MCB Bank Limited - UAE Branch

FINANCIAL STATEMENTS

31 DECEMBER 2023

MCB Bank Limited – UAE Branch

Financial statements
31 December 2023

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REPORT OF THE MANAGEMENT

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

Incorporation and registered offices

MCB Bank Limited (the "Head Office") is a Pakistan registered bank with its principal office in Lahore, Pakistan. It commenced its operations in the United Arab Emirates (UAE) in 2014 as a wholesale bank and currently has one branch (the "Branch") in Dubai.

The address of the registered office of the Branch is P.O. Box 6481, Dubai.

Financial position and results

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

During the year ended 31 December 2023, the Branch recorded profit before tax of AED 52,043 thousand (2022: AED 26,504 thousand) and profit after tax of AED 41,620 thousand (2022: AED 21,203 thousand).

Signed on behalf of the Management

Aamir Khanzada
Country Manager - UAE

Date: 29 March 2024

Building a better working world

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INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF MCB BANK LIMITED - UAE BRANCH

Report on the audit of the financial statements

Opinion

We have audited the financial statements of MCB Bank Limited – UAE Branch (the "Bank" or the "Branch"), which comprise the statement of financial position as at 31 December 2023, and the statement of profit and loss and other comprehensive income, statement of changes in head office equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Branch in accordance with the 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.

Other information

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

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

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

INDEPENDENT AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF MCB BANK LIMITED - UAE BRANCH (continued)

Report on the audit of the financial statements (continued)

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF MCB BANK LIMITED - UAE BRANCH *(continued)*

Report on the audit of the financial statements (continued)

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

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

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

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

Report on other legal and regulatory requirements

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

For Ernst & Young

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

29 March 2024

Dubai, United Arab Emirates

MCB Bank Limited – UAE Branch

STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	*2023* **AED 000**	*2022* *AED 000*
ASSETS			
Cash and balances with the Central Bank of UAE	5	**923,507**	459,604
Deposits and balances due from banks	6	**301,933**	151,531
Loans and advances to customers	7	**200,826**	118,322
Investments	8	**459,738**	41,145
Deferred tax assets	19	**2,692**	5,028
Other assets	10	**4,800**	8,104
Property and equipment	11	**3,915**	4,554
TOTAL ASSETS		**1,897,411**	788,288
LIABILITIES			
Deposits and balances due to banks		**18,133**	14,771
Due to related parties	9	**-**	18,363
Customers' deposits	12	**1,687,700**	643,850
Other liabilities	13	**42,938**	17,510
Total liabilities		**1,748,771**	694,494
CAPITAL AND RESERVES			
Designated capital	21	**100,000**	84,329
Retained earnings		**41,992**	20,205
Statutory reserve	21	**9,820**	5,658
Fair value reserve	21	**(3,172)**	(16,398)
Total capital and reserves		**148,640**	93,794
TOTAL LIABILITIES, CAPITAL AND RESERVES		**1,897,411**	788,288

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

Country Manager - UAE

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2023

	Notes	***2023 AED 000***	*2022 AED 000*
Interest income	14	**56,011**	26,276
Interest expense	15	**(4,973)**	(2,634)
Net interest income		**51,038**	23,642
Fee and commission income	16	**10,773**	9,099
Net foreign exchange income		**9,042**	7,296
Operating income		**70,853**	40,037
General and administrative expenses	17	**(13,954)**	(11,455)
Credit loss expense on financial assets	18	**(4,856)**	(2,078)
Profit before tax		**52,043**	26,504
Income tax expense	19	**(10,423)**	(5,301)
Net profit for the year after taxation		**41,620**	21,203
Other comprehensive income / (loss)			
Items that will be subsequently reclassified to profit or loss:			
Net changes in fair value of debt investments classified as FVTOCI		**14,402**	(21,990)
Changes in allowance for expected credit losses on debt investments classified as FVTOCI		**2,131**	606
Income tax related to the above	19	**(3,307)**	4,277
Other comprehensive income / (loss) for the year, net of tax		**13,226**	(17,107)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**54,846**	4,096

The attached notes 1 to 30 form part of these financial statements.

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

	Designated capital AED 000	*Retained earnings AED 000*	*Statutory reserve AED 000*	*Regulatory general impairment reserve AED 000*	*Fair value reserve AED 000*	*Total AED 000*
Balance at 1 January 2022 (restated)	62,529	21,824	3,538	1,098	709	89,698
Profit for the year	-	21,203	-	-	-	21,203
Other comprehensive loss for the year	-	-	-	-	(17,107)	(17,107)
Increase in allocated capital through capitalisation of retained earnings	21,800	(21,800)	-	-	-	-
Transfer from regulatory general impairment reserve	-	1,098	-	(1,098)	-	-
Transfer to statutory reserve	-	(2,120)	2,120	-	-	-
Balance at 31 December 2022	84,329	20,205	5,658	-	(16,398)	93,794
Profit for the year	-	41,620	-	-	-	41,620
Other comprehensive income for the year	-	-	-	-	13,226	13,226
Increase in allocated capital through capitalisation of retained earnings (note 21 (a))	15,671	(15,671)	-	-	-	-
Transfer to statutory reserve	-	(4,162)	4,162	-	-	-
Balance at 31 December 2023	**100,000**	**41,992**	**9,820**	**-**	**(3,172)**	**148,640**

The attached notes 1 to 30 form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	*2023* *AED 000*	*2022* *AED 000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**52,043**	26,504
Adjustments for:			
Credit loss expense on financial assets	18	**4,856**	2,078
Depreciation of property and equipment	11	**1,702**	1,469
Interest expense on lease liabilities	13	**54**	84
Amortisation income on investments		**(12,957)**	(2,095)
		45,698	28,040
Changes in working capital:			
Loans and advances to customers		**(83,998)**	(56,044)
Statutory deposits with the CBUAE		**(46,952)**	(16,780)
Customers' deposits		**1,043,850**	(253,681)
Due to related parties		**(18,363)**	13,741
Deposits and balances due to a bank		**3,362**	(79)
Due from a related party		**-**	20,898
Other assets		**3,304**	(940)
Other liabilities		**20,772**	2,122
Cash generated from / (used in) operations		**967,673**	(262,723)
Income tax paid	19	**(5,730)**	(1,896)
Net cash generated from / (used in) operating activities		**961,943**	(264,619)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments		**(1,394,664)**	(35,949)
Proceeds from maturity of investments		**1,002,181**	24,789
Purchase of property and equipment	11	**(1,064)**	(673)
Sale proceeds of property and equipment	11	**-**	23
Net cash used in investing activities		**(393,547)**	(11,810)
CASH FLOW FROM FINANCING ACTIVITY			
Payment for lease liabilities	13	**(1,062)**	(1,062)
Cash used in financing activity		**(1,062)**	(1,062)
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		**567,334**	(277,491)
Balance at 1 January		**551,302**	828,793
BALANCE AT 31 DECEMBER	20	**1,118,636**	551,302

The attached notes 1 to 30 form part of these financial statements.

