

# **Al Khaliji France S.A. – UAE operations**

## **Basel III Pillar 3 Disclosures For the year ended 31 December 2024**

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## 1. Introduction and overview

### Legal status and activities

Al Khaliji France S.A, UAE operations (the “Bank” or “AKF UAE”) is a branch of a foreign French registered bank with its Head Office in Paris, France (the “Head Office”). It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has two branches, one each in the Emirate of Dubai and Abu Dhabi.

Al Khaliji France S.A. is wholly owned subsidiary of Al Rayan Bank (ARB), Qatar.

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

The principal activities of the Bank include accepting deposits, investments in bonds, granting loans and advances and providing other banking services to customers in the United Arab Emirates.

### Purpose and basis of preparation

The Bank is regulated by Central Bank of United Arab Emirates (“CBUAE”) and follows the Pillar 3 disclosure requirement guidelines issued by the CBUAE.

In February 2017, new Basel III capital regulations issued by CBUAE came into effect for all Banks in the UAE.

This document presents Pillar 3 disclosures which complements the Basel III minimum capital requirements and the supervisory review process of the Bank. These disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (vide Notice No. CBUAE/BSN/2020/4980, Notice No. CBUAE/BSN/2021/5508, Notice No. CBUAE/BSN/2022/1887, Notice No. CBUAE/BSN/2022/5280) published in 12 November 2020, 30 November 2021, 09 May 2022 and 30 December 2022 respectively.

These disclosures are being done on the financial figures of AKF UAE operations only.

### Applicability of Pillar 3 disclosure templates

Below is the list of the CBUAE prescribed Pillar 3 disclosure templates which are applicable for quarterly, semi-annual and annual publication and comparison to the disclosure included in this document.

Topic	Table	Information overview	Status
<b>Overview of risk management and RWA</b>	KM1	Key metrics	Included
	OVA	Bank risk management approach	Included
	OV1	Overview of RWA	Included
<b>Linkages between financial statements and regulatory exposures</b>	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Included
<b>Composition of Capital</b>	CC1	Composition of regulatory capital	Included
	CC2	Reconciliation of regulatory capital to balance sheet	Included
<b>Leverage ratio</b>	LR2	Leverage ratio common disclosure template (January 2014 standard)	Included
<b>Liquidity</b>	LIQA	Liquidity risk management	Included
	ELAR	Eligible Liquid Assets Ratio	Included
	ASRR	Advances to Stable Resources Ratio	Included
<b>Credit risk</b>	CRA	General qualitative information about credit risk	Included
	CR1	Credit quality of assets	Included
	CR2	Changes in the stock of defaulted loans and debt securities	Included
	CRB	Additional disclosure related to credit quality of assets	Included
	CR4	Standardized approach - credit risk exposure and CRM effects	Included
	CR5	Standardized approach - exposures by asset classes and risk weights	Included
<b>Market Risk</b>	MRA	General qualitative disclosure requirements related to market risk	Included
	MR1	Market risk under the standardised approach	Included
<b>Interest rate risk in the banking book (IRRBB)</b>	IRRBBA	IRRBB risk management objectives and policies	Included
	IRRBB1	Quantitative information on IRRBB	Included
<b>Operational Risk</b>	OR1	Qualitative disclosures on operational risk	Included
<b>Remuneration policy</b>	REMA	Remuneration policy	Included
	REM1	Remuneration awarded during the financial year	Included

## 2. Overview of risk management, key prudential metrics and RWA

### 2.1. Key metrics (KM1)

An overview of the bank's prudential regulatory metrics.

Sn.	Description	(a)	(b)	(c)	(d)	(e)
		31-Dec-24 AED'000	30-Sep-24 AED'000	30-Jun-24 AED'000	31-Mar-24 AED'000	31-Dec-23 AED'000
<b>Available capital (amounts)</b>						
<b>1</b>	<b>Common Equity Tier 1 (CET1)</b>	<b>599,011</b>	<b>548,305</b>	<b>548,596</b>	<b>548,502</b>	<b>548,178</b>
1a	Fully loaded ECL accounting model	599,011	548,305	548,596	548,502	548,178
<b>2</b>	<b>Tier 1</b>	<b>599,011</b>	<b>548,305</b>	<b>548,596</b>	<b>548,502</b>	<b>548,178</b>
2a	Fully loaded ECL accounting model Tier 1	599,011	548,305	548,596	548,502	548,178
<b>3</b>	<b>Total capital</b>	<b>608,616</b>	<b>555,544</b>	<b>556,151</b>	<b>556,353</b>	<b>556,112</b>
3a	Fully loaded ECL accounting model Total Capital	608,616	555,544	556,151	556,353	556,112
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	907,643	695,039	721,150	743,261	749,368
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	66.00%	78.89%	76.07%	73.80%	73.15%
5a	Fully loaded ECL accounting model CET1 (%)	66.00%	78.89%	76.07%	73.80%	73.15%
<b>6</b>	<b>Tier 1 ratio (%)</b>	<b>66.00%</b>	<b>78.89%</b>	<b>76.07%</b>	<b>73.80%</b>	<b>73.15%</b>
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	66.00%	78.89%	76.07%	73.80%	73.15%
<b>7</b>	<b>Total capital ratio (%)</b>	<b>67.05%</b>	<b>79.93%</b>	<b>77.12%</b>	<b>74.85%</b>	<b>74.21%</b>
7a	Fully loaded ECL accounting model total capital ratio (%)	67.05%	79.93%	77.12%	74.85%	74.21%
<b>Additional CET1 buffer requirements as a percentage of RWA</b>						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	56.55%	69.43%	66.62%	64.35%	63.71%
<b>Leverage Ratio</b>						
13	Total leverage ratio measure	1,433,680	1,423,688	1,366,064	1,425,616	1,445,518
<b>14</b>	<b>Leverage ratio (%) (row 2/row 13)</b>	<b>41.78%</b>	<b>38.51%</b>	<b>40.16%</b>	<b>38.47%</b>	<b>37.92%</b>
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	41.78%	38.51%	40.16%	38.47%	37.92%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	41.78%	38.51%	40.16%	38.47%	37.92%
<b>Liquidity Coverage Ratio</b>						
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
<b>Net Stable Funding Ratio</b>						
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
<b>ELAR</b>						

Sn.	Description	(a)	(b)	(c)	(d)	(e)
		31-Dec-24	30-Sep-24	30-Jun-24	31-Mar-24	31-Dec-23
		AED'000	AED'000	AED'000	AED'000	AED'000
21	Total HQLA	459,165	566,114	513,654	498,071	451,704
22	Total liabilities	739,245	734,386	700,907	756,223	780,306
23	Eligible Liquid Assets Ratio (ELAR) (%)	<b>62.11%</b>	<b>77.09%</b>	<b>73.28%</b>	<b>65.86%</b>	<b>57.89%</b>
<b>ASRR</b>						
24	Total available stable funding	1,202,805	1,179,208	1,151,501	1,188,485	1,125,987
25	Total Advances	614,525	456,863	476,918	494,779	508,726
26	Advances to Stable Resources Ratio (%)	<b>51.09%</b>	<b>38.74%</b>	<b>41.42%</b>	<b>41.63%</b>	<b>45.18%</b>

- The capital ratio as of 31 Dec 24 is well-buffered and above the total capital required;
- The Bank has started to report leverage ratio requirements from 31 Dec 21 and remains comfortably above the minimum of 3%;
- Liquidity ratios (ELAR and ASRR) remain well-buffered and trend comfortably against the minimum requirements for ELAR above 10% and ASRR below 100%.

## 2. Overview of risk management and RWA

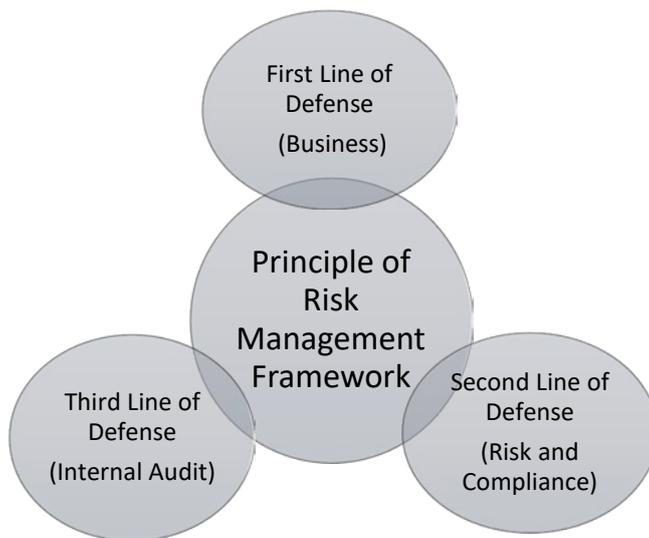
### 2.2. Bank risk management approach (OVA)

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

#### Risk Governance Framework

Al Khaliji France risk governance framework includes set of policies approved by AKF Board, procedures, staff, and control systems through which AKF identifies, assesses, measures, monitors, and controls the risk across the UAE operations.

The Risk Management framework is based on the principle of **‘Three lines of defense’**.



**The first line of defense** consists of the business functions, which are accountable for the management and control of all risks at an operational level, and for implementing processes and controls in compliance with the approved delegation of authority, policies and procedures.

**The second line of defense** consists of the control functions, primary Risk Management and Compliance. These functions are responsible for ensuring that activities of the Bank are conducted with proper risk consideration, and within the Risk Management framework, tools and methodologies, as well as complying with applicable regulatory requirements. Regular monitoring and reporting to the Head Office and senior management committees are an integral part of these functions’ remit.

