**3,289**	3,511
Maintenance of Computer Hardware and Software	**792**	599
Legal and professional consultancy	**1,883**	2,790
Communication costs	**567**	446
Amortisation	**189**	186
Others	**7,002**	6,594
	66,516	65,801

No social contributions were made during the year ended 31 December 2023 (2022: Nil).

27 STAFF COSTS

	2023 AED '000	2022 AED '000
Salaries and allowances	**42,415**	40,885
Charge for employees' end of service benefits (note 16)	**849**	715
Medical expenses	**2,556**	2,431
	45,820	44,031

28 TAXATION

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

	2023 AED '000	2022 AED '000
Current tax:		
- current income tax	-	-
- adjustment in respect of current income tax of prior years	-	-
	-	-
Deferred tax :		
- Relating to origination and reversal of temporary differences	**8,851**	8,856
- Relating to carried forward tax losses	**(3,158)**	45
	5,693	8,901

28 TAXATION (continued)

28.1 Reconciliation between taxation expense and accounting profit

	2023	*2022*
	AED '000	*AED '000*
Net profit for the year before taxation	**35,433**	20,392
Tax on income @ 20% (2022: 20%)	**7,087**	4,078
Claims against disallowed provisions	**(10,640)**	(5,487)
Tax losses for which no deferred tax has been recognized	**12,404**	10,265
General provision charge	**-**	-
Carried forward tax losses	**(3,158)**	45
Deferred tax expense for the year	**5,693**	8,901

28.2 Currently, the Bank is following tax guidelines issued by respective emirates. On December 9, 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (the Law) to enact a Federal corporate tax (CT) regime in the UAE. A business that has a financial year starting on 1 January 2023 and ending on 31 December 2023 will become subject to CT from I January 2024.

The Cabinet of Ministers Decision No.116/2022 effective from January 2023, has confirmed the threshold of income over which the 9% tax rate would apply, and the Law is considered to be substantively enacted. A rate of 9% will apply to taxable income exceeding AED 375,000, a rate of 0% will apply to taxable income not exceeding AED 375,000.

Current taxes shall be accounted for as appropriate in the financial statements for the period beginning 1 January 2024.

In accordance with IAS 12 Income Taxes, the related deferred tax accounting impact has been considered for current period financial statements. The Bank has assessed the deferred tax implications and, after considering its interpretations of applicable tax law, official pronouncements, cabinet decisions and ministerial decisions (especially with regard to transition rules), it has been concluded that it is not expected to be material.

28.3 Deferred tax asset

Deferred taxes are calculated on all temporary differences using an effective tax rate of 20%.
The movement on the deferred tax account on provision is as follows:

2023	**At Jan 1**	**Recognised in P&L A/C**	**Recgonised in OCI**	**At Dec 31**
		AED '000		
Deductible Temporary Differences on				
- Tax losses carried forward	**1,543**	**3,158**	**-**	**4,701**
- Provision against advances, off balance sheet etc.	**14,417**	**(8,851)**	**-**	**5,566**
	15,960	**(5,693)**	**-**	**10,267**
Taxable Temporary Differences on				
- Surplus on revaluation of investments	**-**	**-**	**-**	**-**
	15,960	**(5,693)**	**-**	**10,267**

28 TAXATION (continued)

2022	*At Jan 1*	*Recognised in P&L A/C*	*Recgonised in OCI*	*At Dec 31*
		AED '000		
Deductible Temporary Differences on				
- Tax losses carried forward	1,588	(45)	-	1,543
- Provision against advances, off balance sheet etc.	23,273	(8,856)	-	14,417
	24,861	(8,901)	-	15,960
Taxable Temporary Differences on				
- Surplus on revaluation of investments	-	-	-	-
	24,861	(8,901)	-	15,960

29 CASH AND CASH EQUIVALENTS

	2023	*2022*
	AED '000	*AED '000*
Cash and balances with the UAE Central Bank (excluding statutory deposits)	**259,767**	459,709
Due from other banks	**182,986**	80,117
Due from the Head Office and other branches	**19,575**	10,365
	462,328	550,191
Due to other banks	**(261)**	(1,002)
Due to the Head Office and other branches	**(95,255)**	(128,316)
	366,812	420,873

30 MATURITY PROFILE OF ASSETS AND LIABILITIES

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

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

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
At 31 December 2023								
Assets								
Cash and balances with the UAE Central Bank	**377,908**	**-**	**377,908**	**-**	**-**	**-**	**-**	**377,908**
Due from other banks	**182,986**	**-**	**182,986**	**-**	**-**	**-**	**-**	**182,986**
Due from the Head Office and other branches	**19,575**	**40,403**	**59,978**	**-**	**-**	**-**	**-**	**59,978**
Loans and advances	**324,640**	**485,376**	**810,016**	**173,682**	**-**	**173,682**	**-**	**983,698**
Investment securities	**275,341**	**644,334**	**919,675**	**195,833**	**19,456**	**215,289**	**-**	**1,134,964**
Customer acceptances	**15,567**	**5,258**	**20,825**	**-**	**-**	**-**	**-**	**20,825**
Deferred tax asset	**-**	**-**	**-**	**-**	**-**	**-**	**10,267**	**10,267**
Other assets	**-**	**-**	**-**	**-**	**-**	**-**	**61,981**	**61,981**
Property, equipment and intangibles	**-**	**-**	**-**	**-**	**-**	**-**	**10,530**	**10,530**
Total Assets	**1,196,017**	**1,175,371**	**2,371,388**	**369,515**	**19,456**	**388,971**	**82,778**	**2,843,137**

