BANK OF CHINA LTD. - ABU DHABI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Bank of China Ltd. - Abu Dhabi

Financial statements
for the year ended 31 December 2023

Independent auditor's report to the Directors of Bank of China in respect of its Abu Dhabi Branch

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bank of China Ltd. – Abu Dhabi Branch (the "Branch") as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards.

What we have audited

The Branch's financial statements comprise:

- the statement of financial position as at 31 December 2023;
- the statement of comprehensive income for the year then ended;
- the statement of changes in Head Office equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Branch in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Independent auditor's report to the Directors of Bank of China in respect of its Abu Dhabi Branch (continued)

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

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the Article (114) of the Decretal Federal Law No. (14) of 2018, as amended, and for such internal control as the Directors 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, the Directors are 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 the Directors either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism 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 the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent auditor's report to the Directors of Bank of China in respect of its Abu Dhabi Branch (continued)

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

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

PricewaterhouseCoopers Limited Partnership - Abu Dhabi
28 March 2024

Rami Sarhan
Registered Auditor Number 1152
Place: Abu Dhabi, United Arab Emirates

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	9	**140,784**	187,685
Due from banks	10	**1,275,218**	720,076
Due from related parties	22	**44,192**	22,708
Financial asset measured at amortised cost	11	**703,869**	355,640
Loans and advances	12	**773,844**	816,327
Other assets	13	**12,623**	10,086
Property, equipment and right of use assets	14	**3,260**	1,079
Intangible assets	15	**15**	26
Deferred tax asset	18	**1,278**	3,629
TOTAL ASSETS		**2,955,083**	2,117,256
LIABILITIES AND EQUITY			
LIABILITIES			
Customer deposits	16	**1,618,755**	1,030,299
Due to related parties	22	**826,243**	673,341
Due to banks and other financial institutions	10	**8,016**	1,243
Other liabilities	17	**41,485**	12,117
TOTAL LIABILITIES		**2,494,499**	1,717,000
EQUITY			
Allocated capital	20	**367,200**	367,200
Credit risk reserve	20	**12,946**	12,946
Statutory reserve	20	**10,967**	4,934
Retained earnings		**69,471**	15,176
TOTAL EQUITY		**460,584**	400,256
TOTAL LIABILITIES AND EQUITY		**2,955,083**	2,117,256

These financial statements were authorized and approved for issue by the General Manager on 28 March 2024:

Jie Chen
General Manager

The independent auditors' report is set out on pages 1 to 3.
The attached notes 8 to 59 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	*2023* AED'000	*2022* AED'000
Interest income	5	**118,686**	34,504
Interest expense	6	**(40,704)**	(10,780)
Net interest income		**77,982**	23,724
Net fees and commission income	**7**	**3,773**	3,082
Foreign exchange income		**2,015**	906
(Loss)/Gain on derivative financial instruments		**(3,939)**	161
Net operating income		**79,831**	27,873
General and administrative expenses	8	**(16,795)**	(14,411)
Profit for the year before provisions		**63,036**	13,462
Net release/(charge) in provision for credit facilities	24	**12,251**	(3,134)
Profit for the year before tax		**75,287**	10,328
Income tax expense	18	**(14,959)**	(2,274)
Profit for the year		**60,328**	8,054
Other comprehensive income		-	**-**
Total comprehensive income for the year		**60,328**	8,054

The independent auditor's report is set out on pages 1 to 3.
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STATEMENT OF CHANGES IN HEAD OFFICE EQUITY

For the year ended 31 December 2023

	Allocated capital AED'000	*Statutory reserve AED'000*	*Credit risk reserve AED'000*	*Retained earnings AED'000*	*Total AED'000*
At 1 January 2022	367,200	4,129	12,946	7,927	392,202
Total comprehensive income for the year	-	-	-	8,054	8,054
Transfer to statutory reserve	-	805	-	(805)	-
At 31 December 2022	**367,200**	**4,934**	**12,946**	**15,176**	**400,256**
Total comprehensive income for the year	**-**	**-**	**-**	**60,328**	**60,328**
Transfer to statutory reserve	**-**	**6,033**	**-**	**(6,033)**	**-**
At 31 December 2023	**367,200**	**10,967**	**12,946**	**69,471**	**460,584**

The independent auditor's report is set out on pages 1 to 3.
The attached notes 8 to 59 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
OPERATING ACTIVITIES			
Profit for the year before taxation		**75,287**	10,328
Adjustments for:			
Depreciation and amortization	14, 15	**607**	1,051
Depreciation on right of use assets	14	**580**	566
Net (reversal)/charge in provision for expected credit losses		**(13,286)**	3,134
Finance cost		**56**	10
Operating cash flows before changes in working capital		**63,224**	15,089
Changes in working capital:			
Cash reserve requirement with the Central Bank of UAE	9	**(69,812)**	(22,264)
Loans and advances	12	**56,167**	(370,822)
Other assets	13	**(2,537)**	(8,144)
Customer deposits	16	**588,456**	489,517
Due to related parties	22	**-**	(110,190)
Other liabilities	17	**14,375**	191
Net cash generated from/(used in) from operating activities		**649,893**	(6,623)
INVESTING ACTIVITIES			
Purchase of property and equipment	14	**(376)**	(133)
Purchase of financial asset measured at amortised cost		**(348,239)**	(350,645)
Net cash used in investing activities		**(348,615)**	(350,778)
FINANCING ACTIVITY			
Lease payments	17.2	**(636)**	(730)
Net cash used in financing activity		**(636)**	(730)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**300,642**	(358,131)
Cash and cash equivalents, beginning of year		**207,092**	565,223
CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER	25	**507,724**	207,092

The independent auditor's report is set out on pages 1 to 3.
The attached notes 8 to 59 form an integral part of these financial statements.

1 ESTABLISHMENT AND OPERATIONS

Bank of China Limited (the "Head Office") is a public limited company incorporated in Beijing, People's Republic of China and the address of its registered office is No.1, Fuxingmennei Street, Beijing (100818).

The Head Office has registered a branch in the Emirate of Abu Dhabi which is regulated by the Central Bank of United Arab Emirates ("CBUAE"). The principal activity of the Abu Dhabi Branch of Bank of China Limited (the "Branch") in the United Arab Emirates ("UAE") is wholesale banking. The registered address of the Branch is 46th floor, Al Reem Island, Abu Dhabi, UAE.

In addition, the Federal Law No. (14) of 2018 – Regarding the Central Bank & Organization of Financial Institutions and Activities ("Banking Law") which is applicable to the Branch came into effect on 23 September 2018. The Branch has assessed, evaluated relevant provisions of the Companies Law and the Banking Law and ensured compliance with the applicable provisions of relevant law.

2 BASIS OF PREPARATION

The financial statements have been prepared on the historical cost basis, except for the valuation of any financial instruments measured at fair value. For the purpose of the financial statements, the results and financial position of the Branch are expressed in Arab Emirates Dirhams (AED) (in thousands, except where noted), which is the functional currency of the Branch, and the presentation currency for the financial statements. The accounting policies used in the preparation of these financial statements are consistent with those used in the audited annual financial statements for the year ended 31 December 2023, adjusted for new and revised International Financial Reporting Standards as applicable. The principal accounting policies adopted are set out below.

The Branch presents its statement of financial position broadly in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the reporting date (current) and more than twelve months after the reporting date (non-current) presented in the notes.

These financial statements represent the financial position and results of the Branch in the Abu Dhabi. The Branch is not a separate legal entity but meets the definition of a reporting entity under IFRS Accounting Standards ("IFRS") under the Conceptual Framework for IFRS Accounting Standards. IFRS Accounting Standards defines a reporting entity as an entity that is required, or chooses, to prepare financial statements.

All the operating activities of the Branch are clearly defined and separately managed from the other businesses of the Head Office and accounting records are maintained on this basis. The assets of the Branch are used solely by the Branch and are registered in the name of the Branch. The liabilities relate to the activities of the Branch.

It is important to note whilst the reporting boundary is defined above, the assets and liabilities presented within the reporting boundary remain the assets and liabilities of the Head Office and are not legally separable from the Head Offices' other assets and liabilities. As such legally, the assets of the reporting entity may be available to the other claims of the Head Office.

3 STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board ("IASB"), interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and applicable requirements of the UAE Federal Decree Law No. (32) of 2022 and Article (114) of the Decretal Federal Law No. (14) of 2018, as amended.

Along with these financial statements, the Branch has also presented Basel III disclosures (unaudited) in accordance with the guidelines issued by the CBUAE.

4.1 APPLICATION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS ("IFRS")

(a) NEW AND REVISED IFRS ACCOUNTING STANDARDS APPLIED ON THE FINANCIAL STATEMENTS

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2023, have been adopted in these financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior year.