**The third line of defense** is internal audit, which is responsible for independently evaluating the adequacy and effectiveness of key controls of the first and second lines of defense and assessing compliance with the approved policies and procedures.

The risk governance structure at Al Khaliji France consists of five layers:

Level 1: AKF Board of Directors

Level 2: General Manager (AKF) and Deputy General Manager & Head of Risk (AKF)

Level 3: Senior Management Committees

Level 4: Risk Management

Level 5: Business Units

The Board of Al Khaliji France established specialized hybrid executive committee “AKF Credit and Investment Committee” that include members from the Board and the management of the Bank to consider and take decisions on credits and investments within its delegated authority.

In addition to above, General Manager (AKF) has formed permanent management committees to assist him along with the Deputy General Manager and Head of Risk (AKF) to manage the Bank. These are as follows:

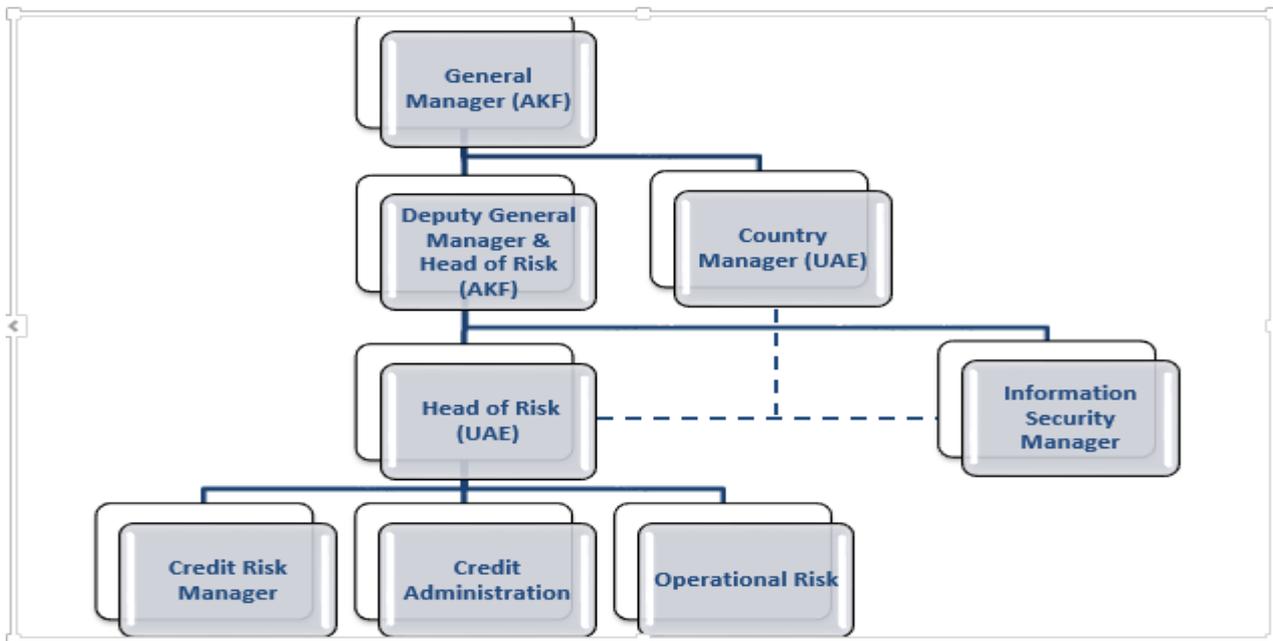
- AKF Credit Committees with 3 tier levels
- AKF Management Committee (AKF MANCO)
- AKF Risk Committee (AKF RC)
- AKF Asset, Liability and Capital Committee (AKF ALCCO)

In addition to the above, Country Manager (UAE) was appointed to assist the General Manager (AKF) and the Deputy General Manager & Head of Risk (AKF) in the management of the UAE operations.

**Risk Management:**

The main responsibilities of the Bank’s Risk Management are to manage credit risk, market risk, operational risk, liquidity risk, compliance risk, credit concentration risk, interest rate risk in the banking book, reputational risk, strategic risk, Anti-Money Laundering (AML) risk, IT risk, regulatory risk, cyber security risk, ESG risk, conduct risk, business continuity, and fraud risk and to ensure compliance with risk-related regulations.

The organizational chart of the Risk Management Department at the Bank:



**Risk Appetite:**

The Bank has articulated a Risk Appetite Statement approved by the AKF Board of Directors stating the level and types of risk the Group is willing to accept, or avoid, in order to achieve its objectives. Therefore, Al Khaliji France in UAE engages in the activities which generate risks consistent with the Group Risk Appetite Statement.

**Risk Identification:**

The Bank endeavors to identify all key risks that may affect. Identification is a continuous and pro-active process. It covers all the current activities of the Bank.

### AKF Risk Committee:

AKF Risk Committee (AKFRC) is a committee of Senior Management in Paris and UAE. It is an executive body with delegated authorities from Al Khaliji France GM. The purpose of AKFRC is to support the Executive Management in managing the various types of risks that Al Khaliji France S.A. (AKF) is exposed to, as well as recommending the risk appetite, risk strategy, policies and tools of the Bank to AKF Board.

The scope of the AKFRC is covering the Credit/Counterparty Risk, Market Risk, Liquidity Risk, and Operational Risk including Security Risk, Legal Risk, Fraud Risk, Reputational Risk, Regulatory Risk, Business Continuity Management and the Insurance Management.

The Committee meets on quarterly basis or as required by its Chairperson, not less than 4 meetings per year.

### AKF Credit Committees:

AKF has the below 3 types of Credit Committees:

- a) "AKF Credit & Investment Committee" AKF CIC is the unique hybrid executive committee that include members from the AKF Board and the management of the Bank to consider and decide on credits and investments within its delegated authority;
- b) "AKF UAE Tier 1 Committee": Members are appointed by and reported to AKF General Manager;
- c) "AKF UAE Tier 2 Committee": Members are appointed by and reported to AKF General Manager.

Above committees operate within the ARB Group Credit Approval Authority Matrix and Policy.

Meetings of the committees are held as required. Majority of quorum is required for sanction. Notice of physical meeting not less than 2 working days for Tier 1 and Tier 2 and not later than 6 calendar days prior the meeting of AKF CIC.

The three different tiers of credit authority are detailed hereunder. The segregation of approval criteria are based on several factors: 1. Customer Segment (Wholesale/ Personal, Private or Premium), 2. Total group CEE, 3. Type of Request (New, renewal, amendment), 4. Facility Tenor, 5. Customer's ORR. (Details are available in the Group Credit Approval authority policy).

### Key Risks:

Al Khaliji France S.A. has identified the following risks as key to its business:

- |                                        |                                      |
|----------------------------------------|--------------------------------------|
| a) Credit risk;                        | h) Reputational risk;                |
| b) Market risk;                        | i) Strategy risk;                    |
| c) Operational risk;                   | j) Anti-Money Laundering (AML) risk; |
| d) Liquidity risk;                     | k) IT risk;                          |
| e) Compliance risk;                    | l) Regulatory risk;                  |
| f) Credit Concentration risk;          | m) Cyber risk.                       |
| g) Interest rate risk in banking book; | n) ESG risk.                         |

#### a) Credit Risk:

Credit risk is the risk of losses arising from the inability of the Bank's customers, and other counterparties to meet their financial commitments in accordance with agreed terms.

The credit risk management process involves identification, assessment, control, and decision-making in relation to the credit risk incurred in the bank activities. The Business and Risk are both involved in the process as well as the senior management.

The credit risk arising from all exposures is mitigated through ensuring the Bank only enters into relationships adhering to the Credit Risk Policy and targets clients with inherently acceptable risk profile

and showing ability to repay the loan. For each loan, consideration is given to the credit rating of the counterparty, and the potential recovery in the event of default. Collaterals are sought to reduce the risk of loss in the event of default but does not constitute the only condition for taking the risk.

As part of its responsibilities for second line of defense, the Risk department provides regular monitoring to ensure that all exposures are in line with the Bank's and Group risk appetite and regulatory limits. This includes monitoring of portfolio characteristics such as portfolio risk ratings, tenor, country risks, currency, and industry concentration which are examined by the Bank's Risk Committee and reported to Group Risk on a monthly basis. Non-performing exposures are monitored on an ongoing basis, and these, along with the NPL ratios and liquidity coverage ratio for Al Khaliji France S.A. are reported to the AKF Risk Committee and to the Group. The Risk department performs regular and various stress tests of Bank credit risk position and reports the results to AKF RC.

The risk report presented to the AKF Board at least twice a year provides additional information related to regulatory large exposures and to forbore exposures.

The Bank has risk appetite for wholesale banking activities and retail banking activities targeting mainly HNWI (High Net-worth Individuals). Al Khaliji France S.A. seeks to diversify risk by controlling individual and sector concentration risk and to maintain an exposure to country risks that reflects the Group strategic selections in terms of its foreign operations.

**b) Market Risk:**

Market Risk is the risk of losses arising from movement in market-based prices. The Bank assesses the market risk exposure and sets aside capital charge using the standardized measurement method as prescribed under the capital adequacy guidelines by CBUAE.

Al Khaliji France, UAE has limited exposure to market risk.

Risk department supported by the Finance department performs regular stress tests of the Bank's positions subject to interest rate risk and FX (Foreign Exchange) risk and reports the results to AKF RC and AKF ALCCO (AKF Asset, Liability and Capital Committee).

The Bank's exposure to market risk is managed and monitored based on recommendations made by AKF ALCCO, and in line with the Bank Market Risk appetite and policy.

**c) Operational Risk:**

Operational Risk is the risk of losses from inadequate or failed internal processes, people and systems or from external events which include but not limited to legal and information technology risk.

