Barclays Bank PLC – Dubai Branch

Financial statements
For the year ended 31 December 2023

Barclays Bank PLC - Dubai Branch

Financial statements
For the year ended 31 December 2023

هاتف : ٦٦٦٦ ٥١٨ ٤ ٩٧١+
فاكس : ٠١٥١ ٢٢٧ ٤ ٩٧١+

الطابق ٢٣، برجمان برج المكاتب
شارع الشيخ خليفة بن زايد
ص ب ١٩٦١، دبي، ا.ع.م

Tel: +971 4 518 6666
Fax: +971 4 227 0151
info@bdo.ae
www.bdo.ae

23rd floor, Burjuman Office Tower
Sheikh Khalifa Bin Zayed Road
P O Box 1961, Dubai, UAE

INDEPENDENT AUDITORS REPORT

To the Head Office of Barclays Bank PLC - Dubai Branch

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Barclays Bank PLC - Dubai Branch (the "Branch"), which comprises the statement of financial position as at December 31, 2023, the statement of profit or loss and other comprehensive income, the statement of changes in Head Office account and reserves, the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements of the Branch give a true and fair view of the financial position of the Branch as at December 31, 2023, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS Accounting Standards).

Basis for Opinion

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

Other Matter

The financial statements of the Branch for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on March 24, 2023.

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

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

INDEPENDENT AUDITORS REPORT

To the Head Office of Barclays Bank PLC - Dubai Branch

Report on the Audit of the Financial Statements (Continued)

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITORS REPORT

To the Head Office of Barclays Bank PLC - Dubai Branch

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

Report on the Other Legal and Regulatory Requirements

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

Parag

P.O. Box 1961 DUBAI

BDO CHARTERED ACCOUNTANTS & ADVISORS
Dubai
Parag Harendrabhai Patadiya
Reg. No. 1219
March 22, 2024

Barclays Bank PLC - Dubai Branch

Statement of financial position

	Note	As at 31 December 2023 AED'000	2022 AED'000
Assets			
Cash and balances with the UAE Central Bank	4	3,140,582	1,286,378
Due from other banks	5	1,096,224	2,958,365
Due from Head Office and other branches	6	74,581	66,994
Loans and advances	7	995,259	964,192
Investments measured at fair value through other comprehensive income (FVOCI)	8	-	1,137,607
Other assets	9	5,024	5,499
Intangible assets and Right-of-use assets	10	3,257	3,399
Deferred tax assets	11	32,032	7,361
Total assets		**5,346,959**	**6,429,795**
Liabilities, Head Office account and reserves			
Liabilities			
Due to customers	12	2,424,477	2,277,461
Due to Head Office and other branches	13	374,551	1,774,472
Other liabilities	14	46,610	54,037
Total liabilities		**2,845,638**	**4,105,970**
Head Office account and reserves			
Allocated capital	15	2,540,214	2,540,214
Legal reserve	16(a)	174,126	155,555
General reserve	16(b)	25,640	27,169
Revaluation reserve		-	8,215
Accumulated losses		(238,659)	(407,328)
Total Head Office account and reserves		**2,501,321**	**2,323,825**
Total liabilities, Head Office account and reserves		**5,346,959**	**6,429,795**

These financial statements have been approved on 22 March 2024 and signed by:

Ramkumar S.B.

....

Ramkumar Balasubramaniam
Chief Financial Officer

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 27 form an integral part of these financial statements.

Statement of profit or loss and other comprehensive income

	Note	Year ended 31 December 2023 AED'000	2022 AED'000
Interest income	19	324,771	134,658
Interest expense	20	(113,314)	(48,113)
Net interest income		**211,457**	**86,545**
Fee and commission income	21	37,072	29,849
Net foreign exchange income		5,233	8,245
Operating income		**253,762**	**124,639**
Operating expenses	22	(100,122)	(87,734)
Impairment release on financial instruments	3.2.3	9,362	78,331
Profit before taxation		**163,002**	**115,236**
Income tax credit / (expense)	23	22,710	(8,109)
Profit for the year		**185,712**	**107,127**
Other comprehensive income			
Items that will or may be reclassified to profit or loss:			
Fair value gain on Investments measured at fair value	8 (b)	-	9,803
Tax release / (charge) on fair value gain on Investments measured at fair value through other comprehensive income (FVOCI)	23	1,961	(1,961)
Total comprehensive Income for the year		**187,673**	**114,969**

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 27 form an integral part of these financial statements.

Barclays Bank PLC - Dubai Branch

Statement of changes in Head Office account and reserves

	Note	Allocated capital AED'000	Legal reserve AED'000	General reserve AED'000	Revaluation reserve AED'000	Accumulated losses AED'000	Total AED'000
At 1 January 2022		2,540,214	144,842	30,817	373	(507,390)	**2,208,856**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	107,127	**107,127**
Fair value gain on Investments measured at fair value	8 (b)	-	-	-	9,803	-	**9,803**
Other equity movement							
Transfer to legal reserve	16(a)	-	10,713	-	-	(10,713)	**-**
Transfer from general reserve	16(b)	-	-	(3,648)	-	3,648	**-**
Tax charge on fair value gain on Investments measured at fair value through other comprehensive income (FVOCI)		-	-	-	(1,961)	-	**(1,961)**
Total movement		-	10,713	(3,648)	7,842	100,062	**114,969**
At 31 December 2022		**2,540,214**	**155,555**	**27,169**	**8,215**	**(407,328)**	**2,323,825**
At 1 January 2023		2,540,214	155,555	27,169	8,215	(407,328)	**2,323,825**
Total comprehensive income for the year							
Profit for the year		-	-	-	-	185,711	**185,711**
Transfer to statement of profit or loss		-	-	-	(10,176)	-	**(10,176)**
Other equity movement							
Transfer to legal reserve	16(a)	-	18,571	-	-	(18,571)	**-**
Transfer from general reserve	16(b)	-	-	(1,529)	-	1,529	**-**
Tax release on fair value gain on Investments measured at fair value through other comprehensive income (FVOCI)		-	-	-	1,961	-	**1,961**
Total movement		-	18,571	(1,529)	(8,215)	168,669	**177,496**
At 31 December 2023		**2,540,214**	**174,126**	**25,640**	**-**	**(238,659)**	**2,501,321**

The independent auditor's report is set out on pages 1-3.
The notes from 1 to 27 form an integral part of these financial statements.

Statement of cash flows

	Note	Year ended 31 December 2023 AED'000	2022 AED'000
Operating activities			
Profit for the year before taxation		163,002	115,236
Adjustments for:			
Depreciation	10	2,485	3,226
Interest expense on finance lease	24	42	18
End of service benefits charge for the year	14(a)	246	191
Net impairment release on financial instruments		(9,362)	(78,027)
Operating cash flows before end of service benefits and tax paid and changes in assets and liabilities		**156,413**	**40,644**
End of service benefits paid	14(a)	-	(357)
Changes in operating assets and liabilities:			
Balances with the UAE Central Bank excluding amounts considered as cash and cash equivalents	4,25	18,491	32,334
Due from other banks excluding amounts considered as cash and cash equivalents	5,25	1,864,563	(444,137)
Due from Head Office and other branches excluding amounts considered as cash and cash equivalents	6,25	9,417	6,407
Loans and advances	7	(29,483)	354,241
Other assets	9	475	493
Due to customers	12	147,016	(1,108,843)
Due to Head Office and other branches	13	(1,399,921)	572,723
Other liabilities	14	(5,365)	9,876
Net cash from / (used in) operating activities		**761,606**	**(536,619)**
Investing activities			
Purchase of investments at FVOCI	8	(413,460)	-
Proceeds on maturity of investments at FVOCI	8	1,540,891	669,688
Net cash from investing activities		**1,127,431**	**669,688**
Financing activities			
Payment of lease liabilities (Principal portion)	24(iii)	(453)	(446)
Payment of lease liabilities (Interest portion)	24(iii)	(42)	(18)
Net cash used in financing activities		**(495)**	**(464)**
Net increase in cash and cash equivalents		**1,888,542**	**132,605**
Cash and cash equivalents at the beginning of the year		1,236,193	1,103,588
Cash and cash equivalents at the end of the year	25	**3,124,735**	**1,236,193**

1 Establishment and operations

Barclays Bank PLC (the "Head Office") is a public limited company incorporated in the United Kingdom and the address of its registered office is 1 Churchill Place, London E14 5HP. The principal activity of Barclays Bank PLC in the United Arab Emirates ("UAE") is wholesale banking which it carried out from its Branch in Dubai (the "Bank" or "the Branch"). The registered address of the Dubai Branch is Office No.109, Level 1, The Offices 3, One Central, Dubai World Trade Centre, Dubai, UAE.

2 Material accounting policies

The material accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS Accounting Standards), as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and the applicable requirements of laws of the United Arab Emirates. The financial statements are prepared under the historical cost convention except for derivative financial instruments measured at fair value and Investments measured at fair value through other comprehensive income (FVOCI).

Amounts are rounded to the nearest thousand, unless otherwise stated.

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2(r).

(b) Financial assets and liabilities

Recognition and initial measurement

The Bank initially recognises loans and advances, and deposits on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument.
A financial asset or financial liability is measured initially at fair value plus, for an item not at Fair Value through the Statement of Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or FVTPL. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

2 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Classification (continued)

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

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

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as FVTPL.

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

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, realising cash flows through the sale of the assets and holding it for liquidity purposes;

- 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 the performance of the portfolio is evaluated and reported to the Bank's management;

- 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;

- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

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.

2 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Classification (continued)

Assessment of 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).

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

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

Reclassification

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

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL.

Derecognition

Financial assets

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities.

2 Material accounting policies (continued)

(b) Financial assets and liabilities (continued)

Financial liabilities

Financial liabilities are derecognised when they are extinguished − that is, when the obligation is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the statement of profit or loss.

