AL KHALIJI FRANCE S.A. UNITED ARAB EMIRATES BRANCHES

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2024

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

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INDEPENDENT AUDITOR'S REPORT TO THE HEAD OFFICE 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 2024, and the statement of profit or loss, 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 material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2024, and their financial performance and their cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB).

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 Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Expected credit losses ("ECL") on financial assets Refer to Note 4 to the financial statements for the material accounting policy and Note 27 for the credit risk disclosures. The balance of loss allowances on financial assets represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9"). Management first assesses whether the credit risk of financial assets has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL. For financial assets classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default, discount rates and various macro-economic variables as inputs. For financial assets in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the financial assets. Management has also applied a significant level of judgement in the areas noted above in determining the impact of economic volatility on the allowances for expected credit losses by considering the forward-looking information, including variables used in macro-economic scenarios and their associated weightings.	We obtained an understanding of management's assessment of impairment of financial assets, the Branches' credit impairment provision policy and the ECL modelling methodology. We performed process walkthroughs to identify the controls over the ECL process. We tested the design and operational effectiveness of the internal controls relating to the measurement of ECL. We performed the following substantive audit procedures on the computation and reasonableness of the ECL included in the Branches' financial statements: • Evaluated the reasonableness and appropriateness of the IFRS 9 methodology and assumptions used in various components of ECL modelling. This typically included evaluating key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates and discount rate. • For selected samples, we performed procedures to determine whether significant increase in credit risk have been identified. • For a sample of exposures, we checked the Branches' application of the staging criteria including the basis for movement between stages. • For forward-looking measurements, evaluated management's selection of economic indicators, scenarios and application of weightings; assessed the appropriateness of the prediction of economic indicators and performed sensitivity analysis.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	*How our audit addressed the key audit matter*
Expected credit losses ("ECL") on financial assets (continued) We considered ECL for financial assets as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of financial assets into stages 1, 2 or 3, assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc. These judgments have a material impact on the financial statements of the Branches.	• For selected samples, we examined key data inputs into the ECL models. • We performed an independent credit assessment for a sample of customers, by assessing the quantitative and qualitative factors including assessment of financial performance of the customer, source of repayments and its history, discounted future cash flows of the borrower, credit risk mitigation through collateral and other relevant risk factors. • We re-performed key elements of the ECL calculations and evaluated the model performance results. • We assessed the appropriateness of disclosures in the financial statements against the requirements of IFRS.

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

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

In preparing the financial statements, management is responsible for assessing the 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.

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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 Branches' internal control.

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

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

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

We communicate with 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 HEAD OFFICE 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 (continued)

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 which we considered necessary for the purpose of our audit.

For Ernst & Young

Anthony O'Sullivan
Registration No. 687

27 March 2025

Dubai, United Arab Emirates

STATEMENT OF FINANCIAL POSITION
As at 31 December 2024

	Notes	2024 AED'000	2023 AED'000
ASSETS			
Cash and balances with the Central Bank of the U.A.E.	6	**404,144**	451,704
Due from related parties	7	**46,628**	108,607
Deposits and balances due from banks and financial institutions	8	**233,520**	208,603
Investment securities	9	**223,001**	128,773
Loans and advances to customers	10	**406,844**	418,907
Other assets	11	**11,463**	12,581
Property and equipment	12	**1,158**	1,950
Deferred tax assets	20	**14,153**	-
Intangible assets	13	**1,870**	1,785
Total assets		**1,342,781**	1,332,910
LIABILITIES AND EQUITY			
Liabilities			
Deposits and balances due to banks and financial institutions	14	**1,640**	87,388
Customers' deposits	15	**678,756**	652,691
Due to related parties	7	**6,465**	17,688
Other liabilities	16	**55,039**	25,180
Total liabilities		**741,900**	782,947
Equity			
Assigned capital	17(a)	**375,000**	375,000
Statutory reserve	17(b)	**69,349**	64,226
Fair value reserve		**(472)**	(164)
Retained earnings		**157,004**	110,901
Total equity		**600,881**	549,963
Total liabilities and equity		**1,342,781**	1,332,910

Gilles Dermaux
General Manager

Roy Doumeth
Head of Finance

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

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

	Notes	***2024*** ***AED'000***	*2023* *AED'000*
Interest income		**82,204**	80,825
Interest expense		**(11,391)**	(5,446)
Net interest income		**70,813**	75,379
Fee and commission income		**7,624**	9,124
Fee and commission expenses		**(399)**	(427)
Net fee and commission income		**7,225**	8,697
Net gain from foreign currency transactions		**2,171**	3,119
Other operating income		**24**	48
Operating income for the year		**80,233**	87,243
General and administrative expenses	18	**(27,729)**	(25,267)
Allowance for expected credit losses, net	19	**(3,524)**	(10,039)
Net operating expenses		**(31,253)**	(35,306)
Profit before tax		**48,980**	51,937
Income tax – net	20	**2,246**	(2,784)
Profit for the year		**51,226**	49,153

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

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

	2024	*2023*
	AED'000	*AED'000*
Profit for the year	**51,226**	49,153
Other comprehensive loss 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	**(308)**	(1,770)
Other comprehensive loss for the year	**(308)**	(1,770)
Total comprehensive income for the year	**50,918**	47,383

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

	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 2023	375,000	59,311	1,606	66,663	502,580
Profit for the year	-	-	-	49,153	49,153
Other comprehensive loss for the year	-	-	(1,770)	-	(1,770)
Total comprehensive income for the year	-	-	(1,770)	49,153	47,383
Transfer to statutory reserve (Note 17)	-	4,915	-	(4,915)	-
Balance at 31 December 2023	375,000	64,226	(164)	110,901	549,963
Balance as at 1 January 2024	**375,000**	**64,226**	**(164)**	**110,901**	**549,963**
Profit for the year	**-**	**-**	**-**	**51,226**	**51,226**
Other comprehensive loss for the year	**-**	**-**	**(308)**	**-**	**(308)**
Total comprehensive income for the year	**-**	**-**	**(308)**	**51,226**	**50,918**
Transfer to statutory reserve (Note 17)	**-**	**5,123**	**-**	**(5,123)**	**-**
Balance at 31 December 2024	**375,000**	**69,349**	**(472)**	**157,004**	**600,881**

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

STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	Notes	*2024* **AED'000**	*2023* *AED'000*
Cash flows from operating activities			
Profit before tax		**48,980**	51,937
Adjustments for:			
Allowance for expected credit losses, net	19	**3,524**	10,039
Amortisation of premium/discounts on investment securities, net		**111**	(110)
Depreciation and amortization	18	**1,658**	1,101
Provision for employees' end-of-service benefits	16(i)	**1,172**	1,007
Revaluation gain		**(10)**	(1,862)
Operating profit before changes in operating assets and liabilities		**55,435**	62,112
Increase in cash reserve with the Central Bank of the UAE		**(11,818)**	(6,819)
Decrease/ (increase) in due from related parties		**18,362**	(18,362)
(Increase)/decrease in deposits and balances due from banks and financial institutions		**(134,970)**	34,576
Decrease/ (increase) in loans and advances to customers		**9,881**	(113,582)
Increase in other assets		**(1,859)**	(3,117)
Increase/ (decrease) in customers' deposits		**26,065**	(57,941)
Increase/(decrease) in other liabilities		**20,917**	(5,761)
Cash used in operations		**(17,987)**	(108,894)
Taxes paid	20	**(2,815)**	-
Employees' end-of-service benefits paid	16(i)	**(408)**	(1,008)
Net cash used in operating activities		**(21,210)**	(109,902)
Cash flows from investing activities			
Purchase of property and equipment	12	**(187)**	(546)
Purchase of intangible assets	13	**(764)**	(1,794)
Purchase of investment securities		**(91,812)**	(18,585)
Proceeds from maturity/disposal of investment securities		**37**	-
Net cash used in investing activities		**(92,726)**	(20,925)
Decrease in cash and cash equivalents		**(113,936)**	(130,827)
Cash and cash equivalents at 1 January		**528,132**	658,959
Cash and cash equivalents at 31 December	21	**414,196**	528,132

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. AlRayan Bank is the 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. The principal activities of the Bank are retail and commercial banking. The activities of the Bank are carried out through its Branches in United Arab Emirates.