The Bank assesses the operational risk exposure and sets aside capital charge using the Basic Indicator Approach (BIA), as prescribed under the capital adequacy guidelines by CBUAE.

The Bank's Operational Risk is independently reviewed and assessed by Operational Risk Management under Risk Management Department.

The main sources of Operational Risk in the Bank are:

- Process (Policies and SOP has been documented);
- People: (including insufficient staff, inaccuracy/delay in performance; also related with training quality, willful circumvention of regulation and responsibility);
- Systems (including failure, system limitations, bugs etc.);
- External events (Vendors/ Cards Fraud /Phishing/Skimming etc.).

Risk Department uses an operational risk management tool (Risk Nucleus) which is intranet-based enabling the Bank to manage the monitoring and reporting of operational incidents, in addition to fraud risk and RCSA assessments.

Risk department performs regular stress tests of the Bank's operational risk and reports the results to AKF RC.

**d) Liquidity Risk:**

Liquidity risk arises due to mismatch in the asset-liability maturity.

The cost of liquidity risk is in terms of either raising fresh liabilities at higher costs or liquidating assets with greater hair-cuts.

The Bank aims at maintaining an appropriate level of liquidity, allowing it to meet payment obligations and support its operations during periods of market disruption where funding becomes inaccessible.

AKF ALCCO is responsible for liquidity management and is monitoring the liquidity cash flows from all major currencies in which the Bank has assets and liabilities.

While the Bank understands that cash flows and not capital are the true mitigants for liquidity risk, quality capital and ability to generate liquidity from unencumbered assets (capital) is an important safeguard against liquidity risk.

Being branch of a French entity and fully owned subsidiary of Al Rayan Bank, Qatar, the Bank is backed by its head office and the Group to provide adequate liquidity cushion in case of a stressed situation.

The GALCCO is responsible of providing guidance and support to the AKF ALCCO who is responsible of managing the Bank's liquidity needs in line with the Group Liquidity policy.

The Bank sets aside capital charge for liquidity risk under Pillar 2 based on the asset liability maturity mismatch profile analysis. The Bank computes the cumulative gap (assets minus liabilities) for each time bucket up to and including that bucket. The capital set aside for liquidity risk is estimated as 2% of the largest negative cumulative gap observed in the asset liability maturity mismatch profile.

Risk department with the support of the Finance department performs regular stress tests of the Bank's liquidity risk and reports the results to AKF RC and AKF ALCCO.

**e) Compliance Risk:**

Compliance risk management is the process of identifying, assessing and mitigating potential losses that may arise due to non-compliance with laws, regulations, standards and both internal and external policies and procedures.

Management practices are intended to maintain compliance with various regulations and laws.

Compliance Risk Management is a continuous process that involves tracking changes in the regulatory environment to ensure an organization's compliance is up to date.

**f) Credit Concentration risk:**

Credit Concentration Risk represents the risk arising from an uneven distribution of counterparties in loans portfolio or any other business relationship or from concentration in business sectors or geographical regions;

For each single name/ group of borrowers and economic/business sector, the Bank sets aside capital charge and monitor limits based on a certain percentage from its loan portfolio.

Risk department performs regular stress testing of Bank credit Concentration risk position and reports the results to AKF RC.

**g) Interest rate risk in banking book:**

Interest rate risk in the banking book (IRRBB) refers to the risk of changes in market prices of assets and liabilities in the banking book due to changes in the interest rate term structure. Banks have a significant portion of their assets and liabilities portfolio not marked and carried on the books at their historical prices. The economic value of such assets and liabilities is generally not ascertained on a regular basis and can be a significant source of risk if the asset or liability is not held till maturity.

The Bank is exposed to Interest rate risk as a result of mismatches in the re-pricing profile of various assets and liabilities of the Bank. The mismatch in the re-pricing profile is measured by computing the Rate Sensitive Assets (RSA) and the Rate Sensitive Liabilities (RSL) of the Bank.

The Bank estimates the capital charge by assessing the IRRBB associated with its business activities via scenario analysis that will measure the impact on net interest income and economic value of assets/liabilities as a result of a shift in the market reference rate. The Bank uses the method indicated in the BCBS (4) paper to compute the impact of interest rate shock on net interest income and the economic value of equity (EVE).

Risk department performs regular stress tests of the Bank's IRRB risk and reports the results to AKF RC and AKF ALCCO.

**h) Reputational risk:**

Reputational Risk refers to the potential adverse effects that can arise from the Bank's reputation being adversely impacted due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, etc.

Reputational risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the Senior and Middle Management regarding current factors and past events impacting the reputation and potential scenarios and their impact on reputation. Capital charge for reputational risk can be modeled as a loss in the value of Market capitalization of the Bank after some reputation risk event has taken place. Such a proxy for reputation risk is still not a widely used approach.

Risk department performs regular stress tests of the Bank's reputational risk and reports the results to AKF RC.

**i) Strategy risk:**

Strategy risk refers to the risk of adverse impact on a Bank's earnings, Capital, Reputation or standing arising from changes in the environment the Bank operates in or from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to Industry standards developed for measuring it. The Bank has used a scorecard approach for assessing the Strategy risk and sets aside capital charge.

Risk department performs regular stress tests of the Bank's strategic risk and reports the results to AKF RC.

**j) Anti-Money Laundering (AML) risk:**

An AML risk assessment helps identifying Bank's inherent risk and assesses the effectiveness of its preventative and detective controls.

AML risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the relevant unit regarding AML risk governance, document methodology and their impact on Bank's capital.

**k) Information Technology (IT) Risk:**

IT risk is the potential that an event will negatively impact an organization and its business processes while threatening data confidentiality, integrity and availability (CIA) in the organization's IT infrastructure.

Whether it's inherent or residual, IT risk is a constant presence in every business. IT risks often come from human error and neglect, device failure, mismanagement, poor handling of technology-related processes and events, bad actors that may exploit an information security vulnerability, and other unfortunate events that may arise within an organization.

IT risks can be managed and mitigated via careful planning, specialized systems, guidelines, policies, and decisions across various sectors. Common measures involve:

- Conducting an internal risk assessment to identify risks affecting the IT systems and data.
- Implementing robust incident response and business continuity plans in the event of an IT issue
- Performing vendor risk assessments to mitigate and manage third-party IT risks with due diligence.

**l) Regulatory risk:**

Regulatory risk is associated with a change in laws and regulations which materially may impact a Bank's Business, products offered or collateral/ securities held.

Regulatory risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the relevant unit regarding Regulatory risk governance, document methodology and their impact on Bank's capital.

**m) Cyber risk:**

Whereas Cyber risk is the potential occurrence of a cybersecurity incident, such as a data breach, threatening an organization with financial loss, business disruption, and reputational damage. It also includes the use (and misuse) of technology within the organization's technical infrastructure.

Cybersecurity risk is one of several types of risks that both IT risk management and cybersecurity deal with, posing a threat to all organizations with a cyber presence.

The main cyber risks in IT systems include:

- Ransomware;
- Data leaks;
- Phishing;
- Malware;
- Insider threats;
- Cyberattacks.

The main goals of cyber risk assessment are to:

- Implement incident response to identified risks, and calculate their costs;
- Set the right security controls like firewalls, malware detection software, and data encryption;
- Inform stakeholders of the organization's security management;

- Offer a better overview of an executive summary for the company’s executives in order to help them make informed decisions about their security posture.

Cyber Risk has been assessed by the Bank using a scorecard approach. The score was computed based on the response of the relevant units regarding Cyber Risk governance and their impact on Bank’s capital.

**n) ESG risk:**

ESG Risk arises from events or actions related to the Bank's environmental, social, and governance practices that may lead to reputational damage, hinder the achievement of strategic objectives and goals, or disrupt business operations. To manage this risk, the Bank has established an ESG Risk management framework, featuring an effective governance structure, policy, controls, and oversight mechanisms. The Bank employs a risk assessment scorecard to periodically evaluate its ESG Risk.

**Key Sensitivities and future Scenarios**

The stress testing framework is in line with the size, nature & profile of the Bank. The framework that has been used for stressing the capital adequacy is based on guidelines provided by regulators across the globe.

The stress testing framework consists of scenario analysis and sensitivity analysis that are carried out for the major risks faced by the Banks, viz. credit risk, credit concentration risk, operational risk, liquidity risk and interest rate risk.

The table below provides a summary of the stress testing scenarios applied by the Bank:

**Stress tests at the Bank:**

Sn.	Stress scenario type	Risk type	Enterprise Wide/ Portfolio Level	Stress Scenario
ST1	Systemic	Macroeconomic Scenario	Enterprise Level	Impact of NPL due to forecasted unemployment rate
ST2	Idiosyncratic	Credit Risk	Portfolio Level	Impact of Conversion of contingent exposures (unfunded credit facilities) into direct exposures (funded facilities)
ST3	Idiosyncratic	Credit Risk	Portfolio Level	Impact of ORR downgrade exposures
ST4	Idiosyncratic	Credit Concentration Risk	Portfolio Level	Impact of default of Key borrowers
ST5	Idiosyncratic	Credit Concentration Risk	Portfolio Level	Impact of ORR downgrade exposures by top 3 sectors- Real Estate (Commercial), Financial industry (bank and non-bank) and Services and others
ST6	Systemic	Climate Risk	Enterprise Level	Impact of Physical and Transition Risk on Carbon Intensive Sectors
ST7	Idiosyncratic	Operational Risk	Portfolio Level	Impact of operational loss events (based on historical events)
ST8	Idiosyncratic	Market Risk	Portfolio Level	Impact of changes in FX rates for the Bank’s exposures
ST9	Idiosyncratic	Liquidity Risk	Portfolio Level	Impact of cash outflows (Top Depositors and Bank Run)

Sn.	Stress scenario type	Risk type	Enterprise Wide/ Portfolio Level	Stress Scenario
ST10	Idiosyncratic	Interest Rate Risk	Portfolio Level	Impact of shift in interest rates of 200 bps on rate sensitive assets and liabilities & the six interest rate shock scenarios for the Pillar 2 capital framework for IRRBB;
ST11	Systemic/ Idiosyncratic and Combined scenarios	Reverse Stress Testing	Enterprise Level	Impact of Economic Slowdown and Geopolitical Crisis Impact of Major Cyber Attack Impact of Fraud Event (Internal and External)
ST 12	Idiosyncratic	Reputation Risk	Portfolio Level	Impact of increase in capital charge for Reputation Risk
ST 13	Idiosyncratic	Strategic Risk	Portfolio Level	Impact of increase in capital charge for Strategic Risk

## 2. Overview of risk management and RWA

### 2.3. Overview of Risk Weighted Assets (OV1)

Provide an overview of total RWA forming the denominator of the risk-based capital requirements. Further breakdowns of RWA are presented in subsequent parts.

