# AL KHALIJI FRANCE S.A.
# UNITED ARAB EMIRATES BRANCHES

## INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED 31 DECEMBER 2022**

**Al Khaliji France S.A. - United Arab Emirates Branches**

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL KHALIJI FRANCE S.A. – UNITED ARAB EMIRATES (UAE) BRANCHES

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Al Khaliji France S.A. – United Arab Emirates (UAE) Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for opinion

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Branch's Articles of Association and the Federal Law No. 32 of 2021 and the UAE Union Law No. 10 of 1980, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL KHALIJI FRANCE S.A. – UNITED ARAB EMIRATES (UAE) BRANCHES (continued)**

## Report on the audit of the financial statements (continued)

### Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Branches to cease to continue as a going concern.

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

We communicate with 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.

**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AL KHALIJI FRANCE S.A. – UNITED ARAB EMIRATES (UAE) BRANCHES (continued)**

## Report on other legal and regulatory requirements

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

For Ernst & Young

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

31 March 2023

Dubai, United Arab Emirates

| | Notes | *31 December 2022 AED'000* | *31 December 2021 AED'000* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with the Central Bank of the U.A.E. | 6 | **510,703** | 714,817 |
| Due from related parties | 7 | **134,673** | 42,190 |
| Deposits and balances due from banks and financial institutions | 8 | **239,044** | 73,226 |
| Investment securities | 9 | **125,077** | 167,308 |
| Loans and advances to customers | 10 | **299,552** | 349,201 |
| Other assets | 11 | **13,841** | 6,890 |
| Property and equipment | 12 | **2,169** | 1,954 |
| Intangible assets | 13 | **327** | 555 |
| **Total assets** | | **1,325,386** | 1,356,141 |
| | | | |
| **LIABILITIES AND EQUITY** | | | |
| **Liabilities** | | | |
| Deposits and balances due to banks and financial institutions | 14 | **1,552** | 1,207 |
| Customers' deposits | 15 | **710,632** | 775,662 |
| Due to related parties | 7 | **80,761** | 5,885 |
| Other liabilities | 16 | **29,861** | 26,680 |
| **Total liabilities** | | **822,806** | 809,434 |
| | | | |
| **Equity** | | | |
| Assigned capital | 17(a) | **375,000** | 375,000 |
| Statutory reserve | 17(b) | **59,311** | 57,290 |
| Fair value reserve | | **1,606** | 939 |
| Retained earnings | | **66,663** | 113,478 |
| **Total Equity** | | **502,580** | 546,707 |
| **Total liabilities and Equity** | | **1,325,386** | 1,356,141 |

Gilles Dennaux
General Manager

## STATEMENT OF PROFIT OR LOSS
As at 31 December 2022

| | Notes | 2022 AED'000 | 2021 AED'000 |
|---|---|---|---|
| Interest income | | **42,868** | 31,633 |
| Interest expense | | **(1,757)** | (2,128) |
| **Net interest income** | | **41,111** | 29,505 |
| Fee and commission income | | **10,868** | 9,722 |
| Fee and commission expenses | | **(538)** | (519) |
| **Net fee and commission income** | | **10,330** | 9,203 |
| Net gain from foreign currency transactions | | **2,707** | 2,549 |
| Other operating income | | **5,682** | 4,477 |
| **Operating income for the year** | | **59,830** | 45,734 |
| General and administrative expenses | 18 | **(32,950)** | (28,332) |
| Allowance for impairment, net | 19 | **(6,675)** | (7,878) |
| **Net operating expenses** | | **(39,625)** | (36,210) |
| **Profit before tax** | | **20,205** | 9,524 |
| Income tax – net | 20 | **-** | (5,342) |
| **Net profit for the year** | | **20,205** | 4,182 |

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

# STATEMENT OF COMPREHENSIVE INCOME

As at 31 December 2022

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| Net profit for the year | **20,205** | 4,182 |
| **Other comprehensive income that will be reclassified to the income statement:** | | |
| Debt instruments at fair value through other comprehensive income: | | |
| *Net change in fair value during the year* | **668** | 1,635 |
| Other comprehensive income for the year | **668** | 1,635 |
| Total comprehensive income for the year | **20,873** | 5,817 |

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

# STATEMENT OF CHANGES IN EQUITY
As at 31 December 2022

| | *Assigned capital AED'000* | *Statutory reserve AED'000* | *Fair value reserve AED'000* | *Retained earnings AED'000* | *Total AED'000* |
|---|---|---|---|---|---|
| Balance as at 1 January 2021 | 375,000 | 56,872 | (696) | 109,714 | 540,890 |
| Profit for the year | - | - | - | 4,182 | 4,182 |
| Other comprehensive income for the year | - | - | 1,635 | - | 1,635 |
| Total comprehensive income for the year | - | - | 1,635 | 4,182 | 5,817 |
| Transfer to statutory reserve | - | 418 | - | (418) | - |
| Balance at 31 December 2021 | 375,000 | 57,290 | 939 | 113,478 | 546,707 |
| **Balance as at 1 January 2022** | **375,000** | **57,290** | **939** | **113,478** | **546,707** |
| Profit for the year | - | - | - | 20,205 | 20,205 |
| Other comprehensive income for the year | - | - | 668 | - | 668 |
| Total comprehensive income for the year | **-** | **-** | **668** | **20,205** | **20,873** |
| Profits transferred to HO / Dividend Paid | **-** | **-** | **-** | **(65,000)** | **(65,000)** |
| Transfer to statutory reserve | **-** | **2,021** | **-** | **(2,021)** | **-** |
| Foreign currency translation reserve | **-** | **-** | **(1)** | **1** | **-** |
| **Balance at 31 December 2022** | **375,000** | **59,311** | **1,606** | **66,663** | **502,580** |

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

# STATEMENT OF CASH FLOWS

As at 31 December 2022

| | Notes | **2022 AED'000** | 2021 AED'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **20,205** | 9,524 |
| Adjustments for: | | | |
| Allowance for impairment, net | 19 | **6,675** | 7,878 |
| Amortisation of premium/discounts on investment securities, net | | **(38)** | 1,226 |
| (Gain) loss on disposal of property and equipment | | **-** | (16) |
| Depreciation and amortization | 12 &13 | **1,040** | 2,240 |
| Provision for employees' end-of-service benefits | 16(i) | **805** | 823 |
| Revaluation loss | 16 & 27 | **33** | 3,072 |
| **Operating profit before changes in operating assets and liabilities** | | **28,720** | 24,747 |
| (Increase)/Decrease in cash reserve with the Central Bank | | **(5,238)** | 1,942 |
| Decrease in loans and advances | | **42,197** | 181,895 |
| (Increase)/Decrease in other assets | | **(584)** | 11,818 |
| Decrease in customers' deposits | | **(65,030)** | (87,285) |
| (Increase)/Decrease in other liabilities | | **5,495** | (9,354) |
| **Cash generated from operations** | | **5,560** | 123,763 |
| Tax paid | 20 | **-** | (5,412) |
| Employees' end-of-service benefits paid | 16(i) | **(521)** | (1,335) |
| **Net cash generated from operating activities** | | **5,039** | 117,016 |
| **Cash flows from investing activities** | | | |
| Purchase of property and equipment | 12 | **(821)** | (13) |
| Purchase of intangibles | 13 | **(206)** | (22) |
| Purchase of investment securities | | **-** | (38,768) |
| Proceeds from maturity/sale of investment securities | | **38,688** | 38,688 |
| **Net cash generated from/(used in) investing activities** | | **37,661** | (115) |
| **Cash flow from financing activities** | | | |
| Profits transferred to Head Office | | **(65,000)** | - |
| **Net cash used in financing activities** | | **(65,000)** | - |
| **Net (decrease)/increase in cash and cash equivalents** | | **(22,300)** | 116,901 |
| Cash and cash equivalents, at the beginning of the year | | **789,033** | 672,132 |
| **Cash and cash equivalents, at the end of the year (Note 21)** | | **766,733** | 789,033 |

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

## 1. General information

Al Khaliji France S.A (the "Bank") is a French registered bank with its Head Office in Paris, France (the "Head Office"). It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has two branches, one each in the Emirate of Dubai and Abu Dhabi. Masraf Al Rayan is Ultimate Parent Company of Al Khaliji France S.A.

The Bank's regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office's registered address is P.O. Box 4207, Dubai, United Arab Emirates.

These financial statements reflect the activities of the branches of Al Khaliji France S.A. in the United Arab Emirates only (the "Branches") and exclude all transactions, assets and liabilities of the Head Office and Ultimate Parent Company's branches.

***Implementation of UAE Corporation Tax law and application of IAS 12 Income Taxes***
On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate. A rate of 0% will apply to taxable income not exceeding AED 375,000. In addition, there are several other decisions that are yet to be finalised by way of a Cabinet Decision that are significant in order for entities to determine their tax status and the taxable income. Therefore, pending such important decisions by the Cabinet as at 31 December 2022, the Branches has considered that the Law is not substantively enacted from IAS 12 – Income Taxes perspective as at 31 December 2022. The Branches shall continue to monitor the timing of the issuance of these critical cabinet decisions to determine its tax status and the application of IAS 12 – Income Taxes.

## 2. Basis of preparation

### 2.1 Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the applicable provisions of the Central Bank of the UAE regulations.

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

### 2.3 Basis of measurement
The financial statements have been prepared on the historical cost basis except for derivative financial instruments measured at fair value and financial assets at fair value through other comprehensive income.

## 3. Application of new and revised International Financial Reporting Standards ("IFRSs")

### *3.1 New and revised IFRS applied with material effect on the financial statements*

### a. New standards, amendments and interpretations effective from 1 January 2022
The following standards, amendments and interpretations, which became effective as of 1 January 2022, are relevant to the Branches:

***Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases***
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. In accordance with the transitional provisions, the branches applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

**3. Application of new and revised International Financial Reporting Standards ("IFRSs") (continued)**

***3.1 New and revised IFRS applied with material effect on the financial statements* (continued)**

**a. New standards, amendments and interpretations effective from 1 January 2022 (continued)**

***Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases* (continued)**
These amendments had no impact on the financial statements of the Branches as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

***IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.***
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement: In accordance with the transitional provisions, the Branches applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Branches as there were no modifications of the Branche's financial instruments during the period.

The above standards do not have any material impact on the financial statements of the branches. The branches has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

**b. Standards, amendments and interpretations issued but not yet effective for the Branches' accounting period beginning on 1 January 2022 and not early adopted**

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Branches' financial statements are disclosed below. The Branches intends to adopt these standards, if applicable, when they become effective.

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Definition of Accounting Estimates – Amendments to IAS 8
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

**Classification of Liabilities as Current or Noncurrent (Amendments to IAS 1) (effective date: 1 January 2023)**
On 23 January 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements (the amendments) to clarify the requirements for classifying liabilities as current or non-current. More specifically, the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant. The amendments clarify the situations that are considered settlement of a liability.

The Branches is currently assessing the impact of the above amendments to its financial statements in the initial period of application.

There are no other applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Branches' financial year beginning on 1 January 2022 that would be expected to have a material impact on the Branches' financial statements.

## 4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements

**Financial instruments**

**Classification and measurement**
The Branches classifies its financial assets into the following measurement categories:
i. those to be measured at fair value (either through other comprehensive income, or through profit or loss); and
ii. those to be measured at amortised cost.

The classification depends on the Branches' business model for managing financial assets and the contractual terms of the financial assets' cash flows. The Branches classifies its financial liabilities at amortised cost unless it has designated liabilities at fair value through profit or loss or is required to measure liabilities at fair value through profit or loss such as derivative liabilities.

***Financial assets measured at fair value through other comprehensive income***
*Debt instruments*
Investments in debt instruments are measured at fair value through other comprehensive income where they have:

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

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest revenue and foreign exchange gains and losses are recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement. Refer to note 9 for Investments and Islamic instruments at fair value through other comprehensive income.

The measurement of credit impairment is based on the three-stage expected credit loss model as applied to financial assets at amortised cost.

*Equity instruments*
Investment in equity instruments that are neither held for trading nor contingent consideration, are measured at fair value through other comprehensive income, where an irrevocable election has been made by management.

Amounts presented in other comprehensive income are not subsequently transferred to the statement of profit or loss.