Approval of the financial statements
The financial statements were approved and authorized for issue on 27 March 2025.

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with IFRS Accounting Standards 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' 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 and financial assets at fair value through other comprehensive income, which have been measured at fair value.

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

a. New and amended standards and interpretations

The Branches applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2024 (unless otherwise stated). The Branches have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback

The amendments in IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

The amendments had no impact on the Branches' financial statements.

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

a. New and amended standards and interpretations (continued)

Amendments to IAS 1 - Classification of Liabilities as Current or Non-current

The amendments to IAS 1 specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification In addition, an entity is required to disclose when a liability arising from a loan agreement is classified as non-current and the entity's right to defer settlement is contingent on compliance with future covenants within twelve months.

The amendments had no impact on the Branches' financial statements.

Supplier Finance Arrangements - Amendments to IAS 7 and IFRS 7

The amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

The amendments had no impact on the Branches' financial statements.

b. Standards issued but not yet effective

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 new and amended standards and interpretations, if applicable, when they become effective.

Amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7
On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed
- Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments
- The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI)

The amendments are effective for annual periods starting on or after 1 January 2026. Early adoption is permitted, with an option to early adopt the amendments for classification of financial assets and related disclosures only. The Branches are currently not intending to early adopt the amendments.

Lack of exchangeability – Amendments to IAS 21
In August 2023, the IASB issued amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates to specify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking. The amendments also require disclosure of information that enables users of its financial statements to understand how the currency not being exchangeable into the other currency affects, or is expected to affect, the entity's financial performance, financial position and cash flows.

3. Application of new and revised International Financial Reporting Standards (“IFRSs”) (continued)

b. Standards issued but not yet effective (continued)

Lack of exchangeability – Amendments to IAS 21 (continued)
The amendments will be effective for annual reporting periods beginning on or after 1 January 2025. Early adoption is permitted, but will need to be disclosed. When applying the amendments, an entity cannot restate comparative information.

The amendments are not expected to have a material impact on the Branches’ financial statements.

IFRS 18 Presentation and Disclosure in Financial Statements
In April 2024, the IASB issued IFRS 18, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new.

It also requires disclosure of newly defined management-defined performance measures, subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified ‘roles’ of the primary financial statements (PFS) and the notes.

In addition, narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from ‘profit or loss’ to ‘operating profit or loss’ and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards IFRS 18, and the amendments to the other standards, is effective for reporting periods beginning on or after 1 January 2027, but earlier application is permitted and must be disclosed. IFRS 18 will apply retrospectively.

The Branches are currently working to identify all impacts the amendments will have on the primary financial statements and notes to the financial statements.

4. Material accounting policy information

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

Financial instruments

Classification and measurement
The Branches classify their 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 classify their financial liabilities at amortised cost unless they have has designated liabilities at fair value through profit or loss are 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.

4. Material accounting policy information (continued)

Financial instruments (continued)

Classification and measurement (continued)

Financial assets measured at fair value through other comprehensive income **(continued)**
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 securities 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.

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.

4. Material accounting policy information (continued)

Financial instruments (continued)

Classification and measurement (continued)

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 apply 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 to customers;
- 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.

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 define a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

The Branches assess, 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 have performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

4. Material accounting policy information (continued)

Impairment of financial assets (continued)

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 year-end assumptions used for ECL estimate are disclosed in Note 27. 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.

Derecognition of financial assets and liabilities
The Branches derecognise a financial asset when the contractual rights to the cash flows from the financial asset expires, or they transfer 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 transfer nor retain substantially all of the risks and rewards or ownership and they do 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 enter into transactions whereby they transfer assets recognised on their consolidated statement of financial position, but retain 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 retain nor transfer substantially all of the risks and rewards of ownership of a financial asset and they retain control over the asset, the Branches continue to recognise the asset to the extent of their continuing involvement, determined by the extent to which they are exposed to changes in the value of the transferred asset. The Branches derecognise a financial liability when their contractual obligations are discharged or cancelled, or expired.

4. Material accounting policy information (continued)

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.

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.

4. Material accounting policy information (continued)

Property and equipment (continued)
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.

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 the relevant local laws and regulations applicable to U.A.E. citizens.

4. Material accounting policy information (continued)

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 other 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 choose to carry the liabilities at fair value through the statement of profit or loss. Amortised cost is calculated by taking into account any discount or premium on settlement.

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.

4. Material accounting policy information (continued)

Documentary credits (continued)
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 assess 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 apply a single recognition and measurement approach for all leases where they are the lessee, except for short-term leases and leases of low-value assets. The Branches recognise 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 recognise 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 are 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.

Lease liabilities
At the commencement date of the lease, the Branches recognise 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 use 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 their 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). They also apply 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 have 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, they consider all relevant factors that create an economic incentive for their to exercise the renewal. After the commencement date, the Branches reassess the lease term if there is a significant event or change in circumstances that is within their control and affects their 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.

4. Material accounting policy information (continued)

Derivatives (continued)
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.

The Bank deals with derivative instrument i.e Interest rate swaps used for hedging purpose. The details of the derivative financial instruments are disclosed in Note 27.

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:

Business model assessment
The Branches make 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.

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

Assessment whether contractual cash flows are solely payments of principal and interest (continued)
In assessing whether the contractual cash flows are solely payments of principal and interest ("the SPPI test"), the Branches consider 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 consider 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.

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

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

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

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

Useful lives of property and equipment and intangible assets
The cost of property and equipment and intangible assets is depreciated/ amortised over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

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

Tax liabilities and deferred tax assets

Deductions for loan impairments for UAE tax purposes generally occur when the impaired loan is specifically approved for deduction by UAE tax authority, written off, or if earlier, when the impaired loan is sold. The tax deduction often occurs in periods subsequent to that in which the impairment is recognised for accounting purposes.

As a result, the amount of the associated deferred tax asset should generally move in line with the impairment allowance balance.

Deferred tax assets and liabilities are recorded using substantially enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities. Based on available evidence, it is assessed whether it is probable that all or a portion of the deferred tax assets will be realised, or will not be realised. The main factors which are considered include future earnings potential; cumulative losses in recent years; tax-planning strategies that would, if necessary, be implemented, and the nature of the income that can be used to realize the deferred tax asset.

Employees' end of service benefits

The Branches carried provision for employees end of service benefits based on applicable laws and regulations. The management has determined that provision for employees end of service benefits using actuarial valuation would not be significantly different than carrying amount as the net impact of increase in salaries and discount rate would not be material.

Going concern

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

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

	2024	*2023*
	AED'000	*AED'000*
Cash on hand	**7,071**	8,285
Balances with the Central bank of the U.A.E.		
Current accounts	**28,856**	7,020
Statutory reserve (*)	**58,217**	46,399
Overnight deposit facility	**310,000**	390,000
	404,144	451,704

(*) 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 of AED 909 thousand for the year ended 31 December 2024 (2023: AED 992 thousand).

Balances with related parties included in the statement of financial position are as follows:

	2024	*2023*
	AED'000	*AED'000*
Due from related parties		
Current accounts		
Ultimate Parent Company	**452**	475
Head Office	**27,099**	69,479
Term placement / deposit		
Head Office*	**19,077**	38,653
	46,628	108,607

* Term placement/deposit with the Head Office has a residual maturity of less than 3 months and carries an interest rate of 2.91% p.a. (2023: 4.69% p.a.).