Title	**Key requirements**	**Effective for annual periods beginning on or after**
Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice Statement 2	The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.	1 January 2023
Definition of accounting estimates – Amendments to IAS 8	The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12	The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences, and will require the recognition of additional deferred tax assets and liabilities.	1 January 2023
OECD Pillar Two Rules	In May 2023, the IASB made narrow-scope amendments to IAS 12 which provide a temporary relief from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules, including tax law that implements qualified domestic minimum top-up taxes described in those rules.	Immediately

4.1 APPLICATION OF NEW AND REVISED IFRS ACCOUNTING STANDARDS ("IFRS") (continued)

(b) NEW AND REVISED IFRS ACCOUNTING STANDARDS IN ISSUE BUT NOT YET EFFECTIVE AND NOT EARLY ADOPTED

The Branch has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

Title	**Key requirements**	**Effective for annual periods beginning on or after**
Classification of Liabilities as Current or Non-current – Amendments to IAS 1	Amendments made to IAS 1 Presentation of Financial Statements in 2020 and 2022 clarified that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).	1 January 2024
Lease Liability in a Sale and Leaseback – Amendments to IFRS 16	In September 2022, the IASB finalised narrow-scope amendments to the requirements for sale and leaseback transactions in IFRS 16 Leases which explain how an entity accounts for a sale and leaseback after the date of the transaction. The amendments specify that, in measuring the lease liability subsequent to the sale and leaseback, the seller-lessee determines 'lease payments' and 'revised lease payments' in a way that does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use that it retains. This could particularly impact sale and leaseback transactions where the lease payments include variable payments that do not depend on an index or a rate.	1 January 2024

Management of the Branch anticipates that these new standards, interpretations and amendments will be adopted in the financial statements as and when they are applicable. The Branch is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

4.2 MATERIAL ACCOUNTING POLICIES

Financial instruments

IFRS 9: Financial Instruments

Initial measurement and recognition of financial assets and financial liabilities
A financial asset or a financial liability is recognised when the Branch becomes a party to the contractual provisions of the instrument. Financial assets and liabilities, with the exception of loans and advances to customers and balances due to customers, are initially recognised on the trade date, i.e., the date on which the Branch becomes a party to the contractual provisions of the instrument. This includes regular way trades, i.e., 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. Loans and advances to customers are recognised when funds are transferred to the customers' accounts. The Branch recognises balances due to customers when funds are transferred to the Branch.

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for FVTPL financial assets. When the fair value of financial instruments at initial recognition differs from the transaction price, the Branch accounts for the day 1 profit or loss, as described below.

Day 1 profit or loss
When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branch recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

Classification and measurement of financial assets and financial liabilities
The Branch determines classification and measurement category of financial assets, except derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The Branch classifies and measures its derivative and trading portfolio at FVTPL.

The Branch classifies their financial assets based on the business model for managing the assets and the asset's contractual terms, as explained below.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at fair value through profit and loss when they are held for trading and derivative instruments or the fair value designation is applied.

Due from banks and loans and advances to customers
The Branch only measures financial assets at amortized cost if both of the following conditions are met:

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

The details of these conditions are outlined below.

Business model assessment
The Branch determines its business model at the level that best reflects how they manage financial assets to achieve their business objective. The Branch's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The expected frequency, value and timing of sales are also important aspects of the Branch's assessment.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Business model assessment *(continued)*

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

The SPPI test
Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Branch assesses whether the financial instruments' cash flows meet the solely payments of principal and interest test (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Branch applies judgement and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Branch classifies financial assets upon recognition of IFRS 9 into following categories

- Amortised cost (AC)
- Fair value through profit and loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the income statement. Any gain or loss on derecognition is recognised in the income statement. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate ("EIR). The amortisation is included in "Interest income" in the income statement. The losses arising from impairment are recognised in the income statement under "net provision on expected credit loss".

The Branch classifies cash and balances with the Central Bank of UAE, financial asset measured at amortised cost, due from banks, loans and advances and other assets as AC.

Fair Value Through Profit and Loss (FVTPL)
The Branch classifies financial assets as FVTPL when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit.

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

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the income statement. Interest income and dividends are recognised in the income statement according to the terms of the contract, or when the right to payment has been established.

The Branch measures derivatives as at FVTPL and the positive and negative fair value of these derivatives are included in other assets and other liabilities, respectively.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Equity instruments at FVOCI
Upon initial recognition, the Branch occasionally elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in statement of comprehensive income as other operating income when the right of the payment has been established, except when the Branch benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment. The Branch has no such instruments currently.

Reclassifications
The Branch does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branch acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and financial liabilities

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

Derecognition other than for substantial modification
A financial asset (in whole or in part) is derecognised either when:

- the contractual rights to receive the cash flows from the asset have expired; or
- the Branch retains the right to receive cash flows from the assets but have assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the Branch has transferred their rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Branch has transferred their right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Branch’s continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the branch would be required to repay.

When the Branch has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Branch’s continuing involvement, in which case, the Branch also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration the Branch could be required to pay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branch would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Derecognition of financial assets and financial liabilities (continued)

Derecognition other than for substantial modification (continued)

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Financial guarantees, letters of credit and undrawn loan commitments

In the ordinary course of business, the Branch gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in other liabilities. Subsequent to initial recognition, the Branch's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and under IFRS 9 - an ECL provision as set out in notes 10 and 12. The premium received is recognised in the statement of comprehensive income in 'fees and commission income' on a straight-line basis over the life of the guarantee in line with IFRS 15.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branch is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of ECL.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Impairment of financial assets

The Branch recognises expected credit losses (ECL) for cash and balances with the CBUAE, financial asset measured at amortised cost, loans and advances, other assets and due from banks, together with loan commitments and financial guarantee contracts.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Branch's policies for determining if there has been a significant increase in credit risk are set out in note 24.

The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Branch has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Branch groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- Stage 1: When loans are first recognized, the Branch recognizes an allowance based on 12mECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Branch records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered credit-impaired The Branch records an allowance for the LTECL.
- POCI: Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets (continued)

For financial assets for which the Branch has no reasonable expectations of receiving either the entire outstanding amount or a proportion there of, the gross carrying amount and financial asset are reduced. This is considered a (partial) derecognition of the financial asset.

Calculation of ECLs
The Branch calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- Probability of default (PD) -The PD is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- Exposure at default (EAD) - The EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- Loss given default -The LGD is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

Undrawn loan commitments
When estimating lifetime ECL for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

Revolving facilities
For revolving facilities that include both a loan and an undrawn loan commitment and letters of credit, ECLs are calculated and presented together with the loan.

Guarantees
The Branch's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the income statement, and the ECL provision. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the scenarios. The ECLs related to financial guarantee contracts are calculated and presented together with the loan.

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC.

Regulatory guidelines
The Branch has considered the following regulatory guidance of the regulator in arriving at ECL impairment:

- 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.
- Requirement of 5 years data to be included in the IFRS 9 models for the purpose of assessment of the ECL, where relevant and available.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Impairment of financial assets (continued)

The calculation of ECLs (continued)

Forward looking information

The Branch incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Macro-economic factors are considered for this purpose by applying forward looking information such as GDP growth percentage.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Scenarios
Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. The most significant period-end assumptions used for ECL estimate is GDP. The Branch has considered the scenarios – base case, upside and downside for all portfolios keeping in view the principal macroeconomic (GDP).

Sensitivity analysis
The Branch has performed sensitivity analyses by assessing the impact on the ECL if the principal macroeconomic variable (GDP) was to change by the base case, upside and downside scenarios and they do not expect a significant sensitivity impact on an overall basis.

Collateral valuation
To mitigate its credit risks on financial assets, the Branch seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Branch's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branch uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers or based on housing price indices.

Guarantees held are included in the measurement of loan ECL when either they are specified in the contractual terms of the loan or else are integral to the loan, in that they formed part of the basis on which the loan was extended. Guarantees that are not integral to the loan's contractual terms are accounted as separate units of accounts subject to ECL.

Write-offs
Financial assets are written off either partially or in their entirety only when the Branch has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Derivative financial instruments
Derivatives generally include interest rate swaps, forward foreign exchange contracts and options. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives with positive fair values (unrealised gains) are included in other assets and derivatives with negative fair values (unrealised losses) are included in other liabilities in the statement of financial position.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Financial Instruments (continued)

Renegotiated loans
In the event of a default, the Branch seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Collateral repossessed
The Branch's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. This, however, is subject to the regulatory requirements as per CBUAE. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Branch's policy.

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

Cash and cash equivalents
For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and unrestricted balances held with the CBUAE and highly liquid financial assets (such as current, call amounts and placements) with original maturities of three months or less from the date of its acquisition.

Property and equipment and right of use assets
Property and equipment and right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful lives. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The assets residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Category	**Useful life (in years)**	**Residual value**
Furniture and fixtures	5	3%
Motor vehicles	6	3%
Computer and accessories	3	3%
Leasehold improvements	5	0%
Office equipment	5	3%

The carrying amounts of property and equipment and right of use assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the statement of comprehensive income. Any gain or loss on the disposal of property and equipment is recognised in the statement of comprehensive income.

Intangible assets
Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, if any. The cost of the intangible asset is the purchase price together with any incidental expenses of acquisition. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of intangible assets and the benefits can be measured reliably. All other expenditure is recognised in the statement of comprehensive income as an expense is incurred. The useful life of the amortized assets is 3 years. The amortisation charge for the year is calculated on a straight-line basis after taking into account the residual value, if any. The residual values and useful lives are reviewed and adjusted, if appropriate, at the end of each reporting period.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Amortisation on additions is charged from the month the asset is available for use. No amortisation is charged in the month of disposal.

Gains and losses on sale of intangible assets are included in the statement of comprehensive income.

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

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

Revenue recognition

Interest income
Interest income and expenses are recognised using effective interest method. When a financial asset becomes credit-impaired and is therefore regarded as 'Stage 3', the Branch calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branch reverts to calculating interest income on a gross basis. The previously unrecognised interest income of a cured but previously impaired financial asset will be recognised as a reversal of impairment loss. Interest income and expenses for all interest-bearing financial instruments are recognised within the statement of comprehensive income.

Fee and commission income
Fees and commission income that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commissions are recognised over the period of service or when rendered.

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.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

Fair value hierarchy
The Branch measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, 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 observable 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.

Taxation
Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the Emirate of Abu Dhabi.

Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Branch operates and generates taxable income.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax
Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred tax assets is reviewed at each reporting 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 reporting date and are recognised to the extent that it becomes 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 reporting date.