***Financial assets measured at fair value through the statement of profit or loss***
Financial assets at fair value through the statement of profit or loss comprise:

- financial assets held for trading;
- financial assets specifically designated as fair value through the statement of profit or loss on initial recognition; and
- Financial instruments held at fair value through the statement of profit or loss are initially recognised at fair value, with transaction costs recognised in the income statement as incurred. Subsequently, they are measured at fair value and any gains or losses are recognised in the income statement as they arise. Where a financial asset is measured at fair value, a credit valuation adjustment is included to reflect the credit worthiness of the counterparty, representing the movement in fair value attributable to changes in credit risk.

*Financial instruments held for trading*
A financial instrument is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or forms part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profit taking, or it is a derivative not in a qualifying hedge relationship. Trading derivatives and trading securities are classified as held for trading and recognised at fair value.

**4. Significant accounting policies (continued)**

**Financial instruments (continued)**

**Classification and measurement (continued)**

***Financial instruments designated as measured at fair value through the statement of profit or loss***
Upon initial recognition, financial instruments may be designated as measured at fair value through the statement of profit or loss. A financial asset may only be designated at fair value through the statement of profit or loss if doing so eliminates or significantly reduces measurement or recognition inconsistencies (i.e. eliminates an accounting mismatch) that would otherwise arise from measuring financial assets or liabilities on a different basis.

A financial liability may be designated at fair value through the statement of profit or loss if it eliminates or significantly reduces an accounting mismatch or:

- if a host contract contains one or more embedded derivatives; or
- if financial assets and liabilities are both managed and their performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through the statement of profit or loss, the movement in fair value attributable to changes in the Branches' own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

***Financial assets measured at amortised cost***
*Debt instruments*
Investments in debt instruments are measured at amortised cost where they have:

- contractual terms that give rise to cash flows on specified dates, that represent solely payments of principal and interest on the principal amount outstanding; and
- are held within a business model whose objective is achieved by holding to collect contractual cash flows.

These debt instruments are initially recognised at fair value plus directly attributable transaction costs and subsequently measured at amortised cost. The measurement of credit impairment is based on the three-stage expected credit loss model described in note 4 (e) Impairment of financial assets.

**Impairment of financial assets**
The Branches applies a three-stage approach to measuring ECL for the following categories of financial assets that are not measured at fair value through the statement of profit or loss:

- debt instruments measured at amortised cost and fair value through other comprehensive income;
- due from banks and financial institutions;
- loans and advances and Islamic financing receivables;
- loan commitments;
- financial guarantee contracts; and
- lines of credit.

No ECL is recognised on equity investments.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

***Stage 1: 12-months ECL***
For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

***Stage 2: Lifetime ECL – not credit impaired***
For exposures where there has been an SICR since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognised.

**4. Significant accounting policies (continued)**

**Financial instruments (continued)**

**Impairment of financial assets (continued)**
***Stage 3: Lifetime ECL – credit impaired***
Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognised. The Branches defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

The Branches assesses, on a forward-looking basis, the ECL associated with the above categories of financial assets. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Branches has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

***Loan commitments and letters of credit:***
The ECL related to loan commitments and letters of credit are recognised in other liabilities. When estimating lifetime ECL for undrawn loan commitments, the Branches 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 of the scenarios.

***Guarantee contracts:***
The ECL related to guarantee contracts are recognised in other liabilities. For this purpose, the Branches estimates ECL based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The calculation is made using a probability-weighting of the scenarios.

***Write-offs:***
Financial assets are written off through allowance account when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the branches. Where loans or receivables have been written off, the branches continue to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in the statement of profit or loss.

***Measuring ECL***
The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

- Two types of PDs are used for calculating ECL
  - 12 month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures.
  - Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.
- EAD is based on the amounts the Branches expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. It varies for the types of financial assets defined in the section above.
- LGD represents the Branches' expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default.

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 as at 31 December 2021 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the principal macroeconomic variables, including GDP in the range of 2 to 7% for different scenario.

**4. Significant accounting policies (continued)**

**Financial instruments (continued)**

***Derecognition of financial assets and liabilities***

The Branches derecognises a financial asset when the contractual rights to the cash flows from the financial asset expires, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of the ownership of the financial asset are transferred or in which the Branches neither transfers nor retains substantially all of the risks and rewards or ownership and it does not retain control of the financial asset. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecogniton that is created or retained by the Branches is recognised as a separate asset or liability.

The Branches enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are repurchase agreements. In transactions in which the Branches neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Branches continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. The Branches derecognises a financial liability when its contractual obligations are discharged or cancelled, or expired.

**Revenue recognition**

*Interest income and interest expense*

The Branches recognise interest income and interest expense in the statement of profit or loss for all interest bearing financial instruments classified as fair value through profit and loss, fair value through other comprehensive income and loans and receivables using the effective interest method, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability on initial recognition. When there is doubt in the collection of the principal or the interest, the recognition of interest income ceases. Interest income from financial assets measured at FVTPL is recognised on accrual basis. Recoveries in respect of loans fully provided for are accounted for on a cash receipt basis.

*Fees and commission income and expenses*

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

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

**Foreign currency transactions**

The financial statements of the Branches are expressed in Arab Emirates Dirhams (‘AED’), which is the functional currency of the Branches and the presentation currency for the financial statements.

In preparing the financial statements of the Branches, transactions in currencies other than the Branches’ functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in the statement of profit or loss in the period in which they arise.

**4. Significant accounting policies (continued)**

**Revenue recognition (continued)**

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

Depreciation is determined using the straight-line method over the estimated useful lives of the respective assets, as follows:

| | Years |
|---|---|
| Office equipment | 3 - 5 |
| Furniture and fittings | 3 - 5 |
| Vehicles | 3 |
| Leasehold improvements | 5 - 7 |

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

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of profit or loss.

Gain or loss on disposal is determined by comparing the proceeds with the carrying amount and are recognised in the statement of profit or loss.

Capital work-in-progress is carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

**Due from other banks**
Amounts due from other banks are initially recognised at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amounts due from other banks is assessed as outlined in the accounting policy on financial instrument.

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

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

**4. Significant accounting policies (continued)**

**Impairment of tangible and intangible assets (continued)**
Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

**Employees' end-of-service benefits**
Provision for employees' end-of-service indemnity is made based on current remuneration and cumulative years of service at the end of each reporting period. The provision is made in accordance with the Branches' policy which is not less than the liability arising under the U.A.E. labour laws.

Pension and national insurance contributions for U.A.E. citizens are made by the Branches in accordance with Federal Law No.7 of 1999.

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

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, calculated using tax rates enacted or substantively enacted at the reporting date. The Branches provide for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no long probable that the related tax benefit will be realised.

Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled, based on tax rates and laws enacted, or substantively enacted, by the reporting date.

**Cash and cash equivalents**
For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the U.A.E. Central Bank.

**Due to other banks and customer deposits**
Due to banks and customer deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently, these are measured at amortised cost using the effective interest method except where the Branches chooses to carry the liabilities at fair value through the consolidated statement of income. Amortised cost is calculated by taking into account any discount or premium on settlement.

**4. Significant accounting policies (continued)**

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

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

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

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

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

**Documentary credits**
Documentary credits, issued on behalf of the customers of the Branches, are contracts whereby the Branches guarantee to pay on behalf of the customers' money to the holder for goods supplied to the customers of the Branches. The payment would be made only on submission of documents as prescribed in the credit by the holder through his bank.

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

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

**Lease**

The Branches assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The branches applies a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The branches recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

**Right-of-use assets**
The branches 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 branches 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.

**4. Significant accounting policies (continued)**

**Lease liabilities**

At the commencement date of the lease, the branches recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the branches and payments of penalties for terminating a lease, if the lease term reflects the branches 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 on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the branches uses the incremental borrowing rate at the lease commencement date. 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.

**Short-term leases and leases of low-value assets**

The branches apply 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 branches has the option, under some of its leases to lease the assets for an additional term. The branches apply 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 Branches 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).

**Derivatives**

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index.

Derivative financial instruments are initially recognised at fair value at trade date, and are subsequently re-measured at fair value at the end of each reporting period. All derivatives are carried at their fair values as assets where the fair values are positive (unrealised gains) and as liabilities where the fair values are negative (unrealized losses). Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative’s components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged.

**5. Critical accounting judgments and key sources of estimation uncertainty**

In the application of the Branches’ accounting policies, which are described in Note 4, the management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Significant areas where management has used estimates, assumptions or exercised judgments are as follows:

**5. Critical accounting judgments and key sources of estimation uncertainty (continued)**

***Business model assessment***

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Branches' management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated (e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected); and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branches' stated objective for managing the financial assets is achieved and how cash flows are realised.

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

**Assessment whether contractual cash flows are solely payments of principal and interest**

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

In assessing whether the contractual cash flows are solely payments of principal and interest ("the SPPI test"), the Branches considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Branches considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Branches' claim to cash flows from specified assets and features that modify consideration of the time value of money. Instruments failing SPPI will be measured at FVTPL.

***Inputs, assumptions and techniques used for estimating impairment***

**Significant increase in credit risk**

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Branches considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience. The Branches may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

In determining whether credit risk has increased significantly since initial recognition following criteria's are considered:

i. Two notches downgrade for ratings from Aaa to Baa or one notch downgrade for ratings from Ba to Caa.
ii. Facilities restructured during previous twelve months.
iii. Facilities overdue by 30 days as at the reporting date.

**Credit risk grades**

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

**5. Critical accounting judgments and key sources of estimation uncertainty (continued)**

***Inputs, assumptions and techniques used for estimating impairment (continued)***

**Generating the term structure of Probability of Default (PD)**
The Branches employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Branches has exposures.

***Renegotiated financial assets***
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Branches seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

The accounts which are restructured due to credit reasons in past 12 months will be classified under Stage 2.

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

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or
- the borrower is rated 9 or 10.

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Branches for regulatory capital purposes

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

**Forward-looking information incorporated in the ECL models**
The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Branches has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

The Branches employs statistical models to incorporate macro-economic factors on historical default rates. In the case that none of the macro-economic parameters are statistically significant or the results of forecasted PDs are too deviated from the present forecast of the economic conditions, qualitative PD overlay is used by management based on portfolio analysis.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

## 5. Critical accounting judgments and key sources of estimation uncertainty (continued)

**Forward-looking information incorporated in the ECL models (continued)**
These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are based on available information and include mean reversion approaches for long-term forecasts. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The scenarios base case at 65%, upside at 11.2% and downside at 23.8% each were used for all portfolios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

## 6. Cash and balances with the Central Bank of the U.A.E.

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Cash on hand | **6,024** | 8,120 |
| Balances with the Central bank of the U.A.E. | | |
| Current accounts | **5,099** | 2,355 |
| Statutory reserve | **39,580** | 34,342 |
| Overnight deposit facility | **460,000** | 670,000 |
| | **510,703** | 714,817 |

The Branches are required to maintain statutory reserve with the Central Bank of the U.A.E, which is not available for use in the day-to-day operations.

## 7. Related Parties balances and transactions

The Branches enter into transactions with entities that fall within the definition of a related party in accordance with International Accounting Standard 24: *Related Party Disclosures*. Related parties comprise of Head Office and Ultimate Parent Company outside the U.A.E. Transactions with such related parties are made on substantially the same terms, as those prevailing at the same time for comparable transactions with external customers and parties.

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

The Head Office provides administrative and management support to the Branches (Note 18) for which the Branches were charged a fee for the year ended 31 December 2022 of AED 1.0 million (2021: AED 1.3 million).

**7. Related Parties balances and transactions (continued)**

The Head Office provides administrative and management support to the Branches (Note 18) for which the Branches were charged a fee for the year ended 31 December 2022 of AED 1.0 million (2021: AED 1.3 million).

The significant transactions and balances included in the financial statements are as follows:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| **Due from related parties comprise:** | | |
| ***Current accounts*** | | |
| Ultimate Parent Company | **2,650** | 913 |
| Head Office | **38,987** | 30,878 |
| ***Term placement / deposit*** | | |
| Ultimate Parent Company | **-** | - |
| Head Office* | **93,036** | 10,399 |
| | **134,673** | 42,190 |

* Term placement/deposit with the Head Office has a maturity of less than 3 months and carry an interest rate of 3.25% p.a. (2021: 0.10% p.a.).

