

Arab African International Bank UAE Branches

Financial statements

For the year ended 31 December 2023

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT OF ARAB AFRICAN INTERNATIONAL BANK - UNITED ARAB EMIRATES BRANCHES

Opinion

We have audited the financial statements of Arab African International Bank - United Arab Emirates Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policy information.

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

Basis for opinion

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

Responsibilities of management for the financial statements

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

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

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

**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT OF
ARAB AFRICAN INTERNATIONAL BANK - UNITED ARAB EMIRATES BRANCHES
(continued)**

Auditor's responsibilities for the audit of the financial statements

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

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

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

We communicate with management 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.

**Arab African International Bank
United Arab Emirates Branches**



**INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENT OF
ARAB AFRICAN INTERNATIONAL BANK - UNITED ARAB EMIRATES BRANCHES
(continued)**

Report on other legal and regulatory requirements

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

For Ernst & Young

A handwritten signature in blue ink, appearing to read 'Wardah Ebrahim', is written over a horizontal line.

Wardah Ebrahim
Partner
Registration No: 1258

28 March 2024

Dubai, United Arab Emirates

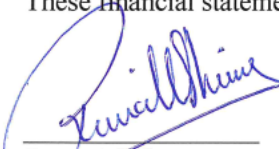
Arab African International Bank
United Arab Emirates Branches
Statement of financial position
As at 31 December 2023

	Notes	2023 AED'000 (Audited)	2022 AED'000 (Audited)
Assets			
Cash and balances with the Central Bank			
Of the UAE	6	1,441,356	944,984
Due from banks	7	7,991,607	3,730,860
Due from Head Office and other branches	24	176,378	367,497
Loans and advances	8	2,156,145	1,902,821
Financial investments	9	1,045,970	569,685
Premises, equipment and right of use assets	10	28,953	19,810
Deferred tax assets	22	26,901	43,636
Other assets	11	36,376	78,448
Total assets		12,903,686	7,657,741
Liabilities			
Customers' deposits	12	10,145,281	4,914,821
Due to banks	13	504,492	685,103
Due to Head Office and other branches	24	24,414	17,766
Other liabilities	14	136,998	209,871
Total liabilities		10,811,185	5,827,561
Head Office equity			
Allocated capital	15	686,437	686,437
Legal reserve	15	180,968	155,066
Fair value reserve		3,303	-
Impairment reserve		50,393	28,858
Retained earnings		1,171,400	959,819
Total Head Office equity		2,092,501	1,830,180
Total liabilities and Head Office equity		12,903,686	7,657,741

The notes on pages 9 to 70 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

These financial statements were approved and authorised for issue on 28 MAR 2024 by:


Rania El Sheimy
UAE Country Head

Arab African International Bank

United Arab Emirates Branches

Statement of profit or loss

For the year ended 31 December 2023

		2023 AED'000 (Audited)	2022 AED'000 (Audited)
	Notes		
Interest income	16	509,864	250,712
Interest expense	17	(163,087)	(26,029)
Net Interest Income		346,777	224,683
Fee and commission income	18	41,902	34,522
Fee and commission expense	18	(2,921)	(773)
Net Fee and Commission income		38,981	33,749
Net gains on foreign exchange	21	22,215	52,421
Other income	19	822	311
Net Foreign Exchange and Other Income		23,037	52,732
Operating income		408,795	311,164
Personnel expenses		(34,780)	(28,886)
Depreciation	10	(4,644)	(3,434)
Other operating expenses	20	(21,652)	(16,336)
Profit before net impairment charge and taxation		347,719	262,508
Net impairment (charge)/ reversal on financial assets	7,8,9,11,25	(23,946)	81,237
Profit before tax		323,773	343,745
Taxation	22	(64,755)	(68,749)
Profit for the year		259,018	274,996

The notes on pages 9 to 70 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Arab African International Bank
United Arab Emirates Branches

Statement of profit or loss and other comprehensive income

For the year ended 31 December 2023

	2023	2022
	AED'000	AED'000
	(Audited)	(Audited)
Profit for the year	259,018	274,996
<i>Other comprehensive income:</i>		
<i>Other comprehensive income that will not be reclassified to the income statement</i>		
Revaluation losses on equity instruments at fair value through other comprehensive income	(2,443)	-
<i>Items that may or will be reclassified subsequently to statement of profit or loss</i>		
Debt instruments at fair value through other comprehensive income:		
Net change in fair value during the year	(487)	(12)
Changes in allowance for expected credit losses	6,233	-
Other comprehensive income/(loss) for the year	3,303	(12)
Total comprehensive income for the year	262,321	274,984

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Arab African International Bank
United Arab Emirates Branches
Statement of changes in equity
For the year ended 31 December 2023

	Allocated Capital AED'000	Legal Reserve AED'000	Fair Value Reserve AED'000	Impairment Reserve AED'000	Retained earnings AED'000	Total Head Office equity AED'000
As at 1 January 2022	686,437	127,566	12	29,653	711,528	1,555,196
Total comprehensive income for the year	-	-	(12)	-	274,996	274,984
Transfer to legal reserve	-	27,500	-	-	(27,500)	-
Transfer from Impairment reserve	-	-	-	(795)	795	-
As at 31 December 2022	686,437	155,066	-	28,858	959,819	1,830,180
As at 1 January 2023	686,437	155,066	-	28,858	959,819	1,830,180
Total comprehensive income for the year	-	-	3,303	-	259,018	262,321
Transfer to legal reserve	-	25,902	-	-	(25,902)	-
Transfer from Impairment reserve	-	-	-	21,535	(21,535)	-
As at 31 December 2023	686,437	180,968	3,303	50,393	1,171,400	2,092,501

The notes on pages 9 to 70 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Arab African International Bank

United Arab Emirates Branches

Statement of cash flows

For the year ended 31 December 2023

		2023 AED'000 (Audited)	2022 AED'000 (Audited)
	Notes		
Cash flows from operating activities			
Profit before tax		323,773	343,745
Adjustment for:			
Depreciation on premises and equipment	10	2,561	1,456
Depreciation on right of use assets	10	2,083	1,978
Net impairment allowance on financial assets	7,8,9,11,25	23,946	(81,237)
Finance cost on lease liability	20	31	91
Provision for employees' end of service benefits	14.1	1,827	857
Operating profit before changes in assets and liabilities from operating activities		354,221	266,890
Changes in operating assets and liabilities		—	—
Reserve with Central Bank of UAE		(495,460)	(85,068)
Loans and advances		(313,402)	5,623
Due from banks		(57,132)	1,461,796
Other assets		41,662	(31,750)
Customers' deposits		5,230,460	12,702
Other liabilities		(12,673)	40,606
Tax paid	22	(61,567)	(20,744)
Net cash generated from operating activities		4,683,839	1,650,055
Cash flows from investing activities			
Purchase of premises and equipment		(13,787)	(9,407)
Purchase of financial investments		(5,007,906)	(4,589,280)
Sale of financial investments		4,523,649	4,564,918
Net cash used in investing activity		(498,044)	(33,769)
Cash flows from financing activities			
Lease payments		(1,652)	(453)
Net cash used in financing activity		(1,652)	(453)
Net increase in cash and cash equivalents		4,186,755	1,615,833
Cash and cash equivalents at the beginning of the year		3,087,486	1,471,653
Cash and cash equivalents at the end of the year	23	7,274,241	3,087,486

The notes on pages 9 to 70 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 3.

Arab African International Bank
United Arab Emirates Branches
Notes to the financial statements
For the year ended 31 December 2023

1. Legal status and principal activities

Arab African International Bank - United Arab Emirates Branches (the “Branches” of the “Bank”) operates in the United Arab Emirates (“UAE”) through its two branches located in the Emirates of Dubai and Abu Dhabi which are registered under a banking license issued by the Central Bank of United Arab Emirates (“CBUAE”). The address of both branches are as follows: Office G02, Dubai National Insurance & Reinsurance P.S.C Building, Al Wasl, P.O. Box 1049, Dubai and Kamala Tower, Zayed The First Street, Al Khalidiyah, P.O.Box 928, Abu Dhabi. Arab African International Bank (the “Head Office”) is an Egyptian Joint Stock company incorporated in Cairo, Egypt. The Branches are a segment of the Head Office which is held 48.96 % each by the Central Bank of Egypt and Kuwait Investment Authority which are therefore the ultimate controlling parties. The accompanying financial statements have been prepared from the records of the Branches, which contain evidence of transactions recorded locally.

The principal activities of the Branches primarily comprise corporate and retail banking activities. The financial statements of the Branches include only activities relating to the Branches and do not include any other activities or transactions outside of the Branches and within the Head Office operations.

UAE Federal Decree Law No. 32 of 2021 (“Companies Law”) which is applicable to the Branches came into effect from 2 January 2022. In addition, the Federal Law No. (14) of 2018 - Regarding the Central Bank & Organization of Financial Institutions and Activities (“Banking Law”) which is applicable to the Branches came into effect on 23 September 2018. The Branches have assessed, evaluated provisions of the Companies Law and the Banking Law and ensured compliance with those laws.

These financial statements represent the combined financial position and results of the two branches in the United Arab Emirates. The Branches are not separate legal entities but meet the definition of a reporting entity under IFRS under the Conceptual Framework for IFRS. IFRS defines a reporting entity as an entity that is required, or chooses, to prepare financial statements.

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

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

2. Summary of material accounting policies

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

A. Standards, amendments and interpretations that are effective for the Branches’ accounting period beginning on 01 January 2022

The Branches applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The branches have not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

A. Standards, amendments and interpretations that are effective for the Branches' accounting period beginning on 01 January 2022 (continued)

i. IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities.

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement:

In accordance with the transitional provisions, the Branches apply the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application). These amendments had no impact on the financial statements of the Branches during the year.