The Branch only off-sets its deferred tax assets against liabilities when there is both a legal right to offset its current tax assets and liabilities and it is the Branch's intention to settle on a net basis.

Foreign currencies
Foreign currency transactions are recorded at rates of exchange ruling at value dates of the transaction. Monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into UAE Dirhams at rates of exchange ruling at the statement of financial position date.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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

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

Contingencies
Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefit is probable.

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

Leases
In the process of applying the Branch's accounting policies, management has made the following estimates which have the most significant effect on the amounts recognised in the financial statements.

The Branch applies a single recognition and measurement approach for its leases that it is the lessee, except for short-term leases and leases of low-value assets. The Branch recognises lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

Below are the accounting policies of the Branch in relation to leases where the Branch is the lessee:

Right-of-use assets
The Branch recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Branch is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with leasehold improvements as discussed in note 4.2.

Lease liabilities
At the commencement date of the lease, the Branch recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments may also include the exercise price of a purchase option reasonably certain to be exercised by the Branch and payments of penalties for terminating a lease, if the lease term reflects the Branch exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Branch uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Leases (continued)

Short-term leases and leases of low-value assets
The Branch applies the short-term lease recognition exemption to its short-term leases of property and equipment (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of property and equipment that are considered of low value. Payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

The Branch has the option, under some of its leases to lease the assets for an additional term. The Branch applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g. a change in business strategy).

Use of estimates and judgements
The Branch based their assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Branch. Such changes are reflected in the assumptions when they occur.

The basis used by management in determining the carrying values of loans and advances and the underlying risk therein are discussed below:

Impairment losses on financial assets
The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branch's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Branch's internal credit grading model, which assigns PDs to the individual grades;
- The Branch's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDSs, EADs and LGDs; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Estimating the incremental borrowing rate
The Branch cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Branch would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Branch 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Branch estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

Fair value measurement
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts.

4.2 MATERIAL ACCOUNTING POLICIES (continued)

Use of estimates and judgements (continued)
In the process of applying the Branch's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Classification of financial assets
The Branch determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding.

Determination of the lease term for lease contracts with renewal and termination options (Branch as a lessee)
The Branch determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Branch has one lease contract that includes extension and termination options. The Branch applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

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

5 INTEREST INCOME

	2023	*2022*
	AED'000	*AED'000*
Financial asset measured at amortised cost	**19,608**	4,756
Loans and advances	**47,161**	17,182
Due from related parties	**190**	279
Due from banks	**44,608**	11,215
Balances with the CBUAE	**7,119**	1,072
	118,686	34,504

6 INTEREST EXPENSE

	2023	*2022*
	AED'000	*AED'000*
Due to related parties	**14,684**	6,594
Customer deposits	**25,976**	4,167
Due to banks	**44**	19
	40,704	10,780

7 FEES AND COMMISSION INCOME

	2023	2022
	AED'000	*AED'000*
Fee and commission income	**5,337**	3,361
Fee and commission expense	**(1,564)**	(279)
	3,773	3,082

8 GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
	AED'000	*AED'000*
Staff costs	**12,187**	10,739
Advertising and business promotion expenses	**466**	236
Depreciation and amortization (Note 14 and Note 15)	**1,188**	1,627
Legal and professional fees	**897**	424
Other operating expenses	**2,057**	1,385
	16,795	14,411

Legal and professional fees includes Audit fees for 2023 of AED 274,170 for financial audit (2022: AED 268,000) and AED 57,842 for non-audit services (2022: AED 57,842)

9 CASH AND BALANCES WITH THE CENTRAL BANK OF UAE

	2023	2022
	AED'000	*AED'000*
Balances with the Central Bank of UAE:		
Current account	**21,944**	138,657
Cash reserve requirement	**118,840**	49,028
	140,784	187,685

The reserve requirement as at 31 December 2023 amounted to AED118,840 thousand (2022: AED 49,028 thousand). In accordance with the revised regulations effective from October 2020, the end of day balance in the current/clearing account maintained with CBUAE is swept to the Reserve account on a daily basis.

Balances with the CBUAE are in stage 1 throughout the year and therefore have insignificant ECL.

10 DUE FROM/TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2023	*2022*
	AED'000	*AED'000*
Due from banks:		
Current accounts with other banks	**82,123**	22,441
Deposits with banks	**1,193,725**	697,870
Less: Expected credit loss (Note 10.1)	**(630)**	(235)
	1,275,218	720,076

Amounts due from banks were performing throughout the year, and appropriately included in Stage 1 of the ECL model.

Due to banks and other financial institutions:		
Demand and call deposits	**8,016**	1,243

10.1 Movement of expected credit loss is as follows:

	2023	*2022*
	AED'000	AED'000
Balance at 1 January	**235**	165
Charge during the year	**395**	70
Balance at 31 December	**630**	235

11 FINANCIAL ASSET MEASURED AT AMORTIZED COST

	2023	*2022*
	AED'000	AED'000
Investment measured at amortised cost	**703,882**	355,643
Less: Expected credit loss	**(13)**	(3)
	703,869	355,640

Financial asset measured at amortized cost was performing throughout the year, and appropriately included in Stage 1 of the ECL model. This financial asset carries an insignificant ECL.

12 LOANS AND ADVANCES

	2023	*2022*
	AED'000	*AED'000*
Loans and advances measured at amortised cost (Note 12.1)	**777,793**	833,960
Expected credit losses against loans and advances – ECL (Note 12.2)	**(3,949)**	(17,633)
Loans and advances, net	**773,844**	816,327

12.1 Analysis of loans and advances

	2023	*2022*
	AED'000	AED'000
Trade finance - bills discounting	**-**	53,050
Syndicated loans	**777,793**	741,602
Bilateral loans	**-**	39,308
Balance at 31 December	**777,793**	833,960

12.2 Movement of provision for credit losses are as follows:

	2023	*2022*
	AED'000	AED'000
Balance at 1 January	**17,633**	14,374
(Reversal)/Charge during the year	**(13,684)**	3,259
Balance at 31 December	**3,949**	17,633

Impairment allowance for loans and advances

The tables below show the credit quality and the maximum exposure to credit risk based on the Branch's internal credit rating system and year-end stage classification.

An analysis of the gross balances included under each stage classification is as follows:

In AED 000	***2023***			
Grades	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing*				
Normal grade (AAA1 – A3)	**711,676**	**-**	**-**	**711,676**
Watchlist grade (A4 – C)	**3**	**-**	**-**	**3**
Without internal rating	**66,114**	**-**	**-**	**66,114**
Non-performing*				
Sub-standard grade (D)	**-**	**-**	**-**	**-**
Doubtful grade (D)	**-**	**-**	**-**	**-**
Loss grade (D)	**-**	**-**	**-**	**-**
Total	**777,793**	**-**	**-**	**777,793**

12 LOANS AND ADVANCES (continued)

12.2 Movement of provision for credit losses are as follows: (continued)

Impairment allowance for loans and advances (continued)

In AED 000	*2022*			
Grades	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing*				
Normal grade (AAA1 – A3)	682,993	-	-	682,993
Watchlist grade (A4 – C)	39,308	38,199	-	77,507
Without internal rating	73,460	-	-	73,460
Non-performing*				
Sub-standard grade (D)	-	-	-	-
Doubtful grade (D)	-	-	-	-
Loss grade (D)	-	-	-	-
Total	795,761	38,199	-	833,960

An analysis of the ECL included under each stage classification is as follows:

In AED 000	**2023**			
Grades	***Stage 1***	***Stage 2***	***Stage 3***	***Total***
Performing*				
Normal grade (AAA1 – A3)	**2,634**	**-**	**-**	**2,634**
Watchlist grade (A4 – C)	**-**	**-**	**-**	**-**
Without internal rating	**1,315**	**-**	**-**	**1,315**
Non-performing*				
Sub-standard grade (D)	**-**	**-**	**-**	**-**
Doubtful grade (D)	**-**	**-**	**-**	**-**
Loss grade (D)	**-**	**-**	**-**	**-**
Total	**3,949**	**-**	**-**	**3,949**

In AED 000	*2022*			
Grades	*Stage 1*	*Stage 2*	*Stage 3*	*Total*
Performing*				
Normal grade (AAA1 – A3)	2,245	-	-	2,245
Watchlist grade (A4 – C)	994	13,004	-	13,998
Without internal rating	1,390	-	-	1,390
Non-performing*				
Sub-standard grade (D)	-	-	-	-
Doubtful grade (D)	-	-	-	-
Loss grade (D)	-	-	-	-
Total	4,629	13,004	-	17,633

* The internal rating grades of the Branch corresponding to the grades mentioned above are described in note 24.