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| **Due to related parties comprise:** | | |
| ***Current accounts*** | | |
| Ultimate Parent Company | 80,007 | 5,192 |
| Head Office | 754 | 693 |
| | **80,761** | 5,885 |

Related party transactions for the year are as follows:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Interest income | **1,433** | 120 |
| Interest expense | **23** | - |
| Head Office charges (Note 18) | **957** | 1,284 |
| ***Key management personnel compensation:*** | | |
| Salaries, bonuses and other benefits | **3,535** | 3,475 |

## 8. Deposits and balances due from banks and financial institutions

| | **2022** | 2021 |
|---|---|---|
| | **AED'000** | AED'000 |
| Due from banks and financial institutions outside the U.A.E. | 125,033 | 72,865 |
| Due from banks and financial institutions in the U.A.E. | 118,217 | 595 |
| | **243,250** | 73,460 |
| Less: Allowance for impairment – net, as per note 19 | **(4,206)** | (234) |
| | **239,044** | 73,226 |

The analysis of gross deposits and balances due from banks and financial institutions is as follows:

| | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Gross exposure at 1 January 2022 | 32,518 | 40,942 | - | 73,460 |
| Transfer to Stage 1 | 4,021 | (4,021) | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New assets originated or purchased | 160,747 | 37,009 | - | 197,756 |
| Assets derecognised or repaid | (9,603) | (18,363) | - | (27,966) |
| **At 31 December 2022** | **187,683** | **55,567** | **-** | **243,250** |
| ECL allowance at 1 January 2022 | 7 | 227 | - | 234 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New ECL originated or purchased or reversed | 1,021 | 2,946 | - | 3,967 |
| ECL derecognised or repaid or reversed | - | - | - | - |
| FX differences | - | 5 | - | 5 |
| **Allowance for impairment – net, as per note 19** | **1,028** | **3,178** | **-** | **4,206** |
| **Closing Balance on 31 December 2022** | **186,655** | **52,389** | **-** | **239,044** |

## 8. Deposits and balances due from banks and financial institutions (continued)

| | *Stage 1* *AED'000* | *Stage 2* *AED'000* | *Stage 3* *AED'000* | *Total* *AED'000* |
|---|---|---|---|---|
| Gross exposure at 1 January 2021 | 73,120 | 14,973 | - | 88,093 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New assets originated or purchased | 38 | 36,725 | - | 36,763 |
| Assets derecognised or repaid | (40,640) | (10,756) | - | (51,396) |
| At 31 December 2021 | 32,518 | 40,942 | - | 73,460 |
| ECL allowance at 1 January 2021 | 3 | 36 | - | 39 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New ECL originated or purchased or reversed | 4 | 207 | - | 211 |
| ECL derecognised or repaid or reversed | - | (16) | - | (16) |
| Allowance for impairment – net, as per note 19 | 7 | 227 | - | 234 |
| Closing Balance on 31 December 2021 | 32,511 | 40,715 | - | 73,226 |

## 9. Investment securities

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| Investments at FVOCI | **70,757** | 76,511 |
| Investments at amortized cost | **54,478** | 93,128 |
| | **125,235** | 169,639 |
| Less: Allowance for impairment – net, as per note 19 | **(158)** | (2,331) |
| | **125,077** | 167,308 |

Gross investments securities by geographic concentration are as follows:

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| Within the U.A.E. | **70,757** | 94,889 |
| Outside the U.A.E. | **54,478** | 74,750 |
| | **125,235** | 169,639 |

**9. Investment securities (continued)**

The analysis of gross investments securities by industry sector is as follows:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Government and public sector | **125,235** | 132,903 |
| Financial institutions | **-** | 36,736 |
| | **125,235** | 169,639 |

The analysis of gross investments securities by credit risk is as follows:

| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** |
|---|---|---|---|---|
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** |
| Gross exposure at 1 January 2022 | 149,238 | 18,358 | 2,043 | 169,639 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New assets originated or purchased | - | - | - | - |
| Assets derecognised or repaid | (24,003) | (18,358) | (2,043) | (44,404) |
| **At 31 December 2022** | **125,235** | - | - | **125,235** |
| ECL allowance at 1 January 2022 | 84 | 204 | 2,043 | 2,331 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New ECL originated or purchased or reversed | 74 | - | - | 74 |
| ECL derecognised or repaid or reversed | - | (204) | (2,038) | (2,242) |
| FX differences | | | (5) | (5) |
| **Allowance for impairment – net, as per note 19** | **158** | **-** | **-** | **158** |
| **Closing Balance on 31 December 2022** | **125,077** | **-** | **-** | **125,077** |

**9. Investment securities (continued)**

| | *Stage 1* *AED'000* | *Stage 2* *AED'000* | *Stage 3* *AED'000* | *Total* *AED'000* |
|---|---|---|---|---|
| Gross exposure at 1 January 2021 | 151,863 | 18,346 | 1,972 | 172,181 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New assets originated or purchased | 35,987 | 12 | 71 | 36,070 |
| Assets derecognised or repaid | (38,612) | - | - | (38,612) |
| At 31 December 2021 | 149,238 | 18,358 | 2,043 | 169,639 |
| ECL allowance at 1 January 2021 | 29 | 489 | 1,972 | 2,490 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | - | - | - | - |
| Transfer to Stage 3 | - | - | - | - |
| New ECL originated or purchased or reversed | 61 | - | 71 | 132 |
| ECL derecognised or repaid or reversed | (6) | (285) | - | (291) |
| Allowance for impairment – net, as per note 19 | 84 | 204 | 2,043 | 2,331 |
| Closing Balance on 31 December 2021 | 149,154 | 18,154 | - | 167,308 |

**10. Loans and advances to customers**

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

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| Loans and advances | **349,574** | 403,456 |
| Less: Allowance for impairment – net, as per note 19 | **(50,022)** | (54,255) |
| | **299,552** | 349,201 |

At 31 December 2022, the fair value of collateral held against loans and advances to customers was AED 659 million (2021: AED 675 million) an analysis of which is provided in Note 27.

**10. Loans and advances to customers (continued)**

b) The movement of the allowance for impairment of loans and advances to customers is as follows:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| At 1 January | **54,255** | 216,357 |
| Impairment allowance for the year | **21,835** | 55,473 |
| Amounts written off during the year | **(16,707)** | (181,861) |
| Recoveries during the year | **(9,361)** | (35,714) |
| At 31 December | **50,022** | 54,255 |

Impairment allowance for the year includes AED 5.0 million of suspended interest (2021: AED 14.8 million) and 0.03 million recoveries of suspended interest during the year (2021: AED 3.8 million).

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

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Corporate lending | **131,653** | 152,994 |
| Retail lending | **126,957** | 142,204 |
| Small business lending | **90,964** | 108,258 |
| | **349,574** | 403,456 |

d) Gross loans and advances by geographical area were as follows:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Within the U.A.E. | **289,330** | 338,481 |
| Outside the U.A.E. | **60,244** | 64,975 |
| | **349,574** | 403,456 |

e) Gross loans and advances by industry were as follows:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Real estate | **168,671** | 203,310 |
| Services | **117,497** | 121,580 |
| Transport and communication | **-** | - |
| Manufacturing | **17,513** | 36,798 |
| Wholesale and retail trade | **22,926** | 25,188 |
| Construction | **20,182** | 13,297 |
| Personal loans | **2,785** | 3,283 |
| | **349,574** | 403,456 |

**10. Loans and advances to customers (continued)**

f) Gross loans and advances by credit risk were as follows:

| | ***Stage 1*** ***AED'000*** | ***Stage 2*** ***AED'000*** | ***Stage 3*** ***AED'000*** | ***Total*** ***AED'000*** |
|---|---|---|---|---|
| Gross exposure at 1 January 2022 | **110,528** | **255,222** | **37,706** | **403,456** |
| Transfer to Stage 1 | **-** | **-** | **-** | **-** |
| Transfer to Stage 2 | **-** | **(9,259)** | **9,259** | **-** |
| Transfer to Stage 3 | **-** | **-** | **-** | **-** |
| New assets originated or purchased | **23,210** | **4,994** | **5,689** | **33,793** |
| Assets derecognised or repaid | **(19,023)** | **(52,045)** | **(16,707)** | **(87,675)** |
| **At 31 December 2022** | **114,715** | **198,912** | **35,947** | **349,574** |
| ECL allowance at 1 January 2022 | **170** | **16,379** | **37,706** | **54,255** |
| Transfer to Stage 1 | **-** | **-** | **-** | **-** |
| Transfer to Stage 2 | **-** | **-** | **-** | **-** |
| Transfer to Stage 3 | **-** | **-** | **-** | **-** |
| ECL charge and new ECL originated or purchased or reversed | **27** | **-** | **15,028** | **14,955** |
| ECL derecognised or repaid | **-** | **(2,501)** | **(16,787)** | **(19,188)** |
| **Allowance for impairment – net, as per note 19** | **197** | **13,878** | **35,947** | **50,022** |
| **Closing Balance on 31 December 2022** | **114,518** | **185,034** | **-** | **299,552** |

| | *Stage 1* *AED'000* | *Stage 2* *AED'000* | *Stage 3* *AED'000* | *Total* *AED'000* |
|---|---|---|---|---|
| Gross exposure at 1 January 2021 | 171,997 | 328,072 | 257,801 | 757,870 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | (3,745) | 3,745 | - | - |
| Transfer to Stage 3 | - | - | | - |
| New assets originated or purchased | 3,279 | 2,261 | 3,747 | 9,287 |
| Assets derecognised or repaid | (61,003) | (78,856) | (223,842) | (363,701) |
| At 31 December 2021 | 110,528 | 255,222 | 37,706 | 403,456 |
| ECL allowance at 1 January 2021 | 899 | 5,987 | 209,471 | 216,357 |
| Transfer to Stage 1 | - | - | - | - |
| Transfer to Stage 2 | (1) | 1 | - | - |
| Transfer to Stage 3 | - | - | - | - |
| ECL charge and new ECL originated or purchased or reversed | - | 10,640 | 3,747 | 14,387 |
| ECL derecognised or repaid | (728) | (249) | (175,512) | (176,489) |
| Allowance for impairment – net, as per note 19 | 170 | 16,379 | 37,706 | 54,255 |
| Closing Balance on 31 December 2021 | 110,358 | 238,843 | - | 349,201 |

## 11. Other assets

| | **2022** **AED'000** | 2021 AED'000 |
|---|---|---|
| Deferred tax asset (i) | **-** | - |
| Interest receivable | **4,206** | 3,313 |
| Assets under acceptances | **3,789** | 1,793 |
| Prepaid expenses | **1,348** | 1,454 |
| Fair value of derivatives | **4,401** | 30 |
| Others | **97** | 300 |
| | **13,841** | 6,890 |

i) The movement in deferred tax asset during the year was as follows:

| | **2022** **AED'000** | 2021 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **-** | 5,270 |
| Net movement during the year | **-** | (5,270) |
| Balance at the end of the year | **-** | - |

Tax authorities in the U.A.E. review the tax calculation of the Branches on a periodical basis. As a result of the review, the authorities rejected recognition of impairment allowances for loans and advances as an expense for certain customers, based on their assessment. These rejected amounts create a temporary difference in the tax base resulting in deferred tax assets, which will be utilised when tax authorities accept recognition of the allowances as an expense in the statement of profit or loss.