	2024	*2023*
	AED'000	*AED'000*
Due to related parties		
Current accounts		
Ultimate Parent Company	**5,640**	4,073
Head Office	**825**	761
	6,465	4,834
Term borrowing / deposit		
Head Office	**-**	12,854
	6,465	17,688

7. Related parties balances and transactions (continued)

Related party transactions included in the statement of profit or loss for the year are as follows:

	2024	*2023*
	AED'000	*AED'000*
Interest income	**3,463**	5,092
Interest expense	**754**	53
Head Office charges (Note 18)	**909**	992
Key management personnel compensation:		
Salaries, bonuses and other benefits	**2,390**	3,069

8. Deposits and balances due from banks and financial institutions

	2024	*2023*
	AED'000	*AED'000*
Due from banks and financial institutions outside the U.A.E.	**219,296**	76,113
Due from banks and financial institutions in the U.A.E.	**18,617**	134,743
	237,913	210,856
Less: Allowance for impairment – net, as per note 19	**(4,393)**	(2,253)
	233,520	208,603

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 2024	**192,366**	**18,490**	**-**	**210,856**
Transfer to Stage 1	**18,362**	**(18,362)**	**-**	**-**
Transfer to Stage 2	**(18,362)**	**18,362**	**-**	**-**
New assets originated or purchased	**143,313**	**42**	**-**	**143,355**
Assets derecognized or repaid	**(116,298)**	**-**	**-**	**(116,298)**
At 31 December 2024	**219,381**	**18,532**	**-**	**237,913**
ECL allowance at 1 January 2024	**1,846**	**407**	**-**	**2,253**
Transfer to Stage 1	**294**	**(294)**	**-**	**-**
Transfer to Stage 2	**(376)**	**376**	**-**	**-**
New ECL originated or purchased	**2,157**	**36**	**-**	**2,193**
ECL derecognized or repaid	**(53)**	**-**	**-**	**(53)**
Allowance for impairment – net, as per note 19	**3,868**	**525**	**-**	**4,393**
Closing balance on 31 December 2024	**215,513**	**18,007**	**-**	**233,520**

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

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Gross exposure at 1 January 2023	187,683	55,567	-	243,250
New assets originated or purchased	85,488	6	-	85,494
Assets derecognized or repaid	(80,805)	(37,083)	-	(117,888)
At 31 December 2023	192,366	18,490	-	210,856
ECL allowance at 1 January 2023	1,028	3,178	-	4,206
New ECL originated or purchased	820	77	-	897
ECL derecognized or repaid	(2)	(1,011)	-	(1,013)
Foreign exchange differences	-	(1,837)	-	(1,837)
Allowance for impairment – net, as per note 19	1,846	407	-	2,253
Closing balance on 31 December 2023	190,520	18,083	-	208,603

9. Investment securities

	2024	*2023*
	AED'000	*AED'000*
Investments at FVOCI	**72,630**	70,879
Investments at amortized cost	**164,653**	73,174
	237,283	144,053
Less: Allowance for impairment – net, as per note 19	**(14,282)**	(15,280)
	223,001	128,773

Gross investment securities by geographic concentration are as follows:

	2024	*2023*
	AED'000	*AED'000*
Within the U.A.E.	**109,357**	89,224
Outside the U.A.E.	**127,926**	54,829
	237,283	144,053

9. Investment securities (continued)

Investment securities as at 31 December 2024 and 2023 represent the Branches' investments in the government and public sector.

The analysis of gross investment 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 2024	**107,586**	**36,244**	**223**	**144,053**
New assets originated or purchased	**93,325**	**128**	**-**	**93,453**
Assets derecognized or repaid	**-**	**-**	**(223)**	**(223)**
At 31 December 2024	**200,911**	**36,372**	**-**	**237,283**
ECL allowance at 1 January 2024	**192**	**14,865**	**223**	**15,280**
New ECL originated or purchased	**163**	**-**	**-**	**163**
ECL derecognized or repaid	**-**	**(938)**	**(223)**	**(1,161)**
Allowance for impairment – net, as per note 19	**355**	**13,927**	**-**	**14,282**
Closing balance on 31 December 2024	**200,556**	**22,445**	**-**	**223,001**

	Stage 1	*Stage 2*	*Stage 3*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*
Gross exposure at 1 January 2023	125,235	-	-	125,235
Transfer to stage 2	(36,116)	36,116	-	-
New assets originated or purchased	18,467	128	223	18,818
At 31 December 2023	107,586	36,244	223	144,053
ECL allowance at 1 January 2023	158	-	-	158
Transfer to stage 2	(153)	153	-	-
New ECL originated or purchased	187	14,712	223	15,122
Allowance for impairment – net, as per note 19	192	14,865	223	15,280
Closing balance on 31 December 2023	107,394	21,379	-	128,773

10. Loans and advances to customers

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

	2024	*2023*
	AED'000	*AED'000*
Loans and advances	**456,280**	466,848
Less: Allowance for impairment – net, as per note 19	**(49,436)**	(47,941)
	406,844	418,907

At 31 December 2024, the fair value of collateral held against loans and advances to customers was AED 607 million (2023: AED 531 million) an analysis of which is provided in Note 27.

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

	2024	*2023*
	AED'000	*AED'000*
At 1 January	**47,941**	50,022
Impairment allowance for the year	**7,997**	7,377
Amounts written off during the year	**(4,809)**	(69)
Recoveries during the year	**(1,693)**	(9,389)
At 31 December	**49,436**	47,941

Impairment allowance for the year includes AED 4.2 million of suspended interest (2023: AED 4.5 million) and AED 0.03 million recoveries of suspended interest during the year (2023: AED 0.75 million).

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

	2024	*2023*
	AED'000	*AED'000*
Corporate lending	**274,589**	273,476
Small business lending	**102,950**	108,334
Retail lending	**78,741**	85,038
	456,280	466,848

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

	2024	*2023*
	AED'000	*AED'000*
Within the U.A.E.	**344,884**	360,234
Outside the U.A.E.	**111,396**	106,614
	456,280	466,848

10. Loans and advances to customers (continued)

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

	2024 AED'000	*2023 AED'000*
Real estate	**134,198**	142,140
Services	**127,393**	134,596
Government	**91,813**	91,813
Financial institutions	**53,767**	46,811
Manufacturing	**16,992**	16,880
Wholesale and retail trade	**19,334**	24,075
Construction	**10,207**	7,952
Personal loans	**2,576**	2,581
	456,280	466,848

f) Gross loans and advances and their related ECL allowances 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 2024	**247,092**	**188,438**	**31,318**	**466,848**
Transfer to Stage 2	**(1,909)**	**1,909**	**-**	**-**
Transfer to Stage 3	**-**	**(1,706)**	**1,706**	**-**
New assets originated or purchased	**9,364**	**3,211**	**3,760**	**16,335**
Assets derecognised or repaid	**(16,369)**	**(5,309)**	**(5,225)**	**(26,903)**
At 31 December 2024	**238,178**	**186,543**	**31,559**	**456,280**
ECL allowance at 1 January 2024	**2,358**	**14,265**	**31,318**	**47,941**
Transfer to Stage 2	**(3)**	**3**	**-**	**-**
Transfer to Stage 3	**-**	**(400)**	**400**	**-**
New ECL originated or purchased	**424**	**1,545**	**5,066**	**7,035**
ECL derecognised or repaid	**(315)**	**-**	**(5,225)**	**(5,540)**
Allowance for impairment – net, as per note 19	**2,464**	**15,413**	**31,559**	**49,436**
Closing balance on 31 December 2024	**235,714**	**171,130**	**-**	**406,844**

10. Loans and advances to customers (continued)

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Gross exposure at 1 January 2023	114,715	198,912	35,947	349,574
Transfer to Stage 2	(2,236)	2,236	-	-
Transfer to Stage 3	(24)	-	24	-
New assets originated or purchased	145,216	223	1,626	147,065
Assets derecognised or repaid	(10,579)	(12,933)	(6,279)	(29,791)
At 31 December 2023	247,092	188,438	31,318	466,848
ECL allowance at 1 January 2023	197	13,878	35,947	50,022
Transfer to Stage 2	(17)	17	-	-
New ECL originated or purchased	2,265	383	4,541	7,189
ECL derecognised or repaid	(87)	(13)	(9,170)	(9,270)
Allowance for impairment – net, as per note 19	2,358	14,265	31,318	47,941
Closing balance on 31 December 2023	244,734	174,173	-	418,907

11. Other assets

	2024 AED'000	*2023 AED'000*
Interest receivable	**8,762**	6,593
Prepaid expenses	**1,741**	1,427
Assets under acceptances (Note 16)	**351**	1,279
Fair value of derivatives	**485**	2,534
Others	**124**	748
	11,463	12,581

