BOK International – Abu Dhabi

FINANCIAL STATEMENTS
31 DECEMBER 2023

Principal business address:
P O Box 42253
Abu Dhabi
United Arab Emirates

BOK International - Abu Dhabi

Financial statements

Contents **Page**

KPMG Lower Gulf Limited
Level 19, Nation Tower 2
Corniche Road, P.O. Box 7613
Abu Dhabi, United Arab Emirates
Tel. +971 (2) 401 4800, www.kpmg.com/ae

Independent auditors' report

To the Head Office of BOK International – Abu Dhabi

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BOK International – Abu Dhabi ("the Bank"), which comprise the statement of financial position as at 31 December 2023, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

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

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

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

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

Those charged with Governance are responsible for overseeing the Bank's financial reporting process.

KPMG Lower Gulf Limited, licensed in the United Arab Emirates, and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
KPMG Lower Gulf Limited is registered and licensed under the laws of the United Arab Emirates.

Auditors' 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 auditors' 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 Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

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

KPMG Lower Gulf Limited

Maher AlKatout
Registration no: 5453
Abu Dhabi, United Arab Emirates
Date: 31 March 2023

KPMG Lower Gulf Limited, licensed in the United Arab Emirates, and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.
KPMG Lower Gulf Limited is registered and licensed under the laws of the United Arab Emirates.

BOK International - Abu Dhabi

STATEMENT OF FINANCIAL POSITION
As at 31 December 2023

	Notes	**2023 AED'000**	2022 AED'000
Assets			
Cash and balances with Central Bank	*5*	**2,820,846**	1,715,807
Due from banks and financial institutions	*6*	**81,046**	209,276
Receivables from Islamic financing activity	*8*	**46,377**	53,320
Investments in Islamic Sukuk	*9*	**162,439**	82,488
Other assets	*10*	**11,728**	6,153
Property and equipment	*11*	**1,149**	1,512
Intangible assets	*13*	**828**	1,286
Right-of-use assets	*12*	**3,463**	2,125
TOTAL ASSETS		**3,127,876**	2,071,967
Liabilities and equity			
Liabilities			
Customers' accounts	*14*	**461,598**	779,690
Due to banks and financial institutions	15	**2,487,574**	1,160,131
Finance lease liability	12	**2,642**	1,302
Other liabilities	16	**40,875**	17,707
Total liabilities		**2,992,689**	1,958,830
Equity			
Capital	17	**125,000**	125,000
Retained earnings / Accumulated losses		**6,317**	(13,828)
Legal reserve	18	**3,645**	1,552
Other reserve	19	**225**	413
Total equity		**135,187**	113,137
TOTAL LIABILITIES AND EQUITY		**3,127,876**	2,071,967

Muhammad Ali Jawaid	Mayada Mohamed Hamid	Syed Amir Ahmed
Country Chief Executive Officer	Finance Manager	Group Chief Financial Officer

The notes on pages 8 to 36 are an integral part of these financial statements.

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
Income from Wakala investments		**110,596**	18,980
Income from Islamic financing activities		**3,209**	3,408
Income from Islamic investment		**6,585**	2,072
Depositors' profits		**(83,224)**	(7,558)
NET FINANCING INCOME		**37,166**	16,902
Gain on foreign exchange		**4,306**	5,567
Other income		**3,525**	10,919
OPERATING INCOME		**44,997**	33,388
General and administrative expenses	*20*	**(16,641)**	(23,204)
Depreciation and amortisation		**(2,198)**	(1,978)
TOTAL OPERATING EXPENSES		**(18,839)**	(25,182)
PROFIT BEFORE IMPAIRMENT CHARGES		**26,158**	8,206
Net impairment release	*21*	**-**	7,315
PROFIT BEFORE TAX		**26,158**	15,521
Income tax expense	*24*	**(4,108)**	-
TOTAL PROFIT AND OTHER COMPREHENSIVE INCOME FOR THE YEAR		**22,050**	15,521

The notes on pages 7 to 36 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 2.

BOK International - Abu Dhabi

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Capital AED' 000	**Retained Earnings/ Accumulated losses AED' 000**	**Other reserve AED' 000**	**Legal reserve AED'000**	**Total equity AED'000**
Balance at 1 January 2022	125,000	(28,983)	1,599	-	97,616
Total comprehensive income for the year	-	15,521	-	-	15,521
Transfer to legal reserves	-	(1,552)	-	1,552	-
Transfer to other reserve	-	1,186	(1,186)	-	-
Balance at 31 December 2022	125,000	(13,828)	413	1,552	113,137
Balance at 1 January 2023	**125,000**	**(13,828)**	**413**	**1,552**	**113,137**
Total comprehensive income for the year	-	**22,050**	-	-	**22,050**
Transfer to legal reserves	-	**(2,093)**	-	2,093	-
Transfer to other reserve	-	**188**	**(188)**	-	-
Balance at 31 December 2023	**125,000**	**6,317**	**225**	**3,645**	**135,187**

The notes on pages 7 to 36 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 2.

BOK International - Abu Dhabi

STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Notes	2023 AED'000	2022 AED'000
OPERATING ACTIVITIES			
Net profit for the year before tax		**26,158**	15,521
Adjustments for:			
Depreciation of property and equipment	*11*	**409**	446
Amortisation of intangible assets	*13*	**458**	386
Profit from finance lease	*12*	**8**	5
Depreciation on right-of-use assets	*12*	**1,304**	1,143
Impairment charges		**-**	(9,403)
Amortization of sukuk premium		**80**	131
Provision for employees' end of service benefits		**327**	327
		28,744	8,556
Changes in operating assets and liabilities:			
Due from banks and financial institutions		**(121,327)**	(191,789)
Receivables from Islamic financing activity		**6,943**	9,287
Other assets		**(5,575)**	(2,321)
Due to banks and financial institutions		**16,074**	35,770
Customers' accounts		**(318,092)**	258,970
Other liabilities		**18,733**	15,154
		(374,500)	133,627
Profit proceeds		**112,105**	19,750
Profit paid		**(75,234)**	(5,038)
Net cash (used in) / generated from operating activities		**(337,629)**	**148,339**
INVESTING ACTIVITIES			
Purchase of Investment		**(90,747)**	(53,625)
Purchase of property and equipment		**(46)**	(103)
Proceeds from redemption of Islamic sukuk		**10,716**	19,642
Net cash used in investing activities		**(80,077)**	(34,086)
FINANCING ACTIVITY			
Principal paid on lease liability		**(1,310)**	(1,310)
Net cash used in financing activity		**(1,310)**	(1,310)
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS		**(419,016)**	112,934
Cash and cash equivalents at the beginning of the year		**651,114**	538,171
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*7*	**232,098**	651,114

The notes on pages 7 to 36 are an integral part of these financial statements.