B. Standards, amendments and interpretations that are not yet effective for the Bank's accounting period beginning on 1 January 2022

i. Definition of Accounting Estimates - Amendments to IAS 8.

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Branches' financial statements.

ii. Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Branches are currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

There are no other applicable new standards and amendments to the published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Branches' financial year beginning on 01 January 2022 that would be expected to have a material impact on the Branches' financial statements.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

C. Basis of preparation

a. Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by International Accounting Standard Board (IASB) and the requirement of the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") which is applicable to the Branches which has come into effect on 2 January 2022. The Branches have assessed, evaluated and ensured compliance with the relevant provisions of the Company Law and Banking laws.

b. Basis of measurement

These financial statements are prepared under the historical cost convention except for investments classified as fair value through other comprehensive income (FVOCI).

c. Functional and presentation currency

The financial statements are presented in United Arab Emirates Dirham ("AED"), which is the functional currency of Branches. Except as indicated, amounts presented are rounded to the nearest thousand.

d. Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in note 4.

D. Foreign currency translation

The Branches maintain its accounts in AED currency. Foreign currency transactions are translated using the exchange rates prevailing at the date of the transactions. All monetary assets and liabilities balances in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the following items in the income statement:

- Net trading income for trading assets and liabilities or net income from financial instruments designated at fair value through profit or loss for instruments designated at fair value through profit or loss according to its type.
- Other operating income (expense) for the rest of items.

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI are recognised in OCI.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

E. Financial assets and liabilities

i. Recognition and initial measurement

The Branches initially recognize 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 recognized on the trade date, which is the date on which the Branches become 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 FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Day 1 profit or loss

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

ii. Classification

On initial recognition, a financial asset is classified as measured at: amortised cost, 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 give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial investment 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 give 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 Branches 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 measured at FVTPL.

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

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

E. Financial assets and liabilities (continued)

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice. 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; and
- how the performance of the portfolio is evaluated and reported to the Branches' 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; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Branches' stated objective for managing the financial assets is achieved and how cash flows are realised

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

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

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), as well as profit margin.

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Branches' 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.

Arab African International Bank

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Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

E. Financial assets and liabilities (continued)

Reclassification

The Branches do not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branches acquire, dispose of, or terminate a business line. Financial liabilities are never reclassified.

Derecognition of financial assets and financial liabilities

Derecognition due to substantial modification of terms and conditions

If the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded.

If the modification does not result in cash flows that are substantially different, as set out below, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Branches record a modification gain or loss, to the extent that an impairment loss has not already been recorded. For financial liabilities, the Branches consider a modification substantial based on qualitative factors and if it results in a difference between the adjusted discounted present value and the original carrying amount of the financial liability of, or greater than, ten percent. For financial assets, this assessment is based on qualitative factors.

Derecognition other than for substantial modification

A financial asset (in whole or in part) is derecognised either when:

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

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

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

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Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

E. Financial assets and liabilities (continued)

Derecognition of financial assets and financial liabilities (continued)

Derecognition other than for substantial modification

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

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

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

F. Offsetting of financial instruments

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

G. Interest income and expense

Effective interest rate

Interest income and expense for all interest-bearing financial instruments, except for those classified as FVTPL or designated at fair value through profit or loss, are recognized within 'interest income' and 'interest expense' in the income statement using the effective interest method.

Interest income and expense are recognized 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.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

G. Interest income and expense (continued)

Effective interest rate

When calculating the effective interest rate for financial instruments other than credit-impaired assets, the Branches estimate future cash flows considering all contractual terms of the financial instrument, but not expected credit losses. For credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses; i.e. the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Branches revert to calculating interest income on a gross basis.

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.

Presentation:

Interest income and expense presented in the statement of profit or loss and OCI include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- Interest on financial investment is measured at FVOCI calculated on an effective interest basis;

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

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.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate 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.

In calculating interest income and expense, the effective interest rate 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.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

H. Fees and commission income

Fee and commission income and expense 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, investment management fees, sales commission, placement fees, arrangement fees, participation fees and syndication fees - 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.

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

I. Bills and Bonds

Bills and bonds are recognized when they are bought at face value and the issuance cost .. These appear on the financial statement net of the unearned interest (including discount or premium) and they are measured by the amortized cost using the effective interest rate.

The difference between the selling and repurchase price is recognized as accrued income over the agreement's period using the effective rate of return method.

J. Impairment of financial assets

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

Stage 1: 12 Months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.

Stage 2: Lifetime ECL - not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised. Stage 2 loans also include facilities, where the credit risk has improved, and the loan has been reclassified from Stage 3.

Stage 3: Lifetime ECL - credit impaired

The Branches recognise loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments;
- Financial guarantee contracts issued; and
- Loan commitments issued.

No impairment loss is recognised on equity investments.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

J. Impairment of financial assets (continued)

Stage 3: Lifetime ECL - credit impaired (continued)

The Branches measure loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments on which credit risk has not increased significantly since their initial recognition

The Branches consider a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Purchased or originated credit impaired (POCI)

In addition, the Branches also recognise POCI assets, which are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Branches expect to receive);

Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Undrawn loan commitments and letter of credit: as the present value of the difference between the contractual cash flows that are due to the Branches if the commitment is drawn down and the cash flows that the Branches expect to receive; and

Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Branches expect to recover.

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset. The treatment detailed in Note 2.F of these financial statements.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

J. Impairment of financial assets (continued)

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

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

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

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

- Probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.
- Requirement of 5 years data to be included in the IFRS 9 models for the purpose of assessment of the ECL, where relevant and available.

Credit-impaired financial assets

At each reporting date, the Branches assess whether financial assets carried at amortised cost and financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- The restructuring of a loan or advance by the branches on terms that the Branches would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In addition, a retail loan that is overdue for 90 days or more is considered impaired.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

J. Impairment of financial assets (continued)

Credit-impaired financial assets (continued)

In making an assessment of whether an investment in sovereign debt, other than that of the home country sovereign, is credit-impaired, the branches consider the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'Tender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

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:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Where a financial instrument includes both a drawn and an undrawn component, and the Branches have identified the ECL on the loan commitment / off balance sheet component separately from those on the drawn component: the Branches present a loss allowance for drawn components. The amount is presented as a deduction from the gross carrying amount of the drawn component. Loss allowance for undrawn components is presented as a provision in other liabilities; and
- Financial investments 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.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Branches 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. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the branches' procedures for recovery of amounts due. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

K. Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash on hand, balances with Central Bank (excluding statutory reserve), due from and due to banks, due from Head Office and other branches with original maturity of three months or less from the date of initial recognition, and are used for the purpose of meeting short term cash commitments.

Cash and cash equivalents are earned at amortised cost in the statement of financial position.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

L. Due from banks, Due from Head Office and other branches

Amounts due from banks, Head Office and other branches are initially recognised at cost, being the fair value of the consideration received and are subsequently measured at amortised cost, less any allowance for impairment.

M. Premises and equipment and right of use assets

Recognition and measurement

All items of premises and equipment are measured at cost less accumulated depreciation and impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Branches and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of profit or loss when incurred.

Depreciation

Depreciation is recognised in the statement of profit or loss on a straight line basis over the estimated useful lives of all premises and equipment.

The estimated useful lives of assets as follows:

	Years
Furniture and fixtures	5-7
Computers	5
Motor vehicles	5
Leasehold Improvements and Installations	7
Right of use assets	Over lease term

Depreciation methods, useful lives and residual values are reassessed at the reporting date and adjusted if appropriate.

Right-of-use assets are depreciated on a straight-line basis over the lease term. Gains and losses on disposals are determined by comparing the proceeds from disposal with the carrying amount and are recognised in the statement of profit or loss, in the period in which they arise.

Capital work-in-progress is carried at cost, less any accumulated impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Branches' accounting policy. Depreciation of these assets commences when the assets are ready for their intended use.

Arab African International Bank

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Notes to the financial statements

For the year ended 31 December 2023

Impairment

The carrying amounts are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

2. Summary of material accounting policies (continued)

N. Due to banks, due to Head Office, other branches and customers' deposits

Due to banks, Head Office and other branches and customers' deposits are initially recognised at their fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method.

O. Impairment of non-financial assets

The carrying amount of the Branches' non-financial assets, other than deferred tax assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any.

An impairment loss is recognised in the statement of profit or loss if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or its cash-generating unit is the greater of its value-in-use and its fair value less cost to sell. In assessing its value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset in the income statement to the extent that carrying values exceed the recoverable amounts.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

P. Derivative financial instruments

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

Q. Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date by the tax laws and regulation issued by the Emirates of Abu Dhabi and Dubai, any adjustments to tax payable in respect of previous years, and deferred tax income recognised during the year.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

R. Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Branches and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Branches expect, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Branches have not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

S. Leases

The Branches have lease contracts for its premises. The Branches apply a single recognition and measurement approach for its leases that it is the lessee, except for short-term leases and leases of low-value assets. The Branches recognized lease liability to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

Right-of-use assets

The Branches recognise right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Branches are reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. The estimated useful life of right-of-use assets is consistent with leasehold improvements as discussed in note 2 M.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

2. Summary of material accounting policies (continued)

S. Leases (continued)

Lease liabilities

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

In calculating the present value of lease payments, the Branches use the incremental borrowing rate of 3 % at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

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

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

T. Provisions

A provision is recognised if, as a result of a past event, the Branches have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

U. Staff terminal benefits

The Branches provide for staff terminal benefits based on an estimation of the amount of future benefit that employees have earned in return for their service until their retirement. This calculation is performed based on the requirements as per the UAE local laws. The Branches contribute to the pension scheme for UAE nationals under the UAE pension and social security law in accordance with Federal Law No. 2 of 2000. This is a defined contribution pension plan and the Branches' contributions are charged to the statement of profit or loss in the period to which they relate. In respect of this scheme, the Branches have an obligation to pay the fixed contributions as they fall due and no obligations exist to pay the future benefits.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

3 Financial risk management

Introduction and overview

The Branches have exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Currency risk;
- Operational risk
- Settlement risk; and
- Capital risk

This note presents information about the Branches' exposure to each of the above risks, the Branches' objectives, policies and processes for measuring and managing risk, and the Branches' management of capital.