(c) Impairment of financial assets

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortised cost and debt instruments classified as FVOCI. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1 – the recognition of 12 month expected credit losses (ECL), that is the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date, if credit risk has not increased significantly since initial recognition;

Stage 2 – lifetime expected credit losses for financial instruments for which credit risk has increased significantly since initial recognition; and

Stage 3 – lifetime expected credit losses for financial instruments which are credit impaired.

Refer to note 3 for further details regarding the impairment requirements.

Accounting for the impairment of financial assets

The Bank recognises expected credit losses (ECLs) based on unbiased forward-looking information for all financial assets at amortised cost, lease receivables, debt financial assets at fair value through other comprehensive income, loan commitments and financial guarantee contracts. Intercompany exposures, including loan commitments and financial guarantee contracts, are also in scope of IFRS 9 for ECL purposes. The ECL for intercompany exposures is immaterial.

At the reporting date, an allowance (or provision for loan commitments and financial guarantees) is required for the 12 month ECLs. If the credit risk has significantly increased since initial recognition (Stage 2), or if the financial instrument is credit impaired (Stage 3), an allowance (or provision) should be recognised for the lifetime ECLs.

The measurement of ECL is calculated using three main components: (i) probability of default (PD) (ii) loss given default (LGD) and (iii) the exposure at default (EAD).

The 12 month ECL is calculated by multiplying the 12 month PD, LGD and the EAD. The 12 month and lifetime PDs represent the PD occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

2 Material accounting policies (continued)

(c) Impairment of financial assets (continued)

Accounting for the impairment of financial assets (continued)

Determining a significant increase in credit risk since initial recognition:

The Bank assesses when a significant increase in credit risk has occurred based on quantitative and qualitative assessments. The credit risk of an exposure is considered to have significantly increased when:

i) Quantitative test

The annualised lifetime PD has increased by more than an agreed threshold relative to the equivalent at origination.

PD deterioration thresholds are defined as percentage increases, and are set at an origination score band and segment level to ensure the test appropriately captures significant increases in credit risk at all risk levels. Generally, thresholds are inversely correlated to the origination PD, i.e. as the origination PD increases, the threshold value reduces.

The assessment of the point at which a PD increase is deemed ‘significant’, is based upon analysis of the portfolios’ risk profile against a common set of principles and performance metrics (consistent across both retail and wholesale businesses), incorporating expert credit judgement where appropriate.

For existing/historical exposures where origination point scores/data are no longer available or do not represent a comparable estimate of lifetime PD, a proxy origination score is defined, based upon:

- Back-population of the approved lifetime PD score either to origination date or, where this is not feasible, as far back as possible, (subject to a data start point no later than 1 January 2015); or
- Use of available historic account performance data and other customer information, to derive a comparable ‘proxy’ estimation of origination PD.

ii) Qualitative test

Accounts meet the portfolio’s ‘high risk’ criteria and are subject to closer credit monitoring.

High risk customers may not be in arrears but either through an event or an observed behavior exhibit credit distress. The definition and assessment of high risk includes as wide a range of information as reasonably available, including industry and Head Office wide customer level data wherever possible or relevant.

Whilst the high risk populations applied for IFRS 9 impairment purposes are aligned with risk management processes, they are also regularly reviewed and validated to ensure that they capture any incremental segments where there is evidence of credit deterioration.

iii) Backstop criteria

Accounts that are 30 calendar days or more past due. The 30 days past due criteria is a backstop rather than a primary driver of moving exposures into Stage 2.

2 Material accounting policies (continued)

(c) Impairment of financial assets (continued)

Accounting for the impairment of financial assets (continued)

iii) Backstop Criteria (continued)

Exposures will move back to Stage 1 once they no longer meet the criteria for a significant increase in credit risk. This means that, at minimum: all payments must be up-to-date, the PD deterioration test is no longer met, the account is no longer classified as high risk, and the customer has evidenced an ability to maintain future payments. The Bank monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Stage 2 to Stage 1.

The Bank does not rely on the low credit risk exemption which would assume facilities of investment grade are not significantly deteriorated.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Forward-looking information

The measurement of ECL involves complexity and judgement, including estimation of PDs, LGD, a range of unbiased future economic scenarios, estimation of expected lives (where contractual life is not appropriate), and estimation of EAD and assessing significant increases in credit risk.

Credit losses are the expected cash shortfalls from what is contractually due over the expected life of the financial instrument, discounted at the original effective interest rate (EIR). ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. When there is a non-linear relationship between forward-looking economic scenarios and their associated credit losses, five forward-looking economic scenarios are considered to ensure a sufficient unbiased representative sample of the complete distribution is included in determining the expected loss. Stress testing methodologies are leveraged within forecasting economic scenarios.

The Bank utilises an external consensus forecast as the baseline scenario. In addition, two adverse and two favourable scenarios are derived, with associated probability weightings. The adverse scenarios are calibrated to a similar severity to internal stress tests, whilst also incorporating IFRS 9 specific sensitivities and non-linearity. The most adverse scenarios are benchmarked to the Bank of England’s annual cyclical scenarios and to the most severe scenarios from Moody’s inventory but are not designed to be the same. The favourable scenarios are calibrated to be symmetric to the adverse scenarios, subject to a ceiling calibrated to relevant recent favourable benchmark scenarios. The scenarios include six core variables, (GDP, unemployment and House Price Index in both the UK & US markets), and expanded variables which include emerging market indicators, using statistical models based on historical correlations. The Head Office considers these macroeconomic forecasts as reasonable proxy of the economic environment of the Branch.

The probability weights of the scenarios are estimated such that the baseline (reflecting current consensus outlook) has the highest weight and the weights of adverse and favourable scenarios depend on the deviation from the baseline; the further from the baseline, the smaller the weight. A single set of five scenarios is used across all portfolios and all five weights are normalised to equate to 100%. The impacts across the portfolios are different because of the sensitivities of each of the portfolios to specific macroeconomic variables.

2 Material accounting policies (continued)

(c) Impairment of financial assets (continued)

Forward-looking information (continued)

Definition of default, credit impaired assets, write-offs, and interest income recognition

The definition of default for the purpose of determining ECLs has been aligned to the applicable UAE requirement of default (the institution considers that the obligor is unlikely to pay its credit obligations to the institution, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security), which considers indicators that the debtor is unlikely to pay, includes exposures in forbearance and is no later than when the exposure is more than 90 days past due. When exposures are identified as credit impaired or purchased or originated as such interest income is calculated on the carrying value net of the impairment allowance. The Bank's definition of default is consistent with the provisions of Central Bank of United Arab Emirates (CBUAE) Circular 28/2010 (Regulation for Classification of Loans and their Provisions).

Credit impaired is when the exposure has defaulted which is also anticipated to align to when an exposure is identified as individually impaired.

Uncollectible loans are written off against the related allowance for loan impairment on completion of the Bank's internal processes and when all reasonably expected recoverable amounts have been collected. Subsequent recoveries of amounts previously written off are credited to the income statement.

Loan modifications and renegotiations that are not credit-impaired

When modification of a loan agreement occurs as a result of commercial restructuring activity rather than due to credit risk of the borrower, an assessment must be performed to determine whether the terms of the new agreement are substantially different from the terms of the existing agreement. This assessment considers both the change in cash flows arising from the modified terms as well as the change in overall instrument risk profile. With regards to exposures that are restructured, the Bank observe a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2. No loan modification has occurred during the reporting period.

Where terms are substantially different, the existing loan will be derecognised and new loan recognised at fair value, with any difference in valuation recognised immediately within the income statement, subject to observability criteria.

Where terms are not substantially different, the loan carrying value will be adjusted to reflect the present value of modified cash flows discounted at the original EIR, with any resulting gain or loss recognised immediately within the income statement as a modification gain or loss.

2 Material accounting policies (continued)

(c) Impairment of financial assets (continued)

Expected life

Lifetime ECLs must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayment, extension, call and similar options. The exceptions are certain revolver financial instruments, such as bank overdrafts, that include both a drawn and an undrawn component where the entity's contractual ability to demand repayment and cancel the undrawn commitment does not limit the entity's exposure to credit losses to the contractual notice period. For revolving facilities, expected lifetime is analytically derived to reflect behavioural life of the asset, i.e. the full period over which the business expects to be exposed to credit risk. Behavioural life is typically based upon historical analysis of the average time to default, closure or withdrawal of facility. Where data is insufficient or analysis inconclusive, an additional 'maturity factor' may be incorporated to reflect the full estimated life of the exposures, based upon experienced judgement and/or peer analysis. Potential future modifications of contracts are not taken into account when determining the expected life or EAD until they occur.

Discounting

ECLs are discounted at the EIR at initial recognition or an approximation thereof and consistent with income recognition. For loan commitments the EIR is the rate that is expected to apply when the loan is drawn down and a financial asset is recognised. Issued financial guarantee contracts are discounted at the risk free rate. Lease receivables are discounted at the rate implicit in the lease. For variable/floating rate financial assets, the spot rate at the reporting date is used and projections of changes in the variable rate over the expected life are not made to estimate future interest cash flows or for discounting.

Modelling techniques

ECLs are calculated by multiplying three main components, being the PD, LGD and the EAD, discounted at the original EIR. The regulatory Basel Committee of Banking Supervisors (BCBS) ECL calculations are leveraged for IFRS 9 modelling but adjusted for key differences which include:

- BCBS requires 12 months through the economic cycle losses whereas IFRS 9 requires 12 months or lifetime point in time losses based on conditions at the reporting date and multiple forecasts of the future economic conditions over the expected lives.
- IFRS 9 models do not include certain conservative BCBS model floors and downturn assessments and require discounting to the reporting date at the original EIR rather than using the cost of capital to the date of default.
- Management adjustments are made to modelled output to account for situations where known or expected risk factors and information have not been considered in the modelling process, for example forecast economic scenarios for uncertain political events.
- ECL is measured at the individual financial instrument level, however a collective approach where financial instruments with similar risk characteristics are grouped together, with apportionment to individual financial instruments, is used where effects can only be seen at a collective level, for example for forward-looking information.