The independent auditors' report is set out on pages 1 to 2.

1 Legal status and principal activities

BOK International – Abu Dhabi (the "Bank") are the operations of Bank of Khartoum, Sudan (the "Head Office") in the United Arab Emirates. The Bank is established to provide Islamic corporate, retail and investment banking services in United Arab Emirates. The Bank currently operates in the United Arab Emirates through its branch located in Abu Dhabi. The Abu Dhabi branch is registered as a foreign branch of the Head office on 18 May 2017.

The registered office address of Abu Dhabi branch is Ground & Mezzanine Floors, Al Sahel Tower, Zayed The First Street, Al Khaldiya Area, P.O Box 42253, Abu Dhabi, UAE.

2 Basis of preparation

2.1 Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) issued by the International Accounting Standards Board (IASB), and applicable requirements of the laws of United Arab Emirates.

These financial statements represent the financial position and results of the Abu Dhabi branch of the Head Office in the United Arab Emirates. The Bank is not a separate legal entity but meets 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.

The Bank is owned by the Head Office and is in the business of providing Islamic banking services in United Arab Emirates, which represent its economic activities. All the operating activities of the Bank 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 Bank are used solely by the Bank and are registered in the name of the Bank. The liabilities relate to the activities of the Bank.

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.

2.2 Basis of measurement

The financial statements are prepared under the historical cost convention.

2.3 Functional currency and presentation

The financial statements have been presented in UAE Dirhams, which is the functional currency of the Bank's rounded to the nearest thousand except when otherwise stated.

3 Changes in material accounting policies

The Bank also adopted disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) from 1 January 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of 'material', rather than 'significant', accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in note 4 Material accounting policies (2022: Significant accounting policies) in certain instances in line with the amendments.

4 Material accounting policies

4.1 New and Amended standards and interpretations adopted

New currently effective standards

A number of new accounting standards are effective for annual periods beginning after 1 January 2023, and earlier application is permitted. The Group has adopted these new or amended accounting standards in preparing these consolidated financial statements however adoption of these new or amended standards did not have a material impact on the financial statements.

New standard or amendments
IFRS 17 Insurance contacts
Disclosure of Accounting polices – Amendments to IAS 1 and IFRS Practice statement 2
Definition of accounting Estimates – Amendments to IAS 8
Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12
International Tax Reform – Pillar Two Model Rules – Amendments to IAS 12

Forthcoming requirements

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2023 and earlier application is permitted; however, the Group has not early adopted any of the forthcoming new or amended standards in preparing these financial statements. Management anticipates that the application of the following standards does not have a material impact on the Group's consolidated financial statements in the period of initial application.

New standard or amendments	Effective date
Non-current Liabilities with Covenants – Amendments to IAS 1	1 January 2024
Classification of liabilities as Current or Non-current - Amendments to IAS 1	1 January 2024
Lease Liability in Sale and Leaseback – Amendments to IFRS 16	1 January 2024
Supplier Finance Agreements – Amendments to IAS 7 and IFRS 7	1 January 2024
Lack of Exchangeability – Amendments to IAS 21	1 January 2025
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28	Effective date deferred indefinitely

4 Material accounting policies *(continued)*

4.2 Financial instruments

Recognition and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A financial asset or a financial liability is recognised when the Bank becomes a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting. Changes in fair value between the trade date and settlement date are recognised in the income statement or in statement of other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the marketplace.

Financial assets are classified in their entirety on the basis of the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

Classification

A financial asset is measured at amortised cost, if both the following conditions are met:

- The financial asset is held within a business model whose objective is to hold assets in order 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 profit on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss, unless it is measured at amortised cost or at fair value through other comprehensive income. However, the Bank may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

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

- the stated policies and objectives for the portfolio and the Bank of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about the future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The Bank has classified cash and bank balances, deposits with banks, receivables from Islamic financing activity and certain other assets as financial assets at amortised cost.

Financial liabilities

All financial liabilities are classified as subsequently measured at amortised cost.

Measurement

Initial measurement
At initial recognition, financial assets and financial liabilities are measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

4 Material accounting policies *(continued)*

4.2 Financial instruments *(continued)*

Subsequent measurement of financial assets
After initial recognition, an entity shall measure a financial asset in accordance with its classification at:

- amortised cost less impairment;
- fair value through other comprehensive income less impairment (debt instruments);
- fair value through other comprehensive (equity securities); or
- fair value through profit or loss.

Impairment is assessed on the financial assets measured at amortised cost and debt instruments at fair value through other comprehensive income as disclosed below.

Offsetting of financial instruments
Financial assets and financial liabilities are only offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognized amounts and the Bank intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

Where the Bank have transferred its 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 Bank's continuing involvement in the asset.

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

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

4.3 Impairment of financial assets

Impairment assessment:

The Bank assess whether financial assets carried at amortised cost 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 debtors or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a financing by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the debtors will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Measurement of Expected Credit Losses (ECL):

The impairment of financial assets are calculated in accordance with IFRS 9 expected credit loss (ECL) model. The standard introduces a new single model for the measurement of impairment losses on all financial assets including financing and sukuk measured at amortized cost or at fair value through OCI. The ECL model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL.

4 Material accounting policies *(continued)*

4.3 Impairment of financial assets *(continued)*

Measurement of Expected Credit Losses (ECL): (continued)

The Bank measure loss allowances at an amount equal to lifetime ECL, except for the financial instruments on which credit risk has not increased significantly since their initial recognition. 12-month ECL are the portion of life time ECL that result from default events on a financial instrument that are possible within the 12 months after reporting date.

ECL is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), and discounting at the initial effective profit rate. The Bank have developed a range of models to estimate these parameters.