Risk management framework

The bank has a structured risk governance process in place to identify, measure, manage, control and report (risk) to assist in risk-based decision-making and oversight across all operations of the bank. The Board of Directors plays a critical role in overseeing a bank-wide approach to risk management and conducts its oversight through board level committees that are further trickled down through Management level committees, and respective Business and Risk Control units.

Board Risk Committee (BRC) sets the overall philosophy via reviewing and recommending Board approval on all risk management frameworks, high-level related policies, risk appetite, risk measurement and methodologies amongst others.

The bank policies are established to identify and analyse the risks across the bank including the Branches' to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly, to reflect the changes in market condition, products and service offered.

The Branches' Risk Appetite Framework is governed by the respective boards (Board of Directors and Board Risk Committee), under advice from the Enterprise Risk & Control Committee (ERCC) which include key stakeholders across the Business and Functional teams. Key mechanisms for this are the establishment of the Risk Appetite Framework (RAF) and periodic reporting against the RAS. Moreover, the Risk Metrics are monitored and notified to UAE Senior Management Committee to work on / ensure resolving them.

(a) Credit risk

Credit risk is the risk of financial loss to the Branches if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Branches' loans and advances, due from banks, due from Head Office and other branches and investment securities.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

3 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk

The Branches credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

The Head Office is responsible for formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Branches manage the credit exposure by obtaining security where appropriate and limiting the duration of exposure.

The credit quality of the loans and advances is managed by the Branches using internal credit ratings comprising 10 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Branches' books are rated against a set of predetermined standards which are in line with the CBUAE guidelines.

The Branches' Credit Risk Rating Methodology reflects its assessment of the probability of default of individual counterparties mapped to the ratings specified by the External Credit Assessment Institutions (ECAIs). The mapping is based on a statistical model which takes into consideration the industry weights, country specific factors and the sensitivity of the counter party to systematic risk. Risk classification / grading system has been presented below:

<u>Branches' rating</u>	<u>Description of the grade</u>
1-5	Performing or normal
6-7	Regular watching and other loans especially mentioned (OLEM)
8	Sub-standard
9	Doubtful
10	Loss

Regular audits of the Branches' credit processes are undertaken by the centralised internal audit department.

Arab African International Bank

United Arab Emirates Branches

Notes to the financial statements

For the year ended 31 December 2023

3 Financial risk management (continued)

(a) Credit risk (continued)

Management of credit risk (continued)

The Branches are exposed to credit risk, which is the risk of suffering financial loss, should any of the branches' customers, clients or market counterparties fail to fulfil their contractual obligations to the Branches. Credit risk is the most important risk for the Branches' business. Management therefore carefully manages its exposure to credit risk. Credit risk arises mainly from lending activities which resulted in loans, facilities and investment activities which result in including the financial assets in the Branches' assets. Credit risk is available in the off-balance sheet financial assets such as lending commitment. The credit risk management and control are centralized in a credit risk management team, which reports to the Board of Directors of the Head Office and head of each business unit regularly.

(i) Credit risk measurement

Loans and advances to banks and customers

In measuring credit risk of loans and advances to banks and customers, the assessment of the Branches reflects the following components:

Probability of default - by the client or counterparty on its contractual obligations.

The Branches assess the probability of default of individual customers using internal rating tools tailored to the various categories of the counterparty. They have been developed internally and combine statistical analysis with credit officer judgment. Clients of the Branches are segmented into five rating classes. The rating scale which is as shown below reflects the range of default probabilities- defined for each rating class. This means that in principal, exposures might migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary. The Branches regularly validate the performance of the rating and their predictive power with regard to default cases.

Exposure at default

Exposure at default is based on the amounts the Branches expect to be outstanding at the time of default. For example, for a loan this is the carrying value. For a commitment, the Branches include any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

Loss given default

Loss given default or loss severity represents the Branches' expectation of the extent of loss on a claim should default occur. It is expressed as a percentage of loss per unit of exposure and typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit mitigation.

Bills, Bonds and Due from Banks

For bills, bonds and due from banks external rating (such as Standard & Poor's rating or their equivalents) are used by the Branches for managing of the credit risk exposures. In case such ratings are unavailable, internal rating methods are used that are similar to those used for credit customers. The investment in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirements at the same time.

Arab African International Bank
United Arab Emirates Branches
Notes to the financial statements
For the year ended 31 December 2023

3 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis

The following table sets out information about the credit quality of financial assets. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

As of 31 December 2023

	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Cash and balances with the Central Bank of the UAE	1,441,356	-	-	-	-	-	1,441,356	-
Due from banks	813,291	1	7,188,812	10,495	-	-	8,002,103	10,496
Due from Head Office and other branches	176,378	-	-	-	-	-	176,378	-
Loans and advances	2,171,822	21,132	5,692	237	53,281	53,281	2,230,795	74,650
Financial investments	436,967	12	618,904	9,889	-	-	1,055,871	9,901
Other assets	-	-	35,019	594	-	-	35,019	594
Unfunded Exposure - Letter of Credits and Guarantees	444,015	1,020	216,619	3,699	11,590	11,329	672,224	16,048
	5,483,829	22,165	8,065,046	24,914	64,871	64,610	13,613,746	111,689

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3 Financial risk management (continued)

(a) Credit risk (continued)

(ii) Credit quality analysis (continued)

As of 31 December 2022

	Stage 1		Stage 2		Stage 3		Total	
	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision	AED'000 Exposure	AED'000 Provision
Cash and balances with the Central Bank of the UAE	944,984	-	-	-	-	-	944,984	-
Due from banks	1,999,243	86	1,696,499	1,526	46,230	9,500	3,741,972	11,112
Due from Head Office and and other branches	367,497	-	-	-	-	-	367,497	-
Loans and advances	1,912,076	22,103	7,700	55	193,006	187,803	2,112,782	209,961
Financial investments	224,720	1	350,197	5,231	-	-	574,917	5,232
Other assets	-	-	77,728	184	-	-	77,728	184
Unfunded Exposure - Letter of Credits and Guarantees	564,016	930	80,325	1,132	67,832	60,814	712,173	62,876
	6,012,536	23,120	2,212,449	8,128	307,068	258,117	8,532,053	289,365

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3 Financial risk management (continued)

(a) Credit risk (continued)

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Branches consider reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Branches' historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades:

Corporate exposure:

The Branches allocate each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Branches collect performance and default information about its credit risk exposures analysed by credit risk grading for corporate and days-past-due for retail portfolio.

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

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

Using its expert credit judgement and, where possible, relevant historical experience, the Branches may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Branches consider that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due but less than 90 days for the corporates and more than 1 day but less than 30 days for the retail and small enterprises. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

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3 Financial risk management (continued)

(a) Credit risk (continued)

Determining whether credit risk has increased significantly (continued)

The Branches monitor the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due;

Modified financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in Note 2.E.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Branches renegotiate loans to customers in financial difficulties to maximise collection opportunities and minimise the risk of default. Under the Branches' policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy.

The estimate of PD reflects whether the modification has improved or restored the Branches' ability to collect interest and principal and the Branches' previous experience of similar forbearance action. As part of this process, the Branches evaluate the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired / in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired / in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

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3 Financial risk management (continued)

(a) Credit risk (continued)

Definition of default

The Branches consider a financial asset to be in default when:

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

Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller than the current amount outstanding.

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

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

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

Incorporation of forward-looking information

The Branches employs statistical models to incorporate macro-economic factors on historical default rates. The Branches incorporate the forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Branches relies on GDP growth rates as the economic input for forward looking information. The Branches formulate three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring.

In case none of the above macro - economic parameters are statistically significant or the results of forecasted PDs are too much deviated from the present forecast of the economic conditions, qualitative PD overlay shall be used by management after analyzing the portfolio as per the diagnostic tool. Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures which are considered as performing (Stage 3 are the exposures under default category). The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

The key inputs into the measurement of ECL are the term structure of the following variables:

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

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3 Financial risk management (continued)

(a) Credit risk (continued)

Measurement of ECL

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the residual maturities of exposures and estimated prepayment rates.

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

EAD represents the expected exposure in the event of a default. The Branches derive the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Branches measure ECL considering the risk of default over the residual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Branches consider a longer period.

However, for revolving facilities such as retail overdrafts and credit card facilities that include both a loan and an undrawn commitment component, the Branches measure ECL over a period longer than the maximum contractual period if the Branches' contractual ability to demand repayment and cancel the undrawn commitment does not limit the Branches' exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Branches can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Branches become aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Branches expect to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

For portfolios in respect of which the Branches have limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL are as follows:

Particulars	Exposure 2023 (AED 000's)	Exposure 2022 (AED 000's)	External benchmarks used	
			PD	LGD
Bank and financial institution	7,991,607	3,730,860	Standard & Poor's study	Standard & Poor's study
Financial investments	981,789	569,685	Standard & Poor's study	Standard & Poor's study

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3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including contingent liabilities and commitments. The maximum exposure is shown, before the effect of mitigation through the use of credit enhancements, master netting and collateral agreements.