1 LEGAL STATUS AND ACTIVITIES

MCB Bank Limited (the "Head Office") is a Pakistan registered bank with its principal office in Lahore, Pakistan. It commenced its operations in the United Arab Emirates (UAE) in 2014 as a wholesale bank and currently has one branch (the "Branch") in Dubai.

The address of the registered office of the Branch is P.O. Box 6481, Dubai.

These financial statements reflect the activities of the Branch of MCB Bank Limited in the United Arab Emirates only (the "Branch") and exclude all transactions, assets and liabilities of the Head Office.

2 MATERIAL ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

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

The financial statements of the Branch have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value as explained the accounting polices in Note 2.2.

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

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

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES

The principal accounting policies are set out below:

Revenue recognition
<u>Net interest income</u>
The Branch recognise interest income and interest expense in the statement of profit or loss and other comprehensive income for all interest bearing financial instruments using the effective interest method.

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

	Years
Leasehold improvements	on lease period
Equipment and computers	4 - 10
Furniture and fittings	10
Motor vehicles	5

The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life.

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

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

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

	Years
Software	3

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Fair value measurement (continued)
Fair values of non-financial instruments are measured based on valuation provided by independent valuators.

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

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

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

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

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

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

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

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

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

- Disclosures for valuation methods, significant estimates and assumptions notes.
- Quantitative disclosures of fair value measurement hierarchy.
- Financial instruments (including those carried at amortised cost).
- Contingent consideration.

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Classification of financial assets and financial liabilities

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Classification of financial assets and financial liabilities (continued)

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

All other financial assets are classified as measured at FVTPL.

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

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

The information considered includes:

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

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

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

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

In making the assessment, the Branch considers:

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Classification of financial assets and financial liabilities (continued)

Financial assets (continued)

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

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

Investment securities
The investment securities' includes:

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Expected credit losses

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

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

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Expected credit losses (continued)

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

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

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Expected credit losses (continued)

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

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

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

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Branch's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the statement of financial position and the remeasurement is presented in other revenue.

The Branch has not designated any financial guarantee contracts as at FVTPL.

Curing period
The Branch continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Branch is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Leases

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

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

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

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

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

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

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

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

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use of asset reflects that the Branch expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

Cash and cash equivalents
Cash and cash equivalents consist of cash in hand and unrestricted cash balances with the UAE Central Bank, which are subject to insignificant credit risk, and are used by the Branch in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost.

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

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

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

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

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

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

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

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

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

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

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

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

2 MATERIAL ACCOUNTING POLICIES (continued)

2.2 SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS

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

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

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

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

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

- IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information (effective for annual periods beginning on or after 1 January 2024)
- FRS S2 - Climate Related Disclosures (effective for annual periods beginning on or after 1 January 2024)

3 STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

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

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

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

4 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Branch's accounting policies, which are described in Note 3, management is required to use certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgment. Such estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including obtaining professional advices and expectations of future events that are believed to be reasonable under the circumstances.

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

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

Critical judgments in applying the Branch's accounting policies
The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Branch's accounting policies and that have the most material effect on the amounts recognized in financial statements:

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

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

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

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

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

The Bank also consider other qualitative and quantitative reasonable and supportable forward-looking information to firm its assessment of significant increase in credit risk.

4 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Critical judgments in applying the Branch's accounting policies (continued)

Reasonableness of Forward-Looking Information and probability weights
In light of the current uncertain economic environment, the Branch has assessed a range of possible macro-economic scenarios and associated weights, and analyzed their impact on year end ECL estimates. Accordingly, the Branch used macro-economic forecasts to reflect the impact of uncertain economic environment, using baseline, upside and downside scenarios with 30%, 30% and 40% weightings respectively. The Branch have also applied portfolio-level ECL adjustments to exposures based upon affected geographies and sectors. The Branch continues to assess individually significant exposures for any adverse movements.

As with any economic forecasts, the projections and likelihoods of the occurrence are subject to inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

The Credit Department of the Branch will progressively keep on collecting all the information related to status of each customer who has applied for relief in the form of deferral during the current period. As soon as enough information is available to ascertain significant increase in credit risk, the department will classify those customers into Group 2. The same will be presented to the Credit committee for approval on the assignment of the customer to the appropriate stage.

Business model assessment
Classification and measurement of financial assets depends on the results of the "solely payments of principal and interest" and the business model test. The Branch determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Branch monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Branch's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

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

Models and assumptions used
The Branch uses various models and various 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.

Determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

4 MATERIAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Key sources of estimation uncertainty
The following are key estimations that the management has used in the process of applying the Branch's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *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 Branch 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.
- *Discounting the lease payments:* The lease payments are discounted using the Branch's incremental borrowing rate ("IBR") which is on average equal to 3%. Management has applied judgments and estimates to determine the IBR at the commencement of lease, using borrowing rates that certain financial institutions would charge the Branch against financing the different types of assets it leased over different terms and different ranges of values.

5 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2023 ***AED 000***	*2022* *AED 000*
Cash on hand	**4,464**	4,306
Balances with the Central Bank of UAE		
Current accounts and other balances	**2,235**	15,442
Overnight deposits	**810,000**	380,000
Statutory deposits	**106,808**	59,856
	923,507	459,604

Statutory deposit with the Central Bank of UAE represents the mandatory reserve deposit which is not available for use in the Branch's day-to-day operations. Cash on hand and current accounts and other balances are non-interest-bearing. Overnight deposits are at an average interest rate of 5.4% (2022: 4.4%) per annum.

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

6 DEPOSITS AND BALANCES DUE FROM BANKS

(a) The analysis of the Branch's deposits and balances due from banks is as follows:

	2023 ***AED 000***	*2022* *AED 000*
Demand	**42,272**	78,104
Time	**259,666**	73,450
Gross deposits and balances due from banks	**301,938**	151,554
Less: allowance for impairment	**(5)**	(23)
	301,933	151,531

The time deposits and balances due from banks carries an average interest rate of 3.83% (2022: 3.00%) per annum.