12. Property and equipment

	Office equipment AED'000	*Furniture and fittings AED'000*	*Vehicles AED'000*	*Leasehold improvements AED'000*	*Capital- work in progress AED'000*	*Total AED'000*
Cost						
At 1 January 2023	6,517	905	425	3,601	806	12,254
Additions during the year	534	12	-	-	-	546
Transfers	806	-	-	-	(806)	-
At 31 December 2023	7,857	917	425	3,601	-	12,800
Additions during the year	180	7	-	-	-	187
At 31 December 2024	**8,037**	**924**	**425**	**3,601**	**-**	**12,987**
Accumulated depreciation						
At 1 January 2023	6,383	905	425	2,372	-	10,085
Charge for the year	297	1	-	467	-	765
At 31 December 2023	6,680	906	425	2,839	-	10,850
Charge for the year	511	5	-	463	-	979
At 31 December 2024	**7,191**	**911**	**425**	**3,302**	**-**	**11,829**
Carrying amount						
At 31 December 2024	**846**	**13**	**-**	**299**	**-**	**1,158**
At 31 December 2023	1,177	11	-	762	-	1,950

13. Intangible assets

	Software AED'000	*Work-in-progress AED'000*	*Total AED'000*
Cost			
At 1 January 2023	19,180	176	19,356
Additions	1,602	192	1,794
Transfers	176	(176)	-
At 31 December 2023	20,958	192	21,150
Additions	438	326	764
Transfers	16	(16)	-
At 31 December 2024	**21,412**	**502**	**21,914**
Accumulated amortization			
At 1 January 2023	19,029	-	19,029
Charge for the year	336	-	336
At 31 December 2023	19,365	-	19,365
Charge for the year	679	-	679
At 31 December 2024	**20,044**	-	**20,044**
Carrying amount			
At 31 December 2024	**1,368**	**502**	**1,870**
At 31 December 2023	1,593	192	1,785

14. Deposits and balances due to banks and financial institutions

(a) The analysis of the due to banks and financial institutions as at 31 December 2024 and 2023 is as follows:

	2024 AED'000	*2023 AED'000*
Current accounts	**1,640**	2,388
Borrowings*	**-**	85,000
	1,640	87,388

* This balance carries an annual interest rate of 6.0% and matures in January 2024.

(b) The geographical analysis of the due to banks and financial institutions as at 31 December 2024 and 2023 is as follows:

	2024 AED'000	*2023 AED'000*
Due to banks and financial institutions outside the U.A.E.	**1,640**	2,388
Due to banks and financial institutions inside the U.A.E.	**-**	85,000
	1,640	87,388

15. Customers' deposits

By type:

	2024 AED'000	*2023 AED'000*
Current accounts	**329,288**	302,321
Saving accounts	**16,758**	16,739
Time deposits	**290,247**	277,349
Margin accounts	**42,463**	56,282
	678,756	652,691

Time deposits held under lien as security for loans and advances (funded and unfunded) as at 31 December 2024 amounted to AED 90 million (2023: AED 88 million).

By geographical area:

	2024 AED'000	*2023 AED'000*
Within the U.A.E.	**645,171**	625,407
Outside the U.A.E.	**33,585**	27,284
	678,756	652,691

16. Other liabilities

	2024 AED'000	*2023 AED'000*
Settlement and clearing accounts	**23,284**	3,916
Provision for employees' end-of-service benefits (i)	**8,299**	7,535
Liabilities under acceptances (Note 11)	**351**	1,279
Interest payable	**1,966**	1,750
Impairment loss allowance on commitments and financial guarantees (Note 19)(ii)	**2,655**	2,641
Income tax provision (Note 20)	**11,876**	2,784
Other	**6,608**	5,275
	55,039	25,180

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

	2024 AED'000	*2023 AED'000*
Balance at 1 January	**7,535**	7,536
Charge for the year	**1,172**	1,007
Payments during the year	**(408)**	(1,008)
Balance at 31 December	**8,299**	7,535

16. Other liabilities (continued)

ii) Movement of the impairment loss allowance on commitments and financial guarantees is as follows:

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
ECL allowance at 1 January 2024	**545**	**317**	**1,779**	**2,641**
Transfer to Stage 2	**(111)**	**111**	**-**	**-**
New ECL originated or purchased during year	**105**	**353**	**124**	**582**
ECL derecognised or repaid	**(376)**	**(192)**	**-**	**(568)**
ECL allowance at 31 December 2024	**163**	**589**	**1,903**	**2,655**

	Stage 1 AED'000	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
ECL allowance at 1 January 2023	132	225	1,477	1,834
Transfer to Stage 1	25	(25)	-	-
Transfer to Stage 3	-	(101)	101	-
New ECL originated or purchased during year	388	218	201	807
ECL allowance at 31 December 2023	545	317	1,779	2,641

17. Assigned capital and statutory reserve

(a) Assigned capital

The Branches maintained assigned capital of AED 375,000 thousand as at 31 December 2024 and 2023.

(b) Statutory reserve

In accordance with UAE Federal Decree Law No. (32) of 2021, 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

	2024 AED'000	*2023 AED'000*
Salaries and employees related expenses	**15,197**	14,619
Depreciation and amortization (Note 12 & 13)	**1,658**	1,101
Head Office charges (Note 7)	**909**	992
Other	**9,965**	8,555
	27,729	25,267

19. Allowance for expected credit losses, net

a. The following tables show reconciliation of the opening to the closing balance of the loss allowance by class of financial instrument 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.

2024	***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	**47,941**	**15,280**	**2,641**	**2,253**	**68,115**
Impairment charge for the year	**3,842**	**509**	**1,114**	**2,744**	**8,209**
Reversal of impairment allowance	**(777)**	**(1,322)**	**(1,100)**	**(604)**	**(3,803)**
Recoveries during the year	**(882)**	**-**	**-**	**-**	**(882)**
Allowance for impairment, net	**2,183**	**(813)**	**14**	**2,140**	**3,524**
Interest in suspense	**4,155**	**-**	**-**	**-**	**4,155**
Interest in suspense recovered	**(34)**	**-**	**-**	**-**	**(34)**
Amounts written off during the year	**(4,809)**	**-**	**-**	**-**	**(4,809)**
Sub-total	**49,436**	**14,467**	**2,655**	**4,393**	**70,951**
Currency revaluation	**-**	**(185)**	**-**	**-**	**(185)**
Total allowance for impairment	**49,436**	**14,282**	**2,655**	**4,393**	**70,766**

2023	*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	50,022	158	1,834	4,206	56,220
Impairment charge for the year	2,860	15,574	1,454	818	20,706
Reversal of impairment allowance	(288)	(452)	(647)	(934)	(2,321)
Recoveries during the year	(8,346)	-	-	-	(8,346)
Allowance for impairment, net	(5,774)	15,122	807	(116)	10,039
Interest in suspense	4,517	-	-	-	4,517
Interest in suspense recovered	(755)	-	-	-	(755)
Amounts written off during the year	(69)	-	-	-	(69)
Sub-total	47,941	15,280	2,641	4,090	69,952
Currency revaluation	-	-	-	(1,837)	(1,837)
Total allowance for impairment	47,941	15,280	2,641	2,253	68,115

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

19. Allowance for impairment, net (continued)

The Central Bank of UAE issued its IFRS 9 guidance addressing various implementation challenges and practical implications for Banks adopting IFRS 9 in the UAE.

Also, the regulation specifies that the Impairment Reserve: General shall be allowed to be included in regulatory capital up to a maximum of 1.5% of risk weighted assets as per Basel, where this is not already utilized.

Pursuant to clause 9.21 of the guidance, the reconciliation between general and specific provision under Circular 3/2024 of CBUAE and IFRS 9 is as follows:

	2024	*2023*
	AED'000	*AED'000*
Impairment reserve: General		
General provisions under Circular 3/2024 of CBUAE	**9,360**	7,934
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(37,304)**	(34,795)
General provision transferred to the regulatory impairment reserve	**-**	**-**

	2024	*2023*
	AED'000	*AED'000*
Impairment reserve: Specific		
Specific provisions under Circular 3/2024 of CBUAE	**33,462**	33,320
Less: Stage 3 provisions under IFRS 9	**(33,462)**	(33,320)
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 requirements, no amount shall be transferred to the impairment reserve.

20. Income tax - net

UAE Corporate Tax Law
On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime has become effective for accounting periods beginning on or after 1 June 2023. The Cabinet of Ministers Decision No. 116 of 2022 (widely accepted to be effective from 16 January 2023) specified the threshold of taxable income to which the 0% UAE CT rate would apply, and above which the 9% UAE CT rate would apply. It is widely considered that this would constitute 'substantive enactment' of the UAE CT Law for the purposes of IAS 12, the objective of which is to prescribe the basis for accounting for Income Taxes.