2 Material accounting policies (continued)

(c) Impairment of financial assets (continued)

Modelling techniques (continued)

For the IFRS 9 impairment assessment, Banks' risk models are used to determine the PD, LGD and EAD. For Stage 2 and 3, Bank applies lifetime PDs but uses 12 month PDs for Stage 1. The ECL drivers of PD, EAD and LGD are modelled at an account level which considers vintage, among other credit factors. Also, the assessment of significant increase in credit risk is based on the initial lifetime PD curve, which accounts for the different credit risk underwritten over time.

Forbearance

A financial asset is subject to forbearance when it is modified due to the credit distress of the borrower. A modification made to the terms of an asset due to forbearance will typically be assessed as a non-substantial modification that does not result in de-recognition of the original loan, except in circumstances where debt is exchanged for equity.

Both performing and non-performing forbearance assets are classified as Stage 3 except where it is established that the concession granted has not resulted in diminished financial obligation and that no other regulatory definitions of default criteria has been triggered, in which case the asset is classified as Stage 2. The minimum probationary period for non-performing forbearance is 12 months and for performing forbearance, 24 months. Hence, a minimum of 36 months is required for non-performing forbearance to move out of a forborne state.

No financial instrument in forbearance can transfer back to Stage 1 until all of the Stage 2 thresholds are no longer met and can only move out of Stage 3 when no longer credit impaired.

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

2 Material accounting policies (continued)

(d) Intangible Assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line method over their estimated useful life, on following bases:

Computer Software - 6 Years

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) Provision for staff benefits

The end of service benefits for international staff are provided in accordance with Head Office policy, which is in line with the requirements of IAS 19, and are in lieu of the end of service benefits payable under UAE Labour Law. The liability for these benefits is settled through the Head Office current account and recorded as a charge in the income statement.

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with Federal Law No. (7), 1999 for Pension and Social Security.

Provision is also made for the end of service benefits due to the non-UAE national employees in accordance with the UAE Labour Law for their periods of service up to the balance sheet date.

A provision is made for the estimated liability for airfares as a result of services rendered by employees up to the balance sheet date.

(h) Provisions

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

2 Material accounting policies (continued)

(i) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the Bank are measured in Arab Emirates Dirham ("AED") being the currency of the primary economic environment in which the Bank operates ("the functional currency"). The financial statements are prepared in AED, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into AED at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the income statement.

(j) Interest income and expense

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

– the gross carrying amount of the financial asset; or
– the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance.

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

2 Material accounting policies (continued)

(j) Interest income and expense (continued)

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate or an approximation thereof is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate or an approximation thereof, to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves. For information on when financial assets are credit-impaired, refer note 2(d).

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and Other Comprehensive Income (OCI) includes interest income on debt instruments measured at FVOCI.

Interest expense presented in the statement of profit or loss and OCI includes financial liabilities measured at amortised cost.

(k) Fee and commission income

Fee and commission income that are integral to the effective interest rate on a financial asset or financial liability are included in the effective interest rate.

Other fee and commission income – including account servicing fees, fees and commission on documentary credits and guarantees, upfront loan fees and other commission – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period.

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

2 Material accounting policies (continued)

(l) Lease

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

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative standalone price.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is subsequently measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets under note 10 and lease liabilities under note 14 in the statement of financial position.

2 Material accounting policies (continued)

(l) Lease (continued)

Short-term leases and leases of low value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Bank does not have any lease arrangements in which it acts as a lessor.

(m) Taxation

Provision for taxation is made in respect of the Bank's operations in the Emirate of Dubai whereby tax is payable at the rate of 20% of the adjusted net profit generated during the year.

Income tax is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credit to other comprehensive income or to equity.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised.

(n) Cash and cash equivalents

For the purposes of the statement of cash flow, cash and cash equivalents comprise cash in hand, balances in current and call accounts and placements with the UAE Central Bank and with other financial institutions with original maturity of less than or equal to three months, excluding statutory deposits required to be maintained with the UAE Central Bank.

(o) Impairment of non-financial assets

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

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

2 Material accounting policies (continued)

(o) Impairment of non-financial assets (continued)

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

(p) Investments measured at fair value through other comprehensive income (FVOCI)

The 'investment securities' caption in the statement of financial position includes debt securities measured at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.
• Interest revenue using the effective interest method;
• ECL and reversals; and
• Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

(q) Application of New and Revised (IFRS Accounting Standards)

i) <u>New standards, interpretations and amendments adopted from 1 January 2023</u>

The following amendments are effective for the period beginning 1 January 2023:

- IFRS 17 Insurance Contracts;
- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements);
- Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies,
- Changes in Accounting Estimates and Errors);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12 Income Taxes); and
- International Tax Reform – Pillar Two Model Rules (Amendment to IAS 12 Income Taxes) (effective immediately upon the issue of the amendments and retrospectively).

These amendments had no effect on the financial statements of the Bank.

2 Material accounting policies (continued)

(q) Application of New and Revised (IFRS Accounting Standards) (continued)

ii) <u>New standards and Interpretations in issue but not yet effective</u>

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Bank has decided not to adopt early.

The following amendments are effective for the period beginning 1 January 2024:

- Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements);
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures)

The following amendment is effective for the period beginning 1 January 2025:

- Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)

Management anticipates that these amendments will be adopted in the financial statements in the initial period when they become mandatorily effective. The impact of these standards and amendments are currently being assessed by the management. However, the management does not expect any other standards issued by the IASB, but are yet to be effective, to have a material impact on the Bank.

(r) Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment charge on financial assets

Impairment losses are evaluated as described in accounting policy 2 (c).

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.

3 Financial risk management

3.1 Risk management review

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

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

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

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

Bank's risk management policies are designed to identify and analyse risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits. These policies provide written principles for overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The most important types of risk are credit risk, liquidity risk and market risk. Market risk includes currency risk, interest rate and price risk.

3.2 Credit risk

Credit risk is defined as the risk that the Bank's customers, clients or counterparties or other financial instruments fail to perform, are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Bank to suffer a financial loss.

Credit risk also arises through the downgrading of counterparties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Bank's most important risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

3 Financial risk management (continued)

3.2 Credit risk (continued)

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss to the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management, therefore, carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances and other receivables. There is also credit risk in off-balance sheet financial arrangements such as credit commitments. The FVOCI investments are –not exposed to credit risk as they are sovereign instruments.

3.2.1 Credit risk management

The granting of credit is one of the Bank's major sources of income and is therefore one of its most significant risks, and the Bank dedicates considerable resources to control it effectively.

The Credit Risk function provides direction on credit risk-taking. These functional teams manage the resolution of all significant credit policy issues, approve credit decisions which fall within its delegated authority, engages with Head Office where appropriate and maintains governance and oversight on all credit risk related matters.

Each business segment has an embedded credit risk management team that assists in the formulation of the risk policy and its implementation across the respective businesses. Examples include ensuring that:

- Maximum exposure guidelines are in place relating to the exposures to any individual customer or counterparty;
- Policies are in place that limit lending to certain industrial sectors.

Those corporate accounts which are deemed to contain heightened levels of risk are recorded on graded problem loan lists known as "early warning lists". These are updated monthly and circulated to the relevant risk control points. Once listing has taken place, exposure is very carefully monitored and, where possible, exposure reductions are effected.

These lists are graded in line with the perceived severity of the risk attached to the lending. Businesses with exposure to corporate customers having increasing concern relate to one of the three categories (EWL1, EWL2 and EWL3). By the time an account becomes impaired it will normally, but not necessarily, have passed through all three categories, which reflect the need for ever-increasing caution and control.

Where an obligor's financial health gives grounds for concern, it is immediately placed into the appropriate category. All obligors are subject to a full review of all facilities on, at least, an annual basis. Interim reviews and quarterly reviews may be undertaken if circumstances dictate.

Where models are used, they are based upon customer's personal and financial performance and industry norms over recent periods as a predictor for future performance. The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Credit risk management (continued)

The Bank has implemented an internal rating framework known as Default Grade (DG). DG is a standard internal rating framework used across Head Office and is compliant with Basel-II AIRB requirements. In accordance with the framework customers are graded across 21 rating grades with each grade having a specified probability of default (PD) which can be mapped to equivalent of Moody's & S&P rating grade (for classified and write-offs it has additional grades beyond 21). Given that the rating methodology is an advanced methodology and grades are driven from a sophisticated model, there is no static mapping between internal grades to that of Moody's and S&P. However, as a proxy, the following table identifies the mapping of internal DGs with that of Moody's and S&P:

Default Grade	***Wholesale lending Probability of default***	***Credit Quality Description***
1-3	*0.0-0.05%*	
4-5	*0.05-0.15%*	*Strong*
6-8	*0.15-0.30%*	
9-11	*0.30-0.60%*	
12-14	*0.60-2.15%*	*Satisfactory*
15-19	*2.15-11.35%*	
20-21	*11.35% to <100%*	*Higher Risk*
22	*100%*	*Credit Impaired*

The Bank uses the external ratings where available to benchmark their internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

3.2.2 Risk limit control and mitigation policies

The Bank uses a wide variety of techniques to reduce credit risk on its lending. The most fundamental of these is performing an assessment of the ability of a borrower to service the proposed level of borrowing without distress. It is the Bank's policy to establish that loans are within the customer's capacity to repay, rather than to rely excessively on security and as a result, depending on the customer's standing and the type of product, facilities may be unsecured.

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

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

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Risk limit control and mitigation policies (continued)

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

(a) Collateral

When collateral is deemed appropriate, businesses are required to take specific, agreed classes of collateral and ensure that they are holding a correctly perfected charge. The principal collateral types are as follows:

- Personal sector - mortgages over residential properties;
- Commercial and industrial sector - charges over business assets such as premises, inventory and recoverables;
- Commercial real estate sector - charges over the properties being financed.