6 DEPOSITS AND BALANCES DUE FROM BANKS (continued)

(b) Following is the geographical representation of due from banks:

	2023 AED 000	*2022 AED 000*
Banks within the UAE	**259,685**	73,477
Banks outside the UAE	**42,253**	78,077
	301,938	151,554

Due from banks were classified as Stage 1 throughout the period.

7 LOANS AND ADVANCES TO CUSTOMERS

a) Loans and advances to customers comprise of the following:

	2023 AED 000	*2022 AED 000*
Loans and advances	**205,033**	121,035
Less: allowance for impairment	**(4,207)**	(2,713)
	200,826	118,322

b) Allowance for impairment

	2023 AED 000	*2022 AED 000*
Balance at the beginning of the year	**2,713**	1,518
Impairment charge for the year	**1,494**	1,195
Balance at the end of the year	**4,207**	2,713

c) Analysis of gross loans and advances to customers by class:

	2023 AED 000	*2022 AED 000*
Corporate lending	**156,199**	105,879
Small business lending	**48,834**	15,156
	205,033	121,035
Less: allowance for impairment	**(4,207)**	(2,713)
	200,826	118,322

7 LOANS AND ADVANCES TO CUSTOMERS (continued)

d) Analysis of gross loans and advances by geographical area are as follows:

	2023	*2022*
	AED 000	*AED 000*
Within UAE	**154,153**	41,690
Outside UAE	**50,880**	79,345
	205,033	121,035

e) Analysis of gross loans and advances to customers by industry group were as follows:

	2023	*2022*
	AED 000	*AED 000*
Services	**68,747**	96,038
Manufacturing	**49,948**	4,932
Trade	**82,841**	15,892
Construction	**3,497**	4,173
	205,033	121,035

f) Analysis of gross loans and advances to customers by ECL staging:

	2023	*2022*
	AED 000	*AED 000*
Stage 1	**201,088**	97,743
Stage 2	**3,945**	23,292
	205,033	121,035
Less: allowance for impairment (Stage 1)	**(3,635)**	(1,866)
allowance for impairment (Stage 2)	**(572)**	(847)
	200,826	118,322

g) As at 31 December 2023, the fair value of collaterals held against loans and advances to customers amounted to AED 4.72 million (2022: AED 2.69 million), an analysis of which is provided in Note 26.

8 INVESTMENTS

	2023	*2022*
	AED 000	*AED 000*
Measured at amortised cost		
Quoted bonds		
Stage 2	**20,482**	20,396
Less: allowance for impairment stage 2	**(1,927)**	(678)
	18,555	19,718
Measured at FVTOCI		
Quoted bonds		
Stage 1	**403,650**	-
Stage 2	**40,890**	22,653
	444,540	22,653
Less: allowance for impairment stage 1	**(7)**	-
allowance for impairment stage 2	**(3,350)**	(1,226)
	441,183	21,427
	459,738	41,145

a) Investments (gross of ECL) by geographic concentration is as follows:

	2023	*2022*
	AED 000	*AED 000*
Within UAE	**385,460**	-
Outside UAE	**79,562**	43,049
	465,022	43,049

9 RELATED PARTY BALANCES AND TRANSACTIONS

The Branch enters into transactions with entities that fall within the definition of a related party in accordance with International Accounting Standard 24- *Related Party Disclosures*. Related parties comprise Head Office, key management personnel and entities controlled, jointly controlled or significantly influenced by such parties. The Branch's management decides on the terms and conditions of such related party transactions.

The Branch maintain certain deposits with the Branches of the Head Office and conducts banking transactions with them as part of its normal activities.

	2023	*2022*
	AED 000	*AED 000*
Deposit and balances due from banks		
Head Office	**54**	-
Branch of the Head Office outside UAE	**19**	367
	73	367
Due to related parties		
Due to related parties comprise of inter-bank borrowings with:		
Branch of the Head Office outside UAE	**-**	18,363

The borrowings were matured during the year and settled.

9 RELATED PARTY BALANCES AND TRANSACTIONS (continued)

	2023 ***AED 000***	*2022* *AED 000*
Deposit and balances due to banks		
Branch of the Head Office outside UAE	**18,063**	14,571
Customers' deposits		
Entities under common control (Note 12)	**77,591**	60,097
Other liabilities		
Head Office	**1,873**	1,067
Entities under common control	**1,705**	444
	3,578	1,511
Contingencies and commitments		
Entities under common control	**50,050**	50,050

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

	2023 ***AED 000***	*2022* *AED 000*
Interest income	**532**	413
Interest expense	**2,419**	548
Fee and commission income	**277**	591
Head office management fees	**1,873**	1,066
Other general and administrative expenses	**848**	344
Compensation of key management personnel*	**761**	726

*The retirement benefits of the key management personnel are settled at the Head Office which are recharged to the Branch and included in the compensation of key management personnel.

10 OTHER ASSETS

	2023 ***AED 000***	*2022* *AED 000*
Interest receivable	**2,512**	2,366
Acceptances (Note 13)	**1,731**	5,156
Prepayments	**482**	459
Deposits	**75**	123
	4,800	8,104

11 PROPERTY AND EQUIPMENT

	Lease hold improvements AED 000	*Equipment and computers AED 000*	*Furniture and fixtures AED 000*	*Motor vehicles AED 000*	*Right-of-use assets AED 000*	*Total AED 000*
Cost:						
At 1 January 2022	3,362	1,191	553	370	4,903	10,379
Additions during the year	84	516	73	-	-	673
Disposals during the year	-	-	(23)	-	-	(23)
At 31 December 2022	3,446	1,707	603	370	4,903	11,029
Additions during the year	-	1,061	2	-	-	1,063
At 31 December 2023	**3,446**	**2,768**	**605**	**370**	**4,903**	**12,092**
Accumulated depreciation:						
At 1 January 2022	2,378	689	255	75	1,609	5,006
Charge for the year (Note 17)	281	163	50	56	919	1,469
At 31 December 2022	2,659	852	305	131	2,528	6,475
Charge for the year (Note 17)	280	386	58	59	919	1,702
At 31 December 2023	**2,939**	**1,238**	**363**	**190**	**3,447**	**8,177**
Carrying amount:						
At 31 December 2023	**507**	**1,530**	**242**	**180**	**1,456**	**3,915**
At 31 December 2022	787	855	298	239	2,375	4,554

12 CUSTOMERS' DEPOSITS

	2023 AED 000	2022 AED 000
Current accounts	**1,477,568**	497,935
Fixed deposits	**150,516**	51,945
Saving accounts	**40,487**	34,522
Other	**19,129**	59,448
	1,687,700	643,850

Included in customers' deposits is an amount of AED 77.6 million (2022: AED 60.1 million) which was due to entities under common control (Note 9).