**11. Other assets (continued)**

i) The movement in deferred tax asset during the year was as follows: (continued)

| | ***Opening balance*** | ***Additions & written off*** | ***Release*** | ***Ending Balance*** | ***Deferred tax assets as of 31-Dec-2022*** | ***Movement in statement of profit or loss during the year*** | ***Deferred tax assets as of 31-Dec-2021*** |
|---|---|---|---|---|---|---|---|
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** |
| **Impairment allowance for loans and advances to customers** | - | - | - | - | - | - | - |
| **Suspended interest** | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - |

| | *Opening balance* | *Additions & written off* | *Release* | *Ending Balance* | *Deferred tax assets as of 31-Dec-2021* | *Movement in statement of profit or loss during the year* | *Deferred tax assets as of 31-Dec-2020* |
|---|---|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Impairment allowance for loans and advances to customers | 19,834 | - | (19,834) | - | - | (3,967) | 3,967 |
| Suspended interest | 6,508 | - | (6,508) | - | - | (1,303) | 1,303 |
| | 26,342 | - | (26,342) | - | - | (5,270) | 5,270 |

## 12. Property and equipment

| | *Office equipment AED'000* | *Furniture & fittings AED'000* | *Vehicles AED'000* | *Leasehold improvements AED'000* | *Capital- work in progress AED'000* | *Total AED'000* |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2021 | 6,536 | 905 | 425 | 3,443 | 158 | 11,467 |
| Additions during the year | 13 | - | - | 158 | - | 171 |
| Disposals during the year | (47) | - | - | - | (158) | (205) |
| At 31 December 2021 | 6,502 | 905 | 425 | 3,601 | - | 11,433 |
| Additions during the year | 15 | - | - | - | 806 | 821 |
| **At 31 December 2022** | **6,517** | **905** | **425** | **3,601** | **806** | **12,254** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2021 | 5,953 | 904 | 425 | 1,465 | - | 8,747 |
| Charge for the year | 300 | 1 | - | 440 | - | 741 |
| Eliminated on disposals | (9) | - | - | - | - | (9) |
| At 31 December 2021 | 6,244 | 905 | 425 | 1,905 | - | 9,479 |
| Charge for the year | 139 | - | - | 467 | - | 606 |
| **At 31 December 2022** | **6,383** | **905** | **425** | **2,372** | **-** | **10,085** |
| **Carrying amount** | | | | | | |
| **At 31 December 2022** | **134** | **-** | **-** | **1,229** | **806** | **2,169** |
| At 31 December 2021 | 258 | - | - | 1,696 | - | 1,954 |

## 13. Intangible assets

| | *Software* | *Work-in-progress* | *Total* |
|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* |
| **Cost** | | | |
| At 1 January 2021 | 19,070 | 58 | 19,128 |
| Additions | 80 | - | 80 |
| Transfers | - | (58) | (58) |
| At 31 December 2021 | 19,150 | - | 19,150 |
| Additions | 30 | 176 | 206 |
| Transfers | - | - | - |
| **At 31 December 2022** | **19,180** | **176** | **19,356** |
| **Accumulated amortization** | | | |
| At 1 January 2021 | 17,096 | - | 17,096 |
| Charge for the year | 1,499 | - | 1,499 |
| Transfers | - | - | - |
| At 31 December 2021 | 18,595 | - | 18,595 |
| Charge for the year | 434 | - | 434 |
| Transfers | - | - | - |
| **At 31 December 2022** | **19,029** | **-** | **19,029** |
| **Carrying amount** | | | |
| **At 31 December 2022** | **151** | **176** | **327** |
| At 31 December 2021 | 555 | - | 555 |

## 14. Deposits and balances due to banks and financial institutions

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Due to banks and financial institutions outside the U.A.E. | **1,552** | 1,190 |
| Due to banks and financial institutions inside the U.A.E. | **-** | 17 |
| | **1,552** | 1,207 |

## 15. Customers' deposits

**By type:**

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Current accounts | **408,614** | 448,096 |
| Saving accounts | **16,652** | 15,593 |
| Time deposits | **228,103** | 254,342 |
| Margin accounts | **57,263** | 57,631 |
| Balance at the end of the year | **710,632** | 775,662 |

Time deposits held under lien as security for loans and advances (funded and unfunded) as at 31 December 2022 amounted to AED 109 million (2021: AED 122 million).

**15. Customers' deposits (continued)**

**By geographical area:**

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Within the U.A.E. | **684,239** | 752,171 |
| Outside the U.A.E. | **26,393** | 23,491 |
| | **710,632** | 775,662 |

**16. Other liabilities**

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Provision for employees' end-of-service indemnity (i) | **7,536** | 7,252 |
| Liabilities under acceptances | **3,789** | 1,793 |
| Interest payable | **897** | 894 |
| Impairment loss allowance on commitments and financial guarantees | **1,834** | 4,410 |
| Income tax provision (Note 20) | **-** | - |
| Fair value of derivatives | **-** | 2,018 |
| Other | **15,805** | 10,313 |
| | **29,861** | 26,680 |

i) The movements in provision for end-of-service benefits during the year were as follows:

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Balance at the beginning of the year | **7,252** | 7,764 |
| Charge for the year | **805** | 823 |
| Payments during the year | **(521)** | (1,335) |
| Balance at the end of the year | **7,536** | 7,252 |

**17. Assigned capital and statutory reserve**

***(a) Assigned capital***

During the year, the Branches maintained assigned capital at AED 375 million.

***(b) Statutory reserve***

In accordance with Article (82) of Union Law No. 10 of 1980, Federal Commercial Companies Law, the Branches have to establish a statutory reserve by appropriation of 10% of net profit for each year until the reserve equals 50% of the assigned capital. This reserve is not available for distribution.

## 18. General and administrative expenses

| | ***2022*** ***AED'000*** | *2021* *AED'000* |
|---|---|---|
| Salaries and employees related expenses | **14,296** | 14,143 |
| Depreciation and amortization | **1,040** | 2,240 |
| Head Office charges (Note 7) | **957** | 1,284 |
| Other | **16,657** | 10,665 |
| | **32,950** | 28,332 |

## 19. Allowance for impairment, net

a. The following tables show reconciliation of the opening to the closing balance of the loss allowance by class of financial instruments including net impairment loss on financial assets for the year. Comparative amounts represent allowance account for credit losses and reflect measurement basis under IFRS 9.

| ***2022*** | ***Loans and advances to customers AED'000*** | ***Investment securities AED'000*** | ***Financial commitments and guarantees AED'000*** | ****Other financial assets AED'000*** | ***Total AED'000*** |
|---|---|---|---|---|---|
| **At 1 January** | **54,255** | **2,331** | **4,410** | **234** | **61,230** |
| Net impairment charge for the year | 16,783 | 75 | 833 | 3,967 | 21,658 |
| Loss on debts not covered by provisions | - | - | - | - | - |
| Reversal of impairment allowance | (9,282) | (204) | (182) | - | (9,668) |
| Derecognition/recoveries during the year | (49) | (2,039) | (3,227) | - | (5,315) |
| **Allowance for impairment, net** | **7,452** | **(2,168)** | **(2,576)** | **3,967** | **6,675** |
| Interest in suspense net of recoveries | **4,922** | **-** | **-** | **-** | **4,922** |
| Amounts written off during the year | **(16,607)** | **-** | **-** | **-** | **(16,607)** |
| **Sub-total** | **50,022** | **163** | **1,834** | **4,201** | **56,220** |
| (less) loss on debts not covered by provisions | **-** | **-** | **-** | **-** | **-** |
| Currency revaluation | **-** | **(5)** | **-** | **5** | **-** |
| **Total allowance for impairment** | **50,022** | **158** | **1,834** | **4,206** | **56,220** |

**19. Allowance for impairment, net (continued)**

| *2021* | *Loans and advances to customers* *AED'000* | *Investment securities* *AED'000* | *Financial commitments and guarantees* *AED'000* | **Other financial assets* *AED'000* | *Total* *AED'000* |
|---|---|---|---|---|---|
| At 1 January | 216,357 | 2,500 | 6,926 | 39 | 225,822 |
| Net impairment charge for the year | 40,698 | 2,037 | 69 | 199 | 43,003 |
| Loss on debts not covered by provisions | 1,620 | - | - | - | 1,620 |
| Reversal of impairment allowance | (1,035) | (2,255) | (2,585) | (4) | (5,879) |
| Derecognition/Recoveries during the year | (30,866) | - | - | - | (30,866) |
| Allowance for impairment, net | 10,417 | (218) | (2,516) | 195 | 7,878 |
| Interest in suspense net of recoveries | 10,962 | - | - | - | 10,962 |
| Amounts written off during the year | (181,861) | - | - | - | (181,861) |
| Sub-total | 55,875 | 2,282 | 4,410 | 234 | 62,801 |
| (less) loss on debts not covered by provisions | (1,620) | - | - | - | (1,620) |
| Currency revaluation | - | 49 | - | - | 49 |
| Total allowance for impairment | 54,255 | 2,331 | 4,410 | 234 | 61,230 |

b. Allocation of impairment allowance as of 31 December 2022 and 2021 are as follows:

| ***2022*** | ***Stage 1*** ***AED'000*** | ***Stage 2*** ***AED'000*** | ***Stage 3*** ***AED'000*** | ***Total*** ***AED'000*** |
|---|---|---|---|---|
| **Loans and advances to customers** | **197** | **13,878** | **35,947** | **50,022** |
| **Investments securities** | **158** | **-** | **-** | **158** |
| **Financial commitments and guarantees** | **132** | **225** | **1,477** | **1,834** |
| ***Other financial assets** | **1,028** | **3,178** | **-** | **4,206** |
| **Total** | **1,515** | **17,281** | **37,424** | **56,220** |

| *2021* | *Stage 1* *AED'000* | *Stage 2* *AED'000* | *Stage 3* *AED'000* | *Total* *AED'000* |
|---|---|---|---|---|
| Loans and advances to customers | 170 | 16,379 | 37,706 | 54,255 |
| Investments securities | 84 | 204 | 2,043 | 2,331 |
| Financial commitments and guarantees | 146 | 247 | 4,017 | 4,410 |
| *Other financial assets | 7 | 227 | - | 234 |
| Total | 407 | 17,057 | 43,766 | 61,230 |

*This represents impairment charge on deposits and balances due from banks and financial institutions.

The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice No.: CBUAE/BSD/2019/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE ("the Guidance").

**19. Allowance for impairment, net (continued)**

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

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| ***Impairment reserve: General*** | | |
| General provisions under Circular 28/2010 of CBUAE | **6,935** | 6,268 |
| Less: Stage 1 and Stage 2 provisions under IFRS 9 | **18,796** | 17,464 |
| **General provision transferred to the regulatory impairment reserve** | **-** | - |

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| ***Impairment reserve: Specific*** | | |
| Specific provisions under Circular 28/2010 of CBUAE | **37,424** | 43,766 |
| Less: Stage 3 provisions under IFRS 9 | **(37,424)** | (43,766) |
| **Specific provision transferred to the regulatory impairment reserve** | **-** | - |
| **Total provision transferred to the regulatory impairment reserve** | **-** | - |

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

**20. Income tax - net**

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

Income tax expense for the year shown in the statement of profit or loss represents the following:

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| In respect of the current year | **-** | - |
| In respect of the prior year | **-** | 72 |
| | **-** | 72 |
| Deferred tax (Note 11) | **-** | 5,270 |
| Total income tax expenses recognised in the current year | **-** | 5,342 |

*(a) The movements in income tax provision during the year were as follows:*

| | ***2022*** | *2021* |
|---|---|---|
| | ***AED'000*** | *AED'000* |
| Balance, at the beginning of the year | **-** | 5,412 |
| In respect of the current year | **-** | - |
| In respect of the prior year | **-** | - |
| Paid during the year | **-** | (5,412) |
| Balance, at the end of the year (note 16) | **-** | - |

## 20. Income tax – net (continued)

*(b) Relationship between tax expense and accounting profit:*

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Profit before tax | **20,205** | 9,524 |
| Income not subject to tax | **-** | - |
| Items not allowed as tax deductions | **-** | 194 |
| Adjustment of carry forward tax losses* | **(122,258)** | (59,345) |
| Others | **(2,972)** | (164,641) |
| Taxable loss | **(105,025)** | (214,268) |
| Income tax rate | **20%** | 20% |
| Income tax expense | **-** | 5,342 |

*The recognition of deferred tax assets is subject to specific requirements of IAS 12 *"Income Taxes"*. These require a deferred tax asset to be recognized to the extent that it is probable that the deferred tax asset will be recovered in near future. However, management has assessed that the tax losses realized in two of the Branches amounting to AED 122.3 million (2021: AED 122.3 million) will be difficult to recover within 2 years as allowed by the Tax Authorities in UAE, and therefore has not recognised a deferred tax amount on subject losses.