Restructured financial 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 finance, then an assessment is made of whether the financial asset should be derecognized 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. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

4.4 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprise cash, unrestricted balances with central Bank and due from banks and financial institutions with original maturities of less than three months, which are subject to insignificant risk of changes in fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are non-derivative financial assets stated at amortised cost in the statement of financial position.

4.5 Wakala

A contract between the Bank and customers whereby one party (the principal: the Muwakkil) appoints the other party (the agent: Wakil) to invest certain funds according to the terms and conditions of the Wakala for a fixed fee in addition to any profit exceeding the expected profit as an incentive for the Wakil for the good performance. Any losses as a result of the misconduct or negligence or violation of the terms and conditions of the Wakala are borne by the Wakil; otherwise, they are borne by the Muwakkil.

4.6 Income Tax

Taxation Provision is made for taxes at rates enacted at the statement of financial position date on taxable profits of the branch as per the Abu Dhabi Ruler's Regulation no. (1) of 2017 for the Assessment of Fees on the Branches of Foreign Banks Operating in the Emirate of Abu Dhabi 20% of taxable net profits payable to the Department of Presidential Affairs, Abu Dhabi.

4 Material accounting policies *(continued)*

4.7 Provisions

Provisions are recognised when the Bank have a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to a provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised in profit or loss.

4.8 Contingent liabilities and assets

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

Contingent assets are not recognised in the financial statements, but are disclosed when the possibility of an outflow of resources embodying economic benefits is probable.

4.9 Contingencies and commitments

Contingencies are possible obligation or assets that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Further, the obligation arising from past events where the liability cannot be determined with reasonable certainty or probability of outflow of resources cannot be determined are also contingencies.

A commitment is a binding contract for the exchange of a specified quantity of resourced at a specific price on specified future dates or date.

4.10 Foreign Currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date the fair value was determined.
Exchange differences are recognised in profit or loss in the period in which they arise.

4.11 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made.

The following specific recognition criteria must also be met before revenue is recognised:

Profit income and expense is recognised in the statement of comprehensive income as it accrues, taking into account the effective yield of the asset / liability or an applicable floating rate. Profit income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of a profit bearing instrument and its amount at maturity calculated on an effective profit rate basis.

Wakala estimated income from Wakala is recognized on accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of the declaration by the agent.

Fees and commission income and expenses that are integral to the effective profit rate on a financial asset or liability are included in the measurement of the effective profit rate. Other fees and commission income are recognised as the related services are performed.

4 Material accounting policies *(continued)*

4.12 Financial guarantee

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at higher of the amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantee liabilities are included within other liabilities.

4.13 Earnings prohibited by Shari'a

The Bank is committed to avoid recognising any income generated from non-Islamic sources. Accordingly, all non-Islamic income will be credited to a charity fund where the Bank uses these funds for social welfare activities.

4.14 Internal Sharia'a Supervisory Committee

The Bank's business activities are subject to the supervision of a Internal Sharia'a Supervisory Committee appointed by the general assembly of shareholders of Bank of Khartoum (the "Head Office").

4.15 Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic benefit.

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

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The preparation of the Bank's financial statements requires management to make certain estimates and assumptions that affect the reported amount of financial assets and liabilities and the resultant allowances for impairment and fair values. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant items where the use of estimates and judgments are required are outlined below:

Financial instruments

Judgements made in applying accounting policies in accordance with IFRS 9: Financial instruments which impact:

- Classification of financial assets: assessment of business model within which the assets are held and assessment of whether the contractual terms of the financial assets are solely payment of principal and profit of the principal amount outstanding.
- Calculation of expected credit loss (ECL): The ECL assessment is mainly driven by inputs, assumptions and techniques under IFRS 9 methodology.

4 Significant judgements and estimate *(continued)*

4.15 Fair values *(continued)*

Key considerations: Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgment, as considered by the Bank while determining the impact assessment, are:

Assessment of Significant Increase in Credit Risk: The assessment of a significant increase in credit risk is done on a relative basis. ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Bank takes into account qualitative and quantitative forward-looking information.

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios: The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in our expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

Estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability weighted estimate that considers a minimum of three future macroeconomic scenarios.

Base-case, Upside and Downside scenarios, will be based on macroeconomic forecasts received from an external reputable source. These scenarios will be updated on an annual basis and more frequently if conditions warrant.

All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Definition of default: The definition of default used in the measurement of expected credit losses and the assessment to determine movement between stages will be consistent with the definition of default used for internal credit risk management purposes. IFRS 9 does not define default, but contains a rebuttable presumption that default has occurred when an exposure is greater than 90 days past due.

Expected Life: When measuring ECL, the Bank consider the maximum contractual period over which the Bank is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Bank is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Discount rate used for initial measurement of lease liabilities

The Bank, as a lessee, measures the lease liabilities at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the profit rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank on initial recognition of the lease uses its incremental financing rate. Incremental financing rate is the rate of profit that the Bank would have to pay to finance 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 assets in similar economic environment.

4 Significant judgements and estimate *(continued)*

4.15 Fair values *(continued)*

Fair value of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable 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 in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not 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 for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

5 Cash and balances with Central Bank

	2023	2022
	AED’000	AED’000
Cash in hand	**2,527**	2,234
Balances with Central Bank of UAE	**230,885**	62,498
Islamic certificate of deposits with Central Bank of UAE	**2,545,000**	1,600,000
Cash reserve deposits with Central Bank	**42,434**	51,075
	2,820,846	1,715,807

Cash reserve deposits with Central Bank of UAE are not available for the Bank and are non-profit bearing. Cash in hand and current accounts are non-profit bearing.