Valuation of the collateral taken will be within agreed parameters and will be conservative in value. Within the corporate sectors, collateral for impaired loans including guarantees and insurance is reviewed regularly and at least annually, to ensure that it is still enforceable and that the impairment allowance remains appropriate given the current valuation. Where the collateral has decreased in value, an additional impairment allowance may be considered. Conversely, increases in collateral may result in a release of the impairment allowance.

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank. In the case of forward exchange contracts the Bank is exposed to the notional amount should the counterparty fail to honor the contract. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements and entering into forward contracts with other banks, in the form of back to back contracts, commitment to purchase and sell a contract, resulting in limited credit exposure to the Bank.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Amounts arising from Expected Credit Loss

Movement in gross exposure and expected credit loss

The following table presents a reconciliation of the opening to the closing balance of the exposure and expected credit loss.

	STAGE 1		STAGE 2		STAGE 3		Total	
	Exposure AED'000	Expected credit loss AED'000	Exposure AED'000	Expected credit loss AED'000	Exposure AED'000	Expected credit loss AED'000	Exposure AED'000	Expected credit loss AED'000
Balance as at 1 January 2023	6,376,208	(6,841)	18,692	(149)	53,611	(53,484)	6,448,511	(60,474)
Transfers to Stage 1	18,692	(149)	(18,692)	149	-	-	-	-
New financial assets originated or purchased	79,078	(99)	-	-	-	-	79,078	(99)
Net drawdowns/repayments/ risk parameter changes and other movements	(1,186,018)	5,387	-	-	10	(125)	(1,186,008)	5,262
Asset derecognised due to write-offs	-	-	-	-	(14,820)	14,808	(14,820)	14,808
Loss allowance as at 31 December 2023	**5,287,960**	**(1,702)**			**38,801**	**(38,801)**	**5,326,761**	**(40,503)**
Reconciliation of ECL movement to impairment (charge)/release for the period								
ECL movement excluding assets derecognised due to disposals and write-off	-	5,139	-	149	-	(125)	-	5,163
Net recoveries post write-offs	-	-	-	-	-	-	-	-
ECL movement on unfunded exposure	-	1,420	-	2,780	-	-	-	4,200
Exchange and other adjustments	-	(1)	-	-	-	-	-	(1)
Income statement release / (charge) for the year	**-**	**6,568**	**-**	**2,929**	**-**	**(125)**	**-**	**9,362**

Notes to the financial statements (continued)
For the year ended 31 December 2023

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Amounts arising from Expected Credit Loss (continued)

Movement in gross exposure and expected credit loss (continued)

	STAGE 1		STAGE 2		STAGE 3		Total	
	Exposure AED'000	Expected credit loss AED'000	Exposure AED'000	Expected credit loss AED'000	Exposure AED'000	Expected credit loss AED'000	Exposure AED'000	Expected credit loss AED'000
Balance as at 1 January 2022	6,643,936	(6,236)	65,937	(5,335)	548,368	(457,207)	7,258,241	(468,778)
Transfers to Stage 1	399	(3)	(399)	3	-	-	-	-
New financial assets originated or purchased	761,813	(402)	-	-	-	-	761,813	(402)
Net drawdowns/repayments/ risk parameter changes and other movements	(1,029,940)	(200)	(46,846)	5,183	(167,823)	76,789	(1,244,609)	81,772
Asset derecognised due to write-offs	-	-	-	-	(326,934)	326,934	(326,934)	326,934
Loss allowance as at 31 December 2022	**6,376,208**	**(6,841)**	**18,692**	**(149)**	**53,611**	**(53,484)**	**6,448,511**	**(60,474)**
Reconciliation of ECL movement to impairment (charge)/release for the period								
ECL movement excluding assets derecognised due to disposals and write-off	-	(605)	-	5,186	-	76,789	-	81,370
Net recoveries post write-offs	-	-	-	-	-	304	-	304
ECL movement on unfunded exposure	-	(4,185)	-	842	-	-	-	(3,343)
Income statement release / (charge) for the year	**-**	**(4,790)**	**-**	**6,028**	**-**	**77,093**	**-**	**78,331**

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Amounts arising from Expected Credit Loss (continued)

Movement in gross exposure and expected credit loss (continued)

Contingencies and commitments (Off Balance Sheet Exposures)

	Expected Credit loss
	AED'000
Balance as at 1 January 2023	8,996
Movement in letters of credit, guarantees & acceptances and undrawn commitments	(4,200)
Loss allowance as at 31 December 2023*	**4,796**
Balance as at 1 January 2022	5,653
Movement in letters of credit, guarantees & acceptances and undrawn commitments	3,343
Loss allowance as at 31 December 2022*	**8,996**

**ECL on off balance sheet exposures is booked under Other Liabilities (note 14).*

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

The following table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2023 and 2022 without taking into account any collateral held or other credit enhancements attached. For on and off-balance sheet assets, the exposures set out below are based on gross amounts as reported in the balance sheet.

	Maximum exposure	
	2023	2022
	AED'000	AED'000
On balance sheet:		
Cash and balances with the UAE Central Bank (excluding cash in hand) (note 4)	3,120,018	1,260,879
Due from other banks (note 5)	1,096,553	2,962,269
Due from Head Office and other branches (note 6)	74,582	66,999
Loans and advances (note 7)	1,035,432	1,020,757
Investments measured at fair value through other comprehensive income (FVOCI) (note 8)	-	1,127,804
Other assets (note 9)	176	3,757
Off balance sheet:		
Letters of credit (note 17)	577,789	456,599
Guarantees and acceptances (note 17)	1,332,953	1,415,021
Undrawn credit commitments (note 17)	6,212,205	4,863,914
At 31 December	**13,449,708**	**13,177,999**

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio and amounts due from banks based on the following:

- 75.50% (2022: 62.13%) of the loans and advances to corporate customers is categorised in the top grades of the Bank's internal grading system.

- The Bank continuously reviews its credit policy and changes are made based on the management information system reports and the patterns that emerge from these reports.

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Financial instruments at amortised cost by product

The table below presents a breakdown of financial instruments at amortised cost and Investments measured at fair value through other comprehensive income and the impairment allowance with stage allocation by asset classification.

	As at 31 December 2023			
Gross exposure	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,120,018	-	-	3,120,018
Due from other banks	1,096,553	-	-	1,096,553
Due from Head Office and other branches	74,582	-	-	74,582
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Corporate loans	996,631	-	38,801	1,035,432
Other assets	176	-	-	176
Total	**5,287,960**	**-**	**38,801**	**5,326,761**
Expected Credit Loss				
Cash and balances with the UAE Central Bank (excluding cash in hand)	-	-	-	-
Due from other banks	(329)	-	-	(329)
Due from Head Office and other branches	(1)	-	-	(1)
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Corporate loans	(1,372)	-	(38,801)	(40,173)
Other assets	-	-	-	-
Total	**(1,702)**	**-**	**(38,801)**	**(40,503)**
Net exposure				
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,120,018	-	-	3,120,018
Due from other banks	1,096,224	-	-	1,096,224
Due from Head Office and other branches	74,581	-	-	74,581
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Corporate loans	995,259	-	-	995,259
Other assets	176	-	-	176
Total	**5,286,258**	**-**	**-**	**5,286,258**
Coverage ratio				
Cash and balances with the UAE Central Bank (excluding cash in hand)	-	-	-	-
Due from other banks	0.03%	-	-	0.03%
Due from Head Office and other branches	-	-	-	-
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Corporate loans	0.14%	-	100.00%	3.88%
Other assets	-	-	-	-

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Financial instruments at amortised cost by product (continued)

	As at 31 December 2022			
Gross exposure	**Stage 1 AED'000**	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
Cash and balances with the UAE Central Bank (excluding cash in hand)	1,260,879	-	-	1,260,879
Due from other banks	2,962,269	-	-	2,962,269
Due from Head Office and other branches	66,999	-	-	66,999
Investments measured at fair value through other comprehensive income (FVOCI)	1,137,607	-	-	1,137,607
Corporate loans	948,454	18,692	53,611	1,020,757
Other assets	3,757	-	-	3,757
Total	**6,379,965**	**18,692**	**53,611**	**6,452,268**
Expected Credit Loss				
Cash and balances with the UAE Central Bank (excluding cash in hand)	-	-	-	-
Due from other banks	(3,904)	-	-	(3,904)
Due from Head Office and other branches	(5)	-	-	(5)
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Corporate loans	(2,932)	(149)	(53,484)	(56,565)
Other assets	-	-	-	-
Total	**(6,841)**	**(149)**	**(53,484)**	**(60,474)**
Net exposure				
Cash and balances with the UAE Central Bank (excluding cash in hand)	1,260,879	-	-	1,260,879
Due from other banks	2,958,365	-	-	2,958,365
Due from Head Office and other branches	66,994	-	-	66,994
Investments measured at fair value through other comprehensive income (FVOCI)	1,137,607	-	-	1,137,607
Corporate loans	945,522	18,543	127	964,192
Other assets	3,757	-	-	3,757
Total	**6,373,124**	**18,543**	**127**	**6,391,794**
Coverage ratio				
Cash and balances with the UAE Central Bank (excluding cash in hand)	-	-	-	-
Due from other banks	0.13%	-	-	0.13%
Due from Head Office and other branches	0.01%	-	-	0.01%
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Corporate loans	0.31%	0.80%	99.76%	5.54%
Other assets	-	-	-	-

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's financial assets and off-balance sheet items categorised by industry as at 31 December 2023 and 31 December 2022.