## 21. Cash and cash equivalents

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| Cash and balances with the Central Bank of the U.A.E. | **11,123** | 10,475 |
| Cash reserves and certificates of deposit with the Central Bank of the U.A.E. | **499,580** | 704,342 |
| Due from related parties | **134,673** | 42,190 |
| Due from banks and financial institutions | **243,250** | 73,460 |
| | **888,626** | 830,467 |
| Due to related parties | **(80,761)** | (5,885) |
| Due to banks and financial institutions | **(1,552)** | (1,207) |
| Statutory reserve | **(39,580)** | (34,342) |
| Total cash and cash equivalents | **766,733** | 789,033 |

## 22. Concentrations of assets, liabilities, equity and off balance sheet items

| | *31 December 2022* | | | *31 December 2021* | | |
|---|---|---|---|---|---|---|
| | ***Assets AED'000*** | ***Liabilities and equity AED'000*** | ***Off balance sheet items AED'000*** | *Assets AED'000* | *Liabilities and equity AED'000* | *Off balance sheet items AED'000* |
| ***Geographic regions*** | | | | | | |
| U.A.E. | **949,987** | **1,203,791** | **212,462** | 1,104,045 | 1,320,895 | 254,655 |
| Other Middle East countries | **139,119** | **106,226** | **3,000** | 117,803 | 27,058 | 3,050 |
| O.E.C.D.* | **199,265** | **13,637** | **-** | 115,790 | 7,831 | - |
| Other | **37,015** | **1,732** | **-** | 18,503 | 357 | - |
| **Total** | **1,325,386** | **1,325,386** | **215,462** | 1,356,141 | 1,356,141 | 257,705 |
| ***Industry Sector*** | | | | | | |
| Government and public sector | **631,142** | **410** | **-** | 838,809 | 429 | - |
| Commercial and business | **215,755** | **504,531** | **212,341** | 211,889 | 559,239 | 254,534 |
| Personal | **88,841** | **191,276** | **21** | 140,550 | 218,548 | 21 |
| Financial institutions | **379,486** | **101,851** | **3,100** | 152,738 | 7,650 | 3,150 |
| Other | **10,162** | **527,318** | **-** | 12,155 | 570,275 | - |
| **Total** | **1,325,386** | **1,325,386** | **215,462** | 1,356,141 | 1,356,141 | 257,705 |

** Organization for Economic Co-operation and Development.*

## 23. Classification of financial assets and financial liabilities

The table below sets out the Branches' classification of each class of financial assets and financial liabilities and their carrying amounts as at 31 December 2022:

| | ***Amortised cost 2022 AED'000*** | ***FVOCI 2022 AED'000*** | *Amortised cost 2021 AED'000* | *FVOCI 2021 AED'000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and balances with the Central Bank of the U.A.E. | **510,703** | **-** | 714,817 | - |
| Due from related parties | **134,673** | **-** | 42,190 | - |
| Due from banks and financial institutions | **239,044** | **-** | 73,226 | - |
| Investments securities | **49,283** | **70,757** | 94,503 | 76,511 |
| Loans and advances to customers | **299,552** | **-** | 349,201 | - |
| Other assets | **4,303** | **-** | 3,643 | - |
| **Total** | **1,237,558** | **70,757** | 1,277,580 | 76,511 |
| **Financial liabilities** | | | | |
| Due to banks and financial institutions | **1,552** | **-** | 1,207 | - |
| Customer deposits | **710,632** | **-** | 775,662 | - |
| Due to related parties | **80,761** | **-** | 5,885 | - |
| Other liabilities | **4,686** | **-** | 2,687 | - |
| **Total** | **797,631** | **-** | 785,441 | - |

**24. Liquidity profile**

(a) The following table summarises the maturity profile of the Branches' assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date:

| | ***Less than 3 months AED'000*** | ***3 months to 1 year AED'000*** | ***Over 1 year AED'000*** | ***Total AED'000*** |
|---|---|---|---|---|
| **2022** | | | | |
| **Assets** | | | | |
| Cash and balances with the Central Bank of the U.A.E. | **471,123** | **-** | **39,580** | **510,703** |
| Due from related parties | **134,673** | **-** | **-** | **134,673** |
| Deposit and balance due from banks and financial institutions | **131,271** | **53,328** | **54,445** | **239,044** |
| Investments securities | **-** | **-** | **125,077** | **125,077** |
| Loans and advances to customers | **93,975** | **10,947** | **194,630** | **299,552** |
| Other assets | **11,044** | **444** | **2,353** | **13,841** |
| Property and equipment | **-** | **-** | **2,169** | **2,169** |
| Intangibles | **-** | **-** | **327** | **327** |
| **Total assets** | **842,086** | **64,719** | **418,581** | **1,325,386** |
| **Liabilities and equity** | | | | |
| Due to banks and financial institutions | **1,552** | **-** | **-** | **1,552** |
| Customer deposits | **668,366** | **42,266** | **-** | **710,632** |
| Due to related parties | **80,761** | **0** | **-** | **80,761** |
| Other liabilities | **21,988** | **213** | **7,660** | **29,861** |
| Equity | **-** | **-** | **502,580** | **502,580** |
| **Total liabilities and equity** | **772,667** | **42,479** | **510,240** | **1,325,386** |

| | *Less than 3 months AED'000* | *3 months to 1 year AED'000* | *Over 1 year AED'000* | *Total AED'000* |
|---|---|---|---|---|
| 2021 | | | | |
| Assets | | | | |
| Cash and balances with the Central Bank of the U.A.E. | 680,475 | - | 34,342 | 714,817 |
| Due from related parties | 42,190 | - | - | 42,190 |
| Deposit and balance due from banks and financial institutions | 18,138 | 55,088 | - | 73,226 |
| Investments securities | 18,090 | 18,358 | 130,860 | 167,308 |
| Loans and advances to customers | 72,661 | 19,065 | 257,475 | 349,201 |
| Other assets | 4,978 | 551 | 1,361 | 6,890 |
| Property and equipment | - | - | 1,954 | 1,954 |
| Intangibles | - | - | 555 | 555 |
| Total assets | 836,532 | 93,062 | 426,547 | 1,356,141 |
| Liabilities and equity | | | | |
| Due to banks and financial institutions | 1,207 | - | - | 1,207 |
| Customer deposits | 720,143 | 55,519 | - | 775,662 |
| Due to related parties | 5,885 | - | - | 5,885 |
| Other liabilities | 14,698 | 248 | 11,734 | 26,680 |
| Equity | - | - | 546,707 | 546,707 |
| Total liabilities and equity | 741,933 | 55,767 | 558,441 | 1,356,141 |

**24. Liquidity profile - Undiscounted cash flows of the financial liabilities**

The following table details the Branches contractual maturity for non-derivative financial liabilities. The table below is the undiscounted cash flow of financial liabilities based on the earliest date on which the Branches can be required to pay.

| | *Weighted average effective interest rates* | *Less than 3 months* | *3 months to 1 year* | *Over 1 year* | *Total* |
|---|---|---|---|---|---|
| | *%* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| **2022** | | | | | |
| **Financial liabilities** | | | | | |
| Due to banks and financial institutions | **0.0** | **1,552** | **-** | **-** | **1,552** |
| Customers' deposits | **0.22** | **668,791** | **42,364** | **-** | **711,155** |
| Due to related parties | **0.22** | **80,802** | **-** | **-** | **80,802** |
| Other liabilities* | **-** | **21,687** | **191** | **7,660** | **29,538** |
| **Total** | | **772,832** | **42,555** | **7,660** | **823,047** |
| 2021 | | | | | |
| Financial liabilities | | | | | |
| Due to banks and financial institutions | 0.0 | 1,207 | - | - | 1,207 |
| Customers' deposits | 0.26 | 720,474 | 55,703 | - | 776,177 |
| Due to related parties | 0.0 | 5,885 | - | - | 5,885 |
| Other liabilities* | - | 14,461 | 165 | 11,734 | 26,360 |
| Total | | 742,027 | 55,868 | 11,734 | 809,629 |

*for the purpose of this disclosure, customers related payables were deducted from other liabilities and added within customers' deposits.

**25. Fair value of financial instruments**

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

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

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

*Valuation techniques and assumptions applied for the purposes of measuring fair value*
The fair values of financial assets and financial liabilities are determined as follows.

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

**25. Fair value of financial instruments (continued)**

*Fair value of the Branches' financial assets that are measured at amortised cost on recurring basis*

Some of the Branches' financial assets are measured at amortised cost at the end of the reporting period. Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

| | Carrying amount AED'000 | Fair value Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **2022** | | | | | |
| *Financial assets* | | | | | |
| At amortized cost | **54,320** | **49,283** | **-** | **-** | **49,283** |
| FVOCI | **70,757** | **70,757** | **-** | **-** | **70,757** |
| 2021 | | | | | |
| *Financial assets* | | | | | |
| At amortized cost | 90,797 | 94,503 | - | - | 94,503 |
| FVOCI | 76,511 | 76,511 | - | - | 76,511 |

***Movement of level three financial assets:***

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Exposure at 1 January** | **-** | - |
| Purchase of investments | **-** | 2,043 |
| Proceeds from sale of investments | **(2,043)** | - |
| ECL stage 3 | **2,043** | (2,043) |
| **Exposure at 31 December** | **-** | - |

**26. Capital management**

The Branches' lead regulator, the Central Bank of the U.A.E., sets and monitors regulatory capital requirements.

The Branches' objectives when managing capital are:

- To safeguard the Branches' ability to continue as a going concern and to increase returns for shareholders; and
- To comply with regulatory capital requirements set by the Central Bank of the U.A.E.

In implementing current capital requirements, the Branches calculates its capital adequacy ratio in accordance with the guidelines issued by the Central Bank of the U.A.E. that essentially prescribe that this is a ratio of capital to risk weighted assets.

***Regulatory capital***
The Central Bank of U.A.E. sets and monitors capital requirements for the Branches as a whole.

Effective from 2018, the capital is computed using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of U.A.E., within national discretion. The Basel III framework, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

**26. Capital management (continued)**

***Regulatory capital (continued)***

**Minimum Capital Requirements**
The Central Bank of U.A.E. issued Basel III capital regulations, which came into effect from 1 February 2018 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 (‘CET1’), Additional Tier 1 (‘AT1’) and Total Capital.

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

The Branches’ capital base is divided into three main categories, namely CET1, AT1 and Tier 2 (‘T2’), depending on their characteristics.

- CET1 capital is the highest quality form of capital, comprising share capital, share premium, legal, statutory and other reserves, retained earnings, after deductions for intangibles and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under ‘CBUAE’ guidelines.
- AT 1 capital comprises eligible non-common equity capital instruments.
- T2 capital comprises collective impairment allowance.

Various limits are applied to elements of the capital base:

- Tier 2 capital cannot exceed 67% of tier 1 capital;
- Tier 1 capital must be a minimum of 7% of risk weighted assets; and
- Qualifying subordinated capital cannot exceed 50% of tier 1 capital.

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

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

No changes have been made to the objectives, policies and processes from the previous year. However, they are under constant review by the management. During the years ended 31 December 2022 and 2021, the Branches complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2022 and 2021, all banks operating in the U.A.E. were required to maintain a capital adequacy ratio at 12.375% and 11.75% inclusive of capital conservation buffer respectively. The Branches is computing and reporting Basel III ratios in accordance with guidelines of the Central Bank of U.A.E.

The Branches' regulatory capital position is as follows:

| | 2022 AED'000 | 2021 AED'000 |
|---|---|---|
| ***Tier 1 capital*** | | |
| Assigned capital | **375,000** | 375,000 |
| Statutory reserve | **59,311** | 57,290 |
| Retained earnings | **66,663** | 113,478 |
| IFRS transitional arrangement: Partial addback of ECL impact to CET1 | **-** | - |
| Less: Regulatory deductions | **396** | (132) |
| **Total** | **501,370** | 545,636 |
| ***Tier 2 capital*** | | |
| Eligible stage 1 and stage 2 provision (max 1.25% of CRWA under standardised approach) | **6,917** | 6,268 |
| **Total capital base** | **508,287** | 551,904 |
| ***Risk-weighted assets*** | | |
| Credit risk | **553,394** | 501,460 |
| Market risk | **3,640** | 176 |
| Operational risk | **90,778** | 107,805 |
| **Total risk-weighted assets** | **647,812** | 609,441 |
| ***Capital adequacy ratio*** | **78.46%** | 90.56% |
| **CET 1 Ratio** | **77.39%** | 89.53% |

***Capital allocation***

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Branches to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Branches' longer term strategic objectives. The Branches' policies in respect of capital management and allocation are reviewed regularly.