6 Due from banks and financial institutions

	2023 AED'000	2022 AED'000
Balances with correspondent bank	**40,251**	79,620
Balances with Head office *(note 22)*	**13,565**	6,058
Balances with branch abroad *(note 22)*	**4,932**	300
Wakala deposits with branch abroad *(note 22)*	**-**	5,000
Finance and Wakala deposits with other banks	**24,388**	120,388
	83,136	211,366
Less: provision for expected credit losses (ECL)	**(2,090)**	(2,090)
	81,046	209,276

The distribution of the gross cash and balances with banks by geographic region is as follows:

	2023 AED'000	2022 AED'000
UAE	**2,264**	57,654
Sudan	**13,565**	6,058
Others	**67,307**	147,654
	83,136	211,366

7 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2023 AED'000	2022 AED'000
Cash and balances with central bank	**2,820,846**	1,715,807
Due from banks and financial institution	**81,046**	209,276
Due to banks and financial institutions	**(2,487,574)**	(1,160,131)
	414,318	764,952
Less: balances maturing after three months:		
Due from banks and financial institutions	**(230,000)**	(220,778)
Due to banks and financial institutions	**47,780**	106,940
Cash and cash equivalents	**232,098**	651,114

8 Receivables from Islamic financing activity

	2023 AED'000	2022 AED'000
Corporate Murabaha	**46,683**	53,626
Less: expected credit losses (ECL)	**(306)**	(306)
	46,377	53,320

The corporate facilities are provided to customers based in UAE. As at 31 December 2022, the corporate facilities amounting to AED 46,377 thousand (2022: AED 53,320 thousand) are secured against deposits and Mortgaged properties. Below, movement in provision for expected credit losses:

8 Receivables from Islamic financing activity *(continued)*

	2023	2022
	AED '000	AED '000
At 1 January	**306**	9,702
Recovery for the year	**-**	(9,396)
At 31 December	**306**	306

The following table contains an analysis of the credit risk exposure of receivables from Islamic financing activity for which an ECL allowance is recognized:

	Stage 1 12 month ECL AED '000	Stage 2 lifetime ECL not credit impaired AED '000	Stage 3 lifetime ECL credit impaired AED '000	Total AED '000
31 December 2023				
Corporate Murabaha	**46,391**	**-**	**292**	**46,683**
Expected credit losses				
At 1 January	**14**	-	**292**	**306**
Charge for the year	-	-	-	-
At 31 December	**14**		**292**	**306**
Net Corporate Murabaha	**46,377**	**-**	**-**	**46,377**
31 December 2022				
Corporate Murabaha	53,334	-	292	53,626
Expected credit losses				
At 1 January	29	-	9,673	9,702
Reversal for the year	(15)	-	(9,381)	(9,396)
At 31 December	14	-	292	306
Net Corporate Murabaha	53,320	-	-	53,320

9 Investments in Islamic sukuk

The Bank's investments at the end of the reporting period are detailed below:

	2023 AED '000	2022 AED '000
Financial assets at amortised cost		
UAE-based quoted Sukuk	**54,706**	37,106
G.C.C quoted Sukuk	**84,151**	45,490
Other	**23,690**	-
	162,547	82,596
Less: expected credit losses (ECL)	**(108)**	(108)
	162,439	82,488

The movement in the financial assets at amortised cost is as follows:

	2023 AED'000	2022 AED '000
At the beginning of the year	**82,596**	48,636
Purchased during the year	**90,747**	53,733
Redemption of Sukuk	**(10,716)**	(19,642)
Sukuk Premium amortization	**(140)**	(138)
Sukuk Discount amortization	**60**	7
	162,547	82,596

10 Other assets

	2023 AED '000	2022 AED '000
Advances to employees	**1,792**	1,647
Prepayments	**613**	310
Accrued income	**6,806**	3,193
Others	**2,552**	1,038
	11,763	6,188
Less: expected credit losses (ECL)	**(35)**	(35)
	11,728	6,153

11 Property and equipment

	Office equipment AED'000	Furniture and fixtures AED'000	Motor vehicles AED'000	Total AED'000
2023				
Cost:				
As at 1 January	**1,266**	**2,190**	**430**	**3,886**
Additions	**30**	**16**	**-**	**46**
	1,296	**2,206**	**430**	**3,932**
Depreciation:				
At 1 January	**912**	**1,121**	**341**	**2,374**
Charge for the year	**125**	**220**	**64**	**409**
At 31 December 2023	**1,037**	**1,341**	**405**	**2,783**
Net carrying amount At 31 December 2023	**259**	**865**	**25**	**1,149**
2022				
Cost:				
As at 1 January	1,166	2,187	430	3,783
Additions	100	3	-	103
	1,266	2,190	430	3,886
Depreciation:				
At 1 January	751	901	276	1,928
Charge for the year	161	220	65	446
At 31 December 2022	912	1,121	341	2,374
Net carrying amount At 31 December 2022	354	1,069	89	1,512

12 Leases

Set out below, is the carrying amount of the Bank's right-of-use asset and lease liability and the movement during the year:

The movement of Right-of-use assets during the year is as follows:

	2023 AED '000	2022 AED '000
As at 1 January	**2,125**	660
Additions	**2,642**	2,608
Depreciation expense	**(1,304)**	(1,143)
As at 31 December	**3,463**	2,125

12 Leases *(continued)*

The movement of lease liability recognised in the current year is as follows:

	2023 **AED '000**	2022 AED '000
As at 1 January	**1,302**	-
Additions	**2,642**	2,607
Finance charge	**8**	5
Principal repayments	**(1,310)**	(1,310)
As at 31 December	**2,642**	1,302

13 Intangible assets

	Computer software	
	2023 **AED '000**	2022 AED '000
Cost:		
At 1 January	**3,036**	3,036
Addition	-	-
At 31 December	**3,036**	3,036
Amortisation:		
At 1 January	**1,750**	1,364
Charge for the year	**458**	386
At 31 December	**2,208**	1,750
Net book value:		
At 31 December	**828**	1,286

14 Customers' accounts.

	2023 **AED '000**	2022 AED '000
Current accounts	**404,958**	642,201
Saving accounts	**570**	2,238
Margin account	**29,050**	1,494
Deposits	**27,020**	133,757
	461,598	779,690

14 Customers' accounts *(continued)*

The distribution of the gross depositors' accounts by industry sector, geographic region and currency was as follows:

	2023	2022
	AED '000	AED '000
Industry sector:		
Individuals	**33,813**	32,686
Small and medium enterprises	**427,785**	747,004
	461,598	779,690
Geographic region:		
UAE	**235,470**	493,577
Sudan	**211,564**	239,628
Others	**14,564**	46,485
	461,598	779,690
Currencies:		
UAE Dirham	**394,660**	701,448
US Dollar	**1,555**	518
Euro	**65,383**	77,724
	461,598	779,690