31 December 2023	Financial institutions	Construction & real estate	Wholesale and retail trade	Other industries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
On balance sheet items					
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,120,018	-	-	-	3,120,018
Due from other banks	1,096,553	-	-	-	1,096,553
Due from Head Office and other branches	74,582	-	-	-	74,582
Loans to corporate entities		30,742	295,279	709,411	1,035,432
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	-
Other assets	-	-		176	176
Total	**4,291,153**	**30,742**	**295,279**	**709,587**	**5,326,761**
Off balance sheet items					
Letters of credit	556,740	-	14,770	6,279	577,789
Guarantees and acceptances	541,584	-	124,726	666,643	1,332,953
Undrawn credit commitments	4,231,833	-	800,689	1,179,683	6,212,205
Total	**5,330,157**	**-**	**940,185**	**1,852,605**	**8,122,947**

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

31 December 2022	Financial institutions	Construction & real estate	Wholesale and retail trade	Other industries	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
On balance sheet items					
Cash and balances with the UAE Central Bank (excluding cash in hand)	1,260,879	-	-	-	1,260,879
Due from other banks	2,962,269	-	-	-	2,962,269
Due from Head Office and other branches	66,999	-	-	-	66,999
Loans to corporate entities	-	30,742	168,148	821,867	1,020,757
Investments measured at fair value through other comprehensive income (FVOCI)	1,137,607	-	-	-	1,137,607
Other assets	-	-	-	3,757	3,757
Total	**5,427,754**	**30,742**	**168,148**	**825,624**	**6,452,268**
Off balance sheet items					
Letters of credit	423,522	-	525	32,552	456,599
Guarantees and acceptances	640,008	-	129,266	645,747	1,415,021
Undrawn credit commitments	2,972,925	-	1,078,986	812,003	4,863,914
Total	**4,036,455**	**-**	**1,208,777**	**1,490,302**	**6,735,534**

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorised by geographical regions as at 31 December 2023 and 31 December 2022.

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

31 December 2023	**UAE AED'000**	**OECD AED'000**	**Asia AED'000**	**Others AED'000**	**Total AED'000**
Cash and balances with the UAE Central Bank (excluding cash in hand)	3,120,018	-	-	-	3,120,018
Due from other banks	755	700	1,093,064	2,034	1,096,553
Due from Head Office and other branches	8,407	66,168	7	-	74,582
Loans and advances					
- Corporate loans	638,412	397,020	-	-	1,035,432
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	-
Other assets	176	-	-	-	176
Total	**3,767,768**	**463,888**	**1,093,071**	**2,034**	**5,326,761**
31 December 2022					
Cash and balances with the UAE Central Bank (excluding cash in hand)	1,260,879	-	-	-	1,260,879
Due from other banks	78,770	539,686	2,342,235	1,578	2,962,269
Due from Head Office and other branches	19,841	47,150	8	-	66,999
Loans and advances					
- Corporate loans	531,692	489,065	-	-	1,020,757
Investments measured at fair value through other comprehensive income (FVOCI)	1,137,607	-	-	-	1,137,607
Other assets	3,757	-	-	-	3,757
Total	**3,032,546**	**1,075,901**	**2,342,243**	**1,578**	**6,452,268**

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Concentration of credit risk by industry

The following table breaks down the Bank's credit exposures on loans and advances, due from banks, Head Office and other branches, cash and balances with UAE Central Bank and off balance sheet items categorised by industry as at 31 December 2023 and 31 December 2022.

	On balance sheet items						
	Loans and advances* AED'000	Amounts due from banks, Head Office and other branches AED'000	Cash and balances with the UAE Central Bank (excluding cash in hand) AED'000	Investments measured at fair value through other comprehensive income (FVOCI) AED'000	Total funded AED'000	Off balance sheet items AED'000	Total AED'000
31 December 2023							
Crude oil, gas, mining & quarrying	-	-	-	-	-	638,104	638,104
Manufacturing	-	-	-	-	-	197,444	197,444
Construction	30,742	-	-	-	30,742	-	30,742
Trade	295,279	-	-	-	295,279	940,185	1,235,464
Transport, storage & communication	-	-	-	-	-	101,825	101,825
Financial institutions	-	1,171,135	3,120,018	-	4,291,153	5,330,158	9,621,311
Services	143,571	-	-	-	143,571	868,448	1,012,019
Government	566,016	-	-	-	566,016	46,783	612,799
Total exposures	**1,035,608**	**1,171,135**	**3,120,018**	**-**	**5,326,761**	**8,122,947**	**13,449,708**

*This includes Other Assets of AED'000 176

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Concentration of credit risk by industry (continued)

	On balance sheet items						
	Loans and advances AED'000	Amounts due from banks, Head Office and other branches AED'000	Cash and balances with the UAE Central Bank (excluding cash in hand) AED'000	Investments measured at fair value through other comprehensive income (FVOCI) AED'000	Total funded AED'000	Off balance sheet items AED'000	Total AED'000
31 December 2022							
Crude oil, gas, mining & quarrying	-	-	-	-	-	337,837	337,837
Manufacturing	167	-	-	-	167	270,109	270,276
Construction	30,742	-	-	-	30,742	-	30,742
Trade	168,148	-	-	-	168,148	1,208,776	1,376,924
Transport, storage & communication	-	-	-	-	-	101,825	101,825
Financial institutions	-	3,029,268	1,260,879	1,137,607	5,427,754	4,036,455	9,464,209
Services	256,754	-	-	-	256,754	780,532	1,037,286
Government	564,946	-	-	-	564,946	-	564,946
Total exposures	**1,020,757**	**3,029,268**	**1,260,879**	**1,137,607**	**6,448,511**	**6,735,534**	**13,184,045**

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

The following table breaks down the Bank's credit exposures on loans and advances, due from banks, Head Office and other branches, Investments measured at fair value through other comprehensive income, cash and balances with UAE Central Bank and off-balance sheet items categorised by maturity as at 31 December 2023 and 31 December 2022.

Concentration of credit risk by residual maturity

	On Balance sheet Items					
	Loans and advances* AED'000	**Amounts due from banks, Head Office and other branches AED'000**	**Cash and balances with the UAE Central Bank (excluding cash in hand) AED'000**	**Investments measured at fair value through other comprehensive income (FVOCI) AED'000**	**Total funded AED'000**	**Total unfunded AED'000**
31 December 2023						
Less than 3 months	323,706	202,760	3,120,018	-	3,646,484	711,008
3 months to 1 year	458,276	968,375	-	-	1,426,651	6,424,331
One to five years	253,626	-	-	-	253,626	806,174
Over five years	-	-	-	-	-	181,434
Total exposures	**1,035,608**	**1,171,135**	**3,120,018**	**-**	**5,326,761**	**8,122,947**
31 December 2022						
Less than 3 months	427,240	1,019,580	1,260,879	1,137,607	3,845,306	614,160
3 months to 1 year	33,638	2,008,698	-	-	2,042,336	466,121
One to five years	559,879	990	-	-	560,869	5,459,524
Over five years	-	-	-	-	-	195,729
Total exposures	**1,020,757**	**3,029,268**	**1,260,879**	**1,137,607**	**6,448,511**	**6,735,534**

*This includes Other Assets of AED'000 176

3 Financial risk management (continued)

3.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads and foreign exchange rates. The Bank has a limited exposure over market risk, except interest rate risk which is explained in note 3.5.

The Assets Liability Forum (ALFO) is responsible to formalise the Bank's key financial indicators and ratios, set the thresholds to manage and monitor the market risk and also analyse the sensitivity of the Bank's interest rate and maturity mismatches. ALFO also guides the Bank's investment decisions and provides guidance in terms of interest rate and currency movements.

3.3.1 Market risk measurement techniques

The stress test technique provides an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by the Bank's treasury include risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions -. The results of the stress tests are reviewed by senior management.

3.4 Foreign exchange risk

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

Barclays Bank PLC - Dubai Branch

Notes to the financial statements (continued)
For the year ended 31 December 2023

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.1 Foreign exchange risk

	AED AED'000	USD AED'000	EUR AED'000	GBP AED'000	Others AED'000	Total AED'000
31 December 2023						
Assets						
Cash and balances with the UAE Central Bank	3,140,509	73	-	-	-	3,140,582
Due from other banks	17	838,681	237,327	-	20,528	1,096,553
Due from Head Office and other branches	8,386	38,392	1,946	25,851	7	74,582
Loans and advances	28,070	1,007,362	-	-	-	1,035,432
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	-	-
Other assets	176	-	-	-	-	176
Total financial assets	**3,177,158**	**1,884,508**	**239,273**	**25,851**	**20,535**	**5,347,325**
Liabilities						
Due to customers	401,494	1,908,668	82,201	25,918	6,196	2,424,477
Due to Head Office and other branches	337,583	22,416	-	565	13,987	374,551
Other liabilities	11,698	22,087	174	51	-	34,010
Total financial liabilities	**750,775**	**1,953,171**	**82,375**	**26,534**	**20,183**	**2,833,038**
Net on-balance sheet financial position	**2,426,383**	**(68,663)**	**156,898**	**(683)**	**352**	**2,514,287**

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.1 Foreign exchange risk (continued)

	AED AED'000	USD AED'000	EUR AED'000	GBP AED'000	Others AED'000	Total AED'000
31 December 2022						
Assets						
Cash and balances with the UAE Central Bank	1,286,305	73	-	-	-	1,286,378
Due from other banks	6,294	2,314,660	619,634	-	21,681	2,962,269
Due from Head Office and other branches	2,506	27,210	12,566	24,709	8	66,999
Loans and advances	17,410	1,003,330	17	-	-	1,020,757
Investments measured at fair value through other comprehensive income (FVOCI)	1,137,607	-	-	-	-	1,137,607
Other assets	3,757	-	-	-	-	3,757
Total financial assets	**2,453,879**	**3,345,273**	**632,217**	**24,709**	**21,689**	**6,477,767**
Liabilities						
Due to customers	302,847	1,888,032	54,276	24,603	7,703	2,277,461
Due to Head Office and other branches	219,271	967,531	573,433	579	13,658	1,774,472
Other liabilities	50,701	-	447	52	-	51,200
Total financial liabilities	**572,819**	**2,855,563**	**628,156**	**25,234**	**21,361**	**4,103,133**
Net on-balance sheet financial position	**1,881,060**	**489,710**	**4,061**	**(525)**	**328**	**2,374,634**

The Bank has limited exposure to foreign exchange risk as most of the foreign currency financial instruments are either in US Dollar or in currencies pegged to US Dollars. Liabilities incurred in other currencies, mainly EUR and GBP, are placed with Head Office or swapped into AED via foreign exchange swaps to remain compliant with the Central Bank regulation on managing large exposures.