## 27. Risk management

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

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

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

The Credit, Risk and Management Committees work under the mandate of the Head Office to set up risk limits and manage the overall risk in the Branches.

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

**Credit risk management**
Policies relating to credit are reviewed and approved by the Branches' Risk Committee. All credit lines are approved centrally for the Branches. Loans in general, are secured by acceptable forms of collateral in order to mitigate credit risk. The Branches further limit risk through diversification of its assets by industry sectors.

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

The Credit Committees are responsible for setting credit policy of the Branches. It also establishes industry caps, approves policy exceptions and conducts periodic portfolio reviews to ascertain portfolio quality.

Different credit underwriting procedures are followed for retail and commercial lending as described below.

***Retail lending***
Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Branches' Credit Committee. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as customer demographics and income eligibility) and regulatory, compliance and documentation requirements, as well as other operating requirements.

***Commercial lending***
All credit applications for commercial lending are subject to the Branches' credit policies, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time. The Branches do not lend to companies operating in industries that are considered by the Branches inherently risky and where specialized industry knowledge is required. In addition, the Branches set credit limits for all customers based on an evaluation of their creditworthiness.

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

**27. Risk management (continued)**

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

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

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

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

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

**Allowances for impairment**
The Branches establish an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Branches of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

**Write-off policy**
The Branches write off a loan (and any related allowances for impairment losses) when Branches' Credit Committee determines that the loan is uncollectible in whole or in part. This determination is reached after all avenues for recovery have failed. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

***Inputs, assumptions and techniques used for estimating impairment***

***Significant increase in credit risk***
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Branches considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal credit risk grading system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience. The Branches may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

In determining whether credit risk has increased significantly since initial recognition following criteria's are considered:

i. Two notches downgrade for ratings from Aaa to Baa or one notch downgrade for ratings from Ba to Caa
ii. Facilities restructured during previous twelve months
iii. Facilities overdue by 30 days as at the reporting date

***Credit risk grades***
Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

**27. Risk management (continued)**

***Generating the term structure of Probability of Default (PD)***
The Branches employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Branches has exposures.

***Renegotiated financial assets***
The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Branches seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The accounts which are restructured due to credit reasons in past 12 months will be classified under Stage 2.

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

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or
- the borrower is rated 9 or 10.

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

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

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Branches for regulatory capital purposes.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically

***Forward-looking information incorporated in the ECL models***
The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Branches has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

The Branches employs statistical models to incorporate macro-economic factors on historical default rates. In the case that none of the macro-economic parameters are statistically significant or the results of forecasted PDs are too deviated from the present forecast of the economic conditions, qualitative PD overlay is used by management based on portfolio analysis.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are based on available information and include mean reversion approaches for long-term forecasts. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

**27. Risk management (continued)**

***Forward-looking information incorporated in the ECL models (continued)***

In addition to the base economic scenario, other possible scenarios are assessed along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. At 1 January 2022 and 31 December 2022, the Branches concluded that three scenarios appropriately captured non-linearities for all portfolios. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios, multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Branches measures ECL as either a probability weighted 12 month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3).

These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weighting (as opposed to weighting the inputs).

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Branches considers these forecasts to represent its best estimate of the possible outcomes.

***Economic variable assumptions***

The most significant period-end assumption used for the ECL estimate as at 31 December 2022 is the gross domestic product, given the high level of correlation between this and other economic indicators. The scenarios “base”, “upside” and “downside” were used for all portfolios.

| **Macroeconomic variables - 2022** | **Scenario** | **Assigned probabilities** | **2022** | **2023** | **2024** | **2025** | **2026** | **2027** |
|---|---|---|---|---|---|---|---|---|
| Gross domestic product, constant prices (% change) | Base case | 65.0% | 5.1 | 4.2 | 3.9 | 3.9 | 4.0 | 4.2 |
| | Upside | 11.2% | 6.7 | 5.8 | 5.5 | 5.5 | 5.6 | 5.8 |
| | Downside | 23.8% | 3.5 | 2.6 | 2.3 | 2.3 | 2.4 | 2.6 |
| General government revenue (% of GDP) | Base case | 65.0% | 37.3 | 34.9 | 33.9 | 32.8 | 31.8 | 31.0 |
| | Upside | 11.2% | 41.2 | 38.9 | 37.8 | 36.7 | 35.8 | 35.0 |
| | Downside | 23.8% | 33.3 | 31.0 | 30.0 | 28.8 | 27.9 | 27.1 |
| Current account balance (% of GDP) | Base case | 65.0% | 14.7 | 12.5 | 9.6 | 7.8 | 6.8 | 6.4 |
| | Upside | 11.2% | 20.2 | 18.0 | 15.1 | 13.3 | 12.3 | 11.9 |
| | Downside | 23.8% | 9.2 | 7.0 | 4.1 | 2.3 | 1.3 | 0.9 |

The weightings assigned to each economic scenario at 31 December 2022 were as follows:

| | **Base** | **Upside** | **Downside** |
|---|---|---|---|
| All portfolios | 65% | 11.2% | 23.8% |

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

**27. Risk management (continued)**

***Derivatives***
The positive / negative fair values of derivative financial instruments, entered into by the Branches, at the reporting date are as below:

| | ***31 December 2022*** | | | *31 December 2021* | | |
|---|---|---|---|---|---|---|
| **Derivatives** | ***Positive fair value AED'000*** | ***Negative fair value AED'000*** | ***Net AED'000*** | *Positive fair value AED'000* | *Negative fair value AED'000* | *Net AED'000* |
| **Forward foreign exchange contracts** | **-** | **-** | **-** | 30 | - | 30 |
| **Interest rate swaps** | **4,401** | **-** | **4,401** | - | (2,018) | (2,018) |
| **Total** | **4,401** | **-** | **4,401** | 30 | (2,018) | (1,988) |

Foreign exchange contracts are used to hedge mismatches between loans and deposits denominated in different currencies.

***Measurement of ECL***
The key inputs into the measurement of ECL are the term structure of the following variables:
- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models. These statistical models are primarily based on internally compiled data comprising both quantitative and qualitative factors and are supplemented by external credit assessment data where available.

LGD is the magnitude of the likely loss if there is a default. The Branches estimates LGD parameters based on a consistent rate for unsecured facilities and considers the impact of collateral for secured facilities.

***Credit quality***
Pursuant to the adoption of IFRS 9, the Branches has mapped its internal credit rating scale to Moody's rating scale, the table below provides an analysis of counterparties by rating grades and credit quality of the Branches' credit risk, based on Moody's ratings (or their equivalent) as at 31 December 2022.The following table sets out information about the credit quality of financial assets, commitments and financial guarantees.

**27. Risk management (continued)**

| | ***Stage 1*** ***AED'000*** | ***Stage 2*** ***AED'000*** | ***Stage 3*** ***AED'000*** | ***2022 Total*** ***AED'000*** | *2021 Total* *AED'000* |
|---|---|---|---|---|---|
| **Cash and balances with the Central Bank of the U.A.E (excluding cash on hand) and due from related parties and deposit and balances due from banks and financial institutions** | | | | | |
| AAA to AA- | **582,501** | **-** | **-** | **582,501** | 710,685 |
| A+ to A- | **7,060** | **-** | **-** | **7,060** | 14,664 |
| BBB to BBB- | **49,579** | **-** | **-** | **49,579** | 119 |
| BB+ to B- | **54,492** | **53,328** | **-** | **107,820** | 55,088 |
| Unrated | **133,403** | **2,239** | **-** | **135,642** | 41,791 |
| **Total** | **827,035** | **55,567** | **-** | **882,602** | 822,347 |
| Expected credit losses – IFRS 9 | **(1,028)** | **(3,178)** | **-** | **(4,206)** | (234) |
| **Carrying amount** | **826,007** | **52,389** | **-** | **878,396** | 822,113 |

| | ***Stage 1*** ***AED'000*** | ***Stage 2*** ***AED'000*** | ***Stage 3*** ***AED'000*** | ***2022 Total*** ***AED'000*** | *2021 Total* *AED'000* |
|---|---|---|---|---|---|
| **Loans and advances to customers** | | | | | |
| AAA to AA- | **-** | **-** | **-** | **-** | **-** |
| A+ to A- | **-** | **-** | **-** | **-** | **-** |
| BBB to BBB- | **-** | **-** | **-** | **-** | **-** |
| BB+ to B- | **-** | **-** | **-** | **-** | **-** |
| Unrated | **114,715** | **198,912** | **35,947** | **349,574** | 403,456 |
| **Total** | **114,715** | **198,912** | **35,947** | **349,574** | 403,456 |
| Expected credit losses – IFRS 9 | **(197)** | **(13,878)** | **(35,947)** | **(50,022)** | (54,255) |
| **Carrying amount** | **114,518** | **185,034** | **-** | **299,552** | 349,201 |

*Externally unrated are internally rated by the Bank

**27. Risk management (continued)**

***Credit quality (continued)***

| | ***Stage 1 AED'000*** | ***Stage 2 AED'000*** | ***Stage 3 AED'000*** | ***2022 Total AED'000*** | *2021 Total AED'000* |
|---|---|---|---|---|---|
| **Investment securities** | | | | | |
| AAA to AA- | - | - | - | - | - |
| A+ to A- | **70,757** | - | - | **70,757** | 76,511 |
| BBB to BBB- | - | - | - | - | 18,378 |
| BB+ to B- | **54,478** | - | - | **54,478** | 72,707 |
| Unrated | - | - | - | - | 2,043 |
| **Total** | **125,235** | - | - | **125,235** | 169,639 |
| Expected credit losses – IFRS 9 | **(158)** | - | - | **(158)** | (2,331) |
| **Carrying amount** | **125,077** | - | - | **125,077** | 167,308 |

| | ***Stage 1 AED'000*** | ***Stage 2 AED'000*** | ***Stage 3 AED'000*** | ***2022 Total AED'000*** | *2021 Total AED'000* |
|---|---|---|---|---|---|
| **Financial commitments and guarantees** | | | | | |
| AAA to AA- | - | - | - | - | - |
| A+ to A- | - | - | - | - | - |
| BBB to BBB- | - | - | - | - | - |
| BB+ to B- | - | - | - | - | - |
| Unrated | **139,254** | **74,059** | **2,149** | **215,462** | 257,705 |
| **Total** | **139,254** | **74,059** | **2,149** | **215,462** | 257,705 |
| Expected credit losses – IFRS 9 | **(132)** | **(225)** | **(1,477)** | **(1,834)** | (4,410) |
| **Carrying amount** | **139,122** | **73,834** | **672** | **213,628** | 253,295 |

**27. Risk management (continued)**

***Credit quality (continued)***

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade.

| | ***Due from banks and financial institutions*** | | ***Loans and advances to customer*** | | ***Investment securities*** | |
|---|---|---|---|---|---|---|
| | ***2022*** | *2021* | ***2022*** | *2021* | ***2022*** | *2021* |
| | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* | ***AED'000*** | *AED'000* |
| **Impaired** | | | | | | |
| Doubtful | **-** | - | **-** | - | **-** | - |
| Loss | **-** | - | **35,947** | 37,706 | **-** | 2,043 |
| **Gross amount** | **-** | - | **35,947** | 37,706 | **-** | 2,043 |
| Interest suspended | **-** | - | **(7,193)** | (5,925) | **-** | - |
| Specific allowance for impairment | **-** | - | **(28,754)** | (31,781) | **-** | (2,043) |
| | **-** | - | **-** | - | **-** | - |
| **Past due but not impaired** | | | | | | |
| 90 to 180 days | **-** | - | **-** | 1,139 | **-** | - |
| Past due loans less than 30 days | **-** | - | **384** | 3,059 | **-** | - |
| | **-** | - | **384** | 4,198 | **-** | - |
| **Neither past due nor impaired** | | | | | | |
| Gross amount | **243,250** | 73,460 | **313,243** | 361,552 | **125,235** | 167,596 |
| IFRS 9 allowance for impairment | **(4,206)** | (234) | **(14,075)** | (16,549) | **(158)** | (288) |
| | **239,044** | 73,226 | **299,168** | 345,003 | **125,077** | 167,308 |
| **Carrying amount** | **239,044** | 73,226 | **299,552** | 349,201 | **125,077** | 167,308 |

Credit risk exposure of the Branches' Loans and Islamic financing receivables as per the internal and external risk grade is as follows:

| | ***EAD*** | *EAD* |
|---|---|---|
| | ***2022*** | *2021* |
| | ***AED'000*** | *AED'000* |
| Normal | **294,537** | 330,391 |
| OLEM | **19,090** | 35,359 |
| Substandard | **2** | - |
| Doubtful | **10,509** | - |
| Loss | **25,436** | 37,706 |
| | **349,574** | 403,456 |

**27. Risk management (continued)**

***Credit quality (continued)***

The Branches hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over amounts due from banks and financial institutions. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2022 or 2021.