12 LOANS AND ADVANCES (continued)

12.2 Movement of provision for credit losses are as follows: (continued)

Impairment allowance for loans and advances (continued)

An analysis of changes in the gross carrying amount in relation to loans and advances is as follows:

In AED 000		***2023***		
	Stage 1	***Stage 2***	***Stage 3***	***Total***
Gross carrying amount as at 1 January 2023	**795,761**	**38,199**	**-**	**833,960**
New assets originated	**128,138**	**-**	**-**	**128,138**
Assets derecognised or repaid	**(146,106)**	**(38,199)**	**-**	**(184,305)**
Transfers to Stage 1	**-**	**-**	**-**	**-**
Transfers to Stage 2	**-**	**-**	**-**	**-**
Transfers to Stage 3	**-**	**-**	**-**	**-**
Recoveries	**-**	**-**	**-**	**-**
Amounts written off	**-**	**-**	**-**	**-**
At 31 December 2023	**777,793**	**-**	**-**	**777,793**

In AED 000		*2022*		
	Stage 1	*Stage 2*	*Stage 3*	*Total*
Gross carrying amount as at 1 January 2022	419,062	44,076	-	463,138
New assets originated	526,424	-	-	526,424
Assets derecognised or repaid	(149,725)	(5,877)	-	(155,602)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Recoveries	-	-	-	-
Amounts written off	-	-	-	-
At 31 December 2022	795,761	38,199	-	833,960

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

In AED'000		***2023***		
	Stage 1	***Stage 2***	***Stage 3***	***Total***
ECL allowance as at 1 January 2023	**4,629**	**13,004**	**-**	**17,633**
Release during the year	**(680)**	**(13,004)**	**-**	**(13,684)**
At 31 December 2023	**3,949**	-	**-**	**3,949**

12 LOANS AND ADVANCES (continued)

12.2 Movement of provision for credit losses are as follows: (continued)

Impairment allowance for loans and advances (continued)

	2022			
	Stage 1	*Stage 2*	*Stage 3*	*Total*
ECL allowance as at 1 January 2022	1,443	12,931	-	14,374
Additional ECL during the year	3,186	73	-	3,259
At 31 December 2022	4,629	13,004	-	17,633

Economic sector risk concentration for the loans and advances:

	2023	*2022*
	AED'000	*AED'000*
Banks and other financial institutions	**-**	53,050
Crude oil, gas, mining and quarrying	**137,517**	204,593
Electricity, water, gas and health services	**3**	38,199
Transportation and communication	**159,917**	43,447
Agriculture	**13,774**	33,057
Government	**466,582**	461,614
Total	**777,793**	833,960

12.3 Modified and renegotiated loans

There were no modified or renegotiated loans as at 31 December 2023 (2022: Nill).

13 OTHER ASSETS

	2023	*2022*
	AED'000	*AED'000*
Interest receivable	**11,328**	6,896
Others	**1,295**	3,190
	12,623	10,086

14 PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS

	Furniture and fixtures	*Motor vehicle*	*Computer and accessories*	*Leasehold improvements*	*Right of use assets*	*Office equipment*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Cost:							
At 31 December 2022	**513**	**396**	**1,319**	**5,557**	**2,545**	**75**	**10,405**
Additions during the year	**24**	**211**	**141**	**-**	**2,983**	**-**	**3,359**
At 31 December 2023	**537**	**607**	**1,460**	**5,557**	**5,528**	**75**	**13,764**
Accumulated depreciation:							
At 31 December 2022	**(432)**	**(319)**	**(1,131)**	**(5,137)**	**(2,263)**	**(46)**	**(9,328)**
Charge for the year	**(50)**	**(41)**	**(73)**	**(420)**	**(580)**	**(12)**	**(1,176)**
At 31 December 2023	**(482)**	**(360)**	**(1,204)**	**(5,557)**	**(2,843)**	**(58)**	**(10,504)**
Net carrying amount:							
At 31 December 2023	**55**	**247**	**256**	**-**	**2,685**	**17**	**3,260**
At 31 December 2022	81	77	188	420	282	29	1,079

14 PROPERTY, EQUIPMENT AND RIGHT OF USE ASSETS (continued)

	Furniture and fixtures	*Motor vehicle*	*Computer and accessories*	*Leasehold improvements*	*Right of use assets*	*Office equipment*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Cost:							
At 31 December 2021	494	396	1,220	5,557	2,545	62	10,274
Additions during the year	19	-	99	-	-	13	131
At 31 December 2022	513	396	1,319	5,557	2,545	75	10,405
Accumulated depreciation:							
At 31 December 2021	(376)	(277)	(1,030)	(4,296)	(1,697)	(35)	(7,711)
Charge for the year	(56)	(42)	(101)	(841)	(566)	(11)	(1,617)
At 31 December 2022	(432)	(319)	(1,131)	(5,137)	(2,263)	(46)	(9,328)
Net carrying amount:							
At 31 December 2022	81	77	188	420	282	29	1,079
At 31 December 2021	118	119	190	1,261	848	27	2,563

15 INTANGIBLE ASSETS

	2023	*2022*
	AED'000	*AED'000*
Cost:		
At 1 January	**395**	362
Additions during the year	**-**	33
At 31 December	**395**	395
Accumulated amortisation:		
At 1 January	**(369)**	(357)
Charge for the year	**(11)**	(12)
At 31 December	**(380)**	(369)
Net carrying amount:		
At 1 January	**26**	5
At 31 December	**15**	26

16 CUSTOMER DEPOSITS

	2023	*2022*
	AED'000	*AED'000*
Current accounts	**885,071**	729,954
Term deposits	**733,684**	300,345
	1,618,755	1,030,299

At 31 December 2023, term deposits amounting to AED 37,982 thousand (2022: AED 3,938 thousand) were held as cash collateral for facilities granted to customers.

17 OTHER LIABILITIES

	2023	*2022*
	AED'000	*AED'000*
Inward & outward remittance	**13,843**	2,939
Deferred fee income	**238**	243
Interest expense payable	**6,221**	1,635
Employee cost accruals	**3,812**	3,529
Provision for tax and VAT	**12,648**	2,724
Other provisions and payables (Note 17.1)	**4,723**	1,047
	41,485	12,117

17 OTHER LIABILITIES (continued)

17.1 Other provisions and payables include lease liability of AED 2,403 (2022: AED Nil) recorded in accordance with IFRS 16. Refer note 17.2 below. In addition, other provisions and payables include negative fair value of derivatives of AED 166 thousand (2022: AED 6 thousand), refer note 19 below.

17.2 Lease liability as per IFRS 16

	2023	*2022*
	AED'000	*AED'000*
At 1 January	**-**	720
Lease Liability at the commencement date as per IFRS 16	**2,983**	-
Payment during the year	**(636)**	(730)
Finance costs	**56**	10
At 31 December	**2,403**	-

The lease is a 5 years lease with lease commencement date as per the lease contract is 15 July 2023 and maturing on 14 July 2028.

18 TAXATION

The taxable income is calculated after making certain adjustments to the profit before tax for the year and is based on the tax regulations of the Emirate of Abu Dhabi. The components of income tax expense for the year ended 31 December 2023 and 2022 are:

	2023	*2022*
	AED'000	*AED'000*
Current income tax	**12,607**	2,692
Deferred tax relating to reversal and origination of temporary differences	**2,352**	(418)
Income tax expense reported in the statement of comprehensive income	**14,959**	2,274

The movement in the Income tax payable presented in the financial statements is as follows:

	2023	*2022*
	AED'000	*AED'000*
Opening balance	**2,692**	118
Current year charge	**12,607**	2,692
Tax paid	**(2,692)**	(118)
At 31 December	**12,607**	2,692

18 TAXATION (continued)

The reconciliation between the tax expense for the year and the accounting profit before tax for the year is as follows:

	2023	*2022*
	AED'000	*AED'000*
Accounting profit before tax	**75,287**	10,328
Expected tax charge at the applicable rate of 20%	**15,057**	2,066
Tax effect of non-deductible expenses	**(98)**	208
Income tax expense	**14,959**	2,274
Taxation charge for the year – current	**12,607**	2,692
Taxation charge for the year – deferred	**2,352**	(418)
Income tax expense	**14,959**	2,274

The movement in the deferred tax account presented in the financial statements is as follows:

	2023	*2022*
	AED'000	*AED'000*
At the beginning of the year	**3,629**	3,211
Deferred tax income during the year	**(2,351)**	418
At 31 December	**1,278**	3,629

19 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Branch enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. During the current and prior year, the Branch entered into forward foreign exchange contracts.

The table below shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year end and are neither indicative of the market risk nor credit risk.

As at 31 December 2023			***Notional amounts by term to maturity***		
	Positive fair value AED'000	***Negative fair value AED'000***	***Notional amount AED'000***	***Within 3 months AED'000***	***3-12 Months AED'000***
Derivatives not designated as hedging instruments					
Forward foreign exchange contracts	**0**	**166**	**426,897**	**426,897**	**-**

19 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

As at 31 December 2022			*Notional amounts by term to maturity*		
	Positive fair value AED'000	*Negative fair value AED'000*	*Notional amount AED'000*	*Within 3 months AED'000*	*3-12 months AED'000*
Derivatives not designated as hedging instruments					
Forward foreign exchange contracts	1,202	6	169,760	169,760	-

At their inception, derivatives often involve only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the income statement of the Branch. Over–the–counter derivatives may expose the Branch to the risks associated with the absence of an exchange market on which to close out an open position.

The Branch's exposure to derivative contracts is closely monitored as part of the overall management of its market risk.

The derivatives are recorded at fair value by using the published price quotations in an active market or counterparty prices or valuation techniques using a valuation model that has been tested against the prices of actual market transactions and the Branch's best estimate of the most appropriate model inputs. Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. The Branch has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk.

20 ALLOCATED CAPITAL, STATUTORY RESERVE AND CREDIT RISK RESERVE

Allocated capital
In accordance with the Decretal Federal Law No. (14) of 2018, allocated capital represents the amount of funds provided by the Head Office.

Statutory reserve
In accordance with the applicable UAE Law, 10% of the annual profit for the year is transferred to a statutory reserve until this reserve equals 50% of the allocated capital. Accordingly, a transfer of AED 6,033 thousand (2022: AED 805 thousand) has been made during the year. This reserve is not available for distribution, except under the circumstances stipulated by law.

Credit risk reserve
In accordance with the CBUAE regulations (Circular 28/2010), a general impairment reserve has been established to reflect the excess general provision required, based on the 1.5% credit risk weighted assets of the Bank, when compared with the total impairment provision required under IFRS 9.