Sn.	Description	(a)	(b)	(c)
		RWA	RWA	Minimum capital requirements
		31-Dec-24	31-Dec-23	31-Dec-24
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	768,386	634,748	80,681
2	Of which: standardised approach (SA)	768,386	634,748	80,681
3				
4				
5				
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8				
9				
10				
11				
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	788	495	83
21	Of which: standardised approach (SA)	788	495	83
22				
23	Operational risk	138,469	114,125	14,539
24				
25				
26	<b>Total (1+6+10+11+12+13+14+15+16+20+23)</b>	<b>907,643</b>	<b>749,368</b>	<b>95,303</b>

The Credit Risk weighted assets (CRWA) remains very low compared to the existing CET1 of the Bank which gives an ample potential growth in total assets;

Market Risk Weighted assets (MRWA) increased due to change in CBUAE instructions in relation to GCC currencies releasing their pegging to US dollars and apply the same conditions as other currencies in calculating the FX open position;

Operational Risk Weighted Assets (ORWA) continue to be a function of annual revenue as per Standardized Approach, increased this year due to the rise in the average revenue over the past three years.

### 3. Linkages between financial statements and regulatory exposures

#### 3.1. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (L12)

Provide information on the main sources of differences (other than due to different scopes of consolidation which are shown in L11) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

Sn.	Description	a	b	c	d	AED'000
		Total	Items subject to:			
	31-Dec-24		Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation	1,408,670	1,408,670	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation	(140,358)	(140,358)	-	-	-
3	<b>Total net amount under regulatory scope of consolidation</b>	<b>1,268,312</b>	<b>1,268,312</b>	-	-	-
4	Off-balance sheet amounts	149,645	74,900	-	-	-
5	<i>Differences in valuations</i>	-	-	-	-	-
6	<i>Differences due to different netting rules, other than those already included in row 2</i>	-	-	-	-	-
7	<i>Differences due to consideration of provisions</i>	-	-	-	-	-
8	<i>Differences due to prudential filters</i>	-	-	-	-	-
9	<b>Exposure amounts considered for regulatory purposes</b>	<b>1,417,957</b>	<b>1,343,212</b>	-	-	-

Sn.	Description	a	b	c	d	AED'000
		Total	Items subject to:			
	31-Dec-23		Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation	1,395,319	1,395,319	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation	(158,709)	(158,709)	-	-	-
3	<b>Total net amount under regulatory scope of consolidation</b>	<b>1,236,610</b>	<b>1,236,610</b>	-	-	-
4	Off-balance sheet amounts	197,158	57,407	-	-	-
5	<i>Differences in valuations</i>	-	-	-	-	-
6	<i>Differences due to different netting rules, other than those already included in row 2</i>	-	-	-	-	-
7	<i>Differences due to consideration of provisions</i>	-	-	-	-	-
8	<i>Differences due to prudential filters</i>	-	-	-	-	-
9	<b>Exposure amounts considered for regulatory purposes</b>	<b>1,433,768</b>	<b>1,294,017</b>	-	-	-

## 4. Composition of Capital

Provide a description of the main features of the bank's regulatory capital instruments

### Capital management

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

The Bank's objectives when managing capital are:

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

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

### Regulatory capital

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

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

Total regulatory capital will consist of the sum of the following items:

1. Tier 1 capital, composed of:
  - a. Common Equity Tier 1 ("CET1"):
    - i. Common shares issued by a bank which are eligible for inclusion in CET1 (or the equivalent for non-joint stock companies);
    - ii. Share premium resulting from the issue of instruments included in CET1;
    - iii. Retained earnings;
    - iv. Legal reserves;
    - v. Statutory reserves;
    - vi. Accumulated other comprehensive income and other disclosed reserves;
    - vii. Regulatory adjustments applied in the calculation of CET1 such as the deduction of goodwill, intangibles and deferred tax assets, etc.
  - b. Additional Tier 1 ("AT1"):
    - i. Instruments issued by a bank which are eligible for inclusion in AT1 and are not included in CET1 (e.g. perpetual equity instruments, not included in CET1);
    - ii. Stock surplus, or share premium, resulting from the issue of instruments included in AT1;
    - iii. Instruments issued by consolidated subsidiaries of the bank and held by third parties which are eligible for inclusion in AT1 and are not included in CET1;
    - iv. Regulatory adjustments applied in the calculation of AT1.

2. Tier 2 capital, composed of:
  - i. Banks using the standardized approach for credit risk: general provisions or general loan loss reserves, up to maximum of 1.25% of credit RWA;
  - ii. Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital, and are not included in Tier 1 capital;
  - iii. Share premium resulting from the issue of instruments included in Tier 2 capital;
  - iv. Instruments which are eligible for inclusion of Tier 2 where the treatment of instruments issued out of consolidated subsidiaries of the bank and the regulatory deductions applied in the calculation of Tier 2 capital are addressed in the Tier Capital Instrument Standard;
  - v. Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital, and are not included in Tier 1 capital;
  - vi. Regulatory adjustments applied in the calculation of Tier 2.

## 4. Composition of Capital

### 4.1. Composition of Regulatory Capital (CC1)

This provides a breakdown of the constituent elements of the bank's capital.

Sn.	Description	(a)	(b)	(c)
		31-Dec-24	31-Dec-23	CC2 Reference
		AED'000	AED'000	
	<b>Common Equity Tier 1 capital: instruments and reserves</b>			
1.	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	375,000	375,000	Same as (h) from CC2 template
2.	Retained earnings	162,127	115,816	
3.	Accumulated other comprehensive income (and other reserves)	63,754	59,147	
4.	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>	-	-	
5.	Common share capital issued by third parties (amount allowed in group CET1)	-	-	
<b>6.</b>	<b>Common Equity Tier 1 capital before regulatory deductions</b>	<b>600,881</b>	<b>549,963</b>	
	<b>Common Equity Tier 1 capital regulatory adjustments</b>			
7.	Prudent valuation adjustments	-	-	
8.	Goodwill (net of related tax liability)	-	-	CC2 (a) minus (d)
9.	Other intangibles including mortgage servicing rights (net of related tax liability)	(1,870)	(1,785)	CC2 (b) minus (e)
10.	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	-	
11.	Cash flow hedge reserve	-	-	
12.	Securitisation gain on sale	-	-	
13.	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-	
14.	Defined benefit pension fund net assets	-	-	
15.	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	-	
16.	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	-	
17.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	
18.	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	-	
19.	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	-	
20.	Amount exceeding 15% threshold	-	-	
21.	Of which: significant investments in the common stock of financials	-	-	
22.	Of which: deferred tax assets arising from temporary differences	-	-	
23.	CBUAE specific regulatory adjustments	-	-	
<b>24.</b>	<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>(1,870)</b>	<b>(1,785)</b>	

Sn.	Description	(a)	(b)	(c)
		31-Dec-24	31-Dec-23	CC2 Reference
		AED'000	AED'000	
25.	<b>Common Equity Tier 1 capital (CET1)</b>	<b>599,010</b>	548,178	
<b>Additional Tier 1 capital: instruments</b>				
26.	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-	CC2 (i)
27.	Of which: classified as equity under applicable accounting standards	-	-	
28.	Of which: classified as liabilities under applicable accounting standards	-	-	
29.	Directly issued capital instruments subject to phase-out from additional Tier 1	-	-	
30.	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	-	
31.	Of which: instruments issued by subsidiaries subject to phase-out	-	-	
32.	Additional Tier 1 capital before regulatory adjustments	-	-	
<b>Additional Tier 1 capital: regulatory adjustments</b>				
33.	Investments in own additional Tier 1 instruments	-	-	
34.	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	
35.	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	
36.	CBUAE specific regulatory adjustments	-	-	
37.	Total regulatory adjustments to additional Tier 1 capital	-	-	
38.	Additional Tier 1 capital (AT1)	-	-	
39.	<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>599,011</b>	548,178	
<b>Tier 2 capital: instruments and provisions</b>				
40.	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	-	
41.	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>	-	-	
42.	<i>Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)</i>	-	-	
43.	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	-	
44.	Provisions	9,605	7,934	
45.	<b>Tier 2 capital before regulatory adjustments</b>	<b>9,605</b>	7,934	
<b>Tier 2 capital: regulatory adjustments</b>				
46.	Investments in own Tier 2 instruments	-	-	
47.	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	-	
48.	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	-	