At 31 December, the fair value of collateral held was as follows:

Loans & Advances to customers

| | ***31-December-2022*** | | | | *31-December-2021* | | | |
|---|---|---|---|---|---|---|---|---|
| | ***Stage 1*** | ***Stage 2*** | ***Stage 3*** | ***Total*** | *Stage 1* | *Stage 2* | *Stage 3* | *Total* |
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Property | **185,192** | **320,416** | **25,817** | **531,425** | 151,965 | 400,318 | 3,690 | 555,973 |
| Cash | **7,040** | **8,513** | **-** | **15,553** | 8,125 | 4,208 | - | 12,333 |
| Others | **57,000** | **54,555** | **-** | **111,555** | 55,000 | 51,815 | - | 106,815 |
| Total | **249,232** | **383,484** | **25,817** | **658,533** | 215,090 | 456,341 | 3,690 | 675,121 |

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

| *ECL staging* | *External rating description* | *Balances with UAE Central Bank* | *Contingencies and commitments** | *Due from banks* | *Loans and advances* | *Investment securities* | *Due from related parties* | *Total* |
|---|---|---|---|---|---|---|---|---|
| | | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Stage 1 | AAA to B- or B3 | 504,679 | 189,730 | 187,683 | 114,715 | 125,235 | 134,673 | 1,256,715 |
| Stage 2 | Caa1 or CCC+ to CCC- | - | 111,056 | 55,567 | 198,912 | - | - | 365,535 |
| Stage 3 | Ca or CC to D | - | 2,149 | - | 35,947 | - | - | 38,096 |
| **Gross amount** | | **504,679** | **302,935** | **243,250** | **349,574** | **125,235** | **134,673** | **1,660,346** |
| Less provisions & interests in suspense | | - | (1,834) | (4,206) | (50,022) | (158) | - | (56,220) |
| **Net book value** | | **504,679** | **301,101** | **239,044** | **299,552** | **125,077** | **134,673** | **1,604,126** |

**Includes the outstanding unutilised facilities as of 31 December 2022 amounted to AED 87 million (2021: AED 125 million).*

**27. Risk management (continued)**

***Credit quality (continued)***

The Branch's internal credit rating grades for the year ended 31 December 2021:

| *ECL staging* | *External rating description* | *Balances with UAE Central Bank* | *Contingencies and commitments* | *Due from banks* | *Loans and advances* | *Investment securities* | *Due from related parties* | *Total* |
|---|---|---|---|---|---|---|---|---|
| | | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Stage 1 | AAA to B- or B3 | 706,697 | 257,589 | 32,518 | 110,528 | 149,238 | 42,190 | 1,298,760 |
| Stage 2 | Caa1 or CCC+ to CCC- | - | 120,413 | 40,942 | 255,222 | 18,358 | - | 434,935 |
| Stage 3 | Ca or CC to D | - | 4,703 | - | 37,706 | 2043 | - | 44,452 |
| Gross amount | | 706,697 | 382,705 | 73,460 | 403,456 | 169,639 | 42,190 | 1,778,147 |
| Less provisions & interests in suspense | | - | (4,410) | (234) | (54,255) | (2,331) | - | (61,230) |
| Net book value | | 706,697 | 378,295 | 73,226 | 349,201 | 167,308 | 42,190 | 1,716,917 |

The following table shows the mapping between the Branches Internal credit rating along with their related External rating used by the Credit Ratings Agencies (CRA's):

<table>
<tr><th>ORR</th><th>UAE</th><th>Moody's</th><th>S&P</th><th>FITCH</th></tr>
<tr><td>1</td><td rowspan="16">Normal</td><td>Aaa</td><td>AAA</td><td>AAA</td></tr>
<tr><td>2+</td><td>Aa1</td><td>AA+</td><td>AA+</td></tr>
<tr><td>2</td><td>Aa2</td><td>AA</td><td>AA</td></tr>
<tr><td>2-</td><td>Aa3</td><td>AA-</td><td>AA-</td></tr>
<tr><td>3+</td><td>A1</td><td>A+</td><td>A+</td></tr>
<tr><td>3</td><td>A2</td><td>A</td><td>A</td></tr>
<tr><td>3-</td><td>A3</td><td>A-</td><td>A-</td></tr>
<tr><td>4+</td><td>Baa1</td><td>BBB+</td><td>BBB+</td></tr>
<tr><td>4</td><td>Baa2</td><td>BBB</td><td>BBB</td></tr>
<tr><td>4-</td><td>Baa3</td><td>BBB-</td><td>BBB-</td></tr>
<tr><td>5+</td><td>Ba1</td><td>BB+</td><td>BB+</td></tr>
<tr><td>5</td><td>Ba2</td><td>BB</td><td>BB</td></tr>
<tr><td>5-</td><td>Ba3</td><td>BB-</td><td>BB-</td></tr>
<tr><td>6+</td><td>B1</td><td>B+</td><td>B+</td></tr>
<tr><td>6</td><td>B2</td><td>B</td><td>B</td></tr>
<tr><td>6-</td><td>B3</td><td>B-</td><td>B-</td></tr>
<tr><td rowspan="3">7</td><td rowspan="3">OLEM</td><td>Caa1</td><td>CCC+</td><td rowspan="5">CCC</td></tr>
<tr><td>Caa2</td><td>CCC</td></tr>
<tr><td>Caa3</td><td>CCC-</td></tr>
<tr><td rowspan="2">8</td><td rowspan="2">Substandard</td><td rowspan="2">Ca</td><td>CC</td></tr>
<tr><td>C</td></tr>
<tr><td rowspan="2">9</td><td rowspan="2">Doubtful</td><td rowspan="3">C</td><td rowspan="3">D</td><td>DDD</td></tr>
<tr><td>DD</td></tr>
<tr><td>10</td><td>Loss</td><td>D</td></tr>
</table>

**27. Risk management (continued)**

***Credit quality (continued)***

**Loans and advances to customer with renegotiated terms**
The following table contains an analysis of the credit risk exposure of total restructured loans and advances to customer:

| | | ***As at 31-12-2022*** | | |
|---|---|---|---|---|
| ***Total restructured portfolio*** | ***Stage 1 AED'000*** | ***Stage 2 AED'000*** | ***Stage 3 AED'000*** | ***Total AED'000*** |
| **Outstanding balance** | **-** | **189,495** | **-** | **189,495** |
| **Allowances for impairment (ECL)** | **-** | **(13,867)** | **-** | **(13,867)** |
| **Carrying amount** | **-** | **175,628** | **-** | **175,628** |

| | | *As at 31-12-2021* | | |
|---|---|---|---|---|
| *Total restructured portfolio* | *Stage 1 AED'000* | *Stage 2 AED'000* | *Stage 3 AED'000* | *Total AED'000* |
| Outstanding balance | - | 243,852 | - | 243,852 |
| Allowances for impairment (ECL) | - | (14,072) | - | (14,072) |
| Carrying amount | - | 229,780 | - | 229,780 |

| | ***As at 31-12-2022*** | | *As at 31-12-2021* | |
|---|---|---|---|---|
| ***Total restructured portfolio during the year*** | ***Post-modification AED'000*** | ***Pre-modification AED'000*** | *Post-modification AED'000* | *Pre-modification AED'000* |
| **Outstanding balance** | **19,075** | **19,891** | - | - |
| **Stage 1** | - | - | - | - |
| **Stage 2** | 19,075 | 19,891 | - | - |
| **Stage 3** | - | - | - | - |
| **Allowances for impairment (ECL)** | **(2,386)** | - | - | - |
| **Carrying amount** | **16,689** | **19,891** | - | - |

**27. Risk management (continued)**

***Geographical sectors***

The following tables break down the Branches' credit risk exposure at their net carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region. For this table, the Branches has allocated exposures to regions based on the country of domicile of its counterparties.

| | ***UAE*** | ***Middle East countries*** | ***O.E.C.D*** | ***Other countries*** | ***Impairment allowance*** | ***Total*** |
|---|---|---|---|---|---|---|
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** |
| **At 31 December 2022** | | | | | | |
| **Balances with the Central Bank of U.A.E. - excluding cash** | **504,679** | **-** | **-** | **-** | **-** | **504,679** |
| **Due from related parties** | **-** | **2,650** | **132,023** | **-** | **-** | **134,673** |
| **Deposits and balances due from banks and financial institutions** | **118,217** | **22,051** | **66,899** | **36,083** | **(4,206)** | **239,044** |
| **Loans and advances to customers** | **289,330** | **60,244** | **-** | **-** | **(50,022)** | **299,552** |
| **Investment securities** | **70,757** | **54,478** | **-** | **-** | **(158)** | **125,077** |
| **Other assets** | **1,605** | **1,323** | **344** | **933** | **-** | **4,205** |
| **Total exposure** | **984,588** | **140,746** | **199,266** | **37,016** | **(54,386)** | **1,307,230** |

| | *UAE* | *Middle East countries* | *O.E.C.D* | *Other countries* | *Impairment allowance* | *Total* |
|---|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| At 31 December 2021 | | | | | | |
| Balances with the Central Bank of U.A.E. - excluding cash | 706,697 | - | - | - | - | 706,697 |
| Due from related parties | - | 913 | 41,277 | - | - | 42,190 |
| Deposits and balances due from banks and financial institutions | 595 | 621 | 53,881 | 18,363 | (234) | 73,226 |
| Loans and advances to customers | 338,481 | 62,727 | 2,248 | - | (54,255) | 349,201 |
| Investment securities | 94,889 | 56,392 | 18,358 | - | (2,331) | 167,308 |
| Other assets | 2,040 | 900 | 225 | 140 | - | 3,305 |
| Total exposure | 1,142,702 | 121,553 | 115,989 | 18,503 | (56,820) | 1,341,927 |

***Concentration of risks of financial assets with credit risk exposure - off balance sheet***

***Geographical sectors***

| | ***UAE*** | ***Middle East countries*** | ***O.E.C.D*** | ***Other countries*** | ***Total*** |
|---|---|---|---|---|---|
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** |
| **At 31 December 2022** | | | | | |
| **Guarantees** | **206,207** | **3,000** | **-** | **-** | **209,207** |
| **Letters of credit** | **6,255** | **-** | **-** | **-** | **6,255** |
| **Total exposure** | **212,462** | **3,000** | **-** | **-** | **215,462** |

**27. Risk management (continued)**

***Concentration of risks of financial assets with credit risk exposure - off balance sheet*** **(continued)**

***Geographical sectors*** **(continued)**

| | *UAE* | *Middle East countries* | *O.E.C.D* | *Other countries* | *Total* |
|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| At 31 December 2021 | | | | | |
| Guarantees | 246,941 | 3,050 | - | - | 249,991 |
| Letters of credit | 7,714 | - | - | - | 7,714 |
| Total exposure | 254,655 | 3,050 | - | - | 257,705 |