21 CONTINGENCIES AND COMMITMENTS

	2023 AED'000	*2022 AED'000*
Letters of guarantee	**682,840**	415,083
Undrawn credit commitments	**217,526**	202,446
Total	**900,366**	617,529

21 CONTINGENCIES AND COMMITMENTS (continued)

The maturity profile of trade related contingent liabilities is as follows:

2023	***No later than 1 year AED 000***	***Over 1 year up to 5 years AED 000***	***Over 5 years AED 000***	***Total AED 000***
Guarantees and acceptances	**118,065**	**564,459**	**316**	**682,840**
Undrawn credit commitments	**125,701**	**-**	**91,825**	**217,526**
Total	**243,766**	**564,459**	**92,141**	**900,366**

2022	*No later than 1 year AED 000*	*Over 1 year up to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
Guarantees and acceptances	149,375	61,291	204,417	415,083
Undrawn credit commitments	45,032	65,589	91,825	202,446
Total	194,407	126,880	296,242	617,529

Guarantees and standby letters of credit, which represent irrevocable assurances that the Branch will make payments in the event that a customer cannot meet his obligations to third parties, carry the same credit risk as loans and advances.

Documentary and commercial letters of credit, which are written undertakings by the Branch on behalf of a customer authorising a third party to draw drafts on the Branch up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry a lower risk. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Branch does not generally expect the third party to draw funds under the agreement.

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

Guarantees and acceptances include AED 409,227 thousand (2022: AED 207,512 thousand) incurred on behalf of other branches of the Head Office.

As at 31 December 2023, the gross balance of contingent liabilities in Stage 1 amounted to AED 900,366 thousand (2022: AED 617,529 thousand). The ECL for Stage 1 amounted to AED 1,664 thousand and is included under other liabilities (2022: AED 621 thousand).

22 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the Head Office, group entities, Directors of the Head Office, major shareholders of Head Office, senior management personnel of the Head Office and Branches, transactions with close members of their families and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are at arms length and are approved by the Branch's management.

Transactions with related parties

	2023	*2022*
	AED'000	*AED'000*
Interest income on deposits with the related parties	**190**	10
Fee and commissions (expense) income with the related parties, net	**(1,323)**	211
Interest expense on deposits from the related parties	**14,684**	6,594

Balances with related parties

	2023	*2022*
	AED'000	*AED'000*
Due from Related Parties		
Current account	**44,192**	22,708
	44,192	22,708

	2023	*2022*
	AED'000	*AED'000*
Due to Related Parties		
Term deposits	**808,060**	641,499
Current account	**18,183**	31,842
	826,243	673,341
Interest payable	**359**	254

Key management compensation:

	2023	*2022*
	AED'000	*AED'000*
Remuneration to key management personnel	**1,152**	880

The Branch has not recorded any credit losses on balances due from related parties during the year (2022: AED Nil) due to strong and good credit rating of the Group.

23 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments

Financial instruments generally comprise of financial assets, financial liabilities and derivatives.

Financial assets consist of cash and balances with the Central Bank of UAE, due from banks, loans and advances, financial asset measured at amortised cost and certain other assets. Financial liabilities consist of due to banks and other financial institutions, customer deposits and certain other liabilities. Derivatives consists of forward foreign exchange contracts only.

Financial instruments carried at amortised cost:
Except as detailed in the table below, the fair value of financial instruments carried at amortised cost are not materially different from their carrying value as these assets and liabilities are either of short maturity or are re-priced regularly based on market movement in interest rates.

The following table summarises the carrying amount and fair value of the financial asset measured at amortised cost as at 31 December 2023, which is classified as level 1 in fair value hierarchy:

	Carrying amount	**Fair value**
	AED'000	**AED'000**
31 December 2023		
Financial asset:		
Financial asset measured at amortised cost	**703,882**	**703,820**

The following table summarises the amortised cost and fair value of the financial asset measured at amortised cost at 31 December 2022:

	Carrying Amount	Fair value
	AED'000	AED'000
31 December 2022		
Financial asset:		
Financial asset measured at amortised cost	355,643	354,489

Fair values of other financial instruments are not materially different from their carrying values. Derivatives are generally included under level 2 of the fair value hierarchy.

31-Dec-23	***Level 1***	***Level 2***	***Level 3***	***Total***
	AED 000	***AED 000***	***AED 000***	***AED 000***
Derivatives not designated as hedging instruments				
Positive fair value of derivatives:				
Forward foreign exchange contracts	**-**	**-**	**-**	**-**
Negative fair value of derivatives:				
Forward foreign exchange contracts	**-**	**(166)**	**-**	**(166)**
	-	**(166)**	**-**	**(166)**

23 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

Financial instruments (continued)

Financial instruments carried at amortised cost (continued)

31-Dec-22	*Level 1* *AED 000*	*Level 2* *AED 000*	*Level 3* *AED 000*	*Total* *AED 000*
Derivatives not designated as hedging instruments				
Positive fair value of derivatives:				
Forward foreign exchange contracts	-	1,202	-	1,202
Negative fair value of derivatives:				
Forward foreign exchange contracts	-	(6)	-	(6)
	-	1,196	-	1,196

During the financial years ended 31 December 2023 and 2022, no financial instruments were transferred between level 1 and level 2.

24 FINANCIAL RISK MANAGEMENT

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

The main sources of financial risk that the Branch faces arise from financial instruments which are fundamental to the Branch's business and constitute the core of its operations. Financial instruments create, modify or reduce the liquidity, credit and market risks of the Branch's statement of financial position. Consequently, the Branch devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business.

Managing financial risks, especially credit risk is a fundamental part of the Branch's business activity and an essential component of the planning process. The Branch achieves its risk management goals by keeping risk management at the centre of the executive agenda and by building a culture that measures risk management with everyday business decision making.

The Branch ensures that it has the capacity to manage the risk in its new and growing businesses, and that its business plans are consistent with the risk appetite, that is, the level of risk that the Branch is willing to accept in fulfilling its business objectives.

The Branch's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. These policies provide written principles for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments.

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk

Credit risk is defined as the risk that the Branch's customers, clients or counterparties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Branch to suffer a financial loss. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Branch's portfolio, could result in losses that are different from those provided for at the end of the reporting period. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, balances with banks, other receivables and unfunded exposures such as letters of credit, letters of guarantee and undrawn commitments.

Credit risk, both on and off-balance sheet, is actively managed and monitored in accordance with defined credit policies and procedures. The creditworthiness of each counterparty is evaluated and appropriate credit limits are established. Established limits and actual levels of exposure are regularly reviewed and updated by management. Credit review procedures are designed to identify, at an early stage, exposures which require more detailed monitoring and review.

In managing its portfolio, the Branch utilises ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branch uses Corporation Credit Management System ("CCMS") as its internal credit-rating engine. The CCMS tool provides the ability to analyse a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. Where applicable, the Branch also uses external ratings by recognised rating agencies for externally rated portfolios.

Definition of default
The Branch considers a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

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

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Branch for consideration for moving the facility to stage 2/stage 1.

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

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

Significant increase in credit risk
The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life-time ECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are generally deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating by 2 grades for the facilities with investment grade and by 1 grade for those with non-investment grade.

The Branch also considers that events as mentioned below are indicators of significant increase in credit risk as opposed to a default.

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Significant increase in credit risk (continued)

- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in PD.
- Accounts expired (pending renewal) for a period of 6 months or more (excluding all accounts with technical reasons).
- Contractual disputes between borrower and contracting entity, leading to detrimental impact on the borrower's cash flow.
- Management dispute or loss of key management personnel leading to detrimental impact on borrowers' repayment capacity.
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.

The Branch considers a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

PD estimation process
The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future.

PD estimation process requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branch's estimate of the future asset quality. The Through The Cycle (TTC) PDs are generated from CCMS based on the internal/external credit ratings. The Branch converts the TTC PD to a Point In Time (PIT) PD term structures using appropriate models and techniques.

Exposure at default
Exposure at default (EAD) represents the amount which the obligor will owe to the Branch at the time of default. The Branch considers variable exposures that may increase the EAD in addition to the drawn credit line. These exposures arise from undrawn limits and contingent liabilities. Therefore, the exposure will contain both on and off balance sheet values. EAD is estimated taking into consideration the contractual terms such as coupon rates, frequency, reference curves, maturity, pre-payment options, amortization schedule, usage given default, etc.

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

Incorporation of forward-looking information
The Branch considers key economic variables that are expected to have an impact on the credit risk and the ECL in order to incorporate forward looking information into the ECL models. These primarily reflect reasonable and supportable forecasts of the future macro-economic conditions. The consideration of such factors increases the degree of judgment in determination of ECL. The Branch employs statistical models to incorporate macro-economic factors on historical default rates. The Branch considers scenarios of forecasts of macro-economic data separately for each geographical segments and appropriate probability weights are applied to these scenarios to derive a probability weighted outcome of expected credit loss. Management reviews the methodologies and assumptions including any forecasts of future economic conditions on a regular basis.

Derivative financial instruments
Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Individually impaired
There are no loans or advances individually impaired as at 31 December 2023 (2022: Nil).

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

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

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate.

As part of the Branch's credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The security types are pledges of cash deposit and bank guarantees.

Maximum exposure to credit risk and credit losses before collateral held or other credit enhancements
The following table represents a worst case scenario of credit risk exposure to the Branch at 31 December 2023 and 2022 without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position and the related credit losses. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor ("CCF"), Credit Risk Mitigation ("CRM") and related credit losses.