15 Due to bank and financial institutions

	2023	2022
	AED '000	AED '000
Wakala deposits due to foreign banks and financial institutions	**47,780**	47,781
Wakala deposits due to Head Office *(note 22)*	**2,103,000**	780,000
Due to Head office *(note 22)*	**80,610**	50,039
Balances due to foreign banks and financial institutions	**14,334**	26,308
Wakala deposits due to branch abroad *(note 22)*	**-**	43,820
Margins account – Head Office *(note 22)*	**6,939**	211,660
Balances due to related branch abroad *(note 22)*	**234,911**	523
	2,487,574	1,160,131

The distribution of the due to banks and financial institutions by geographic region is as follows:

	2023	2022
	AED '000	AED '000
Sudan	**2,221,080**	217
UAE	**3,553**	1,115,537
Others	**262,941**	44,377
	2,487,574	1,160,131

16 Other liabilities

	2023 AED '000	2022 AED '000
Provision for employees' end of service benefits	**6,191**	7,832
Accruals	**6,630**	2,796
Tax payable	**4,108**	-
Unearned revenue	-	296
Other payables	**23,946**	6,783
	40,875	17,707

17 Capital

	2023 AED '000	2022 AED '000
Amount contributed by Bank of Khartoum - Head office		
Khartoum, Sudan, as paid up capital	**125,000**	125,000

18 Legal reserve

In accordance with the Federal Law No. (14) of 2018 (as amended), 10% of annual net profit is transferred to a legal reserve until this reserve equals the paid up capital. The reserve is not available for distribution.

19 Other reserve

Other reserve represents a reserve for impairment ("impairment reserve") calculated under the CB UAE guidance note dated 30 April 2018 to banks and finance companies on the implementation of IFRS 9 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE ("the guidance"). As per the guidance note, where provisions under circular 28/10 of the CBUAE exceed provisions under IFRS 9, difference amount is transferred to a reserve within equity as an appropriation from retained earnings. This reserve is not available for dividend distribution.

20 General and administrative expenses

	2023 AED '000	2022 AED '000
Staff costs	**12,719**	18,232
Profit expense on lease liability	-	5
Other general and administrative expenses	**3,922**	4,967
	16,641	23,204

21 Impairment charges

	2023	2022
	AED '000	AED '000
Impairment (release) on receivables from:		
Other assets	**-**	(79)
Cash and Bank	**-**	2,088
Islamic financing activity	**-**	(9,397)
Sukuk	**-**	73
	-	(7,315)

22 Related party balances and transactions

Ultimate controlling party of the Bank is Bank of Khartoum Co. LTD.

Related parties comprise the Head Office, other branches of the Head Office, directors and senior management of the Bank and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the Bank's management and are made on terms agreed by the management.

In the normal course of business, the Bank deals with its related parties namely Head office, other branches of Bank of Khartoum and key management personnel of the Bank. Transactions with related parties consist primarily of expenses incurred by Head office, funds received and transferred by Head office and other branches and placement of funds by the Bank with Head office (note 6) and are undertaken at the specific instructions of the Head office.

Compensation of key management personnel
The compensation of key management personnel during the year was as follows:

	2023	2022
	AED '000	AED '000
Salaries and other benefits	**4,926**	5,041
Employees' end of service benefits	**66**	58
	4,992	5,099

Transaction with related parties:

	2023	2022
	AED '000	AED '000
Income from Wakala investments - Bahrain Branch	**214**	203
Depositors' profits - Bahrain Branch	**1,273**	54
Depositors' profits - Head office	**78,910**	6,351

Balances with related parties:

	2023	2022
	AED '000	AED '000
Placement of funds by the Bank with Head office *(note 6)*	**13,565**	6,058
Wakala deposits due from Bahrain Branch *(note 6)*	**-**	5,000
Placement of funds by the Bank with Bahrain Branch *(note 6)*	**4,932**	300

22 Related party balances and transactions *(continued)*

Balances with related parties: *(continued)*

Wakala deposits due to Head Office *(note 15)*	**2,103,000**	780,000
Due to Head Office *(note 15)*	**80,610**	50,039
Wakala deposits due to branch abroad *(note 15)*	**-**	43,820
Margins account – Head Office *(note 15)*	**6,939**	211,660
Balances due to related branch abroad *(note 15)*	**234,911**	523

23 Commitments

The Bank has the following credit related contingencies and commitments:

	2023 AED '000	2022 AED '000
Contingent liabilities		
Letters of credit	**6,938**	212,051
Letters of credit (unconfirmed)	**1,366,834**	887,202
Letters of guarantee	**29,050**	2,882
`	**1,402,822**	1,102,135

24 Income tax expense / payable

	2023 AED '000	2022 AED '000
At 1 January	**-**	-
Income tax charges	**(4,108)**	-
At 31 December	**(4,108)**	-

	2023 AED '000	2022 AED '000
Net profit of the year	**26,158**	15,521
Deductions		
General provision	-	(7,315)
Tax losses brought forward	**(5,616)**	(13,822)
Taxable profit / (Loss)	**20,542**	(5,616)
Tax for the year at 20%	**4,108**	**-**

25 Risk management

The Bank's activities give rise to exposure to a variety of financial risks and those activities involve the identification, evaluation, acceptance and management of risks or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The key risks are credit, liquidity, market and operational risks. Market risk includes currency risk and profit rate risk.

The Head office has established a risk management structure to oversee and manage these risks through various management committees which are responsible for making decisions and controlling the risk in relevant areas.

The following sections describe the financial risks to which the Bank are exposed, their nature and how they are managed.

Liquidity risk

Liquidity risk is defined as the risk to earnings and capital arising from the Bank's inability to meet its obligations when they become due, without incurring unacceptable losses. Liquidity risk often results in risks related to reputation, legal and business continuity as it impacts the ability to fulfill financial obligations and often have a systemic impact. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and monitors liquidity on a regular basis.

The table below summarises the maturity profile of the Bank's financial liabilities based on contractual undiscounted repayment obligations.