Sn.	Description	(a)	(b)	(c) CC2 Reference
		31-Dec-24 AED'000	31-Dec-23 AED'000	
49.	CBUAE specific regulatory adjustments	-	-	
50.	<b>Total regulatory adjustments to Tier 2 capital</b>	-	-	
51.	<b>Tier 2 capital (T2)</b>	<b>9,605</b>	7,934	
52.	<b>Total regulatory capital (TC = T1 + T2)</b>	<b>608,616</b>	556,112	
53.	<b>Total risk-weighted assets</b>	<b>907,643</b>	749,368	
	<b>Capital ratios and buffers</b>			
54.	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>	<b>66.00%</b>	73.15%	
55.	<b>Tier 1 (as a percentage of risk-weighted assets)</b>	<b>66.00%</b>	73.15%	
56.	<b>Total capital (as a percentage of risk-weighted assets)</b>	<b>67.05%</b>	74.21%	
57.	<b>Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)</b>	<b>2.50%</b>	2.50%	
58.	<i>Of which: capital conservation buffer requirement</i>	<i>2.50%</i>	<i>2.50%</i>	
59.	<i>Of which: bank-specific countercyclical buffer requirement</i>	-	-	
60.	<i>Of which: higher loss absorbency requirement (e.g. DSIB)</i>	-	-	
61.	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.</b>	<b>56.55%</b>	63.71%	
62.	Common Equity Tier 1 minimum ratio	7.00%	7.00%	
63.	Tier 1 minimum ratio	8.50%	8.50%	
64.	Total capital minimum ratio	10.50%	10.50%	
	<b>Amounts below the thresholds for deduction (before risk weighting)</b>			
65.	Non-significant investments in the capital and other TLAC liabilities of other financial entities			
66.	Significant investments in common stock of financial entities	-	-	
67.	Mortgage servicing rights (net of related tax liability)			
68.	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-	
	<b>Applicable caps on the inclusion of provisions in Tier 2</b>			
69.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	<b>37,304</b>	34,795	
70.	Cap on inclusion of provisions in Tier 2 under standardised approach	<b>9,605</b>	7,934	
71.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)			
72.	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach			
	<b>Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)</b>			

Sn.	Description	(a)	(b)	(c) CC2 Reference
		31-Dec-24 AED'000	31-Dec-23 AED'000	
73.	<i>Current cap on CET1 instruments subject to phase-out arrangements</i>	-	-	
74.	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	-	-	
75.	<i>Current cap on AT1 instruments subject to phase-out arrangements</i>	-	-	
76.	<i>Amount excluded from AT1 due to cap (excess after redemptions and maturities)</i>	-	-	
77.	<i>Current cap on T2 instruments subject to phase-out arrangements</i>	-	-	
78.	<i>Amount excluded from T2 due to cap (excess after redemptions and maturities)</i>	-	-	

## 4. Composition of Capital

### 4.2. Reconciliation of Regulatory Capital to Balance Sheet (CC2)

This table enables users to identify the differences between the scope of accounting and regulatory consolidation, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1.

Description	(a)	(b)	(c)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31-Dec-24	31-Dec-24	
	AED'000	AED'000	
<b>Assets</b>			
Cash and balances at central banks	404,144	397,073	Note 1
Items in the course of collection from other banks	-	-	
Trading portfolio assets	-	-	
Financial assets designated at fair value	-	-	
Debt securities held at amortized cost	150,371	164,653	Note 2
Derivative financial instruments	-	-	
Loans and advances to banks	280,148	284,540	Note 2
Loans and advances to customers	406,844	456,280	Note 2
Reverse repurchases agreements and other similar secured lending	-	-	
Available for sale financial investments (Includes FVOCI)	72,630	72,630	
Current and deferred tax assets	14,153	14,153	
Prepayments, accrued income and other assets	11,463	18,183	Note 1
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	1,870	1,870	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	1,870	1,870	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	1,158	1,158	
<b>Total assets</b>	<b>1,342,781</b>	<b>1,410,540</b>	
<b>Liabilities</b>			
Deposits from banks	8,105	8,105	
Items in the course of collection due to other banks	-	-	
Customer accounts	678,756	678,756	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	-	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	32,209	31,858	
Current and deferred tax liabilities	11,876	11,876	
Of which: DTLs related to goodwill	-	-	(d)
Of which: DTLs related to intangible assets (excluding MSRs)	-	-	(e)
Of which: DTLs related to MSRs	-	-	(f)
Subordinated liabilities	-	-	
Provisions	2,655	31,559	Note 2
Retirement benefit liabilities	8,299	8,299	
<b>Total liabilities</b>	<b>741,900</b>	<b>770,453</b>	
<b>Shareholders' equity</b>			

Description	(a)	(b)	(c)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31-Dec-24	31-Dec-24	
	AED'000	AED'000	
Paid-in share capital	375,000	375,000	
Retained earnings	157,004	162,127	Note 3
Accumulated other comprehensive income	68,877	63,754	Note 3
<b>Total shareholders' equity</b>	<b>600,881</b>	<b>600,881</b>	

Description	(a)	(b)	(c)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31-Dec-23	31-Dec-23	
	AED'000	AED'000	
<b>Assets</b>			
Cash and balances at central banks	451,704	451,704	Note 1
Items in the course of collection from other banks	-	-	
Trading portfolio assets	-	-	
Financial assets designated at fair value	-	-	
Debt securities held at amortized cost	57,894	73,174	Note 2
Derivative financial instruments	-	-	
Loans and advances to banks	317,210	319,463	Note 2
Loans and advances to customers	418,907	466,848	Note 2
Reverse repurchases agreements and other similar secured lending	-	-	
Available for sale financial investments (Includes FVOCI)	70,879	70,879	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	12,581	11,301	Note 1
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	1,785	1,785	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	1,785	1,785	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	1,950	1,950	
<b>Total assets</b>	<b>1,332,910</b>	<b>1,397,104</b>	
<b>Liabilities</b>			
Deposits from banks	105,076	105,076	
Items in the course of collection due to other banks	-	-	
Customer accounts	652,691	652,691	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	-	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	15,004	15,004	
Current and deferred tax liabilities	-	-	
Of which: DTLs related to goodwill	-	-	(d)
Of which: DTLs related to intangible assets (excluding MSRs)	-	-	(e)
Of which: DTLs related to MSRs	-	-	(f)

Description	(a)	(b)	(c)
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	31-Dec-23	31-Dec-23	
	AED'000	AED'000	
Subordinated liabilities	-	-	
Provisions	2,641	31,541	Note 2
Retirement benefit liabilities	7,535	7,535	
Total liabilities	782,947	811,847	
Shareholders' equity			
Paid-in share capital	375,000	375,000	
Retained earnings	110,901	115,816	Note 3
Accumulated other comprehensive income	64,062	59,147	Note 3
Total shareholders' equity	549,963	549,963	

Notes:

1. Difference in balances consists of cash in hand balances added to other assets under regulatory scope;
2. Difference in balances under regulatory scope for Debt securities held at amortized cost, Loans and advances to banks/customers and available for sale financial investments are gross of provisions (specific and general);
3. Difference in balances consists of Total retained earnings and accumulated other comprehensive income is the 10% allocated legal reserves from 2024 year-end profit under regulatory scope.

## 5. Leverage Ratio

To provide a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

Sn.	Description	(a) 31-Dec-24	(b) 31-Dec-23
<b>On-balance sheet exposures</b>		<b>AED'000</b>	<b>AED'000</b>
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,339,775	1,328,989
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognized as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(1,870)	(1,785)
7	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)</b>	<b>1,337,905</b>	<b>1,327,204</b>
<b>Derivative exposures</b>			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	119	439
10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	<b>Total derivative exposures (sum of rows 8 to 12)</b>	<b>119</b>	<b>439</b>
<b>Securities financing transactions</b>			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	<b>Total securities financing transaction exposures (sum of rows 14 to 17)</b>	<b>-</b>	<b>-</b>
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposure at gross notional amount	149,526	196,719
20	(Adjustments for conversion to credit equivalent amounts)	(53,870)	(78,843)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	<b>Off-balance sheet items (sum of rows 19 to 21)</b>	<b>95,656</b>	<b>117,876</b>
<b>Capital and total exposures</b>			
23	<b>Tier 1 capital</b>	<b>599,011</b>	<b>548,178</b>
24	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	<b>1,433,680</b>	<b>1,445,519</b>
<b>Leverage ratio</b>			
25	<b>Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>	<b>41.78%</b>	37.92%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	41.78%	37.92%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	<b>Applicable leverage buffers</b>	<b>0.00%</b>	<b>0.00%</b>

## 6. Liquidity

### 6.1. Liquidity risk management (LIQA)

Enable users of Pillar 3 data to make an informed judgment about the soundness of a bank's liquidity risk management framework and liquidity position.

#### Overview and Governance

Liquidity risk arises due to mismatch in the asset-liability maturity. The cost of liquidity risk is in terms of either raising fresh liabilities at higher costs or liquidating assets with greater hair-cuts.

The Bank maintains and manages its local liquidity requirements according to its business needs within the overall Group and AKF Liquidity Risk Framework that includes a Liquidity Risk Management Policy. The Bank monitors a number of key risk indicators to help in the anticipation of liquidity stress and has in place contingency funding plans consisting of actions that management can rely upon should liquidity level fall below minimum liquidity requirement.

Liquidity is monitored by AKF Management and by AKF ALCCO to ensure the Bank has liquidity to cover its liquidity requirements, with an appropriate buffer in line with its risk appetite. Head of Finance (AKF) is responsible for regular reporting analyses and recommendations to AKF ALCCO. These cover the maturity profile of all assets and liabilities by currency, in addition supporting the Risk department in conducting stress tests based on internal and regulatory requirements to complement regular liquidity analysis and provide insight into the potential impact of adverse scenarios.