	Gross carrying amount		***Expected credit losses***	
	2023	*2022*	***2023***	*2022*
	AED'000	*AED'000*	***AED'000***	*AED'000*
Cash and balances with the Central Bank of UAE (Note 9)	**140,784**	187,685	**-**	-
Due from banks (Note 10)	**1,275,848**	720,311	**630**	235
Due from related parties (Note 22)	**44,192**	22,708	**-**	-
Financial asset measured at amortised cost (Note 11)	**703,882**	355,643	**13**	3
Loans and advances (Note 12)	**777,793**	833,960	**3,949**	17,633
Other assets (excluding prepayments) (Note 13)	**12,333**	9,181	**-**	-
	2,954,832	2,129,488	**4,592**	17,871
Contingencies and commitments (Note 21)	**900,366**	617,529	**1,664**	621

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash, securities, and charges over tangible properties and counter-guarantees. At 31 December 2023, of the total outstanding loans and advances, AED 777,793 thousand (31 December 2022: AED 833,960 thousand) were secured with a collateral value of AED 36,546 thousand (31 December 2022: AED 50,878 thousand).

Concentration of risks of financial assets with credit risk exposure
Concentration risk arises 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.

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Concentration of credit risk by geographical area

The following table breaks down the Branch's main credit exposures at their carrying amounts, as categorised by geographical regions as of 31 December 2023 and 2022. For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For this table, the Branch has allocated exposures to regions based on the country of domicile of its counterparties.

31 December 2023	***United Arab Emirates AED'000***	***Asia AED'000***	***Others AED'000***	***Total AED'000***
Assets				
Cash and balances with the Central Bank of UAE	**140,784**	**-**	**-**	**140,784**
Due from banks	**587,680**	**459,125**	**229,043**	**1,275,848**
Due from related parties	**-**	**44,192**	**-**	**44,192**
Financial asset measured at amortised cost	**703,882**	**-**	**-**	**703,882**
Loans and advances	**345,404**	**418,615**	**13,774**	**777,793**
Other assets (excluding prepayments)	**-**	**12,333**	**-**	**12,333**
	1,777,750	**934,265**	**242,817**	**2,954,832**
Off balance sheet items*	**78,640**	**821,666**	**60**	**900,366**

* Off balance sheet items include letters of guarantees and undrawn commitments on loans and advances.

31 December 2022	*United Arab Emirates AED'000*	*Asia AED'000*	*Others AED'000*	*Total AED'000*
Assets				
Cash and balances with the Central Bank of UAE	187,685	-	-	187,685
Due from banks	-	205,688	514,623	720,311
Due from related parties	-	20,513	2,195	22,708
Financial asset measured at amortised cost	355,643	-	-	355,643
Loans and advances	236,280	564,623	33,057	833,960
Other assets (excluding prepayments)	-	9,181	-	9,181
	779,608	800,005	549,875	2,129,488
Off balance sheet items*	69,061	548,409	59	617,529

* Off balance sheet items include letters of guarantees and undrawn commitments on loans and advances.

Concentration of credit risk by industry

The following table breaks down the Branch's main credit exposures on loans and advances, financial asset measured at amortised cost, due from other banks and due from related parties and off balance sheet items categorised by industry as of 31 December 2023 and 2022.

For on-balance sheet assets, the exposures set out below are based on gross carrying amounts before provisions which will be larger than that reported in the statement of financial position. For off-balance sheet assets, the exposures set out below are based on gross carrying amounts before Credit Conversion Factor (CCF) and Credit Risk Mitigation (CRM).

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Concentration of credit risk by industry (continued)

	On balance sheet items					
	Loans and advances	***Amounts due from other banks and related parties***	***Financial asset measured at amortised cost***	***Total funded***	***Off balance sheet items***	***Total***
31 December 2023	***AED'000***	***AED'000***	***AED'000***	***AED'000***	***AED'000***	***AED'000***
Mining and quarrying	**137,517**	-	-	**137,517**	**128,555**	**266,072**
Electricity, gas & air conditioning supply	-	-	-	-	-	-
Manufacturing	-	-	-	-	**65,689**	**65,689**
Construction & real estate	-	-	-	-	**13,101**	**13,101**
Transportation and Storage	**36,747**	-	-	**36,747**	-	**36,747**
Financial and insurance activities	-	**1,320,040**	-	**1,320,040**	**692,803**	**2,012,844**
Agriculture and allied activities	**13,774**	-	-	**13,774**	-	**13,774**
Other Services Activities	-	-	-	-	**216**	**216**
Government	**466,582**	-	**703,882**	**1,170,464**	-	**1,170,464**
Water Supply, sewerage, waste management and remediation activities	**3**	-	-	**3**	-	**3**
Professional, scientific and technical activities	**123,170**			**123,170**		**123,170**
	777,793	**1,320,040**	**703,882**	**2,801,715**	**900,366**	**3,702,080**

	On balance sheet items					
	Loans and advances	*Amounts due from other banks and related parties*	*Financial asset measured at amortised cost*	*Total funded*	*Off balance sheet items*	*Total*
31 December 2022	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*	*AED'000*
Crude oil, gas, mining and quarrying	165,285	-	-	165,285	91,825	257,110
Electricity	38,199	-	-	38,199	-	38,199
Manufacturing	-	-	-		68,678	68,678
Construction	-	-	-	-	13,051	13,051
Telecommunication and transportation	43,447	-	-	43,447	-	43,447
Financial institutions	53,050	743,019	-	796,069	398,244	1,194,313
Agriculture	33,057	-	-	33,057	-	33,057
Services	-	-	-	-	700	700
Sovereigns	461,614	-	355,643	817,257	45,031	862,288
Trading	39,308	-	-	39,308	-	84,890
	833,960	743,019	355,643	1,932,622	617,529	2,595,733

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

Gross credit exposures by residual contractual maturity

31 December 2023	***Up to 3 months AED 000***	***3 to 12 months AED 000***	***1 to 5 years AED 000***	***Over 5 years AED 000***	***Total AED 000***
Cash and balances with the Central Bank of UAE	**140,784**	**-**	-	-	**140,784**
Due from banks	**1,275,848**	**-**	-	-	**1,275,848**
Due from related parties	**44,192**	**-**	-	-	**44,192**
Financial asset at amortised cost	**-**	**703,882**	-	-	**703,882**
Loans and advances	**-**	**13,774**	**350,693**	**413,326**	**777,793**
Total funded	**1,460,824**	**717,656**	**350,693**	**413,326**	**2,942,499**

31 December 2022	*Up to 3 months AED 000*	*3 to 12 months AED 000*	*1 to 5 years AED 000*	*Over 5 years AED 000*	*Total AED 000*
Cash and balances with the Central Bank of UAE	187,685	-	-	-	187,685
Due from banks	720,311	-	-	-	720,311
Due from related parties	22,708	-	-	-	22,708
Financial asset at amortised cost	104,780	250,863	-	-	355,643
Loans and advances	53,050	39,308	282,454	459,148	833,960
Total funded	1,088,534	290,171	282,454	459,148	2,120,307

Impairment Reserve Under the Central Bank of UAE Guidance
CBUAE issued its IFRS 9 guidance in March 2018 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE.

The guidance states that if in the first year of implementation the specific provision along with suspended interest / profit and general provisions (1.5% of Total Credit Risk Weighted Assets “CRWA”) as per CBUAE requirements (Circular 28/2010), is higher than the impairment allowance computed under IFRS 9, the difference individually shall be transferred to an impairment reserve as an appropriation from the retained earnings. This impairment reserve shall further be split into specific provision difference (*Impairment Reserve: Specific*) and the collective / general provision difference (*Impairment Reserve: General*). This impairment reserve shall not be available for payment of dividend.

Also, the regulation specifies that the *Impairment Reserve: General* shall be allowed to be included in regulatory capital up to a maximum of 1.25% of risk weighted assets as per Basel, where this is not already utilized.

Impairment Reserve: General

	2023 AED’000	*2022 AED’000*
General provision calculated based on 1.5% of CRWA	**18,910**	11,045
Stage 1 and Stage 2 provisions under IFRS 9*	**6,256**	18,491

**In the case where provisions under IFRS9 fall short to provisions under CBUAE, the discrepancy shall be supplemented in form of impairment reserve. As of the end of 2023, an amount of AED 12,647 thousand shall be filled up. However, the existing impairment reserve amounting to AED 12,946 (reserved upon the effect of IFRS 9 calculation in line with CBUAE circular CBUAE/BSD/2018/458) already covers the above discrepancy, hence no extra impairment reserve needs to be accrued.*

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

The Branch's internal credit rating grades for the year ended 31 December 2023:

Internal rating grade	*Internal risk rating description*	*Cash and balances with the Central Bank of UAE AED'000*	*Contingencies and commitments AED'000*	*Financial asset measure at amortised cost AED'000*	*Due from banks AED'000*	*Interest receivable AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
AAA1- AAA4	Very low	**140,784**	**157,414**	**703,882**			**265,644**	**-**	**1,267,724**
AAA5 - AAA7	Low	**-**	**250,041**	**-**	**302,503**	**-**	**31,501**	**-**	**584,045**
AA1 - AA3	Relatively low	**-**	**30,500**	**-**	**973,345**	**-**	**400,757**	**-**	**1,404,602**
A1 - A3	Medium	**-**	**59**	**-**	**-**	**-**	**13,774**	**-**	**13,833**
A4 - BB2	Relatively high	**-**	**12,952**	**-**	**-**	**-**	**3**	**-**	**12,954**
B1 - C	Very high	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
D	Default	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Without Internal Rating		**-**	**449,400**	**-**	**-**	**11,328**	**66,114**	**44,192**	**571,034**
		140,784	**900,366**	**703,882**	**1,275,848**	**11,328**	**777,793**	**44,192**	**3,854,192**