Customers' deposits by geographic concentration is as follows:

	2023 AED 000	2022 AED 000
Within UAE	**1,634,818**	643,092
Outside UAE	**52,882**	758
	1,687,700	643,850

Customers' deposits by industry group were as follows:

	2023 AED 000	2022 AED 000
Trade	**735,574**	441,708
Manufacturing	**501,092**	105,930
Chemicals	**254,930**	-
Financial institutions	**102,390**	64,356
Textile	**25,905**	8,785
Services	**31,871**	7,545
Construction	**4,323**	-
Other	**31,615**	15,526
	1,687,700	643,850

13 OTHER LIABILITIES

	2023 AED 000	2022 AED 000
Provision for income tax (Note 19)	**11,380**	5,716
Accrued expenses	**2,930**	2,053
Acceptances (Note 10)	**1,731**	5,156
Lease liability (a)	**1,039**	2,047
Income received in advance	**1,400**	883
Interest payable	**3,515**	653
Other (b)	**20,933**	1,002
	42,938	17,510

13 OTHER LIABILITIES (continued)

(a) The Branch holds one leasing arrangement as lessee for its leased office as at year end 31 December 2023. Movement in lease liability as at reporting date is as follows:

	2023 AED 000	*2022 AED 000*
As at 1 January	**2,047**	3,025
Accretion of interest during the year (Note 15)	**54**	84
Payments during the year	**(1,062)**	(1,062)
As at 31 December	**1,039**	2,047

The lease liability is analyzed as below:

	2023 AED 000	*2022 AED 000*
Current	**1,039**	1,008
Non-current	**-**	1,039
	1,039	2,047

The Branch does not face a significant liquidity risk with regards to its lease liability. The lease liability movements are monitored within the Branch's treasury function.

(b) This includes amount pertaining to funds transfer received from CBUAE on 29 December 2023 payable to beneficiaries amounting to AED 17.5 million (2022: Nil).

14 INTEREST INCOME

	2023 AED 000	*2022 AED 000*
Interest income calculated using the effective interest method:		
Overnight deposits with UAE. Central Bank	**19,946**	10,060
Investment securities	**17,828**	7,057
Due from banks	**10,619**	4,525
Loans and advances	**7,086**	4,221
Due from Head Office, branches abroad and associates	**532**	413
	56,011	26,276

15 INTEREST EXPENSE

	2023 AED 000	*2022 AED 000*
Interest expense calculated using the effective interest method:		
Deposit from customers	**4,187**	1,748
Due to banks	**720**	790
Interest on lease liability (Note 13)	**54**	84
Due to Head Office	**12**	12
	4,973	2,634

16 FEE AND COMMISSION INCOME

	2023 ***AED 000***	*2022* *AED 000*
Commission income	**7,211**	6,106
Fees and charges on banking services	**3,562**	2,993
	10,773	9,099

17 GENERAL AND ADMINISTRATIVE EXPENSES

	2023 ***AED 000***	*2022* *AED 000*
Salaries and staff related costs	**7,896**	6,535
Depreciation of property and equipment (Note 11)	**1,702**	1,469
Head office management fees (Note 9)	**1,873**	1,066
Other	**2,483**	2,385
	13,954	11,455

18 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS

(a) The charge to the statement of profit or loss and other comprehensive income for the credit loss expense on financial assets is as follows:

	2023 ***AED 000***	*2022* *AED 000*
Charge on loans and advances to customers	**1,494**	1,195
Charge on investments held at fair value through OCI	**2,131**	606
Charge on investments held at amortised cost	**1,249**	509
Reversal on deposits and balances due from banks	**(18)**	(226)
Reversal on balances due from related parties	**-**	(6)
	4,856	2,078

(b) The movement in allowance for impairment by financial asset category is as follows:

31 December 2023	***Opening balance AED 000***	***Net charge/ (reversal) during the year AED 000***	***Closing balance AED 000***
Deposits and balances due from banks	**23**	**(18)**	**5**
Loans and advances to customers	**2,713**	**1,494**	**4,207**
Investments held at amortised cost	**678**	**1,249**	**1,927**
Investments held at FVTOCI	**1,226**	**2,131**	**3,357**
Total	**4,640**	**4,856**	**9,496**

18 CREDIT LOSS EXPENSE ON FINANCIAL ASSETS (continued)

(b) The movement in allowance for impairment by financial asset category is as follows: (continued)

31 December 2022	*Opening balance AED 000*	*Net charge/ (reversal) during the year AED 000*	*Closing balance AED 000*
Deposits and balances due from banks	249	(226)	23
Loans and advances to customers	1,518	1,195	2,713
Due from related parties	6	(6)	-
Investments held at amortised cost	169	509	678
Investments held at FVTOCI	620	606	1,226
Total	2,562	2,078	4,640

(c) Allocation of impairment allowance as of 31 December 2023 is as follows:

	Stage 1 AED 000	***Stage 2 AED 000***	***Stage 3 AED 000***	***Total AED 000***
Deposits and balances due from banks	**5**	**-**	**-**	**5**
Loans and advances to customer	**3,580**	**627**	**-**	**4,207**
Investments held at amortised cost	**-**	**1,927**	**-**	**1,927**
Investments held at FVTOCI	**7**	**3,350**	**-**	**3,357**
Total	**3,592**	**5,904**	**-**	**9,496**

Allocation of impairment allowance as of 31 December 2022 is as follows:

	Stage 1 AED 000	*Stage 2 AED 000*	*Stage 3 AED 000*	*Total AED 000*
Deposits and balances due from banks	23	-	-	23
Loans and advances to customer	1,866	847	-	2,713
Investments held at amortised cost	-	678	-	678
Investments held at FVTOCI	-	1,226	-	1,226
Total	1,889	2,751	-	4,640

19 INCOME TAX EXPENSE

The Branch is subject to taxation at the rate of 20% of the taxable income for the year. The taxable income is calculated after adding back certain provisions to the net profit before taxation, which management believes are likely to be disallowed as deductions by the tax authorities:

19 INCOME TAX EXPENSE (continued)

(a) Relationship between tax expense and accounting profit:

	2023 AED 000	*2022 AED 000*
Profit before tax	**52,043**	26,504
Items not allowed as tax deductions (impairment allowance)	**4,856**	2,078
Taxable profit	**56,899**	28,582
Income tax rate	**20%**	20%
Income tax expense	**11,380**	5,717
Deferred tax		
Deferred tax charge for current year (ECL)	**(971)**	(416)
Prior year tax adjustments	**14**	-
	10,423	5,301
Effective tax rate	**20%**	20%