3 Financial risk management (continued)

3.4 Foreign exchange risk (continued)

3.4.2 Sensitivity of currency risk

The following tables demonstrate the sensitivity to a reasonably possible change in foreign currency rates, with all other variables held constant. The impact on the Bank's statement of profit or loss is due to changes in the fair value of financial assets and liabilities.

31 December 2023	EUR AED'000	GBP AED'000	Others* AED'000	Total AED'000
Total assets	239,273	25,851	20,535	285,659
Total liabilities	(82,375)	(26,534)	(20,183)	(129,092)
Net assets / (liabilities)	**156,898**	**(683)**	**352**	**156,567**
FX forward purchases / (sales)	(156,050)	-	-	(156,050)
Net exposure	848	(683)	352	517
5% sensitivity	42.40	(34.15)	17.60	25.85

31 December 2022	EUR AED'000	GBP AED'000	Others* AED'000	Total AED'000
Total assets	632,217	24,709	7,259	664,185
Total liabilities	(628,156)	(25,234)	(7,170)	(660,560)
Net assets / (liabilities)	**4,061**	**(525)**	**89**	**3,625**
FX forward purchases / (sales)	(1,571)	177	(10)	(1,404)
Net exposure	2,490	(348)	79	2,221
5% sensitivity	124	(17)	4	111

*All the currencies pegged with US Dollar are excluded from the above analysis.

3 Financial risk management (continued)

3.5 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The ALFO sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily by Treasury. The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual re pricing or maturity dates.

31 December 2023	Up to 1 month AED'000	1-3 months AED'000	3-6 months AED'000	6-12 months AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets							
Cash and balances with the UAE Central Bank	2,990,897	-	-	-	-	149,685	3,140,582
Due from other banks	98,189	15,042	233,016	729,778	-	20,528	1,096,553
Due from Head Office and other branches	26,087	1,682	4,253	1,328	-	41,232	74,582
Loans and advances	1,018,120	10,185	7,127	-	-	-	1,035,432
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	176	176
Total financial assets	**4,133,293**	**26,909**	**244,396**	**731,106**	**-**	**211,621**	**5,347,324**
Liabilities							
Due to customers	1,296,518	51,557	274,792	32,507	150	768,953	2,424,477
Due to Head Office and other branches	22,415	-	-	-	-	352,136	374,551
Other liabilities	-	-	-	-	-	34,010	34,010
Total financial liabilities	**1,318,933**	**51,557**	**274,792**	**32,507**	**150**	**1,155,099**	**2,833,038**
Interest sensitivity gap	**2,814,360**	**(24,648)**	**(30,396)**	**698,599**	**(150)**	**(943,478)**	**2,514,287**

3 Financial risk management (continued)

3.5 Interest rate risk (continued)

31 December 2022	Up to 1 month AED'000	1-3 months AED'000	3-6 months AED'000	6-12 months AED'000	Over 1 year AED'000	Non-interest bearing AED'000	Total AED'000
Assets							
Cash and balances with the UAE Central Bank	1,120,138	-	-	-	-	166,240	1,286,378
Due from other banks	277,135	615,596	452,938	1,593,855	1,065	21,680	2,962,269
Due from Head Office and other branches	367	197	14,729	2,590	-	49,116	66,999
Loans and advances	140,928	754,803	125,026	-	-	-	1,020,757
Investments measured at fair value through other comprehensive income (FVOCI)	868,122	269,485	-	-	-	-	1,137,607
Other assets	-	-	-	-	-	3,757	3,757
Total financial assets	**2,406,690**	**1,640,081**	**592,693**	**1,596,445**	**1,065**	**240,793**	**6,477,767**
Liabilities							
Due to customers	852,252	316,155	-	1,325	150	1,107,579	2,277,461
Due to Head Office and other branches	783,827	364,359	392,778	-	-	233,508	1,774,472
Other liabilities	-	-	-	-	-	51,200	51,200
Total financial liabilities	**1,636,079**	**680,514**	**392,778**	**1,325**	**150**	**1,392,287**	**4,103,133**
Interest sensitivity gap	**770,611**	**959,567**	**199,915**	**1,595,120**	**915**	**(1,151,494)**	**2,374,634**

3 Financial risk management (continued)

3.5 Interest rate risk (continued)

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

	AED %	USD %	EUR %	GBP %
31 December 2023				
Assets				
Deposits with Central Bank	5.40	-	-	-
Bills discounted	-	6.16	5.04	-
Due from Head Office and other branches	6.41	-	-	4.85
Loans and advances	8.15	6.84	-	-
Liabilities				
Due to Head Office and other branches	-	5.50	-	-
Due to customers	4.42	5.64	-	4.00
31 December 2022				
Assets				
Deposits with Central Bank	4.40	-	-	-
Bills discounted	5.90	4.10	3.70	-
Due from Head Office and other branches	4.90	4.50	2.70	-
Loans and advances	6.90	6.40	5.70	-
Liabilities				
Due to Head Office and other branches	-	3.80	2.73	-
Due to customers	0.07	3.34	-	-

Interest rate risk is also assessed by measuring the impact of reasonable possible change in interest rate movements. The Bank assumes a fluctuation in interest rates of 25 basis points (bps) as being reasonable and estimates the following impact on the interest income and interest expense for the year:

	Interest income AED'000	Interest expense AED'000
31 December 2023		
Fluctuation in yield by 25 bps	1,946	2,535
31 December 2022		
Fluctuation in yield by 25 bps	5,342	4,039

The above sensitivity is calculated based on Interest Rate sensitivity per basis point metric and assumes instantaneous parallel change to forward interest rate curves. The model does not apply floors to shocked market rates and does not recognizes the interest rate floors where relevant and balances are adjusted for assumed behavioural profiles (e.g. Structural Interest rate hedges balances). It does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3 Financial risk management (continued)

3.6 Liquidity risk

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

The Bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Bank's internal guidelines mandated by ALFO. The Central Bank of the U.A.E. has reserve requirements on deposits ranging between 1% and 11% on demand and time deposits. The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALFO monitors liquidity ratios on a regular basis and for covering the risk of any mismatch in liquidity, Head Office funding is available for the Dubai Branch.

The table below presents the cash flows payable by the Bank by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Liquidity risk **Liabilities**	**Total carrying amount AED'000**	**Gross nominal outflows AED'000**	**Up to 3 Months AED'000**	**3 - 12 months AED'000**	**1 - 5 years AED'000**
31 December 2023					
Due to customers	2,424,477	2,434,142	2,120,210	313,782	150
Due to Head Office and other branches	374,551	374,558	374,558	-	-
Other liabilities	34,010	34,010	31,504	400	2,106
	2,833,038	**2,842,710**	**2,526,272**	**314,182**	**2,256**
31 December 2022					
Due to customers	2,277,461	2,282,944	2,110,403	172,391	150
Due to Head Office and other branches	1,774,472	1,783,345	1,384,729	398,616	-
Other liabilities	54,037	54,037	54,037	-	-
	4,105,970	**4,120,326**	**3,549,169**	**571,007**	**150**

3 Financial risk management (continued)

3.6 Liquidity risk (continued)

The table below analyses the Bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	1-3 months AED'000	3-12 months AED'000	1-5 years AED'000	Total AED'000
31 December 2023					
Foreign exchange contracts					
− Outflow	169,753	-	-	-	**169,753**
− Inflow	169,633	-	-	-	**169,633**
31 December 2022					
Foreign exchange contracts					
− Outflow	646,719	-	-	-	**646,719**
− Inflow	646,673	-	-	-	**646,673**

Off-balance sheet items	No later than 1 year AED'000	1-5 years AED'000	Total AED'000
31 December 2023			
Letter of credit, guarantees and acceptances	5,955,095	257,110	6,212,205
Undrawn credit commitments	1,180,244	730,498	1,910,742
Total	**7,135,339**	**987,608**	**8,122,947**
31 December 2022			
Letter of credit, guarantees and acceptances	1,080,282	791,338	1,871,620
Undrawn credit commitments	4,698,629	165,285	4,863,914
Total	**5,778,911**	**956,623**	**6,735,534**

3.7 Fair value of financial assets and liabilities

(a) Definition

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

The Bank has determined that the fair value of its current financial assets and liabilities not measured at fair value approximates its carrying amount as at the year end.

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

(a) Definition (continued)

Fair Value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments – e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure – are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

(a) Definition (continued)

Fair value hierarchy

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

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

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

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

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction in the principal market at the measurement date under current market conditions (i.e., an exit price). Unadjusted quoted prices in active markets provide the best evidence of fair value. When there is no quoted price in an active market, the Bank applies other valuation techniques that maximize the use of relevant observable inputs and that minimize the use of unobservable inputs. Such valuation techniques include the following: using information available from recent market transactions, referring to the current fair value of a comparable financial instrument, applying discounted cash flow analysis, applying option pricing models, or relying on any other valuation technique that is commonly used by market participants and has proven to yield reliable estimates.

For over-the-counter (OTC) derivative financial instruments, fair value is determined using well established valuation techniques that incorporate assumptions based primarily on observable market inputs such as current market prices and the contractual prices of the underlying instruments, the time value of money, interest rate yield curves, credit curves, currency rates as well as price and rate volatility factors.