#### Management

The GALCCO is responsible of providing guidance and support to the AKF ALCCO who is responsible of managing the Bank's liquidity needs in line with the Group Liquidity policy.

The Bank sets aside capital for liquidity risk under Pillar 2 based on the asset liability maturity mismatch profile analysis. The Bank computes the cumulative gap (assets minus liabilities) for each time bucket up to and including that bucket. The capital set aside for liquidity risk is estimated as 2% of the largest negative cumulative gap observed in the asset liability maturity mismatch profile.

#### Stress Testing

Given the liquidity related stress in the current market conditions, the Bank considered a hypothetical stress situation in which severe cash outflows were considered and liquid sources to meet the liquid liabilities were identified. The liquidity stress testing covered the impact of cash outflow through 2 scenarios on ELAR; one highlighting the potential liquidity crunch and impact on ELAR if the top 5 Groups withdraw their deposits from the Bank. While in the second, the Bank considers a bank run lasting for seven days after which the Bank expects management action to remedy the situation. The Bank exercises zero tolerance in funding position for the duration of the stress.

In addition, a contingency plan agreed upon within AKF Assets and Liability Capital Committee and under the guidance of the Group, is the back-up of the head office and Group liquidity to create additional liquidity, bridging the gap pending the inflow of additional deposits.

#### Note:

*LCR and NSFR are not applicable (NA) for the Bank as per CB UAE regulations, instead the Bank in replacement is disclosing ELAR & ASRR;*

The following table summarizes the maturity profile of the Banks' assets and liabilities based on contractual repayment arrangements.

	<i>Less than 3 months AED'000</i>	<i>3 months to 1 year AED'000</i>	<i>Over 1 year AED'000</i>	<i>Total AED'000</i>
<b>2024</b>				
<b>Assets</b>				
Cash and balances with the Central Bank of the U.A.E.	345,927	-	58,217	404,144
Due from related parties	46,628	-	-	46,628
Deposit and balance due from banks and financial institutions	42,550	99,158	91,812	233,520
Investments securities	72,630	-	150,371	223,001
Loans and advances to customers	83,395	30,654	292,795	406,844
Other assets	11,463	-	-	11,463
Property and equipment	-	-	1,158	1,158
Deferred tax assets	-	-	14,153	14,153
Intangibles	-	-	1,870	1,870
<b>Total assets</b>	<b>602,593</b>	<b>129,812</b>	<b>610,376</b>	<b>1,342,781</b>
<b>Liabilities and equity</b>				
Due to banks and financial institutions	1,640	-	-	1,640
Customer deposits	606,364	72,392	-	678,756
Due to related parties	6,465	-	-	6,465
Other liabilities	46,467	105	8,467	55,039
Equity	-	-	600,881	600,881
<b>Total liabilities and equity</b>	<b>660,936</b>	<b>72,497</b>	<b>609,348</b>	<b>1,342,781</b>

The following table summarizes the maturity profile of the Banks' off-balance sheet items based on contractual repayment arrangements.

	<i>Within 3 months AED'000</i>	<i>From 3 to 6 months AED'000</i>	<i>From 6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Total AED'000</i>
<b>2024</b>					
<b>Off-balance sheet items</b>					
Guarantees, letters of credit and Unutilized credit facilities	197,736	16,898	28,088	8,115	250,837

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

The following table summarizes the maturity profile of the Banks' off-balance sheet items based on contractual repayment arrangements.

	<i>Within 3 months AED'000</i>	<i>From 3 to 6 months AED'000</i>	<i>From 6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Total AED'000</i>
2023					
Off-balance sheet items					
Guarantees, letters of credit and Unutilized credit facilities	167,754	36,148	56,481	13,532	273,915

## 6. Liquidity

### 6.2. Eligible Liquid Assets Ratio (ELAR)

Breakdown of bank's available high-quality liquid assets (HQLA) according to the CBUAE Liquidity Regulations.

Sn.	Description	31-Dec-24	31-Dec-24	31-Dec-23	31-Dec-23
<b>1</b>	<b>High Quality Liquid Assets</b>	<b>Nominal amount</b>	<b>Eligible Liquid Asset</b>	Nominal amount	Eligible Liquid Asset
		<b>AED'000</b>	<b>AED'000</b>	AED'000	AED'000
1.1	Physical cash in hand at the bank + balances with the CBUAE	404,144		451,704	
1.2	UAE Federal Government Bonds and Sukuks	-		-	
	Sub Total (1.1 to 1.2)	404,144	404,144	451,704	451,704
1.3	UAE local governments publicly traded debt securities	18,381		-	
1.4	UAE Public sector publicly traded debt securities	-		-	
	Subtotal (1.3 to 1.4)	18,381	18,381	-	-
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	36,640	36,640	-	-
<b>1.6</b>	<b>Total</b>	<b>459,165</b>	<b>459,165</b>	451,704	451,704
<b>2</b>	<b>Total liabilities</b>		739,245		780,306
<b>3</b>	<b>Eligible Liquid Assets Ratio (ELAR)</b>		<b>62.11%</b>		57.89%

ELAR of the Bank continues to operate at levels comfortably above the 10% minimum requirement as currently prescribed by the CBUAE.

## 6. Liquidity

### 6.3. Advances to Stable Resources Ratio (ASRR)

Breakdown of the bank's advances to Stables Resource ratio as per the Liquidity regulations.

Sn.	Description	31-Dec-24	31-Dec-23
		Amount	Amount
<b>1</b>	<b>Computation of Advances</b>	<b>AED'000</b>	<b>AED'000</b>
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	370,954	388,719
1.2	Lending to non-banking financial institutions	53,767	46,811
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-	-
1.4	Interbank Placements	189,804	73,196
<b>1.5</b>	<b>Total Advances</b>	<b>614,525</b>	<b>508,726</b>
<b>2</b>	<b>Calculation of Net Stable Resources</b>		
2.1	Total capital + general provisions	625,806	571,479
	<b>Deduct:</b>		
2.1.1	Goodwill and other intangible assets	1,870	1,785
2.1.2	Fixed Assets	1,158	1,950
2.1.3	Funds allocated to branches abroad	-	-
2.1.5	Unquoted Investments	-	-
2.1.6	Investment in subsidiaries, associates and affiliates	-	-
<b>2.1.7</b>	<b>Total deduction</b>	<b>3,028</b>	<b>3,735</b>
<b>2.2</b>	<b>Net Free Capital Funds</b>	<b>622,778</b>	<b>567,744</b>
<b>2.3</b>	<b>Other stable resources:</b>		
2.3.1	Funds from the head office	-	-
2.3.2	Interbank deposits with remaining life of more than 6 months	-	-
2.3.3	Refinancing of Housing Loans	-	-
2.3.4	Borrowing from non-Banking Financial Institutions	16,575	15,748
2.3.5	Customer Deposits	563,452	542,495
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-	-
<b>2.3.7</b>	<b>Total other stable resources</b>	<b>580,027</b>	<b>558,243</b>
<b>2.4</b>	<b>Total Stable Resources (2.2+2.3.7)</b>	<b>1,202,805</b>	<b>1,125,987</b>
<b>3</b>	<b>Advances TO STABLE RESOURCES RATIO (1.5/ 2.4*100)</b>	<b>51.09</b>	<b>45.18</b>

ASRR of the Bank continues to operate at levels comfortably below the 100% ceiling as currently prescribed by CBUAE.

## 7. Credit Risk

### 7.1. General qualitative information about credit risk (CRA)

Describe the main characteristics and elements of credit risk management (business model and credit risk profile, organization and functions involved in credit risk management, risk management reporting).

#### Overview and Governance

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

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

#### Risk management framework:

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

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

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

#### Credit risk management:

Credit Risk is defined as the potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The Bank is exposed to Credit Risk due to its investments, its corporate, SME & retail exposures in line with the AKF Board approved strategy. The Bank sets aside capital charge for Credit Risk under Pillar 1 using the Standardized Approach as prescribed under the capital adequacy guidelines by CBUAE. The Bank also computed Pillar II capital charge for Credit Risk in alignment with regulatory requirements.

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

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

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

Different credit underwriting procedures are followed for wholesale, financial institutions and retail banking lending as described below:

**Retail lending:**

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

**Wholesale lending:**

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

**Financial institutions:**

AKF UAE only engages with financial institutions that receive approval from a Group-level Committee. Country limits are reviewed and approved annually by the Board's Compliance & Risk Committee at Group level.

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

**Objectives and Policies:**

The goal of the credit risk management process is to provide a structured, practical and easily understood set of five steps:

- i) Identify the risks;
- ii) Analyze the likelihood and impact of each;
- iii) Prioritize risk based on enterprise objectives;
- iv) Treat (or respond to) the risk conditions;
- v) Monitor results and use those to adjust, as necessary.

That enables management to identify and assess risks, determine the appropriate risk response and then monitor the effectiveness of the risk response and changes to the risk profile.

The granting of credit is one the Bank's major sources of income and, as a Principal Risk, considerable resources are dedicated to its control.

The credit risk that the Bank faces arises mainly from wholesale and retail loans together with insignificant exposure to the counterparty credit risk arising from derivative contracts with clients.

Other sources of credit risk arise from trading activities, including debt securities; settlement balances with market counterparties and available for sale assets.

Credit risk management objectives are to:

- To establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- To identify, assess and measure credit risk clearly and accurately across the Bank and within each separate business from the level of individual facilities, up to the total portfolio;
- To control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- To monitor credit risk and adherence to agreed controls;

- To ensure that the risk reward benefits are met.