24 FINANCIAL RISK MANAGEMENT (continued)

A. Credit risk (continued)

The Branch's internal credit rating grades for the year ended 31 December 2022:

Internal rating grade	*Internal risk rating description*	*Cash and balances with the Central Bank of UAE AED'000*	*Contingencies and commitments AED'000*	*Financial asset measure at amortised cost AED'000*	*Due from banks AED'000*	*Interest receivable AED'000*	*Loans and advances AED'000*	*Due from related parties AED'000*	*Total AED'000*
AAA1- AAA4	Very low	187,685	157,414	355,643	17,133	1,733	149,081	-	868,689
AAA5 - AAA7	Low	-	114,804	-	416,684	2,838	62,117	-	596,443
AA1 - AA3	Relatively low	-	120,851	-	286,494	1,080	395,291	-	803,716
A1 - A3	Medium	-	59	-	-	88	76,504	-	76,651
A4 - BB2	Relatively high	-	12,951	-	-	50	77,507	-	90,508
B1 - C	Very high	-	-	-	-	-	-	-	-
D	Default	-	-	-	-	-	-	-	-
Without Internal Rating		-	211,450	-	-	1,107	73,460	22,708	308,725
		187,685	617,529	355,643	720,311	6,896	833,960	22,708	2,744,732

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk

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

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

B.1 Price risk

Price risk is the risk that the value of the entity’s financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rates or foreign currency movements. The price risk arises primarily from uncertainty about the future price of financial instruments that the entity holds. The Branch does not hold significant financial instruments whose value is affected by changes in market prices and, therefore the Branch is not exposed to price risk.

B.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency.

The Branch takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Head Office sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table on the next page summarises the Branch’s exposure to foreign currency risk. Included in the table are the Branch’s financial instruments at carrying amounts, categorised by currency before provisions.

The main currency that the Branch is exposed to is USD. Since AED is pegged to USD there is no effect on net results and all other net currency exposures are not considered to be significant.

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.2 Currency risk (continued)

31 December 2023	*AED AED'000 (equivalent)*	*US$ AED'000 (equivalent)*	*HKD AED'000 (equivalent)*	*CNY AED'000 (equivalent)*	*EUR AED'000 (equivalent)*	*Total AED'000 (equivalent)*
Assets						
Cash and balances with the Central Bank of UAE	**140,784**	**-**	**-**	**-**	**-**	**140,784**
Due from banks	**-**	**1,275,848**	**-**	**-**	**-**	**1,275,848**
Due from related parties	**-**	**23,841**	**48**	**11,366**	**8,937**	**44,192**
Financial asset measured at amortised cost	**703,882**	**-**	**-**	**-**	**-**	**703,882**
Loans and advances, gross	**123,170**	**654,623**	**-**	**-**	**-**	**777,793**
Other assets excluding prepayments	**1,693**	**10,640**	**-**	**-**	**-**	**12,333**
Deferred tax assets	**1,278**					**1,278**
Total financial assets	**970,807**	**1,964,952**	**48**	**11,366**	**8,937**	**2,956,110**
Liabilities						
Customer deposits	**88,469**	**1,475,818**	**-**	**45,462**	**9,006**	**1,618,755**
Due to related parties	**18,183**	**808,060**	**-**	**-**	**-**	**826,243**
Due to banks and other financial institutions	**-**	**1**	**-**	**8,015**	**-**	**8,016**
Other liabilities	**20,556**	**20,928**	**-**	**-**	**1**	**41,485**
Total financial liabilities	**127,208**	**2,304,807**	**-**	**53,477**	**9,007**	**2,494,499**
Net position	**843,599**	**(339,855)**	**48**	**(42,111)**	**(70)**	**461,611**

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.2 Currency risk (continued)

31 December 2022	*AED AED'000 (equivalent)*	*US$ AED'000 (equivalent)*	*HKD AED'000 (equivalent)*	*CNY AED'000 (equivalent)*	*EUR AED'000 (equivalent)*	*Total AED'000 (equivalent)*
Assets						
Cash and balances with the Central Bank of UAE	187,685	-	-	-	-	187,685
Due from banks	-	720,311	-	-	-	720,311
Due from related parties	-	16,103	48	4,362	2,195	22,708
Financial asset measured at amortised cost	355,643	-	-	-	-	355,643
Loans and advances, gross	-	741,602	-	53,050	39,308	833,960
Other assets excluding prepayments	1,965	7,189	-	-	27	9,181
Deferred tax asset	3,629	-	-	-	-	3,629
Total financial assets	548,922	1,485,205	48	57,412	41,530	2,133,117
Liabilities						
Customer deposits	109,892	835,662	-	74,214	10,531	1,030,299
Due to related parties	31,843	459,125	-	150,927	31,446	673,341
Due to banks and other financial institutions	-	1	-	1,242	-	1,243
Other liabilities	6,756	4,816	-	204	341	12,117
Total financial liabilities	148,491	1,299,604	-	226,587	42,318	1,717,000
Net position	400,431	185,601	48	(169,175)	(788)	416,117

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.2 Currency risk (continued)

As at 31 December 2023, if the AED had strengthened/weakened by 10% (2022: 10%) against the CNY with all other variables held constant, the net result for the year of the Branch would have been higher/lower by AED 4211 thousand (2022: AED 16,918 thousand) as a result of currency transaction gains/losses on the CNY denominated assets and liabilities.

B.3 Interest rate risk

The table below summarises the average interest rate on the outstanding interest bearing balances by major currencies for monetary financial instruments:

31 December 2023	***AED***	***CNY***	***US$***	***EUR***	***HKD***
	%	***%***	***%***	***%***	***%***
Assets					
Due from banks	**-**	**-**	**5.41**	**-**	**-**
Due from related parties	**-**	**-**	**-**	**-**	**-**
Loans and advances	**5.89**	**-**	**6.41**	**-**	**-**
Liabilities					
Due to banks	**-**	**-**	**-**	**-**	**-**
Due to related parties	**-**	**-**	**5.16**	**-**	**-**
Customer deposits	**0.75**	**0.61**	**1.87**		**-**

31 December 2022	*AED*	*CNY*	*US$*	*EUR*	*HKD*
	%	*%*	*%*	*%*	*%*
Assets					
Due from banks	-	-	5.21	-	-
Due from related parties	-	-	-	-	-
Loans and advances	-	1.48	5.77	1.85	-
Liabilities					
Due to banks	-	-	-	-	-
Due to related parties	-	1.40	4.25	1.80	-
Customer deposits	-	1.57	2.59		-

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Branch assumes a fluctuation in interest rates of 100 basis points (bps) as being reasonable and estimates the following impact on the results and equity for the year:

	Interest income AED'000	***Interest expense AED'000***
At 31 December 2023		
Fluctuation of 100 bps	**20,161**	**20,921**

	Interest income AED'000	*Interest Expense AED'000*
At 31 December 2022		
Fluctuation of 100 bps	16,859	16,387

The above sensitivity analysis does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.3 Interest rate risk (continued)

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

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.3 Interest rate risk (continued)

The table below summarises the Branch's exposure to interest rate risks by repricing or maturity date. It includes the Branch's financial instruments at gross carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

2023

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year up to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*
Assets:						
Cash and balances with the Central Bank of UAE	**140,784**	**-**	**-**	**-**	**-**	**140,784**
Due from banks	**1,275,848**	**-**	**-**	**-**	**-**	**1,275,848**
Due from related parties	**44,192**	**-**	**-**	**-**	**-**	**44,192**
Financial asset measured at amortised cost	**-**	**703,882**	**-**	**-**	**-**	**703,882**
Loans and advances, gross	**364,470**	**413,323**	**-**	**-**	**-**	**777,793**
Other assets excluding prepayments	**-**	**-**	**-**	**-**	**12,333**	**12,333**
Total	**1,825,294**	**1,117,205**	**-**	**-**	**12,333**	**2,954,832**
Liabilities:						
Customer deposits	**1,510,204**	**108,551**	**-**	**-**	**-**	**1,618,755**
Due to related parties	**826,243**	**-**	**-**	**-**	**-**	**826,243**
Due to banks and other financial institutions	**8,016**	**-**	**-**	**-**	**-**	**8,016**
Other liabilities	**-**	**-**	**-**	**-**	**41,485**	**41,485**
Total	**2,344,463**	**108,551**	**-**	**-**	**41,485**	**2,494,499**
Interest rate sensitivity gap	**(519,169)**	**1,008,654**	**-**	**-**	**(29,152)**	**460,333**

24 FINANCIAL RISK MANAGEMENT (continued)

B. Market risk (continued)

B.3 Interest rate risk (continued)

2022

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year up to 5 years AED'000*	*Over 5 years AED'000*	*Non interest bearing AED'000*	*Total AED'000*
Assets:						
Cash and balances with the Central Bank of UAE	-	-	-	-	187,685	187,685
Due from banks	697,870	-	-	-	22,441	720,311
Due from related parties	-	-	-	-	22,708	22,708
Financial asset measured at amortised cost	104,780	250,863	-	-	-	355,643
Loans and advances, gross	452,411	381,549	-	-	-	833,960
Other assets excluding prepayments	-	-	-	-	9,181	9,181
Total	1,255,061	632,412	-	-	242,015	2,129,488
Liabilities:						
Customer deposits	229,192	67,215	-	-	733,892	1,030,299
Due to related parties	641,499	-	-	-	31,842	673,341
Due to banks and other financial institutions	-	-	-	-	1,243	1,243
Other liabilities	-	-	-	-	12,117	12,117
Total	870,691	67,215	-	-	779,094	1,717,000
Interest rate sensitivity gap	384,370	565,197	-	-	(537,079)	412,488

24 FINANCIAL RISK MANAGEMENT (continued)

B.4 IBOR Reforms

Interest rate benchmark reform:
A fundamental reform of major interest rate benchmarks is being undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). Amendments to IFRSs issued in August 2020 (Interest Rate Benchmark Reform Phase 2) represents the second phase of the IASB's project on the effects of interest rate benchmark reform, addressing issues affecting financial statements when changes are made to contractual cash flows and hedging relationships as a result of reform.