Current taxes should be measured at the amount expected to be paid to or recovered from the tax authorities by reference to tax rates and laws that have been enacted or substantively enacted, by the end of the any reporting period. Since the Branches are expected to pay tax in accordance with the provision of the UAE CT Law on its operational results with effect from 1 June 2023, current taxes have been accounted for in the financial statements for the period beginning from 1 January 2024.

Deferred taxes should be measured by reference to the tax rates and laws, as enacted, or substantively enacted, by the end of the reporting period, that are expected to apply in the periods in which the assets and liabilities to which the deferred tax relates are realized or settled. As the UAE CT Law is considered "substantive enactments" as at 9 December 2022, for the purposes of IAS 12, the Branches considered the application of IAS 12 and any requirements for the measurement and recognition of deferred taxes (if any) for the year ended 31 December 2024. Based on an assessment conducted by the Branch's management, there were temporary differences identified where the deferred tax was accounted for.

20. Income tax – net (continued)

The Branches are subject to taxation at the rate of 20% at Emirate level and 9% at Federal level 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:

(a) The components of income tax for the years ended 31 December 2024 and 2023 are as follows:

	2024 ***AED'000***	*2023* *AED'000*
In respect of the current year	**11,876**	2,784
In respect of the prior year	**31**	-
	11,907	2,784
Deferred tax	**(14,153)**	-
Total income tax (benefit) expense recognised in the current year	**(2,246)**	2,784

(b) The movements in the current income tax provision during the year were as follows:

	2024 ***AED'000***	*2023* *AED'000*
Balance at 1 January	**2,784**	-
Provided during the year	**11,907**	2,784
Paid during the year	**(2,815)**	-
Balance at 31 December (Note 16)	**11,876**	2,784

(c) Below is the reconciliation of tax (benefit) expense and the accounting profit multiplied by the Branches' statutory tax rate for the year:

	2024 ***AED'000***	*2023* *AED'000*
Accounting profit before tax	**48,980**	51,937
At United Arab Emirates' statutory income tax rate of 29% (2023: 20%)	**14,204**	10,387
Federal tax credit – Emirate of Dubai	**(2,878)**	-
Deferred tax assets from prior year recognized in current year	**(13,585)**	-
Effect of standard deduction	**(34)**	-
Adjustment of carry forward tax losses	**-**	(10,318)
Other adjustments	**47**	2,715
Income tax (benefit) expense for the year	**(2,246)**	2,784
Effective tax rate	**-**	5.36%

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. During the year 2024, management has assessed that the taxable profits realized by the Branches improved significantly and will be recoverable as allowed by the Tax Authorities in UAE; and therefore, management has recognized deferred tax assets on subject provisions amounting to AED 14.2 million as at 31 December 2024.

20. Income tax – net (continued)

(d) Deferred tax is reflected in the statement of financial position as follows:

	2024 AED'000	*2023 AED'000*
Non-current assets		
Deferred tax asset	**14,153**	-
Non-current liability		
Deferred tax liability	-	-
Deferred tax assets (net)	**14,153**	-

21. Cash and cash equivalents

	2024 AED'000	*2023 AED'000*
Cash and balances with the Central Bank of the U.A.E.	**35,927**	15,305
Cash reserves and deposits with the Central Bank of the U.A.E.	**368,217**	436,399
Due from related parties	**46,628**	90,244
Due from banks and financial institutions	**29,746**	137,659
	480,518	679,607
Due to related parties	**(6,465)**	(17,688)
Due to banks and financial institutions	**(1,640)**	(87,388)
Statutory reserve with the Central Bank of the UAE	**(58,217)**	(46,399)
Total cash and cash equivalents	**414,196**	528,132

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

	31 December 2024			*31 December 2023*		
	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.	**833,781**	**1,279,173**	**246,167**	983,945	1,257,649	262,638
Other Middle East countries	**260,777**	**43,529**	**4,670**	134,622	35,132	3,000
O.E.C.D.*	**192,361**	**14,737**	-	129,668	33,991	-
Other	**55,862**	**5,342**	-	84,675	6,138	8,277
Total	**1,342,781**	**1,342,781**	**250,837**	1,332,910	1,332,910	273,915
Industry sector						
Government and public sector	**678,765**	**29,771**	-	665,683	27,637	-
Commercial and business	**185,336**	**495,469**	**246,141**	199,096	481,786	269,665
Personal	**78,594**	**186,178**	**489**	84,425	194,415	393
Financial institutions	**377,876**	**56,025**	**4,207**	369,229	151,420	3,857
Other	**22,210**	**575,338**	-	14,477	477,652	-
Total	**1,342,781**	**1,342,781**	**250,837**	1,332,910	1,332,910	273,915

** 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:

	Amortised cost 2024 AED'000	***FVOCI 2024 AED'000***	*Amortised cost 2023 AED'000*	*FVOCI 2023 AED'000*
Financial assets				
Cash and balances with the Central Bank of the U.A.E.	**404,144**	**-**	451,704	-
Due from related parties	**46,628**	**-**	108,607	-
Due from banks and financial institutions	**233,520**	**-**	208,603	-
Investment securities	**163,846**	**72,630**	67,792	70,879
Loans and advances to customers	**406,844**	**-**	418,907	-
Other assets	**8,886**	**-**	7,341	-
Total	**1,263,868**	**72,630**	1,262,954	70,879
Financial liabilities				
Due to banks and financial institutions	**1,640**	**-**	87,388	-
Customers' deposits	**678,756**	**-**	652,691	-
Due to related parties	**6,465**	**-**	17,688	-
Other liabilities	**2,317**	**-**	3,029	-
Total	**689,178**	**-**	760,796	-

In addition to the above, the Branches carry derivative financial assets amounting to AED 485 thousand as at 31 December 2024 (2023: AED 2,534 thousand) which are classified at fair value through profit or loss (FVPL).

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***
2024				
Assets				
Cash and balances with the Central Bank of the U.A.E.	**345,927**	**-**	**58,217**	**404,144**
Due from related parties	**46,628**	**-**	**-**	**46,628**
Deposits and balances due from banks and financial institutions	**42,550**	**99,158**	**91,812**	**233,520**
Investment securities	**72,630**	**-**	**150,371**	**223,001**
Loans and advances to customers	**83,395**	**30,654**	**292,795**	**406,844**
Other assets	**11,463**	**-**	**-**	**11,463**
Property and equipment	**-**	**-**	**1,158**	**1,158**
Deferred tax assets	**-**	**-**	**14,153**	**14,153**
Intangible assets	**-**	**-**	**1,870**	**1,870**
Total assets	**602,593**	**129,812**	**610,376**	**1,342,781**
Liabilities and equity				
Due to banks and financial institutions	**1,640**	**-**	**-**	**1,640**
Customers' deposits	**606,364**	**72,392**	**-**	**678,756**
Due to related parties	**6,465**	**-**	**-**	**6,465**
Other liabilities	**46,467**	**105**	**8,467**	**55,039**
Equity	**-**	**-**	**600,881**	**600,881**
Total liabilities and equity	**660,936**	**72,497**	**609,348**	**1,342,781**

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2023				
Assets				
Cash and balances with the Central Bank of the U.A.E.	405,305	-	46,399	451,704
Due from related parties	108,607	-	-	108,607
Deposits and balances due from banks and financial institutions	135,407	54,834	18,362	208,603
Investment securities	-	-	128,773	128,773
Loans and advances to customers	77,731	14,803	326,373	418,907
Other assets	8,419	1,735	2,427	12,581
Property and equipment	-	-	1,950	1,950
Intangible assets	-	-	1,785	1,785
Total assets	735,469	71,372	526,069	1,332,910
Liabilities and equity				
Due to banks and financial institutions	87,388	-	-	87,388
Customers' deposits	586,290	66,401	-	652,691
Due to related parties	17,688	-	-	17,688
Other liabilities	16,999	530	7,651	25,180
Equity	-	-	549,963	549,963
Total liabilities and equity	708,365	66,931	557,614	1,332,910

24. Liquidity profile (continued)

(b) 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 AED'000*	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2024					
Financial liabilities					
Due to banks and financial institutions	**4.62**	**1,640**	**-**	**-**	**1,640**
Customers' deposits	**1.44**	**608,069**	**73,987**	**-**	**682,056**
Due to related parties	**3.75**	**6,465**	**-**	**-**	**6,465**
Other liabilities*	**-**	**45,076**	**104**	**8,467**	**53,647**
Total		**661,250**	**74,091**	**8,467**	**743,808**
2023					
Financial liabilities					
Due to banks and financial institutions	4.73	87,799	-	-	87,799
Customers' deposits	0.72	587,521	67,675	-	655,196
Due to related parties	0.57	17,765	-	-	17,765
Other liabilities*	-	16,181	180	7,651	24,012
Total		709,266	67,855	7,651	784,772

*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.