Going forward, the Bank has no plans in the near future to adopt advanced approaches for the measurement and quantification of Credit Risk capital requirements. The Bank understands that the advanced approaches to credit risk will provide a more accurate estimate of capital requirement for credit exposures and will undertake steps towards their implementation in due course as it is subject to the availability of data, setting up of adequate risk IT infrastructure, internal risk measurement methodologies and regulatory approval.

The Bank has implemented assessment methods for estimating credit risk capital requirements under Pillar II. These assessments consider various stressed scenarios, including:

- Key Borrower Defaults evaluating the impact of default by major borrowers;
- Concentration Risk: Assessing risks due to high exposure in certain sectors;
- ORR Downgrade: Considering the effects of downgrades in Obligor Risk Ratings (both individual and sector-wide).

These approaches ensure a comprehensive evaluation of potential risks and necessary capital adjustments.

## 7. Credit Risk

### 7.2. Credit quality of assets (CR1)

The table provides a comprehensive picture of the credit quality of a bank's (on- and off-balance sheet) assets.

							AED'000
		a	b	c	d	e	f
Sn.	Description	Gross carrying values		Allowances/ Impairments	Of which ECL accounting provisions for credit losses		Net values (a+b-c)
	31-Dec-24	Defaulted exposures	Non-Defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1.	Loans	31,559	424,721	49,436	18,768	17,877	406,844
2.	Debt securities	-	237,283	14,282	-	14,282	223,001
3.	Off-balance sheet exposures	7,406	142,239	2,655	-	2,655	146,990
4.	<b>Total</b>	<b>38,965</b>	<b>804,243</b>	<b>66,373</b>	<b>18,768</b>	<b>34,814</b>	<b>776,835</b>

							AED'000
		a	b	c	d	e	f
Sn.	Description	Gross carrying values		Allowances/ Impairments	Of which ECL accounting provisions for credit losses		Net values (a+b-c)
	31-Dec-23	Defaulted exposures	Non-Defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1.	Loans	31,318	435,530	47,941	20,363	16,623	418,907
2.	Debt securities	223	143,830	15,280	223	15,057	128,773
3.	Off-balance sheet exposures	2,652	194,506	2,641	-	2,641	194,517
4.	<b>Total</b>	<b>34,193</b>	<b>773,866</b>	<b>65,862</b>	<b>20,586</b>	<b>34,321</b>	<b>742,197</b>

#### Notes:

1. For defaulted exposures: comprises balances of impaired loans and past due loans for more than 90 days;
2. For off-balance exposures: comprises balances of customers acceptances, letters of credit and guarantees for banks and customers, derivatives and irrevocable commitments;
3. Derivatives are taken after considering the PFE calculation;
4. For allowances/impairments: comprises balances of interests in suspense, specific and general provisions.

## 7. Credit Risk

### 7.3. Changes in the stock of defaulted loans and debt securities (CR2)

The table identifies the changes in a bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

Sn.	Description	31-Dec-24
		AED'000
1.	<b>Defaulted loans and debt securities at the end of the previous reporting period</b>	<b>142,921</b>
2.	Loans and debt securities that have defaulted since the last reporting period	1,872
3.	Returned to non-default status	(110,401)
4.	Amounts written off	(4,568)
5.	Other changes	1,735
6.	<b>Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)</b>	<b>31,559</b>

Sn.	Description	30-Jun-24
		AED'000
1.	Defaulted loans and debt securities at the end of the previous reporting period	31,541
2.	Loans and debt securities that have defaulted since the last reporting period	112,512
3.	Returned to non-default status	(909)
4.	Amounts written off	-
5.	Other changes	(223)
6.	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	142,921

## 7. Credit Risk

### 7.4. Additional disclosure related to the credit quality of assets (CRB)

Supplement the quantitative templates with information on the credit quality of the bank's assets.

#### **Credit review procedures and loan classification**

The Banks' Credit Risk Team (the 'CRT'), subjects risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and Bank's internal policies in order to assist in the early identification of accrual and potential performance problems.

The CRT validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

In wholesale banking, each obligor is assigned a risk rating according to an approved Risk Rating Process. For individual assessments, ratings are determined on a judgmental basis. Additionally, all borrower ratings are updated at least annually, in compliance with CBUAE Credit Risk Management Standards 3/2024, specifically Article 9.4 c.

A facility is considered to be impaired when it is probable that the Bank will not be able to collect all amounts due according to the original contractual terms or the equivalent value in line with CBUAE regulations.

If a credit is overdue for 90 days or more or if it falls under the defaulted loan criteria set by CBUAE credit Risk Management Standards, interest is suspended and is not credited to income.

Specific allowance for impairment of classified assets is made based on recoverability of outstanding (expected cash flow / eligible collateral value after haircut) and risk ratings of the assets in line with CBUAE credit Risk Management Standards-Article 10.9.

The Bank also comply with IFRSs, where all facilities are assigned, a stage based on their creditworthiness. If conflicts exist between regulatory guidelines and International Financial Reporting Standards (IFRS) including International Accounting Standards (IAS), the former prevails as basis for impairment for the purpose of AKF UAE published financial statements.

#### ***Impaired loans and advances***

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

#### ***Past due but not impaired loans***

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

#### ***Allowances for impairment***

The Bank establish an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the Bank on homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment. Collective impairment is against the calculated expected credit loss under IFRS9.

**Write-off policy**

The Bank write off a loan (and any related allowances for impairment losses) when Bank's Credit Committee determines that the loan is uncollectible in whole or in part. This determination is reached after all avenues for recovery have failed. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status. Any Stage 3 exposure classified for more than 5 years should be fully written-off unless the AKF Board approves an exception supported by sound justifications, in accordance with CBUAE Credit Risk Management Standards 2025 – Article 12.5 b.

**Inputs, assumptions and techniques used for estimating impairment****Significant increase in credit risk:**

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

In determining whether credit risk has increased significantly since initial recognition, the Bank has defined in its Credit Risk Management policies a set of qualitative and quantitative indicators such as but not limited to:

- i) Two notches downgrade for ratings from Aaa to Baa or one notch downgrade for ratings from Ba to Caa;
- ii) Credit facilities with repayment more than 30 days overdue;
- iii) Actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- iv) Actual or expected significant changes in the operating results of the customer;
- v) Significant changes in the expected performance and behavior of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer;
- vi) Pending litigation resulting in detrimental impact;
- vii) Non distressed restructured credit facility as defined in CBUAE Credit Risk Management Standard.

**Credit risk grades:**

Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade. The Bank uses a rating tool named Moody's Risk Analyst (MRA) to determine the credit risk grades for companies, and define judgmental ratings, when needed in the absence of financials for individual borrowers.

**Generating the term structure of Probability of Default (PD):**

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

**Renegotiated and restructured 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 derecognized and the renegotiated loan recognized as a new loan at fair value. Where possible, the Branches seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. Restructured facilities are systematically classified under Stage 2 as long as they meet the criteria of non-distressed restructuring as defined by regulators.

**Definition of default:**

The Bank considers a financial asset to be in default when it meets the criteria defined under its Credit Risk Management policy aligned with the regulator requirements:

- the borrower is unlikely to pay its credit obligations to the Branches in full;
- the borrower is past due more than 90 days on any material credit obligation to the Branches;
- the borrower is rated 8, 9 or 10.

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

- quantitative – e.g., overdue status and non-payment on another obligation of the same borrower to the Branches; and
- based on information gathered internally and/or obtained from external sources.

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

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

**Forward-looking information incorporated in the ECL models:**

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

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

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

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

In addition to the base economic scenario, other possible scenarios are assessed along with scenario weightings. The number of other scenarios used is set based on the analysis of each major product type to ensure non-linearities are captured. At 1 January 2024 and 31 December 2024, the Branches concluded that three scenarios appropriately captured non-linearities for all portfolios. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of. The assessment of SICR is performed using the Lifetime PD under each of the base, and the other scenarios (best and worst scenarios), multiplied by the associated scenario weighting, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3 and hence whether 12-month or lifetime ECL should be recorded. Following this assessment, the Branches measures ECL as either a probability weighted 12-month ECL (Stage 1), or a probability weighted lifetime ECL (Stages 2 and 3).

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

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

**Economic variable assumptions:**

The most significant period-end assumption used for the ECL estimate as at 31 December 2024 is the gross domestic product, given the high level of correlation between this and other economic indicators.

The scenarios “base”, “upside” and “downside” were used for all portfolios.

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

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

**Measurement of ECL:**

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

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

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

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

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

**Credit quality:**

Pursuant to the adoption of IFRS 9, the Branches has mapped its internal credit rating scale to Moody's rating scale, the table below provides an analysis of counterparties by rating grades and credit quality of the Branches' credit risk, based on Moody's ratings (or their equivalent) as at 31 December 2024.

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

	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>2024</i>	<i>2023</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>Total</i>	<i>Total</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
<b>Cash and balances with the Central Bank of the U.A.E (excluding cash on hand) and due from related parties and deposit and balances due from banks and financial institutions</b>					
AAA to AA-	404,513	-	-	404,513	443,419
A+ to A-	4,158	-	-	4,158	87,941
BBB to BBB-	127,687	-	-	127,687	49,579
BB+ to B-	80,549	-	-	80,549	73,252
Unrated*	46,175	18,532	-	64,707	108,691
<b>Total</b>	<b>663,082</b>	<b>18,532</b>	<b>-</b>	<b>681,614</b>	<b>762,882</b>
Expected credit losses – IFRS 9	(3,868)	(525)	-	(4,393)	(2,253)
<b>Carrying amount</b>	<b>659,214</b>	<b>18,007</b>	<b>-</b>	<b>677,221</b>	<b>760,629</b>

\*Externally unrated are internally rated by the Bank.