30 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
Liabilities								
Borrowings from other banks	**261**	**-**	**261**	**-**	**-**	**-**	**-**	**261**
Due to the Head Office and other branches	**95,255**	**35,797**	**131,052**	**-**	**-**	**-**	**-**	**131,052**
Customer deposits	**1,595,386**	**691,643**	**2,287,029**	**-**	**-**	**-**	**-**	**2,287,029**
Customer acceptances	**15,567**	**5,258**	**20,825**	**-**	**-**	**-**	**-**	**20,825**
Other liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**99,707**	**99,707**
Total liabilities	**1,706,469**	**732,698**	**2,439,167**	**-**	**-**	**-**	**99,707**	**2,538,874**
Net liquidity gap	**(510,452)**	**442,673**	**(67,779)**	**369,515**	**19,456**	**388,971**	**(16,929)**	**304,263**
Capital and reserves								
Allocated capital								**373,072**
Statutory reserve								**26,405**
Accumulated losses								**(77,187)**
Fair value and other reserve								**(18,027)**
Total								**304,263**

30 MATURITY PROFILE OF ASSETS AND LIABILITIES

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

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

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
At 31 December 2022								
Assets								
Cash and balances with the UAE Central Bank	543,008	-	543,008	-	-	-	-	543,008
Due from other banks	80,117	-	80,117	-	-	-	-	80,117
Due from the Head Office and other branches	10,365	40,403	50,768	-	-	-	-	50,768
Loans and advances	265,946	399,998	665,944	181,693	-	181,693	-	847,637
Investment securities	450,641	171,269	621,910	317,359	11,019	328,378	-	950,288
Customer acceptances	19,237	-	19,237	7,052	-	7,052	-	26,289
Deferred tax asset	-	-	-	-	-	-	15,960	15,960
Other assets	-	-	-	-	-	-	54,054	54,054
Property, equipment and intangibles	-	-	-	-	-	-	10,884	10,884
Total Assets	1,369,314	611,670	1,980,984	506,104	11,019	517,123	80,898	2,579,005

30 MATURITY PROFILE OF ASSETS AND LIABILITIES (continued)

	Up to 3 months AED '000	*3 months to 1 year AED '000*	*Up to 1 year Subtotal AED '000*	*1 – 5 years AED '000*	*Over 5 years AED '000*	*More than 1 year Subtotal AED '000*	*No fixed maturity AED '000*	*Total AED '000*
Liabilities								
Borrowings from other banks	1,002	234,903	235,905	-	-	-	-	235,905
Due to the Head Office and other branches	128,316	35,797	164,113	-	-	-	-	164,113
Customer deposits	1,407,914	454,985	1,862,899	-	-	-	-	1,862,899
Customer acceptances	19,237	-	19,237	7,052	-	7,052	-	26,289
Other liabilities	-	-	-	-	-	-	62,805	62,805
Total liabilities	1,556,469	725,685	2,282,154	7,052	-	7,052	62,805	2,352,011
Net liquidity gap	(187,155)	(114,015)	(301,170)	499,052	11,019	510,071	18,093	226,994
Capital and reserves								
Allocated capital								373,072
Statutory reserve								23,431
Accumulated losses								(103,953)
Fair value and other reserve								(65,556)
Total								226,994

31 SUBSEQUENT EVENTS

During the period between the end of the reporting period and the date of authorisation of these financial statements, there were no events that would have material effect on the operations of the Bank.

32 RELATED PARTIES

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

	2023	*2022*
	AED'000	*AED'000*
Related party balances		
Advances		
Head office and other branches	**263**	398
Other related parties	**63,684**	60,131
	63,947	60,529
Deposits		
Key management personnel	**3,827**	643
Other related parties	**7,466**	4,828
	11,293	5,471
Due from related parties		
Head office and other branches	**59,978**	50,768
Due to related parties		
Head office and other branches	**131,052**	164,113
Associates/ Other related parties	**261**	855
	131,313	164,968
Other assets		
Receivable from Head office	**33,083**	33,083
Key management personnel	**10**	-
Head office and other branches	**58**	473
Interest receivable	**914**	721
	34,065	34,277
Other liabilities		
Other related parties	**103**	550
Head office and other branches	**2,419**	2,139
Key management personnel	**423**	274
Other related parties	**5**	4
	2,950	2,967
Transactions during the year		
Mark-up / return / interest earned		
Head office and other branches	**3,699**	2,155
Associates	**-**	53
Other related parties	**5,263**	3,274
	8,962	5,482
Mark-up / return / interest expensed		
Head office and other branches	**5,171**	2,840
Key management personnel	**83**	1
Other related parties	**28**	3
	5,282	2,844
Fee income	**741**	825
Remuneration paid to key management personnel	**2,907**	1,940
Custodian investments		
Investment	**1,102**	1,653
Related income	**11**	5
Contingencies and Commitments		
Letters of credit	**746**	509
Letters of guarantee	**5,394**	1,721
Forward foreign exchange contracts - Purchase	**296,301**	227,197
Forward foreign exchange contracts - Sale	**298,279**	228,451

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