(b) Reconciliation of movement in provision for tax expense:

	2023 AED 000	*2022 AED 000*
Provision for tax expense at the start of the year	**5,716**	1,895
Current tax expense for the year	**11,380**	5,717
Prior year tax expense adjustment	**14**	-
Income tax paid during the year	**(5,730)**	(1,896)
Provision for tax expense at the end of the year	**11,380**	5,716

(c) Deferred tax assets are attributable to the following:

	2023 AED 000	*2022 AED 000*
Allowances for expected credit losses	**1,899**	928
Fair value reserve	**793**	4,100
	2,692	5,028

(d) Movements in temporary differences during the year are as follows:

	Opening balance AED 000	***Recognised in profit or loss AED 000***	***Recognised in OCI/ equity AED 000***	***Closing balance AED 000***
2023				
Allowances for loan losses	**928**	**971**	**-**	**1,899**
Fair value reserve	**4,100**	**-**	**3,307**	**793**
	5,028	**971**	**3,307**	**2,692**

19 INCOME TAX EXPENSE (continued)

(d) Movements in temporary differences during the year are as follows: (continued)

	Opening balance AED 000	*Recognised in profit or loss AED 000*	*Recognised in OCI/ equity AED 000*	*Closing balance AED 000*
2022				
Allowances for loan losses	512	416	-	928
Fair value reserve	(177)	-	4,277	4,100
	335	416	4,277	5,028

Federal tax in United Arab Emirates

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

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

20 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprises the following statement of financial position amounts:

	2023 AED 000	*2022 AED 000*
Cash on hand (Note 5)	**4,464**	4,306
Balances with the Central Bank of UAE (Note 5)	**919,042**	455,298
Deposits and balances due from banks (Note 6)	**301,938**	151,554
	1,225,444	611,158
Less: Statutory deposits with the Central Bank of UAE (Note 5)	**(106,808)**	(59,856)
	1,118,636	551,302

21 DESIGNATED CAPITAL, STATUTORY, IMPAIRMENT AND REGULATORY CREDIT RISK RESERVE

(a) Designated capital and regulatory credit risk reserve

During the year ended 31 December 2023, the allocated capital increased to AED 100,000 thousand by capitalization of retained earnings. (2022: the allocated capital increased to AED 84,329 thousand by capitalization of retained earnings)

The allocated capital is not distributable to the Head Office. The Branch has created a non-distributable equity reserve titled as "Regulatory credit risk reserve" and this reserve is maintained at a level as instructed by the Central Bank of UAE and the movement in the regulatory credit risk reserve and designated capital is in line with the provision required to be held by the Branch.

(b) Statutory reserve

As required by applicable laws and regulations, the Branch has established a statutory reserve by appropriation of 10% of net profit for the year until the reserve equals 50% of the designated share capital. This reserve is not available for distribution. During the year, the Branch transferred AED 4,162 thousand (2022: 2,120 thousand) to the statutory reserve.

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

The impairment reserve was created in compliance with the Guidance note on implementation of IFRS 9 issued by the Central Bank of United Arab Emirates (CB UAE). The guidance note requires the Bank to maintain the impairment reserve in equity for an amount of shortfall in provision for expected credit losses as calculated under IFRS 9 compared to the amount of general provision if calculated as of reporting date per requirements of circular 28/2010 of CB UAE. In cases where provision under IFRS 9 exceeds general provision, no amount shall be transferred to the regulatory impairment reserve. The impairment reserve is not available for payment of dividend.

	2023	*2022*
	AED 000	*AED 000*
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**5,210**	3,803
Less: Provisions under IFRS 9 including regulatory credit risk reserve	**(9,496)**	(4,640)
Impairment reserve to be maintained	-	-

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

22 CONTINGENCIES AND COMMITMENTS

To meet the financial needs of customers, the Branch enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Branch.

Contingencies
Letters of credit and guarantees (including standby letters of credit) commit the Branch to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

22 CONTINGENCIES AND COMMITMENTS (continued)

Contingencies (continued)

The contractual amounts of contingent liabilities are set out in the following table by category. The amounts reflected in the table represent the maximum accounting loss that would be recognised at the end of reporting period if counterparties failed to perform as contracted.

	2023 ***AED 000***	*2022* *AED 000*
Guarantees	**115,573**	111,365
Letters of credit	**9,344**	1,969
Forward contracts (Note 28)	**68,644**	-
	193,561	113,334

Provision for expected credit losses on off balance sheet items amounted to AED 442 thousand (2022: AED 6 thousand).

Maturity profile

The maturity profile of the Branch's contra accounts were as follows:

31 December 2023

	Less than 3 months AED 000	***3 to 6 months AED 000***	***6 to 12 months AED 000***	***1 to 5 years AED 000***	***Over 5 years AED 000***	***Total AED 000***
Guarantees	56,805	22,198	33,039	3,531	-	115,573
Letters of credit	9,344	-	-	-	-	9,344
Forward contracts	68,644	-	-	-	-	68,644
Total	**134,793**	**22,198**	**33,039**	**3,531**	**-**	**193,561**

31 December 2022

	Less than 3 months AED 000	*3 to 6 months AED 000*	*6 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
Guarantees	88,829	4,663	15,508	2,365	-	111,365
Letters of credit	1,969	-	-	-	-	1,969
Forward contracts	-	-	-	-	-	-
Total	90,798	4,663	15,508	2,365	-	113,334

23 CONCENTRATIONS OF ASSETS, LIABILITIES, EQUITY AND OFF-BALANCE SHEET ITEMS

Geographical risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Branch's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Branch's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

The following table breaks down the Branch's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2023 and 2022.