Under these amendments, changes made to an amortised cost financial instrument that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change in the interest rate benchmark. These amendments apply from 1 January 2023 with early adoption permitted. The Branch has not early adopted the amendments from 1 January 2022. Further, in April 2023, the UK Financial Conduct Authority ("FCA") announced that the publication of 1-, 3- and 6-month synthetic US dollar LIBOR will cease on 30 September 2024.

The amounts in the below table provide an indication of the extent of the Branch's exposure to the LIBOR benchmarks that are due to be replaced. The amounts are in respect of financial instruments that:

- contractually reference an interest rate benchmark that is planned to transition to an alternative benchmark;
- have a contractual maturity date beyond the date by which the reference interest rate benchmark is expected to; and
- are recognised on the Branch's balance sheet.

The financial assets include floating rate loans and advances to customers.

Exposure to USD LIBOR	*Carrying value as at 31 December 2023*	*Have yet to transition to an alternative benchmark interest rate as at 31 December 2023*
	AED'000	*AED'000*
Financial Assets		
LIBOR – 6 month	**347,209**	**347,209**
Total	**347,209**	**347,209**

The Branch is in the process of amending the contractual terms of its existing floating-rate loan linked to LIBOR in the year 2023; however, the exact timing will vary depending on the extent of bilateral negotiations between the Branch and loan counterparties.

As at 31 December 2023 and 2022, the Branch did not hold any LIBOR-linked off balance sheet financial guarantees and hedging instruments.

24 FINANCIAL RISK MANAGEMENT (continued)

C. Liquidity risk

Liquidity risk is the risk that the Branch will not be able to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Branch manages its liquidity in accordance with the CBUAE's requirements and the Branch's internal guidelines mandated by ALCO. The CBUAE has reserve requirements on deposits ranging between 1% and 11% on demand and time deposits. The CBUAE also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the CBUAE. ALCO monitors liquidity ratios on a regular basis and for covering the risk of any mismatch in liquidity, Head Office funding is available to the Branch.
The table below presents the cash flows payable by the Branch under non-derivative financial instruments by remaining contractual maturity at the statement of financial position date. The amounts disclosed in the table are the contractual discounted cash flows.

Financial liabilities 31 December 2023	***On demand AED'000***	***Less than 3 months AED'000***	***3 to 12 months AED'000***	***1 to 5 years AED'000***	***Over 5 years AED'000***	***Total AED'000***
Customer deposits	**923,053**	**587,151**	**108,551**	**-**	**-**	**1,618,755**
Due to related parties	**18,183**	**808,060**	**-**	**-**	**-**	**826,243**
Due to banks and other financial institutions	**8,016**	**-**	**-**	**-**	**-**	**8,016**
Other liabilities	**15,509**	**8,685**	**12,886**	**4,405**	**-**	**41,485**
Total financial liabilities	**964,761**	**1,403,896**	**121,437**	**4,405**	**-**	**2,494,499**

Financial liabilities 31 December 2022	*On demand AED'000*	*Less than 3 months AED'000*	*3 to 12 months AED'000*	*1 to 5 years AED'000*	*Over 5 years AED'000*	*Total AED'000*
Customer deposits	733,892	229,192	67,215	-	-	1,030,299
Due to related parties	31,842	641,499	-	-	-	673,341
Due to banks and other financial institutions	1,243	-	-	-	-	1,243
Other liabilities	2,939	1,887	6,282	1,009	-	12,117
Total financial liabilities	769,916	872,578	73,497	1,009	-	1,717,000

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

24 FINANCIAL RISK MANAGEMENT (continued)

C. Liquidity risk (continued)

At 31 December 2023	*Within 12 months AED'000*	*After 12 months AED'000*	*Total AED'000*
Assets			
Cash and balances with the Central Bank of UAE	**140,784**	**-**	**140,784**
Due from banks (including related parties balances)	**1,320,040**	**-**	**1,320,040**
Financial asset measured at amortised cost	**703,882**	**-**	**703,882**
Loans and advances	**13,774**	**764,019**	**777,793**
Other assets (including property, equipment and right of use assets, intangible assets and deferred tax asset)	**1,278**	**15,898**	**17,176**
Total	**2,179,758**	**779,917**	**2,959,675**
Liabilities			
Customer deposits	**1,618,755**	**-**	**1,618,755**
Due to banks and other financial institutions (including related party balances)	**834,259**	**-**	**834,259**
Other liabilities	**37,080**	**4,405**	**41,485**
Total	**2,490,094**	**4,405**	**2,494,499**

At 31 December 2022	*Within 12 months AED'000*	*After 12 months AED'000*	*Total AED'000*
Assets			
Cash and balances with the Central Bank of UAE	187,685	-	187,685
Due from banks (including related parties balances)	743,019	-	743,019
Financial asset measured at amortised cost	355,643	-	355,643
Loans and advances	92,358	741,602	833,960
Other assets (including property, equipment and right of use assets, intangible assets and deferred tax asset)	3,629	11,191	14,820
Total	1,382,334	752,793	2,135,127
Liabilities			
Customer deposits	1,030,299	-	1,030,299
Due to banks and other financial institutions (including related party balances)	674,584	-	674,584
Other liabilities	11,108	1,009	12,117
Total	1,715,991	1,009	1,717,000

24 FINANCIAL RISK MANAGEMENT (continued)

D. Prepayment risk

Prepayment risk is the risk that the Branch will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected such as fixed rate loans and advances when interest rates fall. Majority of the Branch's interest bearing financial assets are at floating rates.

E. Operational risk

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

The Branch manages this risk by setting policies and procedures, which are approved by the Head Office and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Branch. The Branch manages operational risk through the Risk Management Division of the Branch and the guidance of Head Office.

F. Capital management

The Central Bank of UAE sets and monitors capital requirements for the Branch. The Branch's regulatory capital is analysed into two tiers:

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

During the year ended 31 December 2023 and 2022, the Branch complied in full with the capital requirements. All banks operating in UAE are required to maintain a minimum capital adequacy of 12%.

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

24 FINANCIAL RISK MANAGEMENT (continued)

F. Capital management (continued)

Capital adequacy ratio as at 31 December:

	2023	*2022*
	AED'000	*AED'000*
Tier 1 capital		
Allocated capital	**367,200**	367,200
Statutory reserves	**10,967**	4,934
Retained earnings	**69,471**	15,176
Other adjustments	**2,040**	12,236
Total	**449,678**	399,546
Tier 2 capital		
Collective impairment provision	**15,758**	9,204
Total capital base	**465,436**	408,750
Regulatory adjustments		
Goodwill and other intangibles	**(15)**	(26)
Deferred tax assets	**(1,278)**	(3,629)
Total capital base	**464,143**	405,095
Risk weighted assets		
Credit risk	**1,260,641**	736,346
Market risk	**949**	2,131
Operational risk	**39,800**	39,920
Total risk weighted assets	**1,301,390**	778,397
Capital adequacy ratio (%)	**35.67%**	52.04%
Capital ratio (%):		
Total regulatory capital as a percentage of total risk weight assets	**35.67%**	52.04%
Total tier 1 regulatory capital as a percentage of total risk weight assets	**34.55%**	51.33%

Minimum capital requirement under each of the above items including capital conservation buffer ("CCB") is as follows:

Capital element:	***2023***	*2022*
Minimum Common Tier I (CET 1) ratio	**7.00%**	7.00%
Minimum Tier I (CET 1) ratio	**8.50%**	8.50%
Minimum capital adequacy ratio	**10.50%**	10.50%
CCB	**2.50%**	2.50%

25 CASH AND CASH EQUIVALENTS

	2023	2022
	AED' 000	*AED' 000*
Cash and balances with the CBUAE (Note 9):		
− Current account with CBUAE	**21,944**	138,657
Due from banks (Note 10)	**1,275,848**	720,311
Due from related parties (Note 22)	**44,192**	22,708
Due to banks and other financial institutions (Note 10)	**(8,016)**	(1,243)
Due to related parties (Note 22)	**(826,243)**	(673,341)
	507,725	207,092

For the purposes of the statement of cash flows, cash and cash equivalents includes balances with banks and placements with the Central Bank of UAE, and with other financial institutions with original maturities of three months or less, excluding statutory deposits required to be maintained with the CBUAE.

26 IMPLEMENTATION OF UAE CORPORATE TAX LAW

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (UAE CT Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE.

The UAE CT Law shall apply to the Branch with effect from 1 January 2024. Cabinet 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 the 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, we would consider the UAE CT Law to be substantively enacted for the purposes of IAS 12 – Income Taxes, and that the impact of the UAE CT Law should be assessed on the financial statements for the Branch.

The Branch shall continue to monitor its tax status and the applicability of IAS 12 – Income Taxes. The Branch is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, as the Law has been substantively enacted.

27 SUBSEQUENT EVENTS

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

28 APPROVAL OF FINANCIAL STATEMENTS

The financial statements for the year ended 31 December 2023 were approved by the General Manager and authorised for issue on 28 March 2024.