		Fair value			
	Carrying amount AED'000	***Level 1 AED'000***	***Level 2 AED'000***	***Level 3 AED'000***	***Total AED'000***
2024					
Financial assets					
Investments at amortized cost	**150,371**	**163,846**	**-**	**-**	**163,846**
Investments at FVOCI	**72,630**	**72,630**	**-**	**-**	**72,630**
Derivative financial instruments (FVPL)	**485**	**485**	**-**	**-**	**485**

		Fair value			
	Carrying amount AED'000	*Level 1 AED'000*	*Level 2 AED'000*	*Level 3 AED'000*	*Total AED'000*
2023					
Financial assets					
Investments at amortized cost	57,894	67,568	-	-	67,568
Investments at FVOCI	70,879	70,879	-	-	70,879
Derivative financial instruments (FVPL)	2,534	2,534	-	-	2,534

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 2024 and 2023, the Branches complied in full with all its externally imposed capital requirements.

During the years ended 31 December 2024 and 2023, 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 are computing and reporting Basel III ratios in accordance with guidelines of the Central Bank of U.A.E.

26. Capital management (continued)

Regulatory capital (continued)

Minimum capital requirement (continued)

The Branches' regulatory capital position is as follows:

	2024	*2023*
	AED'000	*AED'000*
Tier 1 capital		
Assigned capital	**375,000**	375,000
Statutory reserve	**69,349**	64,226
Retained earnings	**157,004**	110,901
Less: Regulatory adjustments	**(2,342)**	(1,949)
Total	**599,011**	548,178
Tier 2 capital		
Eligible stage 1 and stage 2 provision (max 1.25% of CRWA under standardised approach)	**9,605**	7,934
Total capital base	**608,616**	556,112
Risk-weighted assets		
Credit risk	**768,386**	634,748
Market risk	**788**	495
Operational risk	**138,469**	114,125
Total risk-weighted assets	**907,643**	749,368
Capital adequacy ratio	**67.05%**	74.21%
CET 1 Ratio	**66.00%**	73.15%

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 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 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) Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
iv) Actual or expected significant changes in the operating results of the customer;
v) Significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer.

27. Risk management (continued)

Credit risk management (continued)

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.

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.

27. Risk management (continued)

Credit risk management (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.

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 2024 and 31 December 2024, 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 2024 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 - 2024	**Scenario**	**Assigned probabilities**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Gross domestic product, constant prices (% change)	Base case	65.0%	4.0	5.1	5.1	4.7	4.4	4.3
	Upside	11.2%	6.0	7.1	7.1	6.8	6.5	6.4
	Downside	23.8%	2.0	3.1	3.2	2.9	2.6	2.6
General government revenue (% of GDP)	Base case	65.0%	28.3	28.0	27.8	27.6	27.5	27.5
	Upside	11.2%	31.9	31.5	31.1	30.8	30.6	30.5
	Downside	23.8%	24.1	23.5	23.1	22.7	22.5	22.3
Current account balance (% of GDP)	Base case	65.0%	8.8	8.2	8.0	7.3	6.6	6.4
	Upside	11.2%	14.0	13.3	12.9	12.1	11.2	10.8
	Downside	23.8%	3.5	2.9	2.5	1.7	0.9	0.6

The weightings assigned to each economic scenario at 31 December 2024 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)

Credit 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 2024			*31 December 2023*		
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*
Interest rate swaps	**485**	**-**	**485**	2,534	-	2,534
Total	**485**	**-**	**485**	2,534	-	2,534

Notional amounts of derivative financial instruments amounted to AED 73.5 million as at 31 December 2024 (2023: AED 73.5 million).

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 2024. The following table sets out information about the credit quality of financial assets, commitments and financial guarantees.

27. Risk management (continued)

Credit risk management (continued)

Credit quality (continued)

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***2024 Total AED'000***	*2023 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-	**404,513**	**-**	**-**	**404,513**	443,419
A+ to A-	**4,158**	**-**	**-**	**4,158**	87,941
BBB to BBB-	**127,687**	**-**	**-**	**127,687**	49,579
BB+ to B-	**80,549**	**-**	**-**	**80,549**	73,252
Unrated*	**46,175**	**18,532**	**-**	**64,707**	108,691
Total	**663,082**	**18,532**	**-**	**681,614**	762,882
Expected credit losses – IFRS 9	**(3,868)**	**(525)**	**-**	**(4,393)**	(2,253)
Carrying amount	**659,214**	**18,007**	**-**	**677,221**	760,629

*Externally unrated are internally rated by the Bank

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***2024 Total AED'000***	*2023 Total AED'000*
Loans and advances to customers					
BB+ to B-	**145,580**	**-**	**-**	**145,580**	138,623
Unrated*	**92,598**	**186,543**	**31,559**	**310,700**	328,225
Total	**238,178**	**186,543**	**31,559**	**456,280**	466,848
Expected credit losses – IFRS 9	**(2,464)**	**(15,413)**	**(31,559)**	**(49,436)**	(47,941)
Carrying amount	**235,714**	**171,130**	**-**	**406,844**	418,907

*Externally unrated are internally rated by the Bank

27. Risk management (continued)

Credit risk management (continued)

Credit quality (continued)

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***2024 Total AED'000***	*2023 Total AED'000*
Investment securities					
AAA to AA-	**73,367**	**-**	**-**	**73,367**	18,344
A+ to A-	**72,630**	**-**	**-**	**72,630**	70,879
BBB to BBB-	**36,551**	**-**	**-**	**36,551**	-
BB+ to B-	**18,363**	**-**	**-**	**18,363**	18,363
Unrated*	**-**	**36,372**	**-**	**36,372**	36,467
Total	**200,911**	**36,372**	**-**	**237,283**	144,053
Expected credit losses – IFRS 9	**(355)**	**(13,927)**	**-**	**(14,282)**	(15,280)
Carrying amount	**200,556**	**22,445**	**-**	**223,001**	128,773

*Externally unrated are internally rated by the Bank

	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***2024 Total AED'000***	*2023 Total AED'000*
Financial commitments and guarantees					
A+ to A-	**350**	**-**	**-**	**350**	-
BB+ to B-	**1,320**		**-**	**1,320**	-
Unrated*	**149,688**	**92,072**	**7,407**	**249,167**	273,915
Total	**151,358**	**92,072**	**7,407**	**250,837**	273,915
Expected credit losses – IFRS 9	**(163)**	**(589)**	**(1,903)**	**(2,655)**	(2,641)
Carrying amount	**151,195**	**91,483**	**5,504**	**248,182**	271,274

*Externally unrated are internally rated by the Bank

27. Risk management (continued)

Credit risk management (continued)

Credit quality (continued)

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

	Due from banks and financial institutions		*Loans and advances to customers*		*Investment securities*	
	2024 AED'000	*2023 AED'000*	***2024 AED'000***	*2023 AED'000*	***2024 AED'000***	*2023 AED'000*
Impaired						
Doubtful	**-**	-	**8,643**	7,191	**-**	-
Loss	**-**	-	**22,916**	24,127	**-**	223
Gross amount	**-**	-	**31,559**	31,318	**-**	223
Interest suspended	**-**	-	**(12,791)**	(10,955)	**-**	-
Specific allowance for impairment	**-**	-	**(18,768)**	(20,363)	**-**	(223)
	-	-	**-**	-	**-**	-
Past due but not impaired						
Past due loans less than 30 days	**-**	-	**-**	2,116	**-**	-
	-	-	**-**	2,116	**-**	-
Neither past due nor impaired						
Gross amount	**237,913**	210,856	**424,721**	433,414	**237,283**	143,830
IFRS 9 allowance for impairment	**(4,393)**	(2,253)	**(17,877)**	(16,623)	**(14,282)**	(15,057)
	233,520	208,603	**406,844**	416,791	**223,001**	128,773
Carrying amount	**233,520**	208,603	**406,844**	418,907	**223,001**	128,773

Credit risk exposure of the Branches' loans and advances to customers as per the internal and external risk grade is as follows:

	2024 AED'000	*2023 AED'000*
Normal	**409,905**	416,817
OLEM	**14,816**	18,713
Doubtful	**8,643**	7,191
Loss	**22,916**	24,127
	456,280	466,848

27. Risk management (continued)

Credit 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 value of collaterals are monitored periodically as per the policy of Bank and as and 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 2024 or 2023.