	On demand AED'000	*One month to one year AED'000*	*Total AED'000*
2023			
Current accounts and deposits	**450,078**	**12,106**	**462,184**
Due to banks and financial institutions	**336,794**	**2,154,992**	**2,491,786**
Other payables	**43,517**	**-**	**43,517**
Total	**830,389**	**2,167,098**	**2,997,487**
2022			
Current accounts and deposits	645,938	134,402	780,340
Due to banks and financial institutions	277,506	844,731	1,122,237
Other payables	19,009	-	19,009
Total	942,453	979,133	1,921,586
2023			
Commitment and contingencies	**29,050**	**6,938**	**35,988**
2022			
Commitment and contingencies	2,882	212,051	214,933

25 Risk management *(continued)*

Liquidity risk *(continued)*

The table below summarises the maturity profile of the Bank's assets and liabilities as of 31 December 2023 and 2022 based on contractual periods to cash conversion from the statement of financial position date or expected periods to cash conversion where there are no contractual terms. The Bank are supported by Head office for managing liquidity of the Bank.

	On demand AED'000	*3-6 months AED'000*	*6 months to 1 year AED'000*	*More than 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
2023						
ASSETS						
Cash and balances with central bank	**2,820,846**	**-**	**-**	**-**	**-**	**2,820,846**
Due from banks and financial institutions	**83,136**	**-**	**-**	**-**	**-**	**83,136**
Receivables from Islamic financing activity	**4,083**	**-**	**-**	**42,600**	**-**	**46,683**
Sukuk	**-**	**-**	**-**	**162,547**	**-**	**162,547**
Other assets	**-**	**-**	**1,792**	**-**	**-**	**1,792**
Financial assets	**2,908,065**	**-**	**1,792**	**205,147**	**-**	**3,115,004**
Non-financial assets						**12,874**
Total assets						**3,127,878**
LIABILITIES						
Current accounts and deposits	**450,078**	**1,096**	**5,424**	**5,000**	**-**	**461,598**
Due to banks and financial institutions	**336,794**	**2,109,000**	**1,780**	**40,000**	**-**	**2,487,574**
Other payables	**-**	**-**	**41,999**			**41,999**
Total liabilities	**786,872**	**2,110,096**	**49,203**	**45,000**	**-**	**2,991,171**
Net liquidity gap	**2,121,193**	**(2,110,096)**	**(47,411)**	**160,147**	**-**	**123,833**

25 Risk management *(continued)*

Liquidity risk *(continued)*

	On demand AED'000	*3-6 months AED'000*	*6 months to 1 year AED'000*	*More than 1 year AED'000*	*No fixed maturity AED'000*	*Total AED'000*
2022						
ASSETS						
Cash and balances with central bank	1,715,708	100	-	-	-	1,715,808
Due from banks and financial institutions	211,367	-	-	-	-	211,367
Receivables from Islamic financing activity	(2,334)	13,360	-	42,600	-	53,626
Sukuk	-	10,716	-	71,772	-	82,488
Other assets	-	-	1,612	-	-	1,612
Financial assets	1,924,741	24,176	1,612	114,372	-	2,064,901
Non-financial assets						7,066
Total assets						2,071,967
LIABILITIES AND EQUITY						
Current accounts and deposits	645,938	122,712	11,040	-	-	779,690
Due to banks and financial institutions	652,502	422,025	45,600	40,000	-	1,160,127
Other payables	-	-	17,707	-	-	17,707
Total liabilities	1,298,440	544,737	74,347	40,000	-	1,957,524
Net liquidity gap	626,301	(520,561)	(72,735)	74,372	-	107,377

25 Risk Management *(continued)*

Market risk

Market risk is the risk that changes in market prices, such as profit rates, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. Positions are monitored on a regular basis to ensure positions are maintained within established approved limits**.**

Foreign currency risk sensitivity analysis
The Bank is exposed to foreign currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of comprehensive income. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the functional currency of the Bank.

In order to measure its exposures to currency risk, the Bank stress tests its exposures following the standard shocks approach, which calculates the effect on assets and income of the Bank as a result of 5% appreciation and depreciation in foreign currencies in relation to the reporting currency of the Bank. This is calculated using various percentages based upon the judgment of the management of the Bank.

Following is the sensitivity analysis that calculates the effect of a reasonable possible movement of the currency exchange rate against the AED with all other variables held constant on the statement of income and the statement of equity. The impact of a similar increase / (decrease) in exchange rates will be approximately opposite to the impact disclosed below:

	% Change in rate	Effect on loss AED'000	Effect on equity AED'000
31 December 2023			
EURO	**5%**	**218**	**218**
31 December 2022			
EURO	5%	5	5

The Bank does not actively trade in foreign currency but manages its customer requests on a back to back basis with its Head office, thus further reducing the risk the Bank is exposed to. In addition, the Bank entered into derivative financial instruments with its Head office to reduce foreign currency risk.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-statement of financial position instruments that mature or re-price in a given period. The Bank manages this risk through appropriate limits in place and frequent review of the Bank's structural position with regard to profit rate risk and its impact on earnings as well as the economic value of its shareholders' equity.

25 Risk Management *(continued)*

Market risk *(continued)*

Profit rate risk (continued)

The following table estimates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's income statement. The sensitivity of the income statement is the effect of the assumed changes in profit rates (whether increase or decrease) on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2023.

Currency	**Increase in basis points 2023**	**Sensitivity of profit on financial assets and liabilities AED '000**	Increase in basis points 2022	Sensitivity of of profit on financial assets and liabilities AED '000
AED	**100**	**24,702**	100	14,264

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to a financial instrument, to meet its obligations under a contract. It arises principally from financing and trade finance.

The Bank's primary exposure to credit risk arises from bank balances and deposits with banks and receivables from Islamic financing activity. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the statement of financial position. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position.

Credit risk management

Credit risk is managed by the Head office and credit facilities are approved by the Head office. Approval of credit facilities is based on an assessment of the ability to service the facility, credit history, an internal scoring of the applicant and eligible maximum unsecured exposure. The final credit decision is based on overall customer profile, ability & intent indicators, score, along with all external and internal verification checks.

Credit risk measurement

The Bank's credit risk is measured in terms of expected credit loss (ECL), which is calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default EAD), and discounting at the initial effective profit rate.

The Bank has developed a range of models to estimate these parameters. Since sufficient historical data was not available, judgmental models were developed.