	Maximum exposure 2023 AED'000	Maximum exposure 2022 AED'000
Cash and balances with Central Bank of UAE (excluding cash on hand)	1,433,343	937,883
Due from banks	7,991,607	3,730,860
Financial investments	1,045,970	569,685
Due from Head office and other branches	176,378	367,497
Loans and advances	2,156,145	1,902,821
Other assets (excluding prepayments)	34,636	77,709
Total	12,838,079	7,586,455
Off Balance sheet		
Letters of credit	257,802	140,996
Guarantees	414,424	571,177
Undrawn loan commitments	238,956	-
Total	911,182	712,173
Total credit risk exposure	13,749,261	8,298,628

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3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Loans and advances neither past due nor impaired are mainly graded between credit grades 1 to 7. All other assets bearing credit risk other than those tabulated are insignificant. The following table shows the loans and advances on the basis of grade description -

	2023 AED'000	2022 AED'000
Stage 1 (ORR 1-6)		
Grades 1-5: Performing or normal	2,005,114	1,546,612
Grade 6: Regular Watching	166,708	365,464
	2,171,822	1,912,076
Stage 2 (ORR 6-7)		
Grade 6: Regular Watching*	5,692	7,700
Grade 7: Other Loans Especially Mentioned (OLEM)	-	-
	5,692	7,700
Stage 3 (ORR 8-10)		
Grade 8: Sub-standard	-	-
Grade 9: Doubtful	53,281	105,309
Grade 10: Loss	-	87,697
	53,281	193,006
Total	2,230,795	2,112,782

* These include loans where there has been a significant increase in credit risk as per the credit policy.

Impaired loans and advances

Impaired loans and advances are financial assets for which the Branches determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the agreements.

Impairment reserve under the 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 ("the guidance").

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3 Financial risk management (continued)

(a) Credit risk (continued)

Exposure to credit risk (continued)

Impairment reserve under the CBUAE guidance (continued)

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

	2023 AED'000	2022 AED'000
Allowances for impairment losses: General		
General provisions under Circular 28/2010 of CBUAE	97,472	60,106
Less: Stage 1 and Stage 2 provisions under IFRS 9	(47,079)	(31,248)
	50,393	28,858
General provision transferred to the impairment reserve*		

Impairment reserve under the CBUAE guidance

	2023 AED'000	2022 AED'000
Allowances for impairment losses: Specific		
Specific provisions under Circular 28/2010 of CBUAE	64,610	258,117
Less: Stage 3 provisions under IFRS 9	(64,610)	(258,117)
	-	-
Specific provision transferred to the impairment reserve*		
Total provision transferred to the impairment reserve	50,393	28,858

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

Collaterals and collateral repossession

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

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

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3 Financial risk management (continued)

(a) Credit risk (continued)

Collaterals and collateral repossession (continued)

The main types of collateral obtained are cash, securities, and charges over tangible properties and counter-guarantees. At 31 December 2023, of the total outstanding loans and advances, AED 2,156,145 thousand (31 December 2022: AED 1,902,821 thousand) were secured with a collateral value of AED 627,343 thousand (31 December 2022: AED 1,473,704 thousand).

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

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

Loans with renegotiated terms

In the event of a default, the Branches seek to renegotiate loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Renegotiation activity is designed to manage customer relationships, maximize collection opportunities and avoid foreclosure or repossession, if possible. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. Following renegotiation, an overdue individual account will normally be reset from delinquent to current status. Renegotiation is done based on indicators or criteria which, in the opinion of management, evidence the probability that payment will continue. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The following table contains an analysis of the credit risk exposure of total restructured loans and advances and acceptances and relevant off balance sheet exposures:

2023				
Total renegotiated portfolio - AED ' 000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	-	5,692	-	5,692
Allowance for impairment (ECL)	-	(237)	-	(237)
Carrying amount	-	5,455	-	5,455
2022				
Total renegotiated portfolio - AED ' 000	Stage 1	Stage 2	Stage 3	Total
Outstanding balance	-	7,700	-	7,700
Allowance for impairment (ECL)	-	(55)	-	(55)
Carrying amount	-	7,645	-	7,645

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3 Financial risk management (continued)

(a) Credit risk (continued)

Concentration Risk

The Branches monitor concentrations of credit risk by sector and geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

As at 31 December 2023	Due from Banks AED' 000	Loan and advances AED' 000	Unfunded Exposure AED' 000	Total AED' 000
<i>Concentration by industry sector:</i>				
Manufacturing	-	608,312	19,345	627,657
Construction	-	61,149	187,796	248,945
Real estate	-	166,208	-	166,208
Trading	-	302,140	36,742	338,882
Transport/aviation	-	22,895	-	22,895
Banks and financial institutions	8,002,103	190,180	418,291	8,610,574
Services	-	191,814	240,370	432,184
Personal loans for consumption	-	1,843	8,010	9,853
Government	-	598,101	-	598,101
Electricity, Gas & Water	-	88,152	-	88,152
Others	-	1	628	629
	8,002,103	2,230,795	911,182	11,144,080
Less: ECL	(10,496)	(74,650)	(16,048)	(101,194)
Carrying amount	7,991,607	2,156,145	895,134	11,042,886
<i>As at 31 December 2022</i>				
	Due from Banks AED' 000	Loan and advances AED' 000	Unfunded Exposure AED' 000	Total AED' 000
<i>Concentration by industry sector:</i>				
Manufacturing	-	547,885	7,265	555,150
Construction	-	215,895	356,010	571,905
Real estate	-	224,846	-	224,846
Trading	-	349,878	21,866	371,744
Transport/aviation	-	47,871	-	47,871
Banks and financial institutions	3,741,972	46,816	314,210	4,102,998
Services	-	62,923	1,649	64,572
Personal loans for consumption	-	2,531	3,010	5,541
Government	-	525,985	-	525,985
Electricity, Gas & Water	-	88,152	-	88,152
Others	-	-	8,163	8,163
	3,741,972	2,112,782	712,173	6,566,927
Less: ECL	(11,112)	(209,961)	(62,876)	(283,949)
Carrying amount	3,730,860	1,902,821	649,297	6,282,978

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3 Financial risk management (continued)

(a) Credit risk (continued)

Risk concentration of the maximum exposure to credit risk

Concentration of risk is managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2023 was AED 1,628,482 thousands (2022: AED 445,510 thousands) before taking account of collateral or other credit enhancements and AED 1,628,482 thousands (2022: AED 442,520 thousands) net of such protection.

An analysis of concentration of due from banks, loans and advances and unfunded exposures by geographical distribution is shown below:

As at 31 December 2023	Due from Banks AED'000	Loan and advances AED'000	Unfunded Exposure AED'000	Total AED'000
<i>Concentration by geographical location:</i>				
United Arab Emirates	784,020	1,417,260	388,962	2,590,242
Europe	534,702	33,445	-	568,147
Arab Countries	8,003	203,320	65,802	277,125
United States of America	251,205	128,344	238,956	618,505
Africa	6,424,173	448,426	217,462	7,090,061
Asia	-	-	-	-
	8,002,103	2,230,795	911,182	11,144,080
Less: ECL	(10,496)	(74,650)	(16,048)	(101,194)
Carrying amount	7,991,607	2,156,145	895,134	11,042,886
<i>As at 31 December 2022</i>	<i>Due from Banks AED'000</i>	<i>Loan and advances AED'000</i>	<i>Unfunded Exposure AED'000</i>	<i>Total AED'000</i>
<i>Concentration by geographical location:</i>				
United Arab Emirates	1,267,870	1,205,520	408,195	2,881,585
Europe	1,239,870	38,960	-	1,278,830
Arab Countries	6,255	375,042	136,638	517,935
United States of America	387,443	-	-	387,443
Africa	794,304	493,260	167,290	1,454,854
Asia	46,230	-	50	46,280
	(11,112)	(209,961)	(62,876)	(283,949)
Less: ECL	(11,112)	(209,961)	(62,876)	(283,949)
Carrying amount	3,730,860	1,902,821	649,297	6,282,978

Concentration by location for loans and advances, unfunded exposures and due from banks is measured based on the residential status of the borrower.

Commitments and contingencies related credit risk

Credit risk arising from commitments and contingencies is discussed in note 25.

Credit quality

The credit quality of the loans and advances is managed by the Branches using internal credit ratings model. The risk rating system is used as a credit risk management tool whereby counter party any risks are rated against a set of predetermined standards which also complies with the CBUAE guidelines.

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3 Financial risk management (continued)

(b) Settlement risk

The Branches activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are rare and are monitored and quantified as part of the Branches framework and Operational Risk Management.

For certain types of transactions, the Branches mitigate this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described above. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the Branches Risk Management Department.

(c) Liquidity risk

Liquidity risk is the risk that the Branches will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It includes the risks of the inability to fund assets at appropriate maturities and rates, the inability to liquidate assets on reasonable basis and in an appropriate time frame and inability to liquidate assets to meet obligations as they become due. Liquidity risk can be caused by market disruption or credit downgrades which may cause certain sources of funding to diminish.

Management of liquidity risk

The Branches' approach to managing liquidity risk is to ensure that, management has diversified funding sources and closely monitors liquidity to ensure adequate funding. The Branches maintain a portfolio of short-term liquid assets, largely made of inter-bank placements. Also liquidity requirements of business units are met through funding from Head Office. All liquidity policies and procedures are subject to review and approval by Head Office.

Exposure to liquidity risk

The key measure used by the Branches for measuring liquidity risk is the ratio of net assets, i.e., total assets by maturity against total liabilities by maturity.