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

Loans and advances to customers

	31-December-2024				*31-December-2023*			
	Stage 1 AED'000	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Property	**188,632**	**399,008**	**10,830**	**598,470**	180,637	326,875	16,038	523,550
Cash	**6,389**	**2,039**	**-**	**8,428**	5,964	1,007	-	6,971
Total	**195,021**	**401,047**	**10,830**	**606,898**	186,601	327,882	16,038	530,521

The Branch's internal credit rating grades for the year ended 31 December 2024:

ECL staging	***External rating description***	***Balances with UAE Central Bank AED'000***	***Contingencies and commitments* AED'000***	***Due from banks AED'000***	***Loans and advances AED'000***	***Investment securities AED'000***	***Due from related parties AED'000***	***Total AED'000***
Stage 1	AAA to B- or B3	**397,073**	**151,358**	**219,381**	**238,178**	**200,911**	**46,628**	**1,253,529**
Stage 2	Caa1 or CCC+ to CCC-	**-**	**92,072**	**18,532**	**186,543**	**36,372**	**-**	**333,519**
Stage 3	Ca or CC to D	**-**	**7,407**	**-**	**31,559**	**-**	**-**	**38,966**
Gross amount		**397,073**	**250,837**	**237,913**	**456,280**	**237,283**	**46,628**	**1,626,014**
Less provisions & interests in suspense		**-**	**(2,655)**	**(4,393)**	**(49,436)**	**(14,282)**	**-**	**(70,766)**
Net book value		**397,073**	**248,182**	**233,520**	**406,844**	**223,001**	**46,628**	**1,555,248**

**Includes the outstanding unutilised facilities as of 31 December 2024 amounted to AED 103 million (2023: AED 87 million).*

27. Risk management (continued)

Credit risk management (continued)

Credit quality (continued)
The Branch's internal credit rating grades for the year ended 31 December 2023:

ECL staging	*External rating description*	*Balances with UAE Central Bank AED'000*	*Contingencies and commitments* AED'000*	*Due from banks AED'000*	*Loans and advances AED'000*	*Investment securities AED'000*	*Due from related parties AED'000*	*Total AED'000*
Stage 1	AAA to B- or B3	443,419	185,988	192,366	247,092	107,586	108,607	1,285,058
Stage 2	Caa1 or CCC+ to CCC-	-	85,274	18,490	188,438	36,244	-	328,446
Stage 3	Ca or CC to D	-	2,653	-	31,318	223	-	34,194
Gross amount		443,419	273,915	210,856	466,848	144,053	108,607	1,647,698
Less provisions & interests in suspense		-	(2,641)	(2,253)	(47,941)	(15,280)	-	(68,115)
Net book value		443,419	271,274	208,603	418,907	128,773	108,607	1,579,583

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 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 customers:

		As at 31 December 2024		
Total restructured portfolio	***Stage 1 AED'000***	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Outstanding balance	**-**	**180,584**	**-**	**180,584**
Allowances for impairment (ECL)	**-**	**(15,383)**	**-**	**(15,383)**
Carrying amount	**-**	**165,201**	**-**	**165,201**

		As at 31 December 2023		
Total restructured portfolio	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Outstanding balance	-	185,797	-	185,797
Allowances for impairment (ECL)	-	(13,867)	-	(13,867)
Carrying amount	-	171,930	-	171,930

	As at 31-12-2024		*As at 31-12-2023*	
Total restructured portfolio during the year	***Post-modification AED'000***	***Pre-modification AED'000***	*Post-modification AED'000*	*Pre-modification AED'000*
Outstanding balance	**-**	**-**	168,791	178,425
Stage 1	**-**	**-**	-	-
Stage 2	**-**	**-**	-	-
Stage 3	**-**	**-**	168,791	178,425
Allowances for impairment (ECL)	**-**	**-**	(11,481)	(11,481)
Carrying amount	**-**	**-**	157,310	166,944

27. Risk management (continued)

Credit 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 AED'000	***Middle East countries AED'000***	***O.E.C.D AED'000***	***Other countries AED'000***	***Impairment allowance AED'000***	***Total AED'000***
At 31 December 2024						
Balances with the Central Bank of U.A.E. - excluding cash	**397,073**	**-**	**-**	**-**	**-**	**397,073**
Due from related parties	**-**	**452**	**46,176**	**-**	**-**	**46,628**
Deposits and balances due from banks and financial institutions	**18,617**	**19,151**	**145,057**	**55,088**	**(4,393)**	**233,520**
Loans and advances to customers	**344,884**	**111,396**	**-**	**-**	**(49,436)**	**406,844**
Investment securities	**109,357**	**127,926**	**-**	**-**	**(14,282)**	**223,001**
Other assets	**3,379**	**3,481**	**812**	**1,090**	**-**	**8,762**
Total exposure	**873,310**	**262,406**	**192,045**	**56,178**	**(68,111)**	**1,315,828**

	UAE AED'000	*Middle East countries AED'000*	*O.E.C.D AED'000*	*Other countries AED'000*	*Impairment allowance AED'000*	*Total AED'000*
At 31 December 2023						
Balances with the Central Bank of U.A.E. - excluding cash	443,419	-	-	-	-	443,419
Due from related parties	-	475	108,132	-	-	108,607
Deposits and balances due from banks and financial institutions	134,743	19,111	20,531	36,471	(2,253)	208,603
Loans and advances to customers	360,233	59,804	-	46,811	(47,941)	418,907
Investment securities	89,224	54,829	-	-	(15,280)	128,773
Other assets	2,163	2,032	1,005	1,392	-	6,592
Total exposure	1,029,782	136,251	129,668	84,674	(65,474)	1,314,901

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

Geographical sectors

	UAE AED'000	***Middle East countries AED'000***	***O.E.C.D AED'000***	***Other countries AED'000***	***Total AED'000***
At 31 December 2024					
Guarantees	**141,329**	**3,350**	**-**	**-**	**144,679**
Letters of credit	**3,058**	**-**	**-**	**-**	**3,058**
Unutilised credit facilities	**101,780**	**1,320**	**-**	**-**	**103,100**
Total exposure	**246,167**	**4,670**	**-**	**-**	**250,837**

27. Risk management (continued)

Credit risk management (continued)

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

Geographical sectors (continued)

	UAE AED'000	*Middle East countries AED'000*	*O.E.C.D AED'000*	*Other countries AED'000*	*Total AED'000*
At 31 December 2023					
Guarantees	177,125	3,000	-	-	180,125
Letters of credit	6,600	-	-	-	6,600
Unutilised credit facilities	78,913	-	-	8,277	87,190
Total exposure	262,638	3,000	-	8,277	273,915

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

	UAE AED'000	***Middle East countries AED'000***	***O.E.C.D AED'000***	***Other countries AED'000***	***Total AED'000***
2024					
Non-performing loans	**29,931**	**1,628**	-	-	**31,559**
Impairment allowance for credit losses	**(17,140)**	**(1,628)**	-	-	**(18,768)**
Interest in suspense	**(12,791)**	-	-	-	**(12,791)**
Total exposure	-	-	-	-	-

	UAE AED'000	*Middle East countries AED'000*	*O.E.C.D AED'000*	*Other countries AED'000*	*Total AED'000*
2023					
Non-performing loans	29,690	1,628			31,318
Impairment allowance for credit losses	(18,735)	(1,628)	-	-	(20,363)
Interest in suspense	(10,955)	-	-	-	(10,955)
Total exposure	-	-	-	-	-

27. Risk management (continued)

Credit risk management (continued)