31 December 2023	***Assets AED 000***	***Liabilities and equity AED 000***	***Off-balance sheet items AED 000***
Geographic regions			
UAE	**1,730,858**	**1,826,396**	**193,561**
O.E.C.D.	**71,072**	**1,190**	**-**
Other Middle East Countries	**115**	**10**	**-**
Other	**95,366**	**69,815**	**-**
Total	**1,897,411**	**1,897,411**	**193,561**

31 December 2022	*Assets AED 000*	*Liabilities and equity AED 000*	*Off-balance sheet items AED 000*
Geographic regions			
UAE	577,836	749,998	113,334
O.E.C.D.	77,710	-	-
Other Middle East Countries	43,883	-	-
Other	83,703	33,134	-
Total	783,132	783,132	113,334

23 CONCENTRATIONS OF ASSETS, LIABILITIES, EQUITY AND OFF-BALANCE SHEET ITEMS (continued)

Industry risk concentration

The following table breaks down the Branch's credit exposures at their carrying amounts, categorised by industry as of 31 December 2023 and 2022:

31 December 2023	***Assets AED 000***	***Liabilities and equity AED 000***	***Off-balance sheet items AED 000***
Industry Sector			
Financial Institutions	**1,685,178**	**269,163**	**118,695**
Services	**102,025**	**31,871**	**22,789**
Trade	**46,316**	**735,574**	**16,843**
Manufacturing	**49,056**	**501,092**	**35,234**
Construction	**3,429**	**4,323**	**-**
Chemicals	**-**	**254,930**	**-**
Textile	**-**	**25,905**	**-**
Other	**11,407**	**74,553**	**-**
Total	**1,897,411**	**1,897,411**	**193,561**

31 December 2022	*Assets AED 000*	*Liabilities and equity AED 000*	*Off-balance sheet items AED 000*
Industry Sector			
Financial Institutions	652,281	191,284	50,050
Services	93,714	7,545	-
Trade	15,757	441,708	63,284
Manufacturing	4,679	105,930	-
Construction	4,173	-	-
Textile	-	8,785	-
Other	12,528	27,880	-
Total	783,132	783,132	113,334

24 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

2023	***Fair value through other Comprehensive income AED 000***	***Amortised cost AED 000***	***Total AED 000***
Financial assets			
Cash and balances with the Central Bank of UAE	**-**	**923,507**	**923,507**
Deposits and balances due from banks	**-**	**301,933**	**301,933**
Loans and advances to customers	**-**	**200,826**	**200,826**
Investments	**442,613**	**17,125**	**459,738**
Deferred tax assets	**-**	**2,692**	**2,692**
Other assets	**-**	**4,800**	**4,800**
Total	**442,613**	**1,450,883**	**1,893,496**
Financial liabilities			
Customers' deposits	**-**	**1,687,700**	**1,687,700**
Other liabilities	**-**	**42,938**	**42,938**
Deposits and balances due to a bank	**-**	**18,133**	**18,133**
Total	-	**1,748,771**	**1,748,771**

2022	*Fair value through other Comprehensive income AED 000*	*Amortised cost AED 000*	*Total AED 000*
Financial assets			
Cash and balances with the Central Bank of UAE	-	459,604	459,604
Deposits and balances due from banks	-	151,531	151,531
Loans and advances to customers	-	118,322	118,322
Investments	21,428	19,717	41,145
Deferred tax assets	-	5,028	5,028
Other assets	-	8,104	8,104
Total	21,428	762,306	783,734
Financial liabilities			
Customers' deposits	-	643,850	643,850
Due to related parties	-	18,363	18,363
Other liabilities	-	17,510	17,510
Deposits and balances due to a bank	-	14,771	14,771
Total	-	694,494	694,494

25 CAPITAL MANAGEMENT

Regulatory capital
The Central Bank of UAE (CBUAE) sets and monitors capital requirements for the Branch as a whole.

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

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

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

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

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

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.

- AT 1 capital comprises eligible non-common equity capital instruments.

- T2 capital comprises collective impairment allowance.

Various limits are applied to elements of the capital base:

- Tier 2 capital cannot exceed 67% of tier 1 capital;
- Tier 1 capital must be a minimum of 8.5% of risk weighted assets; and
- Qualifying subordinated capital cannot exceed 50% of tier 1 capital.

The Branch assets are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branch's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of UAE.

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management.

25 CAPITAL MANAGEMENT (continued)

Regulatory capital (continued)

Regulatory Capital (continued)
Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the UAE is as follows:

	2023 ***AED 000***	*2022* *AED 000*
Common Equity Tier 1 (CET1)		
Designated capital	**100,000**	84,329
Retained earnings	**41,992**	20,205
Eligible reserves	**9,820**	5,658
Accumulated Other Comprehensive income	**(3,172)**	(16,398)
	148,640	93,794
Regulatory adjustments	**(2,692)**	(5,028)
Total CET 1 Capital	**145,948**	88,766
Tier 2 Capital		
Provision for expected credit losses	**4,342**	3,169
Total capital base	**150,290**	91,935
Risk Weighted Assets		
Credit risk	**347,365**	253,544
Operational risk	**80,970**	47,698
Market risk	**112**	81
Total Risk Weighted Assets	**428,447**	301,323
Total capital ratio %	**35.08%**	30.51%
CET1 ratio %	**34.06%**	29.46%

On 17 January 2018, CBUAE issued BASEL III Capital supply standards and guidance, based on this guidance Banks are required to deduct proposed dividend from retained earnings while calculating the Capital Adequacy ratio. Accordingly, the Capital Adequacy ratio for the year after incorporating the proposed profit repatriation of AED 20.81 million (2022: Nil) will be is as follows:

Total capital ratio %	**30.22%**	30.51%
CET1 ratio %	**29.21%**	29.46%

26 FINANCIAL RISK MANAGEMENT

The Branch have set up a strong risk management infrastructure supported by adoption of certain practices in the field of risk management to manage and monitor the following major risks arising out of its day to day operations:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Operational risk

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

26 FINANCIAL RISK MANAGEMENT (continued)

The Credit Committee and Management Committee work under the mandate of the Head Office to set up risk limits and manage the overall risk in the Branch.

These committees are responsible for developing credit, market and operational risk policies. Highly experienced and trained managers have delegated authority within the risk management framework to approve credit risk transactions and monitor market and operational risk.

Credit risk management
Policies relating to credit are reviewed and approved by the Branch Credit Committee. All credit lines are approved centrally for the Branch. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk. The Branch further limit risk through diversification of its assets by industry sectors.

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

The Credit Committee is responsible for setting credit policy of the Branch. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality. All credit applications for lending are subject to the Branch’s credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Branch do not lend to companies operating in industries that are considered by the Branch inherently risky and where specialised industry knowledge is required. In addition, the Branch set credit limits for all customers based on an evaluation of their creditworthiness.

All credit lines or facilities extended by the Branch are made subject to prior approval pursuant to a set of delegated credit authority limits approved by the Head Office.

Credit review procedures and loan classification
The Branch’s Credit Risk Team (the ‘CRT’), subjects the Branch’s risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of UAE and Branch’s internal policies in order to assist in the early identification of accrual and potential performance problems. The CRT validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Branch.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on recoverability of outstanding and risk ratings of the assets.

The Branch also comply with IFRS, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available.

Impaired loans and advances
Impaired loans and advances are loans and advances for which the Branch determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded normal, watchlist, substandard, doubtful or loss in the Branch’s internal credit risk grading system.