Details of the Branches' net liquid assets is summarised in the table below by the maturity profile of the Branches' assets and liabilities based on the contractual repayment arrangements and does not take account of the effective maturities as indicated by the Branches' deposit retention history. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

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3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

Maturity profile of the assets and liabilities at 31 December 2023. The following table analyses the contractual maturities of assets and liabilities based on the remaining period at the reporting date:

	Total	Up to	3 months	1 to 5	over 5
	AED'000	3 months	to 1 year	years	years
	AED'000	AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with CBUAE	1,441,356	1,441,356	-	-	-
Due from banks	7,991,607	7,618,756	372,851	-	-
Due from Head Office & Other branches	176,378	176,378			
Loans and advances	2,156,145	639,153	422,835	960,306	133,851
Other assets	34,425	34,425	-	-	-
Financial investments	1,045,970	515,821	36,740	493,409	-
Total Assets	12,845,881	10,425,889	832,426	1,453,715	133,851
	Total	Up to	3 months	1 to 5	over 5
	AED'000	3 months	to 1 year	years	years
	AED'000	AED'000	AED'000	AED'000	AED'000
Liabilities					
Customers' deposits	10,145,281	9,274,230	664,743	205,827	481
Due to banks	504,492	504,492	-	-	-
Due to Head Office & Other branches	24,414	24,414	-	-	-
Other liabilities	77,916	77,916	-	-	-
Total Liabilities	10,752,103	9,881,052	664,743	205,827	481
On Balance Sheet liquidity Gap	2,093,778	544,837	167,683	1,247,888	133,370

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3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

Maturity profile of the assets and liabilities at 31 December 2022 was as follows:

	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
<i>Assets</i>					
Cash and balances with CBUAE	944,984	944,984	-	-	-
Due from banks	3,730,860	3,415,757	315,103	-	-
Due from Head Office & Other branches	367,497	367,497	-	-	-
Loans and advances	1,902,821	253,177	247,018	1,161,611	241,015
Other assets	77,544	77,544	-	-	-
Financial investments	569,685	322,353	27,991	219,341	-
<i>Total Assets</i>	7,593,391	5,381,312	590,112	1,380,952	241,015
	Total AED'000	Up to 3 months AED'000	3 months to 1 year AED'000	1 to 5 years AED'000	over 5 years AED'000
<i>Liabilities</i>					
Customers' deposits	4,914,821	4,449,676	345,466	119,679	-
Due to banks	685,103	685,103	-	-	-
Due to Head Office & Other branches	17,766	17,766	-	-	-
Other liabilities	152,229	152,229	-	-	-
<i>Total Liabilities</i>	5,769,919	5,304,774	345,466	119,679	-
<i>On Balance Sheet liquidity Gap</i>	1,823,472	76,538	244,646	1,261,273	241,015

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3 Financial risk management (continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

The table below summarizes the maturity profile of the Branches' financial liabilities at 31 December 2023 and 31 December 2022 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice was given immediately. However, the Branches expect that many customers will not request repayment on the earliest date and the Branches could be required to pay and the table does not reflect the expected cash flows indicated by the Branches' deposit retention history.

At 31 December 2023:

	Total	Up to	3 months	1 to 5	over 5
	AED'000	3 months	to 1 year	years	years
		AED'000	AED'000	AED'000	AED'000
<i>Liabilities</i>					
Customers' deposits	10,178,787	9,304,859	666,938	206,507	483
Due to banks	504,823	504,823	-	-	-
Due to Head Office & Other branches	24,414	24,414	-	-	-
Other liabilities	77,916	77,916	-	-	-
Total Liabilities	10,785,940	9,912,012	666,938	206,507	483

At 31 December 2022:

	Total	Up to	3 months	1 to 5	over 5
	AED'000	3 months	to 1 year	years	years
		AED'000	AED'000	AED'000	AED'000
<i>Liabilities</i>					
Customers' deposits	4,921,654	4,455,863	345,946	119,845	-
Due to banks	685,103	685,103	-	-	-
Due to Head Office & Other branches	17,766	17,766	-	-	-
Other liabilities	152,229	149,928	2,301	-	-
Total Liabilities	5,776,752	5,308,660	348,247	119,845	-

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3 Financial risk management (continued)

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates will affect the Branches' income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

Corporate banking division has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Head Office.

Interest rate risk

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Branches manage this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Branches' treasury operations, which uses financial instruments to manage overall position arising from the Branches' interest bearing financial instruments.

The substantial portion of the Branches' assets and liabilities are re-priced within one year. Accordingly, there is a limited exposure to interest rate risk.

The effective interest rate of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is an original effective interest rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating instrument or an instrument carried at fair value.

Sensitivity analysis

The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2023		2022	
	Total AED'000	Effect on Profit AED'000	Total AED'000	Effect on Profit AED'000
Interest bearing asset	11,368,387	+56,842	6,569,553	+32,848
Interest bearing liabilities	10,604,406	+53,022	5,171,931	+25,860

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

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3 Financial risk management (continued)

(d) Market risk (continued)

IBOR Reforms

Interest rate benchmark reform:

A fundamental reform of major interest rate benchmarks is undertaken globally to replace or reform IBOR with alternative risk-free rates (referred to as 'IBOR reform'). The Branches have "limited" exposure to interbank offered rates (IBORs) on its financial instruments, as these are applied primarily on loans and advances.

The table below shows the Branches exposure at the year end to significant IBORs.

<i>At 31 December 2023</i>	<i>Financial assets AED'000</i>	<i>Financial liabilities AED'000</i>
Assets		
EIBOR - 1 month	59,814	-
EIBOR - 3 month	63,481	-
SOFR - Overnight	447,508	-
SOFR - 1 month	199,483	-
SOFR - 3 month	782,490	-
SOFR - 6 month	222,823	-
LIBOR - 3 month	73,041	-
Total	1,848,640	-

<i>At 31 December 2022</i>	<i>Financial assets AED'000</i>	<i>Financial liabilities AED'000</i>
Assets		
EIBOR - 1 month	135,198	-
EIBOR - 3 month	204,431	-
EIBOR - 6 month	7,700	-
LIBOR - 1 month	451,849	-
LIBOR - 3 month	724,121	-
LIBOR - 6 month	222,609	-
SOFR - Overnight	181,814	-
Total	1,927,722	-

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3 Financial risk management (continued)

(e) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Branches' functional currency is the UAE Dirham. Head Office has set limits on positions by currency. Positions are closely monitored and hedging strategies are used to ensure positions are maintained within established limits.

	Currency Rates	Currency Rates
	2023	2022
Currency		
US Dollar	3.6730	3.6730
Sterling Pound	4.6772	4.4425
Euro	4.0638	3.9308
Egyptian Pound	0.1189	0.1484

The exchange rate of AED against US Dollar is pegged since November 1980 and the Branches' exposure to currency risk is limited to that extent. Since majority of the assets and liabilities are in AED and US Dollar, the management estimates that any reasonable possible changes in exchange rates would not have a significant impact on the Branches' financial statements.

Arab African International Bank
United Arab Emirates Branches

3 Financial risk management (continued)

(e) Currency risk

31-Dec-23

	<i>AED</i> <i>AED'000</i> <i>(equivalent)</i>	<i>US\$</i> <i>AED'000</i> <i>(equivalent)</i>	<i>GBP</i> <i>AED'000</i> <i>(equivalent)</i>	<i>EUR</i> <i>AED'000</i> <i>(equivalent)</i>	<i>CHF</i> <i>AED'000</i> <i>(equivalent)</i>	<i>OTH</i> <i>AED'000</i> <i>(equivalent)</i>	<i>Total</i> <i>AED'000</i> <i>(equivalent)</i>
Assets							
Cash and balances with the Central Bank of UAE	1,439,970	1,386	-	-	-	-	1,441,356
Due from banks	1,327,185	6,556,719	32,829	75,658	1,709	8,003	8,002,103
Due from related parties	-	175,673	-	325	-	380	176,378
Loans and advances	314,018	1,916,777	-	-	-	-	2,230,795
Financial Investments	436,967	531,193	-	87,711	-	-	1,055,871
Other assets	346	31,442	209	3,022	-	-	35,019
Total financial assets	3,518,486	9,213,190	33,038	166,716	1,709	8,383	12,941,522
Liabilities							
Customer deposits	4,757,232	5,180,491	32,218	165,496	1,754	8,090	10,145,281
Due to Banks	36,167	467,781	4	540	-	-	504,492
Due to related parties	4,969	19,445	-	-	-	-	24,414
Other liabilities	44,019	16,296	839	714	-	-	61,868
Total financial liabilities	4,842,387	5,684,013	33,061	166,750	1,754	8,090	10,736,055
Net position	(1,323,901)	3,529,177	(23)	(34)	(45)	293	2,205,467

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3 Financial risk management (continued)

(e) Currency risk

31-Dec-22

	<i>AED</i> <i>AED'000</i> <i>(equivalent)</i>	<i>US\$</i> <i>AED'000</i> <i>(equivalent)</i>	<i>GBP</i> <i>AED'000</i> <i>(equivalent)</i>	<i>EUR</i> <i>AED'000</i> <i>(equivalent)</i>	<i>CHF</i> <i>AED'000</i> <i>(equivalent)</i>	<i>OTH</i> <i>AED'000</i> <i>(equivalent)</i>	<i>Total</i> <i>AED'000</i> <i>(equivalent)</i>
Assets							
Cash and balances with the Central Bank of UAE	944,183	801	-	-	-	-	944,984
Due from banks	1,267,869	2,311,513	36,075	119,881	378	6,256	3,741,972
Due from related parties	-	367,323	-	-	-	174	367,497
Loans and advances	407,688	1,697,891	-	7,203	-	-	2,112,782
Financial Investments	224,720	265,188	-	85,009	-	-	574,917
Other assets	55,180	19,648	26	2,874	-	-	77,728
Total financial assets	2,899,640	4,662,364	36,101	214,967	378	6,430	7,819,880
Liabilities							
Customer deposits	2,466,633	2,192,744	36,029	213,192	377	5,846	4,914,821
Due to Banks	70,306	614,271	4	522	-	-	685,103
Due to related parties	4,662	13,104	-	-	-	-	17,766
Other liabilities	102,706	49,501	21	1	-	-	152,229
Total financial liabilities	2,644,307	2,869,620	36,054	213,715	377	5,846	5,769,919
Net position	255,333	1,792,744	47	1,252	1	584	2,049,961

Arab African International Bank

United Arab Emirates Branches

3 Financial risk management (continued)

(f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Branches' processes, personnel, technology, infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Branches' operations and are faced by all business entities. The Branches' objective is to manage operational risk to balance the avoidance of financial losses and damage, to the Branches reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

UAE Operational Risk was established in the Branches' in the year 2023 reporting to Head of UAE risk. Operational Risk framework relies on tools and techniques to capture, detect and mitigate its ongoing operational risk, the main tools used are; loss data collection which provides actual losses resulting from failures in system, process, people or external factors which happens throughout the daily processing of the Bank's activities while the risk and control assessment tool offers periodic assessment or a future looking tool into potential operational risk and assessment of existing controls in the Bank hence providing the management with indicators on the control environment and its outcome helps in defining Key Risk Indicators early warning signs and monitoring tool, other tool used is the assessment of the new products, projects and outsourcing activities.