ECL measurement

The assessment of credit risk and the estimation of ECL are unbiased, probability-weighted and incorporate all available information relevant to the assessment, including information about past events, current conditions and reasonable and supportable forecasts of economic conditions at the reporting date. In addition, the estimation of ECL takes into account the time value of money.

As per the IFRS 9 requirements, Bank calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over the next 12 months or effective remaining life of the facility. Expected Loss at any point in time of the life of the facility is calculated using the following formula:

25 Risk management *(continued)*

Credit risk *(continued)*

Expected Credit Loss (ECL) = PD*EAD*LGD
For each facility Bank calculates ECL over two forecast periods:

- 12 Month: ECL is calculated using 12-month forward looking PD, LGD and EAD.
- Lifetime: ECL is calculated using Lifetime forward looking PD, LGD and EAD.

12 Month or Lifetime ECL for each facility is used depending on the stage of the facility, as explained below:

- **Stage1:** where no significant increase in credit risk is observed, 12 month Expected Credit Loss (ECL) is recorded as impairment provision;
- **Stage2:** where significant increase in credit risk have been observed, Life-time ECL is recorded as impairment provision;
- **Stage3:** where the exposure is defaulted or impaired, Life-time ECL is recorded as impairment provision.

Significant increase in credit risk (SICR)

The stage allocation is determined by identifying a significant increase in credit risk since initial origination. The Bank assess when significant increase in credit risk has occurred based on the quantitative and qualitative assessments. When determining whether the risk of default on a financial contracts has increased significantly since initial recognition, the Bank considers 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 Bank's historical experience and expert credit assessment including forward-looking information.

Curing

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period, defined by the Bank. Similarly, for the movement from Stage 3 to Stage 2, for certain portfolios the Bank's policy includes probation periods whereby assets remain in Stage 3 for period of twelve months. The policy also ensures that none of the asset can move back directly to Stage 1 from Stage 3. There has been no curing in the stages during the current year.

Measuring ECL- Explanations of input, assumptions and estimation techniques

As per IFRS 9, the ECL calculated for a facility should incorporate both current and forward-looking economic outlook over 12 Month to remaining life of the facility.

The Bank calculates Expected credit loss (ECL) for a facility as a forward looking probability weighted present value of the expected losses over forecast period (next 12 months or effective remaining life of the facility).

At the reporting date, a monthly ECL is estimated for each individual exposure for each month until the end of the forecast period. This is calculated as simple multiplication of PD, LGD and EAD at each month. These monthly ECLs are discounted to the reporting date using the effective profit rate and the summation of these discounted monthly ECLs gives the ECL estimate. The lifetime ECL is the sum of the monthly ECLs over the remaining life, while the 12-month ECL is limited to the first 12 months.

The estimation methodology for three main components, PD, LGD and EAD is explained below:

Probability of Default (PD):
Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by credit risk grading for corporate portfolio. The Bank employs statistical models for analysing 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 Bank has taken exposures. For most exposures, the key macro-economic indicators include gross domestic product (GDP) growth, real profit rates, unemployment, domestic credit growth, oil prices, central government revenue as a percentage to GDP and central government expenditure as a percentage to GDP.

25 Risk management *(continued)*

Credit risk ***(continued)***

Loss Given Default (LGD):
LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the Moody's global studies. The LGD is estimated using below factors:

Cure Rate: Defined as the ratio of accounts which have fallen to default and have managed to move backward to the performing status.

Recovery Rate: Defined as the ratio of liquidation value to market value of the underlying collateral at the time of default. This would also account for expected recovery rate from a general claim on the individual's assets for the unsecured portion of the exposure.

Discounting Rate: Defined as the opportunity cost of the recovery value not being realised on the day of default adjusted for time value.

Exposure at Default (EAD):
The EAD is the amount which bank expects an obligor to owe in the event of default. The EAD depends on the product type:

- For amortizing products, this is based on the contractual repayments over the forecast period.
- For revolving/off-balance products, this is estimated as a combination of current exposure and credit conversion factor applied on the undrawn portion of the limit.

Forward-looking information incorporated in the ECL model

As per the IFRS 9 requirements, forward looking economic outlook has also been incorporated in the loss calculations. The Bank employs statistical models to incorporate macro-economic factors on historical default rates. In case none of the macro-economic parameters are statistically significant or the results of forecasted PDs are significantly deviated from the present forecast for the economic conditions, quantitative PD overlay are used by the management after analysing the portfolio as per the diagnostic tool.

Incorporating forward-looking information increases the level of judgment as to how changes in these macro-economic 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.

For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

The principal macroeconomic indicator included in the economic scenarios used at December 31, 2023 is the real GDP growth being most important macroeconomic factor for the branch's ECL assessment.

Credit risk monitoring

Risks of the Bank's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

25 Risk management *(continued)*

Credit risk *(continued)*

Credit risk monitoring *(continued)*

The distribution of the Bank's financial assets which are subject to credit risk (before collateral held) by geographical region is as follows:

	Balances with banks AED'000	Investment in Islamic Sukuk AED'000	Receivables from Islamic financing activity AED'000	Other assets AED'000	Total Total AED'000
2023					
ASSETS					
UAE	**2,264**	**54,705**	**53,626**	**-**	**110,595**
Sudan	**13,565**	**-**	**-**	**-**	**13,565**
Others	**67,307**	**107,841**	**-**	**-**	**175,148**
Financial assets subject to credit risk	**83,136**	**162,546**	**53,626**	**-**	**299,308**
2022					
ASSETS					
UAE	57,654	37,106	53,320	-	148,080
Sudan	6,058	-	-	-	6,058
Others	147,653	45,490	-	-	193,143
Financial assets subject to credit risk	211,365	82,596	53,320	-	347,281

Credit quality of financial instruments

The table below shows the maximum exposure to credit risk for the components of the balance sheet without taking account of any collateral and other credit enhancements. The maximum exposure is shown gross, before the effect of mitigation through use of master netting and collateral agreements.

The table below shows the credit risk exposure by credit quality of financial assets by class, grade and status.