Significant increase in credit risk
The Bank monitors all financial assets that are subject to 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.

26 FINANCIAL RISK MANAGEMENT (continued)

Internal credit risk ratings
In order to minimize the credit risk, the Branch has acquired a globally acclaimed system for obligor and facility internal risk rating. It facilitates the analysis of credit proposals by putting a robust risk rating system as well as structurally supports the Branch in estimating various elements of risk. The system is comprised of obligor risk rating in ten scales from 1 to 12. Such a credit risk grades are defined using both quantitative and qualitative factors that are indicative of default. The table below provides a mapping of the Branch's internal credit risk grades to external ratings.

Internal Rating Grade	*Description*	*Agency rating*
1	Exceptional	AAA
2	Superior	AA+
3	Very Good	A+
4	Good	BBB+
5	Satisfactory	BB+
6	Acceptable	B+
7, 8 & 9	Watch-list	CCC+
10 & below	Non-performing assets	D

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Branch's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- For retail exposures: internally generated data of customer behavior, affordability metrics etc.; and
- For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Branch analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as oil prices, non-oil commodities indexes, house prices in the United Arab Emirates and the tourism indicators. The Branch generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Branch then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Branch uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

26 FINANCIAL RISK MANAGEMENT (continued)

Incorporation of forward-looking information
The Branch uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Branch employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Branch applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Branch for strategic planning and budgeting. The Branch has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Branch has not made changes in the estimation techniques or significant assumptions made during the reporting period.

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 4 years. Other forward-looking considerations, such as GDP growth, unemployment, inflation, impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to ECL for such factors. This is reviewed and monitored for appropriateness at the end of each reporting period.

Measurement of ECL
The key elements used in the computation of ECL are:

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

These elements are derived from our internally developed statistical models based on our historical data and the data provided by the Central Bank of UAE. They are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate at a certain point in time. Such calculation is based on statistical rating models currently used by the Branch, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data, as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is an estimate of the loss magnitude arising on in case the customer defaults. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective interest rate (EIR) of the finance.

Measurement of ECL
EAD represent the expected exposures in the event of a default. The Branch derives the EAD from the current exposures to the counterparty and the potential changes to the current amount allowed under the contract including amortisation. The EAD for the on balance sheet items are its gross carrying amount whereas for off-balance sheet items such as letters of credits, financial and general guarantees undrawn non-cancellable finance commitments are estimated by applying credit conversion factors on the committed exposures.

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

26 FINANCIAL RISK MANAGEMENT (continued)

Measurement of ECL (continued)
When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Branch has in place policies, which govern the determination of eligibility of various collaterals, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the s specific collateral to be considered as effective risk mitigating. The Branch's major collaterals are mortgaged properties, investments, vehicles and deposits under lean.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

Risks relating to credit-related commitments
The Branch makes available to its customers, guarantees and letters of credit which require that the Branch makes payments in the event that the customer fails to fulfil certain obligations to other parties. These instruments expose the Branch to a similar risk to financing and investing assets and these are monitored by the same control processes and policies.

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

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

The Branch holds collateral against loans and advances in the form of cash, guarantees, mortgages and liens over properties or other securities and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are subsequently monitored on a periodic basis. Generally, collateral is not held against amounts due from banks.

The fair value of collateral held against loans and advances to customers are as follows:

	2023	*2022*
	AED 000	*AED 000*
Property	**4,720**	2,685
	4,720	2,685

26 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk
Liquidity risk is the risk that the Branch will encounter difficulty in meeting its obligations associated with financial liabilities. It includes the risk of inability to fund assets at appropriate maturities and rates, and inability to liquidate assets at a reasonable price and in an appropriate time frame, and inability to meet obligations as they become due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to diminish.

Management of liquidity risk
The Branch's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Branch reputation.

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

The daily liquidity position is monitored regularly and liquidity stress testing is conducted covering both normal and more severe market conditions. Liquidity policies and procedures are subject to review and approval by Head Office. Reports of the Branch liquidity positions are reviewed daily. A summary report including any exceptions and remedial action taken is also reviewed daily.

The key measure used by the Branch for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Branch's compliance with the liquidity limit established by the Branch's lead regulator. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Utilization of Funds to Stable Resources and stress testing of liquid funds against unexpected withdrawal of liabilities.

26 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of financial assets and liabilities at 31 December 2023 was as follows:

	Less than 3 months AED 000	*3 to 6 months AED 000*	*6 to 12 months AED 000*	*Over one year AED 000*	*No fixed maturity AED 000*	*Total AED 000*
ASSETS						
Cash and balances with the Central Bank of UAE	**816,699**	**-**	**-**	**-**	**106,808**	**923,507**
Deposits and balances due from banks	**301,933**	**-**	**-**	**-**	**-**	**301,933**
Loans and advances to customers	**98,070**	**83,388**	**6,161**	**13,207**	**-**	**200,826**
Investments	**84,956**	**83,142**	**256,584**	**35,056**	**-**	**459,738**
Deferred tax assets	**-**	**-**	**-**	**-**	**2,692**	**2,692**
Other assets	**4,800**	**-**	**-**	**-**	**-**	**4,800**
Total	**1,306,458**	**166,530**	**262,745**	**48,263**	**109,500**	**1,893,496**
LIABILITIES						
Customers' deposits	**1,536,138**	**111,432**	**36,767**	**3,363**	**-**	**1,687,700**
Due to related parties	**-**	**-**	**-**	**-**	**-**	**-**
Other liabilities	**42,938**	**-**	**-**	**-**	**-**	**42,938**
Deposits and balances due to bank	**18,133**	**-**	**-**	**-**	**-**	**18,133**
Total	**1,597,209**	**111,432**	**36,767**	**3,363**	**-**	**1,748,771**
Liquidity gap	**(290,751)**	**55,098**	**225,978**	**44,900**	**109,500**	**144,725**

26 FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk (continued)
The maturity profile of financial assets and liabilities at 31 December 2022 was as follows:

	Less than 3 months AED 000	*3 to 6 months AED 000*	*6 to 12 months AED 000*	*Over one year AED 000*	*No fixed maturity AED 000*	*Total AED 000*
ASSETS						
Cash and balances with the Central Bank of UAE	399,748	-	-	-	59,856	459,604
Deposits and balances due from banks	151,531	-	-	-	-	151,531
Loans and advances to customers	41,660	47,821	16,680	12,161	-	118,322
Investments	-	-	-	41,145	-	41,145
Deferred tax assets	-	-	-	-	5,028	5,028
Other assets	8,104	-	-	-	-	8,104
Total	601,043	47,821	16,680	53,306	64,884	783,734
LIABILITIES						
Customers' deposits	595,670	32,479	13,802	1,899	-	643,850
Due to related parties	18,363	-	-	-	-	18,363
Other liabilities	17,510	-	-	-	-	17,510
Deposits and balances due to bank	14,771	-	-	-	-	14,771
Total	646,314	32,479	13,802	1,899	-	694,494
Liquidity gap	(45,271)	15,342	2,878	51,407	64,884	89,240

26 FINANCIAL RISK MANAGEMENT (continued)

Market risk
Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

The Branch carries a limited amount of market risk as a policy preference and it is continuously monitored. Foreign exchange for the account of the Branch is managed properly.