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

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

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

(b) Financial instruments not measured at fair value
For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

The financial instruments not measured at fair value but at amortised cost, however, their carrying amount are approximately equal to fair values due to short short-term nature of these items.

3 Financial risk management (continued)

3.7 Fair value of financial assets and liabilities (continued)

(c) Financial instruments measured at fair value

The assets measured at fair value as per the hierarchy as at 31 December 2022 and 31 December 2021 are disclosed in the table below:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2023				
Financial assets				
Investments measured at fair value through other comprehensive income (FVOCI)	-	-	-	-
Foreign currency forwards	-	21	-	21
Financial liabilities:				
Foreign currency forwards	**-**	**141**	**-**	**141**

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2022				
Financial assets				
Investments measured at fair value through other comprehensive income (FVOCI)	1,137,607	-	-	1,137,607
Financial liabilities:				
Foreign currency forwards	**-**	**53**	**-**	**53**

3 Financial risk management (continued)

3.8 Capital management

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

The minimum capital adequacy requirements as set out by the Central Bank are as follows:

- Minimum common equity tier 1 (CET 1) ratio of 7% of risk weighted assets (RWAs).
- Minimum tier 1 ratio of 8.5% of RWAs.
- Total capital adequacy ratio of 10.5% of RWAs.

The table below summarizes the composition of regulatory capital and the ratios of the Bank as per BASEL III guidelines and has complied with all of the externally imposed capital requirements which it is subject to:

	2023 AED'000	2022 AED'000
Tier 1 capital		
Allocated capital	2,540,214	2,540,214
Legal reserve	174,126	155,555
Accumulated other comprehensive income	-	8,215
Accumulated losses	(238,659)	(407,328)
Eligible Tier 1 capital	2,475,681	2,296,656
Deductions:		
Intangible assets	1,032	3,138
Total deductions	1,032	3,138
Tier 1 capital	**2,474,649**	**2,293,518**
Tier 2 capital		
General provision	25,460	33,896
Total regulatory capital	**2,500,109**	**2,327,414**
Risk Weighted Assets		
Credit exposure risk	2,036,411	2,710,211
Credit value adjustment	364	1,442
Total Credit risk	2,036,775	2,711,653
Market risk	1,200	2,811
Operational risk	187,453	208,584
Total risk weighted assets	**2,225,428**	**2,923,048**
Tier 1 capital ratio	111.20%	78.46%
Capital adequacy ratio	112.34%	79.62%

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.1 Analysis of branch's exposure based on Basel III standardised approach

		Credit Risk Mitigation (CRM)			
	On and Off balance sheet gross outstanding AED'000	**Exposure before CRM AED'000**	**CRM AED'000**	**After CCF AED'000**	**Risk weighted Assets AED'000**
31 December 2023					
Claims on sovereigns	3,120,08	3,120,018	-	3,120,018	-
Claims on banks	6,545,060	6,545,060	-	1,907,523	725,705
Claims on public sector enterprise including GRE	611,099	611,099	-	576,097	326,659
Claims on corporates & GRE	3,173,579	3,173,579	11,356	967,556	890,119
Past due loans	42,338	237	-	237	237
Other assets	66,207	66,207	-	66,207	93,691
Total claims	**13,558,301**	**13,516,200**	**11,356**	**6,637,638**	**2,036,411**
Of which:					
Rated exposure	10,675,488				
Unrated exposure	2,882,813				
Total exposure	**13,558,301**				

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.1 Analysis of branch's exposure based on Basel III standardised approach (continued)

		Credit Risk Mitigation (CRM)			
	On and Off balance sheet gross outstanding AED'000	**Exposure before CRM AED'000**	**CRM AED'000**	**After CCF AED'000**	**Risk weighted Assets AED'000**
31 December 2022					
Claims on sovereigns	2,398,485	2,398,485	-	2,398,485	-
Claims on banks	7,130,224	7,130,224	-	3,644,361	1,525,975
Claims on public sector enterprise including GRE	608,518	608,518	-	570,101	320,663
Claims on corporates & GRE	3,057,272	3,057,272	90,197	907,145	816,948
Past due loans	66,226	363	-	363	363
Other assets	60,721	60,721	-	60,721	46,262
Total claims	**13,321,446**	**13,255,583**	**90,197**	**7,581,176**	**2,710,211**
Of which:					
Rated exposure	9,967,453				
Unrated exposure	3,353,993				
Total exposure	**13,321,446**				

3 Financial risk management (continued)

3.8 Capital management (continued)

3.8.2 Capital requirement for market risk under standardised approach as at 31 December

	Risk weighted assets		Capital charge	
	2023 AED'000	2022 AED'000	2023 AED'000	2022 AED'000
Market risk				
Foreign exchange risk	1,200	2,811	126	295

Capital charge for year ended 31 December 2023 has been calculated at 10.5% (2022: 10.5%).

3.8.3 Gross exposures and credit risk mitigation

	Exposures		Risk weighted assets	
	2023 AED'000	2022 AED'000	2023 AED'000	2022 AED'000
Gross exposure prior to credit risk mitigation	13,516,200	13,255,583	2,036,411	2,710,211
Less: Exposures covered by eligible financial collateral	(11,356)	(90,197)	-	-
Net exposures after credit risk mitigation	**13,504,844**	**13,165,386**	**2,036,411**	**2,710,211**

4 Cash and balances with the UAE Central Bank

	2023 AED'000	2022 AED'000
Cash in hand (note 25)	20,564	25,499
With the UAE Central Bank in:		
Current account (note 25)	29,000	22,130
Statutory deposit	100,121	118,612
Overnight deposit facility (note 25)	2,990,897	1,120,137
	3,140,582	**1,286,378**

The current account balances are transferred to statutory deposit account at the end of the day as part of overnight sweeping mechanism introduced by UAE Central Bank. The statutory deposit with the UAE Central bank is not available to finance the day-to-day operations of the Bank. Cash in hand, current account and statutory deposit with the UAE Central Bank are non-interest-bearing balances.

5 Due from other banks

	2023 AED'000	2022 AED'000
Current accounts (note 25)	20,528	21,681
Bills discounted	1,076,025	2,940,588
	1,096,553	2,962,269
Expected credit loss	(329)	(3,904)
	1,096,224	**2,958,365**

6 Due from Head Office and other branches

	2023 AED'000	2022 AED'000
Current accounts (note 25)	42,685	46,746
Term Deposits (note 25)	21,061	-
Bills discounted	8,019	17,887
Other receivables	2,817	2,366
	74,582	66,999
Expected credit loss	(1)	(5)
	74,581	**66,994**

Due from Head Office and other branches are related party balances (note 26).

7 Loans and advances

	2023 AED'000	2022 AED'000
Corporate loans	1,035,432	1,020,757
Expected credit loss	(40,173)	(56,565)
Net loans and advances	**995,259**	**964,192**

8 Investments measured at fair value through other comprehensive income

8(a) Investments measured at fair value through other comprehensive income (FVOCI)

	2023 AED'000	2022 AED'000
Quoted debt securities	-	1,137,607

8(b) Movement in Investments measured at fair value through other comprehensive income

	2023 AED'000	2022 AED'000
At 1 January		
Opening balance	1,137,607	1,797,492
Addition during the year	403,284	1,127,804
Matured during the year	(1,540,891)	(1,797,492)
Change in fair value	-	9,803
At 31 December	**-**	**1,137,607**

9 Other assets

	2023 AED'000	2022 AED'000
Prepayments	2,043	1,742
Other receivables	2,981	3,757
	5,024	**5,499**

10 Intangible assets and Right-of-use assets

	Intangible assets AED'000	Right-of-use assets AED'000	Total AED'000
Cost			
At 1 January 2022	17,265	1,764	19,029
Additions	-	-	-
Transfer	-	-	-
At 31 December 2022	**17,265**	**1,764**	**19,029**
Accumulated amortisation			
At 1 January 2022	(11,250)	(1,154)	(12,404)
Charge for the year	(2,877)	(349)	(3,226)
At 31 December 2022	**(14,127)**	**(1,503)**	**(15,630)**
Net book amount			
At 31 December 2022	**3,138**	**261**	**3,399**
Cost			
At 1 January 2023	17,265	1,764	19,029
Additions	-	2,343	2,343
Transfer	-	-	-
At 31 December 2023	**17,265**	**4,107**	**21,372**
Accumulated amortisation			
At 1 January 2023	(14,127)	(1,503)	(15,630)
Charge for the year	(2,106)	(379)	(2,485)
At 31 December 2023	**(16,233)**	**(1,882)**	**(18,115)**
Net book amount			
At 31 December 2023	**1,032**	**2,225**	**3,257**

Details of right-of-use assets are given in Note 24.

11 Deferred income tax assets

Deferred income taxes are calculated on all temporary differences under the liability method using an effective tax rate of 20%.

The movement on the deferred income tax account is as follows:

	2023 AED'000	2022 AED'000
At 1 January	7,361	17,431
Credit / (Charged) to Profit and Loss	22,710	(8,109)
Credit / (Charged) to Other Comprehensive income	1,961	(1,961)
At 31 December	**32,032**	**7,361**

Deferred income tax assets are attributable to the following items:

	2023 AED'000	2022 AED'000
Expected credit loss (Stage 1&2)	325	1,382
Provision for suspended interest	660	2,476
Gain in FV on Investments measured at fair value through other comprehensive income (FVOCI)	-	(1,961)
Unused tax losses	26,187	-
Other accruals and provisions	4,860	5,464
	32,032	**7,361**

Deferred income tax assets are recognised only to the extent that realisation of the related tax benefit is probable.