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

Geographical sectors (continued)
The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2024:

Interest rate sensitivity gap:

	Within 3 months AED'000	*From 3 to 6 months AED'000*	*From 6 to 12 months AED'000*	*Over 1 year AED'000*	*Non-interest sensitive AED'000*	*Total AED'000*
Assets						
Cash and Balances with the Central Bank of U.A.E.	**310,000**	**-**	**-**	**-**	**94,144**	**404,144**
Due from related parties	**46,165**	**-**	**-**	**-**	**463**	**46,628**
Deposits and balances due from banks and financial institutions	**36,725**	**44,032**	**54,772**	**91,001**	**6,990**	**233,520**
Investment securities	**72,630**	**-**	**-**	**150,371**	**-**	**223,001**
Loans and advances to customers	**164,596**	**6,538**	**20,386**	**215,324**	**-**	**406,844**
Other assets	**-**	**-**	**-**	**-**	**11,463**	**11463**
Property and equipment	**-**	**-**	**-**	**-**	**1,158**	**1,158**
Deferred tax assets	**-**	**-**	**-**	**-**	**14,153**	**14,153**
Intangible assets	**-**	**-**	**-**	**-**	**1,870**	**1,870**
Total assets	**630,116**	**50,570**	**75,158**	**456,696**	**130,241**	**1,342,781**
Liabilities and Equity						
Due to banks and financial institutions	**-**	**-**	**-**	**-**	**1,640**	**1,640**
Customers' deposits	**251,827**	**51,139**	**20,562**	**-**	**355,228**	**678,756**
Due to related parties	**-**	**-**	**-**	**-**	**6,465**	**6,465**
Other liabilities	**-**	**-**	**-**	**-**	**55,039**	**55,039**
Equity	**-**	**-**	**-**	**-**	**600,881**	**600,881**
Total liabilities and Equity	**251,827**	**51,139**	**20,562**	**-**	**1,019,253**	**1,342,781**
On balance sheet gap	**378,289**	**(569)**	**54,596**	**456,696**	**(889,012)**	**-**
Cumulative interest rate sensitivity gap	**378,289**	**377,720**	**432,316**	**889,012**	**-**	**-**

27. Risk management (continued)

Credit risk management (continued)

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

Geographical sectors (continued)
The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement as at 31 December 2023:

	Within 3 months AED'000	*From 3 to 6 months AED'000*	*From 6 to 12 months AED'000*	*Over 1 year AED'000*	*Non-interest sensitive AED'000*	*Total AED'000*
Assets						
Cash and Balances with the Central Bank of U.A.E.	390,000	-	-	-	61,704	451,704
Due from related parties	108,132	-	-	-	475	108,607
Deposits and balances due from banks and financial institutions	134,579	18,363	36,471	18,362	828	208,603
Investment securities	70,879	-	-	57,894	-	128,773
Loans and advances to customers	169,570	1,724	5,224	242,389	-	418,907
Other assets	-	-	-	-	12,581	12,581
Property and equipment	-	-	-	-	1,950	1,950
Intangible assets	-	-	-	-	1,785	1,785
Total assets	873,160	20,087	41,695	318,645	79,323	1,332,910
Liabilities and Equity						
Due to banks and financial institutions	85,000	-	-	-	2,388	87,388
Customers' deposits	227,850	42,674	23,035	-	359,132	652,691
Due to related parties	12,854	-	-	-	4,834	17,688
Other liabilities	-	-	-	-	25,180	25,180
Equity	-	-	-	-	549,963	549,963
Total liabilities and Equity	325,704	42,674	23,035	-	941,497	1,332,910
On balance sheet gap	547,456	(22,587)	18,660	318,645	(862,174)	-
Cumulative interest rate sensitivity gap	547,456	524,869	543,529	862,174	-	-

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.

27. Risk management (continued)

Liquidity risk (continued)

Management of liquidity risk (continued)
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.

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 2024, 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 2024 would have been a decrease in net income by -8.61% (in case of decrease of interest rate) and would have been an increase in net income by +8.61% (in case of increase of interest rate) [2023: -10.46% and +10.46%] 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 5.20% (2023: 5.35%), on loans and advances was 7.69% (2023: 8.05%), on customer deposits was 1.44% (2023: 0.72%) and on bank borrowings was 3.99% (2023: 0.58%).

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. AS part of Interest rate initiative reform, the Bank has transitioned to Secured Overnight Financing Rate (SOFR) rates under supervision of ALCCO and Treasury/Central Operations department.

27. Risk management (continued)

Market risk management (continued)

i) Interest rate risk management (continued)

Interest rate benchmark reform (continued)

Financial assets:
The Branches' IBOR exposures on floating-rate financial assets are covered in the following table:

Currency	***2024 AED'000***	*2023 AED'000*
USD	**466,966**	282,699
AED	**589,141**	291,504
	1,056,107	574,203

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 Branches expects that retail products will be amended in a uniform way. However, the Branches 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 2024 AED'000***	*Total 2023 AED'000*
Australian Dollars	-	-	-	12
Bahraini Dinars	-		-	18
Canadian Dollars	-	-	-	6
Swiss Francs	-	-	-	22
Euro	**306**	-	**306**	47
Sterling Pounds	**387**	-	**387**	1
Jordanian Dinars	-	-	-	15
Kuwaiti Dinars	**95**	-	**95**	82
Omani Riyals	-	-	-	37
Qatari Riyals	-	-	-	92
Saoudi Riyals	-	-	-	163
Total	**788**	-	**788**	495

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.

Climate related matters
The Branches and their customers may face significant climate-related risks in the future. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic and environmental responses to climate change. The key sources of climate risks have been identified as physical and transition risks. Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels and risks. Transition risks may arise from the adjustments to a net-zero economy, e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand. These risks are receiving increasing regulatory, political and societal scrutiny, both within the country and internationally. While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains.

The Branches are in the process of embedding climate risk in their risk framework, including the development of a comprehensive sustainable finance and climate risk framework. The Board Risk Committee of the Ultimate Parent Company is responsible for the oversight over management of climate risk. In addition, the Branches will start assessing their model landscape to incorporate climate-related risks and their impact on borrower's credit risk. The Branches will also make significant progress in building the knowledge and capacity of their workforce in matters relating to climate-related risk. Despite the progress, the Branches acknowledge the need for further efforts to fully integrate climate in the Branches' risk assessments and management protocols.

Therefore, the impact of this matter remains uncertain and depends on future developments that cannot be accurately predicted at this stage, and a reliable estimate of such an impact cannot be made at the date of authorisation of these financial statements. Notwithstanding, these developments could impact the Branches' future financial results, cash flows and financial position.

28. Contingent liabilities and commitments

a) Contingent liabilities

	2024 ***AED'000***	*2023* *AED'000*
Guarantees	**144,679**	180,125
Stage 1	**81,623**	112,041
Stage 2	**55,649**	65,431
Stage 3	**7,407**	2,653
Letters of credit	**3,058**	6,600
Stage 1	**-**	6,600
Stage 2	**3,058**	-
Stage 3	**-**	-
Unutilised credit facilities	**103,100**	87,190
Stage 1	**69,735**	67,347
Stage 2	**33,365**	19,843
Stage 3	**-**	-
	250,837	273,915

The outstanding unutilized facilities as of 31 December 2024 amounted to AED 103 million (2023: AED 87 million). 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 1 year AED'000***	***Total AED'000***
2024					
Guarantees	**117,686**	**8,056**	**12,142**	**6,795**	**144,679**
Letters of credit	**40**	**3,018**	**-**	**-**	**3,058**
Unutilised credit facilities	**80,010**	**5,824**	**15,946**	**1,320**	**103,100**
	197,736	**16,898**	**28,088**	**8,115**	**250,837**

	Within 3 months AED'000	*From 3 to 6 months AED'000*	*From 6 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
2023					
Guarantees	139,363	11,273	24,234	5,255	180,125
Letters of credit	4,308	2,292	-	-	6,600
Unutilised credit facilities	24,083	22,583	32,247	8,277	87,190
	167,754	36,148	56,481	13,532	273,915

The analysis of commitments and contingencies by geographical 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 have been advised by their legal counsel that it is only possible, but not probable, that the action will succeed. Accordingly, no provision for any liability has been made in these financial statements.