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

The Branch uses monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by Local Management Committee. Since a portion of the Branch's assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branch's assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branch's statement of comprehensive income or equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2023, including the effect of hedging instruments. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net interest income over a 12 months period as on 31 December 2023 would have been a decrease in net interest income by 39.33% (in case of decrease of interest rate) and would have been an increase in net interest income by 39.33% (in case of increase of interest rate) respectively [2022: The impact of 1% sudden movement in benchmark interest rate on net interest income over a 12 months period as on 31 December 2022 would have been a decrease in net interest income by 36.17% (in case of decrease of interest rate) and would have been an increase in net interest income by 36.17% (in case of increase of interest rate) respectively].

The effective interest rate on loans and advances was 6.04% (2022: 4.72%) and on customers' deposits 0.37% (2022: 0.20%) per annum.

26 FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk management (continued)
The Branch is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2023:

Interest Rate Sensitivity Gap:

	Interest sensitive					
	Less than 3 months AED 000	*3 to 6 months AED 000*	*6 to12 months AED 000*	*Over One year AED 000*	*Non-interest sensitive AED 000*	*Total AED 000*
Assets						
Cash and balances with the Central Bank of UAE	816,699	-	-	-	106,808	923,507
Deposits and balances due from banks	301,933	-	-	-	-	301,933
Loans and advances to customers	98,070	83,388	6,161	13,207	-	200,826
Investments	84,956	83,142	256,584	35,056	-	459,738
Deferred tax assets	-	-	-	-	2,692	2,692
Other assets	-	-	-	-	4,800	4,800
Total assets	**1,301,658**	**166,530**	**262,745**	**48,263**	**114,300**	**1,893,496**
Liabilities and Equity						
Customers' deposits	58,570	111,432	36,767	3,363	1,477,568	1,687,700
Due to related parties	-	-	-	-	-	-
Other liabilities	-	-	-	-	42,938	42,938
Deposits and balances due to bank	18,133	-	-	-	-	18,133
Total liabilities and equity	**76,703**	**111,432**	**36,767**	**3,363**	**1,520,506**	**1,748,771**
Interest rate sensitivity gap	**1,224,955**	**55,098**	**225,978**	**44,900**	**(1,406,206)**	**144,725**
Cumulative interest rate sensitivity gap	**1,224,955**	**1,280,053**	**1,506,031**	**1,550,931**	**144,725**	

26 FINANCIAL RISK MANAGEMENT (continued)

Interest rate risk management (continued)
Interest Rate Sensitivity Gap (continued)

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2022:

	Interest sensitive					
	Less than 3 months AED 000	*3 to 6 months AED 000*	*6 to12 months AED 000*	*Over One year AED 000*	*Non-interest sensitive AED 000*	*Total AED 000*
Assets						
Cash and balances with the Central Bank of UAE	399,748	-	-	-	59,856	459,604
Deposits and balances due from banks	151,531	-	-	-	-	151,531
Loans and advances to customers	41,660	47,821	16,680	12,161	-	118,322
Investments	-	-	-	41,145	-	41,145
Deferred tax assets	-	-	-	-	5,028	5,028
Other assets	-	-	-	-	8,104	8,104
Total assets	592,939	47,821	16,680	53,306	72,988	783,734
Liabilities and Equity						
Customers' deposits	63,114	32,479	13,802	1,899	532,556	643,850
Due to related parties	18,363	-	-	-	-	18,363
Other liabilities	-	-	-	-	17,510	17,510
Deposits and balances due to bank	14,771	-	-	-	-	14,771
Total liabilities and equity	96,248	32,479	13,802	1,899	550,066	694,494
Interest rate sensitivity gap	496,691	15,342	2,878	51,407	(477,078)	89,240
Cumulative interest rate sensitivity gap	496,661	512,033	514,911	566,318	89,240	

26 FINANCIAL RISK MANAGEMENT (continued)

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

The Branch's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branch manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Branch's Head Office sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The exchange rate of AED against US Dollar is pegged and the Branch's exposure to currency risk is limited to that extent.

At 31 December 2023 and 2022, the Branch does not have any significant exposure in foreign currencies.

27 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Branch take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

- The fair values of financial assets and financial liabilities are determined as follows.
- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Fair value of the Branch's financial assets that are measured at amortised cost on recurring basis
Some of the Branch's financial assets are measured at amortised cost at the end of the reporting period. The management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

	Carrying amount AED 000	*Fair value Level 1 AED 000*	*Level 2 AED 000*	*Level 3 AED 000*	*Total AED 000*
2023					
Financial assets					
Investments	**459,738**	**454,644**	**-**	**-**	**454,644**
Forwards	**1**	**1**	**-**	**-**	**1**
	459,739	**454,645**	**-**	**-**	**454,645**

27 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	Carrying amount AED 000	*Fair value*			
		Level 1 AED 000	*Level 2 AED 000*	*Level 3 AED 000*	*Total AED 000*
2022					
Financial assets					
Investments	41,145	29,783	-	-	29,783
Forwards	-	-	-	-	-
	41,145	29,783	-	-	29,783

There were no transfers between level 1 and 2 during the year.

28 DERIVATIVES

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, records gross, is the amount of derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end. All such derivatives are due less than one year.

	Asset 2023 AED 000	***Notional amount 2023 AED 000***
Derivatives		
Forward foreign exchange contracts	**1**	**68,644**

	Asset 2022 AED 000	*Notional amount 2022 AED 000*
Derivatives		
Forward foreign exchange contracts	-	-

All derivatives are due to mature within the three months from the date of the this financial statements.

29 PROPOSED REPATRIATION OF PROFIT

The Country Manager – MCB UAE. Branch has proposed the profit repatriation of AED 20.81 million which is subject to the approval of the Central Bank of UAE.

30 COMPARATIVE INFORMATION

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