The distributions by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

| | ***UAE*** | ***Middle East countries*** | ***O.E.C.D*** | ***Other countries*** | ***Total*** |
|---|---|---|---|---|---|
| | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** | ***AED'000*** |
| **2022** | | | | | |
| **Non-performing loans** | **34,319** | **1,628** | **-** | **-** | **35,947** |
| **Impairment allowance for credit losses** | **(27,126)** | **(1,628)** | **-** | **-** | **(28,754)** |
| **Interest in suspense** | **(7,193)** | **-** | **-** | **-** | **(7,193)** |
| **Total exposure** | **-** | **-** | **-** | **-** | **-** |

| | *UAE* | *Middle East countries* | *O.E.C.D* | *Other countries* | *Total* |
|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| 2021 | | | | | |
| Non-performing loans | 37,706 | - | - | - | 37,706 |
| Impairment allowance for credit losses | (31,781) | - | - | - | (31,781) |
| Interest in suspense | (5,925) | - | - | - | (5,925) |
| Total exposure | - | - | - | - | - |

**27. Risk management (continued)**

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

Interest rate sensitivity gap:

| | *Within 3 months* | *From 3 to 6 months* | *From 6 to 12 months* | *Over One year* | *Non-interest sensitive* | *Total* |
|---|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| **Assets** | | | | | | |
| Cash and Balances with the Central Bank of U.A.E. | **460,000** | **-** | **-** | **-** | **50,703** | **510,703** |
| Due from related parties | **128,389** | **-** | **-** | **-** | **6,284** | **134,673** |
| Deposits and balances due from banks and financial institutions | **117,520** | **18,363** | **34,965** | **54,445** | **13,751** | **239,044** |
| Investment securities | **70,757** | **-** | **-** | **54,320** | **-** | **125,077** |
| Loans and advances to customers | **176,768** | **2,464** | **12,927** | **107,393** | **-** | **299,552** |
| Other assets | **-** | **-** | **-** | **-** | **13,841** | **13,841** |
| Property and equipment | **-** | **-** | **-** | **-** | **2,169** | **2,169** |
| Intangibles | **-** | **-** | **-** | **-** | **327** | **327** |
| **Total assets** | **953,434** | **20,827** | **47,892** | **216,158** | **87,075** | **1,325,386** |
| **Liabilities and Equity** | | | | | | |
| Due to banks and financial institutions | **-** | **-** | **-** | **-** | **1,552** | **1,552** |
| Customers' deposits | **205,085** | **14,421** | **27,148** | **-** | **463,978** | **710,632** |
| Due to related parties | **67,941** | **-** | **-** | **-** | **12,820** | **80,761** |
| Other liabilities | **-** | **-** | **-** | **-** | **29,861** | **29,861** |
| Equity | **-** | **-** | **-** | **-** | **502,580** | **502,580** |
| **Total liabilities and Equity** | **273,026** | **14,421** | **27,148** | **-** | **1,010,791** | **1,325,386** |
| **On balance sheet gap** | **680,408** | **6,406** | **20,744** | **216,158** | **(923,716)** | **-** |
| **Cumulative interest rate sensitivity gap** | **680,408** | **686,814** | **707,558** | **923,716** | **-** | |

**27. Risk management (continued)**

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2021:

| | *Within 3 months* | *From 3 to 6 months* | *From 6 to 12 months* | *Over One year* | *Non-interest sensitive* | *Total* |
|---|---|---|---|---|---|---|
| | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* | *AED'000* |
| Assets | | | | | | |
| Cash and Balances with the Central Bank of U.A.E. | 670,000 | - | - | - | 44,817 | 714,817 |
| Due from related parties | 31,545 | - | - | - | 10,645 | 42,190 |
| Deposits and balances due from banks and financial institutions | - | - | 55,088 | - | 18,138 | 73,226 |
| Investment securities | 18,375 | 18,154 | - | 130,779 | - | 167,308 |
| Loans and advances to customers | 191,752 | 19,870 | 19,994 | 117,585 | - | 349,201 |
| Other assets | - | - | - | - | 6,890 | 6,890 |
| Property and equipment | - | - | - | - | 1,954 | 1,954 |
| Intangibles | - | - | - | - | 555 | 555 |
| Total assets | 911,672 | 38,024 | 75,082 | 248,364 | 82,999 | 1,356,141 |
| Liabilities and Equity | | | | | | |
| Due to banks and financial institutions | - | - | - | - | 1,207 | 1,207 |
| Customers' deposits | 222,387 | 27,452 | 27,228 | - | 498,595 | 775,662 |
| Due to related parties | - | - | - | - | 5,885 | 5,885 |
| Other liabilities | - | - | - | - | 26,680 | 26,680 |
| Equity | - | - | - | - | 546,707 | 546,707 |
| Total liabilities and Equity | 222,387 | 27,452 | 27,228 | -- | 1,079,074 | 1,356,141 |
| On balance sheet gap | 689,285 | 10,572 | 47,854 | 248,364 | (996,075) | - |
| Cumulative interest rate sensitivity gap | 689,285 | 699,857 | 747,711 | 996,075 | - | |

**Liquidity risk**

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

***Management of liquidity risk***

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

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

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

The Central bank of U.A.E. through its circular no. 33/2015 dated 27 May 2015 announced new Regulations regarding Liquidity at Banks followed by a Guidance Manual. The above mentioned regulations introduced a new Liquidity ratio called Eligible Liquid Assets ratio ("ELAR") applicable from 1 July 2015.

**27. Risk management (continued)**

**Liquidity risk (continued)**

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

***Market risk management***
Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices. The Branches classify exposures to market risk into either trading or non-trading or banking-book.

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

***Market risk - Non Trading or Banking Book***
Market risk on non-trading or banking positions mainly arises from the interest rate and foreign currency exposures.

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

The Branches use monitoring tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by Local Management Committee. Since a portion of the Branches' assets and liabilities have floating rates, deposits and loans generally repriced simultaneously providing a natural hedge, which reduces interest rate exposure. Moreover, the majority of the Branches' assets and liabilities are repriced within one year, thereby further limiting interest rate risk. The following paragraphs depicts the sensitivity to a reasonable possible change in interest rates, with other variables held constant, on the Branches' statement of profit or loss or Equity. The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held as at 31 December 2022, including the effect of hedging instruments. The sensitivity of equity is analysed by maturity of the asset or swap. All the banking book exposures are monitored and analysed in currency concentrations and relevant sensitivities are disclosed in AED million.

The impact of 1% sudden movement in benchmark interest rate on net income over a 12 months period as at 31 December 2022 would have been a decrease in net income by -31.30% (in case of decrease of interest rate) and would have been an increase in net income by +31.30% (in case of increase of interest rate) [2021: -166.40% and +166.40%] respectively.

The effective interest rate on bank placements, financial institutions, investments and certificates of deposits with the Central Bank of the U.A.E. was 2.30% (2021: 0.62%), on loans and advances was 5.50% (2021: 5.79%), on customer deposits was 0.22% (2021: 0.26%) and on bank borrowings was 0.22% (2021: 0.00%).

***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'). The Branches has exposure to interbank offered rates (IBORs) on its financial instruments that will be replaced or reformed as part of this market-wide initiative. There is uncertainty over the timing and the methods of transition. The Branches anticipates that IBOR reform will have operational, risk management and accounting impacts across all of its business lines. The Branches along with the Branches Bank established a cross-functional IBOR Project Working Committee (referred to as 'IBOR Committee') to manage its transition to alternative rates. The objectives of the IBOR Committee include evaluating the extent to which Loans and Islamic financing receivables facilities and Investments in Floating Rate Notes (FRN) and liabilities have reference to IBOR cash flows, whether such contracts need to be amended as a result of IBOR reform and how to manage communication about IBOR reform with counterparties. The IBOR Committee reports to ALCO regularly and collaborates with other business functions as needed.

It provides periodic reports to ALCO and Treasury to support management of interest rate risk, and to identify operational risks arising from IBOR reform.

**27. Risk management (continued)**

***Market risk management (continued)***

***i) Interest rate risk management (continued)***

**Financial assets:**
The Branch's IBOR exposures on floating-rate Loans and Islamic financing receivables loans and advances are covered in the following table:

| *Currency* | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| USD | **183,625** | 128,538 |
| EUR | **-** | - |
| GBP | **-** | - |
| | **183,625** | 128,538 |

The IBOR Committee is in the process of establishing policies for amending the interbank offered rates on its existing floating-rate loan portfolio indexed to IBORs that will be replaced as part of the IBOR reform. The Branch expects that retail products will be amended in a uniform way. However, the Branch expects to participate in bilateral negotiations with the counterparties in its bespoke products, such as loans and advances issued to corporates. The Head office began amending the contractual terms of its existing floating-rate assets; however, the exact timing to complete the amendment will vary depending on the extent to which standardized language can be applied across certain loan types and the extent of bilateral negotiations between the Branches and loan counterparties.

***ii) Currency risk***

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

The Branches' assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. The Branches' manage exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Branches' Head Office sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Branches' had the following significant net exposures denominated in foreign currencies:

| | ***Net spot position AED'000*** | ***Forward position AED'000*** | ***Total 2022 AED'000*** | *Total 2021 AED'000* |
|---|---|---|---|---|
| Australian Dollars | **4** | **-** | **4** | 7 |
| Canadian Dollars | **4** | **-** | **4** | 8 |
| Swiss Francs | **8** | **-** | **8** | 20 |
| Euro | **-** | **-** | **-** | 26 |
| Sterling Pounds | **5** | **-** | **5** | 18 |
| Jordanian Dinars | **9** | **-** | **9** | 9 |
| Kuwaiti Dinars | **-** | **-** | **-** | 88 |
| Omani Riyals | **46** | **-** | **46** | - |
| Qatari Riyals | **2,267** | **-** | **2,267** | - |
| Saoudi Riyals | **1,297** | **-** | **1,297** | - |
| **Total** | **3,640** | **-** | **3,640** | 176 |

The exchange rate of AED against US Dollar is pegged since November 1980 and the Branches' exposure to currency risk is limited to that extent.

**27. Risk management (continued)**

**Operational risk**
The Branches' manage and undertake to minimise operational losses as follows:

Identify and assess the operational risk inherent in all material products, activities, processes and systems, and ensure that before new products, activities, processes and systems are introduced or undertaken, the inherent operational risk in them is subject to adequate assessment procedures.

Implement a process to monitor operational risk profiles and material exposures to losses on a regular basis.

Establish and implement policies, processes and procedures to mitigate and/or control material operational risks. Periodically review organisational risk limitation and control strategy and adjust its operational risk profile using appropriate strategies in the context of the Branches' overall risk appetite and profile.

Ensure contingency and business continuity plans are in place to ensure the Branches' ability to operate on an ongoing basis and to limit losses in the event of severe business interruption, disruption or loss.

**28. Contingent liabilities and commitments**

***a) Contingent liabilities***

| | ***2022 AED'000*** | *2021 AED'000* |
|---|---|---|
| **Guarantees** | **209,207** | 249,991 |
| Stage 1 | 132,999 | 182,719 |
| Stage 2 | 74,059 | 62,569 |
| Stage 3 | 2,149 | 4,703 |
| **Letters of credit** | **6,255** | 7,714 |
| Stage 1 | 6,255 | 7,714 |
| Stage 2 | - | - |
| Stage 3 | - | - |
| | **215,462** | 257,705 |

The outstanding unutilised facilities as of 31 December 2022 amounted to AED 87 million (2021: AED 125 million), which is not included above.

The outstanding unused portion of commitments can be revoked unilaterally at any time by the Branches provided there are reasonable grounds as per contract terms.

***b) Contingent liabilities - maturity profile***
The maturity profile of the Branches' contingent liabilities was as follows:

| | ***Within 3 months AED'000*** | ***From 3 to 6 months AED'000*** | ***From 6 to 12 months AED'000*** | ***Over One year AED'000*** | ***Total AED'000*** |
|---|---|---|---|---|---|
| **2022** | | | | | |
| Guarantees | **156,353** | **24,702** | **21,115** | **7,037** | **209,207** |
| Letters of credit | **2,807** | **3,448** | **-** | **-** | **6,255** |
| | **159,160** | **28,150** | **21,115** | **7,037** | **215,462** |
| 2021 | | | | | |
| Guarantees | 198,639 | 14,303 | 27,721 | 9,328 | 249,991 |
| Letters of credit | 5,008 | 2,706 | - | - | 7,714 |
| | 203,647 | 17,009 | 27,721 | 9,328 | 257,705 |

The analysis of commitments and contingencies by industry sector is shown in Note 27.

**29. Legal proceedings**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Branches has been advised by its legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, provision for any liability has been made in these financial statements.