12 Due to customers

	2023 AED'000	2022 AED'000
Current accounts	472,176	580,467
Call deposits	524,652	535,329
Term deposits	1,427,649	1,161,665
	2,424,477	**2,277,461**

At 31 December 2023, term deposits amounting to AED 0.88 million (2022: AED 0.97 million) were held as cash collateral for loans and advances granted to and commitments made on behalf of customers.

13 Due to Head Office and other branches

	2023 AED'000	2022 AED'000
Term deposits	22,416	1,540,964
Current accounts	143,494	175,791
Call accounts	156,432	32,546
Others	52,209	25,171
	374,551	**1,774,472**

Others include balances payable to Barclays Bank PLC – DIFC Branch amounting to AED33.46 million (2022: AED 21.43 million) on account of operating expenses recharged by it.

Due to Head Office and other branches are related party balances (note 26).

14 Other liabilities

	2023 AED'000	2022 AED'000
Bills payable	30,612	36,974
Deferred income	1,837	1,711
Provision for End of service benefits (note 14(a))	1,372	1,126
Expected credit loss on unfunded exposures (note 3.2.3)	4,796	8,996
Others	7,993	5,230
	46,610	**54,037**

Others include a provision of AED 1.15 million (2022: AED 1.15 million) representing management's estimate of a claim related to the exit of the retail banking business.

(a) Provision for end of service benefits

	2023 AED'000	2022 AED'000
1 January	1,126	1,292
Add: Charge during the year	246	191
Less: Payments during the year	-	(357)
31 December	**1,372**	**1,126**

(b) Provision for employees' end of service benefits

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at 31 December 2023, in respect of employees' end of service benefits payable under the UAE Labour Law. An assessment has been made of an employees' expected service life with the Bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs to be 7.99% in 2023 (2022: 8.4 %). The expected liability at the date of leaving the service has been discounted to its net present value using a discount rate of 3.88% (2022: 3.62%).

15 Allocated capital

In accordance with the UAE Union Law Number (10) of 1980, as amended, allocated capital represents the amount of an interest free deposit provided by the Head Office.

16 Reserves

(a) Legal reserve

In accordance with Article 82 of the UAE Union Law Number (10) of 1980, as amended, 10% of the profit for the year is required to be transferred to a legal reserve which is non-distributable. Allocations to this reserve are required to be made until such time as the balance in this reserve equals 50% of the allocated capital. This reserve is not available for distribution.

(b) General reserve

The Bank has created a special reserve titled as ‘General reserve’ in lieu of the general provision required to be created in accordance with the “Circular No 28/2010’’ issued by the UAE Central Bank. The Bank assesses the general provision requirement annually at each balance sheet date. Based on this assessment, general reserve of AED 25.64 million was required as at 31 December 2023 (2022: AED 27.17 million) and thus an amount of AED 1.53 million was released from general reserve understatement of movements in Head Office account and reserves during the year ended 31 December 2023 (2022: a release of AED 3.65 million was recorded in general reserve).

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

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

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

	2023 AED'000	2022 AED'000
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	32,160	43,155
Less: Stage 1 and Stage 2 provisions under IFRS 9	6,520	15,986
General provision transferred to the General Reserve*	25,640	27,169
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	38,801	53,484
Less: Stage 3 provisions under IFRS 9	38,801	53,484
Specific provision transferred to the General Reserve*	-	-
Total provision transferred to the impairment reserve	**25,640**	**27,169**

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

17 Contingencies and commitments

	2023 AED'000	2022 AED'000
Letters of credit	577,789	456,599
Guarantees and acceptances	1,332,953	1,415,021
Undrawn credit commitments	6,212,205	4,863,914
	8,122,947	**6,735,534**

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

18 Forward foreign exchange contracts

Forward foreign exchange contracts (FECs) comprise commitments to purchase and sell foreign and domestic currencies on behalf of customers and in respect of the Bank's proprietary activities and undelivered spot transactions. The Bank has entered into the following forward exchange transactions which have been marked to market:

	Contractual/ notional amount AED'000	Assets AED'000	Liabilities AED'000
31 December 2023	169,633	21	141
31 December 2022	646,673	2	53

19 Interest income

	2023 AED'000	2022 AED'000
Loans and advances	82,072	56,493
Bills discounted	93,259	48,166
Overnight deposits facility	124,787	13,147
Deposits with Head Office (note 26)	5,369	1,313
Investment at FVOCI	19,284	15,539
	324,771	**134,658**

20 Interest expense

	2023 AED'000	2022 AED'000
Term deposits from Head Office (note 26)	28,782	22,156
Due to customers	84,532	25,957
	113,314	**48,113**

21 Fee and commission income

	2023 AED'000	2022 AED'000
Documentary credits and guarantees	11,284	10,705
Loan fees	9,295	6,145
Other commission	16,493	12,999
	37,072	**29,849**

22 Operating expenses

	2023 AED'000	2022 AED'000
Staff costs (note 22 (a))	6,162	5,439
Postage and communication	2,079	2,161
Amortisation of intangible assets and right-of-use assets (note 10)	2,485	3,226
Expenses incurred by related parties on behalf of the Branch (note 26)	79,648	69,522
Expenses incurred by the Branch on behalf of related parties (note 26)	(3,267)	(3,705)
Salaries paid to outsourced staff	3,850	3,483
Other	9,165	7,608
	100,122	**87,734**

22(a) Staff costs

	2023 AED'000	2022 AED'000
Salaries and allowances	3,036	2,714
Other staff costs	3,126	2,725
	6,162	**5,439**

23 Income tax

	2023 AED'000	2022 AED'000
Deferred tax (credit) / charge	(24,671)	10,070
Income tax relating to fair value gain on Investments measured at FVOCI	1,961	(1,961)
Income tax (credit) / expense	**(22,710)**	**8,109**

The income tax rate applicable to the Bank's 2023 income as per Dubai Tax Rules is 20% (2022: 20%).

On 9 December 2022, the United Arab Emirates (UAE) Ministry of Finance released Federal Decree-Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law ("CT Law") to enact a new CT regime in the UAE. The new CT regime has become effective for accounting periods beginning on or after 1 June 2023.

As the Bank's accounting year ends on 31 December, the first tax period will be 1 January 2024 to 31 December 2024, with the first return to be filed on or before 30 September 2025. As per the Bank's assessment, there is no material deferred tax impact on account of the CT Law in the financial statements for the year ended 31 December 2023.

Further information about deferred income tax is presented in note 11. The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Bank as follows:

	2023 AED'000	2022 AED'000
Profit before taxation	**163,002**	**125,039**
Tax calculated at the base tax rate of the Bank	32,600	25,008
Effect of:		
Release of Stage 3 provision disallowed in prior years for which no deferred tax was recognised	(2,937)	(80,744)
Gain on FVOCI for which deferred tax is recognised during the year	-	(1,961)
Unused tax losses for which no deferred tax is recognised	12,531	65,806
Bought forward loss from previous year on which no deferred tax was recognised	(64,904)	-
Income tax (credit)/charge	**(22,710)**	**8,109**

A deferred tax asset has not been recognised for the following:

	2023 AED'000	2022 AED'000
Carried forward losses	62,655	324,523
ECL provision on Stage 3 corporate loans	38,801	53,484

The unused tax losses must be utilised by 31 December 2024.

24 Leases

The Bank leases branch premises for a period of 5 years, with an option to renew the lease after that date. Payments are renegotiated every five years to reflect market rentals.

The Bank also leases IT equipment with contract terms of one to three years. The leases are short-term and/or leases of low-value items. The Bank has elected not to recognise right-of-use assets and lease liabilities for these leases.

i. Lease liability

	2023 AED'000	2022 AED'000
As at 1 January	347	793
Increase due to new lease	2,355	-
Interest expense	42	18
Cash payments	(495)	(464)
As at 31 December	**2,249**	**347**

The lease liability is included in Other liabilities as at 31 December.

	2023 AED'000	2022 AED'000
Year 1	532	350
Year 2	540	-
Year 3-5	1,566	-
	2,638	350
Less: unamortised interest	(389)	(3)
	2,249	347

ii. Amounts recognised in profit or loss

Leases under IFRS 16	**2023 AED'000**	**2022 AED'000**
Interest on lease liabilities	42	18
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	-	19

iii. Amounts recognised in statement of cash flows

	2023 AED'000	2022 AED'000
Total cash outflow for leases	495	464

25 Cash and cash equivalents for statement of cash flow

	2023 AED'000	2022 AED'000
Cash and balances with the UAE Central Bank (note 4)		
Cash in hand	20,564	25,499
Current account	29,000	22,130
Overnight deposit facility	2,990,897	1,120,137
Due from other banks (note 5)		
Current accounts	20,528	21,681
Due from Head Office and other branches (note 6)		
Term Deposit	21,061	-
Current accounts	42,685	46,746
	3,124,735	**1,236,193**

26 Related party transactions

Related parties comprise the Head Office and branches of the Head Office and key management personnel.

During the year, the Branch entered into transactions with related parties in the ordinary course of business at mutually agreed terms and conditions. In addition to the balances noted in the assets and liabilities of the Bank at the year end, the following transactions were carried out on normal commercial terms and conditions.

	2023 AED'000	2022 AED'000
Transactions during the year:		
Interest income (note 19)	5,369	1,313
Interest expense (note 20)	28,782	22,156
Operating expenses include:		
Expenses incurred by related parties on behalf of the Head office	6,277	5,927
Expenses incurred by related parties on behalf of the Branch	73,371	63,595
Expenses incurred by the Branch on behalf of related parties (note 22)	(3,267)	(3,705)
Due from Head Office (note 6)	23,478	22,386
Due from other branches (note 6)	51,103	44,608
Due to Head Office (note 13)	22,557	1,541,017
Due to other branches (note 13)	351,994	233,455

Key management personnel include employees of other entities within the Head Office with management responsibilities for the Branch. Remuneration of such employees are booked in the respective employing entity of the Head Office.

27 Comparative figures

Certain comparative figures have been reclassified, where necessary, to conform with changes in the current period's presentation.