Operational Risk department cooperates with the Internal Control Division, Compliance and Governance Department and relevant control functions to ensure proper risk management of AAIB's operational Risk Profiles, it also provides reports to external auditors and regulators upon request.

(g) Capital management

Capital management process

The Branches objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- To comply with the capital requirements set by the Central Bank of U.A.E.;
- To safeguard the Branches ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

The Central Bank of UAE ('CBUAE') supervises the Branches on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Branches as a whole. Effective from 2021, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The Branches' regulatory capital is analysed into two tiers:

- CETI capital is the highest quality form of capital, comprising share capital, legal, statutory and other reserves, fair value reserve, retained earnings, after deductions for intangibles and other 4regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes under 'CBUAE' guidelines.
- Tier 2 capital comprises of collective provision which shall not exceed 1.25% of total credit risk weighted assets

The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2021 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CETI'), Additional Tier 1 ('ATI') 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.
- Capital conservation buffer (CBB) of 2.5%.

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3 Financial risk management (continued)

(g) Capital management (continued)

Capital management process (continued)

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Branches' management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly or/and quarterly basis.

During the years ended 31 December 2023 and 2022, the Branches have complied in full with all its externally imposed capital requirements.

Capital adequacy ratio

Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the U.A.E. is as follows:

	2023 AED'000	2022 AED'000
Tier 1 Capital		
Allocated capital	686,437	686,437
Legal reserves	180,968	155,066
Retained earnings	1,171,400	959,819
Fair value reserve	1,486	-
Regulatory deduction from Capital	(107)	(174)
Total Tier 1 Capital	2,040,184	1,801,148
Tier 2 Capital	81,226	50,088
Total Tier 2 Capital	81,226	50,088
Total capital base	2,121,410	1,851,236
Risk weighted assets		
Credit risk	6,498,109	4,007,039
Market risk	281	1,857
Operational risk	388,241	336,746
Total risk weighted assets	6,886,631	4,345,642
Capital Ratios		
Total regulatory capital expressed as a percentage of total risk weighted assets ("capital adequacy ratio")	30.80%	42.60%
Tier 1 capital to total risk weighted assets after deductions for associates	29.63%	41.45%

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4 Use of estimates and judgements

(a) Impairment losses on financial assets and commitments and contingencies

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

- i. The Branches' internal credit grading model, which assigns Probability of default (PD) to the individual grades.
- ii. The Branches' criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life-time expected credit loss (LTECL) basis and the qualitative assessment.
- iii. The segmentation of financial assets when their ECL is assessed on a collective basis.
- iv. Development of ECL models, including the various formulas and the choice of inputs.
- v. Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, exposure at default (EAD) and loss given default (LGD).
- vi. Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

(b) Contingent liability arising from litigations

The Branches may be involved in litigations arising in the ordinary course of business, due to the nature of its operations. Provision for contingent liabilities arising from litigations is based on the probability of outflow of economic resources and reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

(c) Financial asset and liability classification

The Branches determine the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. The Branches' accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in accordance with IFRS 9. Refer note 2 E.

Arab African International Bank
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Notes to the financial statements
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4 Use of estimates and judgements (continued)

(d) Income tax and Deferred Tax Assets

The Branches subject to income tax in the UAE. Estimates are required in determining the provision for income taxes. There are several transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The recoverability of the Branches' deferred tax assets is based on management's judgment of the availability of future taxable profits against which the deferred tax assets will be utilized.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that future taxable profit will be available against which the tax losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and level of future taxable profits, together with future tax-planning strategies.

(e) Estimating the incremental borrowing rate

The Branches cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (TBR') to measure lease liabilities. The IBR is the rate of interest that the Branches would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Branches 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Branches estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments.

(f) Determination of the lease term for lease contracts with renewal and termination options (Branches as a lessee)

The Branches determine the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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

(g) Going concern

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

Arab African International Bank
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5 Accounting classification and fair value

Fair value of financial instruments

All financial assets and liabilities are measured at amortised cost except for financial investments that are measured at fair value through OCI.

'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 Branches have access to at that date. The fair value of a liability reflects its non-performance risk.

Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Branches are going concern without any intention or requirement to materially curtail the scale of their operation or to undertake a transaction on adverse terms.

Fair value hierarchy

The Branches measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Management believes that the carrying value of financial assets and liabilities in the statement of financial position represents a reasonable approximation of their fair values.

The Branches estimate that the fair value of its loans and advances portfolio is not materially different from its book value since majority of loans and advances carry floating market rates of interest and are frequently re-priced. For loans and advances considered to be impaired, the expected cash flows, including anticipated realisation of collateral, were discounted using an appropriate rate and considering the time of collection, the net result of which is not materially different from the carrying value.

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5 Accounting classification and fair value (continued)

Financial instruments measured at fair value

	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
At 31 December 2023	AED'000	AED'000	AED'000	AED'000	AED'000
Financial assets					
Cash and balances with CBUAE	1,441,356	-	-	1,441,356	1,441,356
Due from Banks	7,618,756	-	372,851	7,991,607	7,991,607
Due from Head office and other branches	176,378	-	-	176,378	176,378
Loans and advances	-	-	2,156,145	2,156,145	2,156,145
Financial Investments	-	1,045,970	-	1,045,970	1,045,970
Other assets	-	-	34,425	34,425	34,425
	9,236,490	1,045,970	2,563,421	12,845,881	12,845,881
Financial Liabilities					
Customer deposits	-	-	10,145,281	10,145,281	10,145,281
Due to banks	504,492	-	-	504,492	504,492
Due to Head Office & Other branches	24,414	-	-	24,414	24,414
Other liabilities	-	-	77,916	77,916	77,916
	528,906	-	10,223,197	10,752,103	10,752,103
At 31 December 2022	AED'000	AED'000	AED'000	AED'000	AED'000
Financial assets					
Cash and balances with CBUAE	944,984	-	-	944,984	944,984
Due from Banks	3,415,757	-	315,103	3,730,860	3,730,860
Due from Head office and other branches	367,497	-	-	367,497	367,497
Loans and advances	-	-	1,902,821	1,902,821	1,902,821
Financial Investments	-	569,685	-	569,685	569,685
Other assets	-	-	77,544	77,544	77,544
	4,728,238	569,685	2,295,468	7,593,391	7,593,391
Financial Liabilities					
Customer deposits	-	-	4,914,821	4,914,821	4,914,821
Due to banks	685,103	-	-	685,103	685,103
Due to Head Office & Other branches	17,766	-	-	17,766	17,766
Other liabilities	-	-	152,229	152,229	152,229
	702,869	-	5,067,050	5,769,919	5,769,919

All investments are subject to price risk, the risk that future changes in market conditions may make an instrument less valuable. Exposure to price risk is monitored by senior management on an ongoing basis to assess the impact of changes in market conditions.

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6 Cash and balances with the Central Bank of the UAE

	2023 AED'000	2022 AED'000
Cash on hand	8,013	7,101
Reserve with UAE Central Bank	1,433,343	937,883
	<u>1,441,356</u>	<u>944,984</u>

As per new CBUAE guidelines dated 14 February 2023, Reserves need to be computed at 11% (2022: 7%) of demand deposits plus 1% of time deposits and maintained in AED with reserves denominated in foreign currency to be converted into AED using the FX midpoint rate as published by the CBUAE effective from 12 April 2023. The reserve is required to be updated on a fortnightly basis.

The reserve requirement as at 31 December 2023 amounted to AED 1,433,343 thousand (2022: AED 937,883 thousand). In accordance with the regulation, the end of day balance in the clearing account maintained with CBUAE is swept to the Reserve account on a daily basis.

Balances with the CBUAE are in stage 1 throughout the year and there is no significant ECL on these balances.

7 Due from banks

	2023 AED'000	2022 AED'000
Money at call	430,957	656,680
Term deposit accounts	6,871,578	2,509,213
Loan to banks	18,365	82,960
Bank's trade bill discounted	681,203	493,119
	<u>8,002,103</u>	<u>3,741,972</u>
Expected Credit Losses	(10,496)	(H, H2)
	<u>7,991,607</u>	<u>3,730,860</u>

Movement in the gross balance and corresponding ECL allowances of due from bank balances at amortised cost

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7 Due from banks (continued)

Outstanding balance - AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2023	1,999,243	1,696,499	46,230	3,741,972
Transferred to Stage 2	(362,112)	362,112	-	-
Originated (expired) during the year (net)	(823,840)	5,130,201	(46,230)	4,260,131
Gross carrying amount - 31 December 2023	813,291	7,188,812	-	8,002,103
Outstanding balance - AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2022	1,453,305	2,318,818	-	3,772,123
Originated (expired) during the year (net)	545,938	(576,089)	-	(30,151)
Transferred to Stage 3	-	(46,230)	46,230	-
Gross carrying amount - 31 December 2022	1,999,243	1,696,499	46,230	3,741,972

ECL - AED ' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2023	86	1,526	9,500	11,112
Transferred to Stage 2	(32)	32	-	-
Originated during the year (net)	(53)	8,937	(9,500)	(616)
31 December 2023	1	10,495	-	10,496
ECL - AED ' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2022	68	467	-	535
Originated during the year (net)	18	1,059	9,500	10,577
31 December 2022	86	1,526	9,500	11,112

8 Loans and advances

Loans and advances are stated net of provision for loans and advances. The composition of the loans and advances portfolio is as follows:

	2023	2022
	AED'000	AED'000
Gross loans and advances at amortized cost	2,230,795	2,112,782
Less: Expected credit losses	(74,650)	(209,961)
	<u>2,156,145</u>	<u>1,902,821</u>

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8 Loans and advances (continued)

8.1 Individually impaired loans and collaterals held

At 31 December 2023, the gross amount of loans, individually determined to be impaired, before deducting any individually assessed impairment allowance and on which interest is not being accrued amounted to AED 53 million (2022: AED 193 million).