	Neither past due nor impaired				
	High grade AED'000	Standard grade AED'000	Acceptable grade AED'000	Past due or individually impaired AED'000	Gross maximum exposure AED'000
2023					
Balances with banks	**83,136**	**-**	**-**	**-**	**83,136**
Islamic sukuk	**82,596**	**-**	**-**	**-**	**82,596**
Financing activities	**53,334**	**-**	**-**	**292**	**53,626**
Other assets	**1,792**	**-**	**-**	**-**	**1,792**
Total	**220,858**	**-**	**-**	**292**	**221,150**
2022					
Balances with banks	211,365	-	-	-	211,365
Islamic sukuk	82,596	-	-	-	82,596
Financing activities	53,028	-	-	292	53,320
Other assets	1,647	-	-	-	1,647
Total	348,636	-	-	292	348,928

25 Risk management *(continued)*

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

The CB UAE issued a guidance note to banks and finance companies on the implementation of IFRS 9 on 30 April 2018 via notice no. CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE ("the guidance").

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

	2023	2022
	AED '000	AED '000
Impairment reserve: General		
General provisions under Circular 28/2010 of CBUAE	**2,980**	2,648
Less: Stage 1 and Stage 2 provisions under IFRS 9	**(2,233)**	(2,233)
General provision transferred to the impairment reserve	**747**	415
Impairment reserve: Specific		
Specific provisions under Circular 28/2010 of CBUAE	**(292)**	(292)
Less: Stage 3 provisions under IFRS 9	**(292)**	(292)
Specific provision transferred to the impairment reserve	**-**	-
Total provision transferred to the impairment reserve	**747**	415

As per the guidance note, where provisions under circular 28/10 of the CBUAE exceed provisions under IFRS 9, difference amount is transferred to an impairment reserve within equity as an appropriation from retained earnings. This reserve is not available for dividend distribution.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, information technology and information security related risks but excludes strategic and reputation risk.

The Bank is in the process of undertaking a Risk and Control Self-Assessment exercise wherein all business and support units would be assessing their risks and controls. An internal loss database that stores details pertaining to operational losses will also maintained.

The Bank have established a corporate culture which entails constructive ways of dealing with the operational risk. The Head office and the Bank established approval control steps in the business processes as well as creating separate control processes. Further, the Head office has established measure of organisational structure in terms of segregation of duties and diverse training measure to mitigate operational risk.

Fair value of financial instruments

The Bank's financial assets consist of cash and balances with banks, due to Head office and other branches, current accounts and deposits.

The fair value of the Bank's assets and liabilities are not materially different from the carrying values at 31 December 2023.

26 Capital management

Capital measurement and allocation

Central Bank of the UAE is the supervisor of the Bank and, in this capacity, receives information on capital adequacy and sets minimum capital requirements for banking groups incorporated in the UAE. The CBUAE issued Basel III capital regulations, which came into effect from 1 February 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ('CET1'), Additional Tier 1 ('AT1') and Total Capital.

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

For 2021 onwards, CCB will be required to be maintained at 2.5% (2022: 2.5%) of the Capital base. CCyB is not yet in effect and is not required to be maintained for 2023 (2022: Nil).

The minimum capital adequacy ratio as per Basel III capital regulation is given below:

	Minimum capital requirement 2023	Minimum capital requirement 2022
Capital ratio:		
a. Total for the Bank	**13.00%**	13.00%
b. Tier 1 ratio for the Bank	**11.00%**	11.00%
c. CET1 ratio for the Bank	**10.50%**	10.50%

The Bank's regulatory capital comprising of Tier I and Tier II capital is measured in accordance with the Basel III guidelines as implemented by the Central Bank of the UAE.

The Bank's capital management approach is driven by its strategy and organisational requirements, taking into account the regulatory and commercial environment in which it operates. It is the Bank's policy to maintain a strong capital base to support the development of its business and to meet regulatory capital requirements at all times. The Bank relies on the Head office for all its funding requirements.

The Bank's objectives when managing capital are:

- safeguarding the Bank's ability to continue as a going concern and increase the returns;
- complying with regulatory capital requirements set by the Central Bank of the UAE;
- maintaining capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel Accord guidelines; and allocating capital to various businesses in an efficient manner.

26 Capital management *(continued)*

Capital measurement and allocation *(continued)*

The table below shows summarises the composition of Basel III regulatory capital and the ratios of the Bank for the years ended 31 December 2023 and 2022.

	Basel III 2023 AED'000	Basel III 2022 AED'000
Common Equity Tier 1 (CET 1) Capital		
Capital	**125,000**	125,000
Accumulated profit	**5,193**	(13,828)
Other reserves	**3,645**	1,552
Regulatory deductions	**(828)**	(1,286)
Total Tier 1 capital (a)	**133,010**	111,438
Eligible Tier II Capital (b)	**2,048**	2,207
Total capital base (a) + (b)	**135,058**	113,645
Risk-weighted assets:		
Credit risk	**163,857**	176,530
Market risk	**4,625**	11,145
Operational risk	**54,142**	32,124
Total risk-weighted assets (c)	**222,624**	219,799
Capital ratios		
Common Equity Tier 1 capital expressed as a percentage of total risk weighted assets	**59.75%**	50.70%
Total Tier 1 capital expressed as a percentage of total risk weighted assets	**59.75%**	50.70%
Total capital expressed as a percentage of total risk weighted assets	**60.67%**	51.70%

27 Corporate Tax

UAE Federal Decree-Law No (47) of 2022 on the Taxation of Corporations and Businesses:

On 9 December 2022, the UAE Ministry of Finance released the Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses ('the CT Law') to enact a Federal corporate tax ('CT') regime in the UAE. The CT Law will be effective for financial years beginning on or after 1 June 2023 and therefore applicable to the Group from FY 2024 onwards. The Cabinet Decision No. 116 of 2022 specifies the threshold of income (as AED 375,000) over which a corporate tax of 9% would apply and accordingly, the CT Law is now considered to be substantively enacted.

For the Bank, current taxes shall be accounted for as appropriate in the financial statements for the period beginning 1 January 2024. In accordance with IAS 12 Income Taxes, the related deferred tax accounting impact has been considered for the year ended 31 December 2023.

The Bank has undertaken an assessment of the application of the CT Law and has not identified deferred tax implications in respect of related party transactions or any other matter and thus have not recognised any deferred tax asset or liability as at 31 December 2023.