The fair value of collateral that the Branches hold relating to loans to corporate and retail customers individually determined to be impaired at 31 December 2023 amounts to AED NIL post haircut (2022: AED NIL).

8.2 Collateral repossessed

During the year, the Branches did not repossess any material amounts of collateral.

8.3 Modified and renegotiated loans

Modified or renegotiated loans as at 31 December 2023 amounts to AED 6 million (2022: 8 million).

8.4 Ageing for stage 2 and stage 3 loans

The Branches' stage 2 loans are aged up to 60 days, while the Branches' stage 3 loans are aged between 550 days and 1050 days.

8.5 Movement in the gross balance and corresponding ECL allowances of loans and advances at amortised cost

Outstanding balance - AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2023	1,912,076	7,700	193,006	2,112,782
Transferred from off-balance sheet exposures	-	-	55,664	55,664
Written off	-	-	(195,389)	(195,389)
Originated / (expired) during the year (net)	259,746	(2,008)	-	257,738
Gross carrying amount - 31 December 2023	2,171,822	5,692	53,281	2,230,795
Gross carrying amount - 1 January 2022	1,537,540	110,708	470,157	2,118,405
Originated / (expired) during the year (net)	374,536	(103,008)	(277,151)	(5,623)
Gross carrying amount - 31 December 2022	<u>1,912,076</u>	<u>7,700</u>	<u>193,006</u>	<u>2,112,782</u>

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8 Loans and advances (continued)

8.5 Movement in the gross balance and corresponding ECL allowances of loans and advances at amortised cost (continued)

ECL - AED'000	Stage 1	Stage 2	Stage 3	Total
1 January 2023	22,103	55	187,803	209,961
Transferred from off-balance sheet exposures	-	-	50,099	50,099
Written off	-	-	(195,389)	(195,389)
Originated / (expired) during the year (net)	(971)	182	10,768	9,979
31 December 2023	21,132	237	53,281	74,650

ECL - AED'000	Stage 1	Stage 2	Stage 3	Total
1 January 2022	12,912	4,535	311,338	328,785
Originated / (expired) during the year (net)	9,191	(4,480)	(123,535)	(118,824)
31 December 2022	22,103	55	187,803	209,961

9 Financial investments

	2023	2022
	AED'000	AED'000
Debt Securities measured at FVOCI		
Corporate Bonds	236,047	-
Debt Securities measured at amortized cost		
Euro bonds	308,775	350,197
Monetary bills	436,967	224,720
Equity measured at FVOCI	74,082	-
	1,055,871	574,917
Expected credit losses on amortized cost	(9,901)	(5,232)
	1,045,970	569,685

The balances shown in the above table are net of unamortized discounts/premiums.

Equity share investments are traded and the Branches recorded fair value loss of AED 2,930 thousands as at 31 December 2023. Corporate Bonds are traded and the Branches recorded fair value gain and its related ECL charge amounting to AED 6,233 thousands as at 31 December 2023.

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9 Financial investments (continued)

Movement in the gross balance and corresponding ECL allowances of investments at amortised cost

Outstanding balance - AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2023	224,720	350,197	-	574,917
Originated during the year (net)	212,247	(41,422)	-	170,825
Gross carrying amount - 31 December 2023	436,967	308,775	-	745,742
Outstanding balance - AED'000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2022	199,845	332,309	-	532,154
Originated during the year (net)	24,875	17,888	-	42,763
Gross carrying amount - 31 December 2022	224,720	350,197	-	574,917
ECL - AED'000	Stage 1	Stage 2	Stage 3	Total
1 January 2023	1	5,231	-	5,232
Originated / (expired) during the year (net)	11	4,658	-	4,669
31 December 2023	12	9,889	-	9,901
ECL -AED'000	Stage 1	Stage 2	Stage 3	Total
1 January 2022	7	4,930	-	4,937
Originated / (expired) during the year (net)	(6)	301	-	295
31 December 2022	1	5,231	-	5,232

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10 Premises, equipment and right of use assets

	<i>Furniture and fixtures AED'000</i>	<i>Computers AED'000</i>	<i>Motor Vehicles AED'000</i>	<i>Intangibles AED'000</i>	<i>Leasehold Improvements & Installations AED'000</i>	<i>Capital work in progress AED'000</i>	<i>Right to Use Asset AED'000</i>	<i>Total AED'000</i>
<i>Cost</i>								
Balance at 1 January 2022	1,573	1,967	1,512	900	6,432	5,334	5,657	23,375
Additions/(Capitalization) during the year	911	98	-	-	1,844	4,698	1,856	9,407
Written off during the year	(3)	(32)	-	-	-	-	-	(35)
Balance at 31 December 2022	2,481	2,033	1,512	900	8,276	10,032	7,513	32,747
AdditionsZ(Capitalization) during the year	165	4,052	1,861	59	311	7,339	-	13,787
Written off during the year	-	-	(131)	-	-	-	-	(131)
Balance at 31 December 2023	2,646	6,085	3,242	959	8,587	17,371	7,513	46,403
<i>Accumulated Depreciation</i>								
Balance at 1 January 2022	1,190	1,353	1,485	579	3,024	-	1,907	9,538
Charge for the year	159	211	27	147	912	-	1,978	3,434
Written off during the year	(3)	(32)	-	-	-	-	-	(35)
Balance at 31 December 2022	1,346	1,532	1,512	726	3,936	-	3,885	12,937
Charge for the year	309	449	67	126	1,610	-	2,083	4,644
Written off during the year	-	-	(131)	-	-	-	-	(131)
Balance at 31 December 2023	1,655	1,981	1,448	852	5,546	-	5,968	17,450
Carrying amount at 31 December 2022	1,146	501	-	4,503	4,503	10,032	3,628	19,810
Carrying amount at 31 December 2023	991	4,104	1,794	107	3,041	17,371	1,545	28,953

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11 Other assets

	2023 AED'000	2022 AED'000
Accrued interest receivable	35,019	25,611
Sundry debtors and prepayments	1,951	904
Customers' indebtedness for acceptances	-	52,117
	36,970	78,632
Expected Credit Losses	(594)	(184)
	36,376	78,448

12 Customers' deposits

	2023 AED'000	2022 AED'000
By account:		
Current accounts	3,185,315	1,993,534
Saving accounts	358,765	341,662
Call accounts	655,716	591,871
Time deposits	5,893,703	1,948,896
Others	51,782	38,858
	10,145,281	4,914,821
By sector:		
Corporate / private sector	8,661,361	3,732,298
Retail sector	1,483,920	1,182,523
	10,145,281	4,914,821

13 Due to banks

	2023 AED'000	2022 AED'000
Current Account and Demand Deposits	42,936	427,068
Time Deposits	459,125	257,110
Due to the Central Bank of the UAE**	2,431	925
	504,492	685,103

* Represents day end reserve adjustment as per latest CBUAE requirements.

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14 Other liabilities

	2023 AED'000	2022 AED'000
Accrued interest payable	33,837	6,833
Unearned commission	17,741	4,214
Employees' end of service benefits (Note 14.1)	7,045	5,585
Cheques and transfers payable	8,031	7,302
Tax payable (Note 22)	34,296	47,843
Sundry creditors	19,351	20,800
Liabilities under acceptances	-	52,117
Lease liability	649	2,301
Expected credit losses on unfunded exposures (Note 25)	16,048	62,876
	136,998	209,871

14.1 The movement in the provision for employees' end of service benefits is as follows:

	2023 AED'000	2022 AED'000
Balance at 1 January	5,585	5,013
Paid during the year	(367)	(285)
Charge for the year	1,827	857
Balance at 31 December	7,045	5,585

15 Capital and reserve

Allocated capital:

Allocated capital amounting to AED 686,437 thousand (2022: AED 686,437 thousand) is specifically allocated by the Head Office. The Branches increased its allocated capital from AED 319,137 thousand to AED 686,437 thousand by funding provided by Head office pursuant to the decision of the Board dated 12 September 2017 and CBUAE approval dated 1 November 2017.

Legal reserve:

Legal reserve amounting to AED 180,968 thousand (2022: AED 155,065 thousand) is maintained in accordance with Article 82 of Union Law No. 10 of 1980, where the Branches have to allocate 10% of the profit for the year to the legal reserve, until this reserve is equal to 50% of the Head Office allocated capital. This reserve is not available for distribution.

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16 Interest income

	2023 AED'000	2022 AED'000
Interest on:		
- Loans and advances	150,768	122,880
- Placements with banks	295,830	93,970
- Certificate of Deposit with the CBUAE	1,488	804
- Due from Head Office and other branches	14,821	4,213
- Financial investments	46,957	28,845
	509,864	250,712

17 Interest expense

	2023 AED'000	2022 AED'000
Interest on:		
- Customers' deposits	133,060	24,749
- Due to banks	30,027	1,280
	163,087	26,029

18 Net fee and commission income

	2023 AED'000	2022 AED'000
Commission on letters of guarantee	7,218	3,823
Commission on bills of collection	5,383	5,448
Commission on letters of credit	14,592	4,669
Commission on transfers	6,304	7,156
Syndication and participation fees	2,205	2,367
Consultation fees	3,873	8,222
Miscellaneous	2,327	2,837
	41,902	34,522
Fee and commission income		
	41,902	34,522
Fee and commission expenses	(2,921)	(773)
	38,981	33,749
Net fee and commission income		
	38,981	33,749

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19 Other income

	2023 AED'000	2022 AED'000
Reversal of excess accruals	33	200
Others	789	111
	<u>822</u>	<u>311</u>

20 Other operating expenses

	2023 AED'000	2022 AED'000
Printing and stationery	232	197
Communication expense	2,522	2,139
Head office admin charges	10,211	7,768
Professional and license fees	4,148	3,345
Repairs and maintenance	1,663	1,473
Travel and entertainment	1,619	592
Finance cost on leased liability	31	91
Others	1,226	731
	<u>21,652</u>	<u>16,336</u>

21 Net gains on foreign exchange

Net gains on foreign exchange amounting to AED 22,215 thousand (2022: AED 52,421 thousand) mainly relates to the realised gains on remittance services provided to different customers during the year.

22 Taxation

The Branches are subject to tax in accordance with Regulation Number 2 of 2007 for the assessment of fees on the branches of foreign banks issued by the Government of UAE.

22.1 Movement in income tax provision

	2023 AED '000	2022 AED '000
Opening balance	47,843	20,744
Income taxes paid	(61,567)	(20,744)
Current tax expense	48,020	47,843
	<u>34,296</u>	<u>47,843</u>
Closing balance (Note 14)	<u>34,296</u>	<u>47,843</u>

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22 Taxation (continued)

22.1 Movement in tax provision (continued)

	2023 AED '000	2022 AED '000
Current tax		
Current income tax	34,296	47,843
Adjustment in respect of prior years (<i>Note 22.3</i>)	13,724	-
	<u>48,020</u>	<u>47,843</u>
Deferred tax		
Relating to origination and reversal of temporary difference of current year	30,459	20,906
Relating to origination and reversal of temporary difference of prior year	(13,724)	-
	<u>16,735</u>	<u>20,906</u>
Total income tax expense	<u>64,755</u>	<u>68,749</u>

22.2 Reconciliation between tax expense and accounting profit

Tax is computed at 20% of the net taxable profit of the Branches generated through its operations in the Emirates of Abu Dhabi and Dubai

	2023 AED '000	2022 AED '000
Net profit for the year before taxation	323,773	343,745
Tax @ 20% of net accounting profit (2022: 20%)	64,755	68,749
Deferred tax effect - prior year adjustment	(13,724)	-
Prior year tax charge	13,724	-
Total income tax expense	<u>64,755</u>	<u>68,749</u>
Effective tax rate	<u>20%</u>	<u>20%</u>

22.3 Prior year taxation

Tax assessed by the tax authorities for the prior assessment years was in excess of the tax provision maintained by the Branches by AED 13,724 thousand (2022: AED NIL thousand).

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22 Taxation (continued)

22.4 Deferred tax

	At 1 January AED '000	Charge to statement of profit or loss AED '000	At 31 December AED '000
31 December 2023			
Deferred tax asset on ECL Stage 1&2 ECL	6,250	4,412	10,662
Deferred tax asset on ECL on Stage 3 loans and advances	34,078	(21,163)	12,915
Deferred tax asset on other provisions etc.	3,308	16	3,324
	43,636	(16,735)	26,901
	At 1 January AED '000	Charge to statement of profit or loss AED '000	At 31 December AED '000
31 December 2022			
Deferred tax asset on Stage 1 & 2 ECL	5,014	1,236	6,250
Deferred tax asset on ECL on Stage 3 loans and advances	44,608	(10,530)	34,078
Deferred tax asset on Carry forward losses	12,920	(12,920)	-
Deferred tax asset on other provisions etc.	2,000	1,308	3,308
	64,542	(20,906)	43,636

23 Cash and cash equivalents

	2023 AED'000	2022 AED'000
Cash and balances with the Central Bank of UAE (excluding reserves) (Refer note 6)	8,013	7,101
Due from banks	7,618,756	3,415,757
Due from Head Office and other branches	176,378	367,497
Due to banks	(504,492)	(685,103)
Due to Head Office and other branches	(24,414)	(17,766)
Cash and cash equivalents	7,274,241	3,087,486

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24 Related party transactions

Identification of related parties:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Branches, related parties comprise Head Office, key management personnel and their related companies. Banking transactions are entered into with related party on terms and conditions approved by the Branches management and the Head Office. The significant related party transactions and significant outstanding balances are as follows:

Ultimate controlling party:

The Branches are a segment of the Head Office which is held 48.96 % each by the Central Bank of Egypt and Kuwait Investment Authority which are therefore the ultimate controlling parties.

(a) Balances with related parties

Head office and other branches

	2023 AED'000	2022 AED'000
Deposit with Head Office and other Branches*		
Outstanding at 1 January	367,497	244,767
Movement during the year	(191,119)	122,730
	176,378	367,497
	176,378	367,497

* The ECL considered against deposits with Head Office and other Branches was not significant on an overall basis.

Deposits from Head office and other Branches

	2023 AED'000	2022 AED'000
Outstanding at 1 January	17,766	17,075
Deposit during the year	6,648	691
	24,414	17,766
	24,414	17,766

(b) Transactions carried out during the year with related parties:

	2023 AED'000	2022 AED'000
Interest income for the year	14,821	4,213

(c) Key management compensation:

All key management personnel are based in the Head Office and accordingly, no key management compensation is paid in the Branches.

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25 Commitments and contingencies

As at 31 December 2023, the Branches had the following commitments and contingencies:

	2023 AED'000	2022 AED'000
Letters of credit	257,802	140,996
Letters of guarantee	414,424	571,177
Undrawn loan commitments	238,956	-
	911,182	712,173

The Branches hold collaterals against letter of guarantees and letter of credits in the form of deposits, securities and personal and corporate guarantees, where applicable.

Movement in the gross balance and corresponding ECL allowances of off-balance sheet exposures

Outstanding balance - AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2023	564,018	80,325	67,832	712,173
Transferred to Stage 1	7,094	(7,094)	-	-
Transferred to Gross Loans and advances	-	-	(55,664)	(55,664)
Originated (expired) during the year (net)	(127,095)	143,388	(578)	15,715
Gross carrying amount - 31 December 2023	444,017	216,619	11,590	672,226

Outstanding balance - AED ' 000	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount - 1 January 2022	443,601	1,037	68,802	513,440
Originated (expired) during the year (net)	120,415	79,288	(970)	198,733
Gross carrying amount - 31 December 2022	564,016	80,325	67,832	712,173

ECL - AED ' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2023	930	1,132	60,814	62,876
Transferred to Stage 1	30	(30)	-	-
Transferred to Gross Loans and advances	-	-	(50,099)	(50,099)
Originated / (expired) during the year (net)	60	2,597	614	3,271
31 December 2023	1,020	3,699	11,329	16,048

ECL - AED ' 000	Stage 1	Stage 2	Stage 3	Total
1 January 2022	1,844	1	34,190	36,035
Originated / (expired) during the year (net)	(914)	1,131	26,624	26,841
31 December 2022	930	1,132	60,814	62,876

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25 Commitments and contingencies (continued)

Credit related commitments

The Branches' contractual amounts in respect of letters of credit and guarantees commit the Branches to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, guarantees are called for full amount following performance failure, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

Irrevocable commitments to extend credit represent contractual commitments to extend loans and revolving credits. These commitments generally have fixed expiration dates or other termination clauses and may require a payment of a fee. Since commitments may expire without being drawn upon, the total contracted amounts do not necessarily represent future cash requirements.

The loan commitments represent the contractual commitments to disburse the loan. These generally have fixed expiry dates or other termination clauses. Since commitments may expire without being drawn down, and as conditions precedent to draw down have to be fulfilled, the total contract amounts do not necessarily represent future cash requirements.

26 Taxation

As on date, the branches are subject to income taxes (at the rate of 20%) in each of the individual emirates (Dubai, and Abu Dhabi) it operates in the UAE. It recognizes income tax expense on profits and income tax payable as a liability in the periods in which the profits arise based on applicable law of each of the emirates. Deferred tax is also recognized on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements.

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime is effective from 1 June 2023 and accordingly, it has an income tax related impact on the financial statements for accounting periods beginning on or after 1 June 2023.

Decision No. 116 of 2022 (published in December 2022 and considered to be effective from 16 January 2023) specifies that taxable income not exceeding AED 375,000 would be subject to the 0% UAE CT rate, and taxable income exceeding AED 375,000 would be subject to the 9% UAE CT rate. With the publication of this Decision, the UAE CT Law is considered to be substantively enacted for the purposes of accounting for Income Taxes.

Additionally, in the FAQ issued by the Federal Tax Authority on 9 December 2022 along with the CT Law clarified (Question no. 120) that the branches of foreign banks will be subject to UAE CT regime. It was also mentioned that branches of foreign banks may be subject to both CT and the Emirate level taxation regime (Question no. 8). Considering that the Emirate level taxation regime has not been repealed, the DTA continues to be recognized as on 31 December 2023 as per the Emirate level taxation regime.

The UAE CT Law shall apply to the branches with effect from 1 January 2024. The MoF continue to issue supplemental Decisions of the Cabinet of Ministers of the UAE (Decisions) to further clarify certain aspects of the UAE CT Law. Such Decisions, and other interpretive guidance of the UAE Federal Tax Authority, are required to fully evaluate the impact of the UAE CT Law on the branches.

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26 Taxation (continued)

Since the provisions of UAE CT law will apply to Tax Periods commencing on or after 1 June 2023, the related current taxes shall be accounted for in the financial statements for the period beginning 1 January 2024. The related deferred tax accounting impact has been considered as of 31 December 2023. However, no deferred taxes adjustments are required for the year ended 31 December 2023 under the Federal level tax regime.

The Branches will continue to monitor the publication of subsequent decisions and related guidance, as well as continuing its more detailed review of its financial matters, to consider any changes to the position at subsequent reporting dates.