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

\*Externally unrated are internally rated by the Bank.

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

\*Externally unrated are internally rated by the Bank.

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>2024</i> <i>Total</i> <i>AED'000</i>	<i>2023</i> <i>Total</i> <i>AED'000</i>
<b>Financial commitments and guarantees</b>					
A+ to A-	350	-	-	350	-
BB+ to B-	1,320	-	-	1,320	-
Unrated*	149,688	92,072	7,407	249,167	273,915

	<i>Stage 1</i> <i>AED'000</i>	<i>Stage 2</i> <i>AED'000</i>	<i>Stage 3</i> <i>AED'000</i>	<i>2024</i> <i>Total</i> <i>AED'000</i>	<i>2023</i> <i>Total</i> <i>AED'000</i>
<b>Total</b>	<b>151,358</b>	<b>92,072</b>	<b>7,407</b>	<b>250,837</b>	273,915
Expected credit losses – IFRS 9	(163)	(589)	(1,903)	(2,655)	(2,641)
<b>Carrying amount</b>	<b>151,195</b>	<b>91,483</b>	<b>5,504</b>	<b>248,182</b>	271,274

\*Externally unrated are internally rated by the Bank.

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

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

	<i>Due from banks and financial institutions</i>		<i>Loans and advances to customers</i>		<i>Investment securities</i>	
	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
	<b>233,520</b>	208,603	<b>406,844</b>	416,791	<b>223,001</b>	128,773
<b>Carrying amount</b>	<b>233,520</b>	208,603	<b>406,844</b>	418,907	<b>223,001</b>	128,773

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

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

The Branches hold collateral against loans and advances to customers in the form of mortgage interests over property, financial collateral in the form of pledge on deposits, cash margins, bank guarantees, and other type of collaterals. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and value of collaterals are monitored periodically as per the policy of Bank and as and when a loan is individually assessed as impaired.

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

**Loans & Advances to customers:**

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

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

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

\*Includes the outstanding unutilised facilities as of 31 December 2024 amounted to AED 103 million.

**The Branch's internal credit rating grades for the year ended 31 December 2023:**

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

\*Includes the outstanding unutilised facilities as of 31 December 2023 amounted to AED 87 million.

The following table shows the mapping between the Bank Internal credit rating and their equivalent external ratings used by the top 3 rating agencies. In addition, the Bank utilizes Moody's Risk Analyst (MRA) to define the credit rating of the borrowers (companies) who prepare financials.

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

#### Loans and advances to customer with renegotiated terms

The following table contains an analysis of the credit risk exposure of total restructured loans and advances to customer:

	<i>As at 31 December 2024</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>Total restructured portfolio</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Outstanding balance	-	185,797	-	185,797
Allowances for impairment (ECL)	-	(13,867)	-	(13,867)
<b>Carrying amount</b>	<b>-</b>	<b>171,930</b>	<b>-</b>	<b>171,930</b>
	<i>As at 31 December 2023</i>			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>Total restructured portfolio</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>	<i>AED'000</i>
Outstanding balance	-	185,797	-	185,797
Allowances for impairment (ECL)	-	(13,867)	-	(13,867)
<b>Carrying amount</b>	<b>-</b>	<b>171,930</b>	<b>-</b>	<b>171,930</b>

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

### Geographical sectors

The following tables break down the Bank's credit risk exposure at their net carrying amounts (without taking into account any collateral held or other credit support), as categorized by geographical region.

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

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

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

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

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

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

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

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

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

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

**Interest rate sensitivity gap:**

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

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

	<i>Within 3 months AED'000</i>	<i>From 3 to 6 months AED'000</i>	<i>From 6 to 12 months AED'000</i>	<i>Over 1 year AED'000</i>	<i>Non- interest sensitive AED'000</i>	<i>Total AED'000</i>
<b>Assets</b>						
Cash and Balances with the Central Bank of U.A.E.	390,000	-	-	-	61,704	451,704
Due from related parties	108,132	-	-	-	475	108,607
Deposits and balances due from banks and financial institutions	134,579	18,363	36,471	18,362	828	208,603
Investment securities	70,879	-	-	57,894	-	128,773
Loans and advances to customers	169,570	1,724	5,224	242,389	-	418,907
Other assets	-	-	-	-	12,581	12,581
Property and equipment	-	-	-	-	1,950	1,950
Deferred tax assets	-	-	-	-	-	-
Intangibles	-	-	-	-	1,785	1,785

	Within 3 months AED'000	From 3 to 6 months AED'000	From 6 to 12 months AED'000	Over 1 year AED'000	Non- interest sensitive AED'000	Total AED'000
Total assets	873,160	20,087	41,695	318,645	79,323	1,332,910
Liabilities and Equity						
Due to banks and financial institutions	85,000	-	-	-	2,388	87,388
Customers' deposits	227,850	42,674	23,035	-	359,132	652,691
Due to related parties	12,854	-	-	-	4,834	17,688
Other liabilities	-	-	-	-	25,180	25,180
Equity	-	-	-	-	549,963	549,963
Total liabilities and Equity	325,704	42,674	23,035	-	941,497	1,332,910
On balance sheet gap	547,456	(22,587)	18,660	318,645	(862,174)	-
Cumulative interest rate sensitivity gap	547,456	524,869	543,529	862,174	-	-

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorized by geographical regions:

	31 December 2024			31 December 2023		
	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000
<b>Geographic regions</b>						
U.A.E.	833,781	1,279,173	246,167	983,945	1,257,649	262,638
Other Middle East countries	260,777	43,529	4,670	134,622	35,132	3,000
O.E.C.D.	192,361	14,737	-	129,668	33,991	-
Other	55,862	5,342	-	84,675	6,138	8,277
<b>Total</b>	<b>1,342,781</b>	<b>1,342,781</b>	<b>250,837</b>	<b>1,332,910</b>	<b>1,332,910</b>	<b>273,915</b>

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorized by industry sector:

	31 December 2024			31 December 2023		
	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000	Assets AED'000	Liabilities and equity AED'000	Off balance sheet items AED'000
<b>Industry Sector</b>						
Government and public sector	678,765	29,771	-	665,683	27,637	-
Commercial and business	185,336	495,469	246,141	199,096	481,786	269,665
Personal	78,594	186,178	489	84,425	194,415	393
Financial institutions	377,876	56,025	4,207	369,229	151,420	3,857
Other	22,210	575,338	-	14,477	477,652	-
<b>Total</b>	<b>1,342,781</b>	<b>1,342,781</b>	<b>250,837</b>	<b>1,332,910</b>	<b>1,332,910</b>	<b>273,915</b>

## 7. Credit Risk

### 7.5. Credit Risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

This table illustrates the effect of CRM on capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

Sn.	31-Dec-24	(a)	(b)	(c)	(d)	(e)	(f)
		AED'000	AED'000	AED'000	AED'000	AED'000	%
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
1.	Sovereigns and their central banks	598,641	-	598,641	-	72,921	12%
2.	Public Sector Entities	90,976	-	90,976	-	45,488	50%
3.	Multilateral development banks	-	-	-	-	-	0%
4.	Banks	321,091	3,569	321,091	3,569	255,964	79%
5.	Securities firms	-	-	-	-	-	0%
6.	Corporates	263,532	95,201	263,532	57,342	277,656	87%
7.	Regulatory retail portfolios	8,028	43,350	8,028	27,339	7,212	20%
8.	Secured by residential property	5,456	-	5,456	-	4,697	86%
9.	Secured by commercial real estate	55,893	-	55,893	-	54,893	98%
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11.	Past-due loans	31,559	7,406	-	7,406	1,902	26%
12.	Higher-risk categories	-	-	-	-	-	0%
13.	Other assets	33,494	-	33,494	-	47,653	142%
14.	<b>Total</b>	<b>1,408,670</b>	<b>149,526</b>	<b>1,377,111</b>	<b>95,656</b>	<b>768,386</b>	<b>52%</b>

Sn.	31-Dec-23	(a)	(b)	(c)	(d)	(e)	(f)
		AED'000	AED'000	AED'000	AED'000	AED'000	%
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
		Exposures before CCF and CRM		Exposures post CCF and CRM		RWA and RWA density	
1.	Sovereigns and their central banks	589,838	-	589,838	-	72,729	12%
2.	Public Sector Entities	89,223	-	89,223	-	44,612	50%
3.	Multilateral development banks	-	-	-	-	-	0%
4.	Banks	319,463	3,539	319,463	3,539	133,115	41%
5.	Securities firms	-	-	-	-	-	0%
6.	Corporates	272,691	153,604	272,691	87,343	299,798	83%
7.	Regulatory retail portfolios	5,575	36,924	5,575	24,342	6,132	20%
8.	Secured by residential property	7,396	-	7,396	-	6,152	83%
9.	Secured by commercial real estate	58,055	-	58,055	-	57,055	98%
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11.	Past-due loans	-	2,652	-	2,652	1,903	72%
12.	Higher-risk categories	-	-	-	-	-	0%
13.	Other assets	21,537	-	21,537	-	13,252	62%
14.	<b>Total</b>	<b>1,363,778</b>	<b>196,719</b>	<b>1,363,778</b>	<b>117,876</b>	<b>634,748</b>	<b>43%</b>

## 7. Credit Risk

### 7.6. Exposures by asset classes and risk weights (CR5)

This table presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardized approach).

Sn.	31-Dec-24 Risk weight Asset classes	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	AED'000
		0%	20%	35%	50%	75%	85%	100%	150%	Others	Total credit exposures amount (post CCF & CRM)
		1.	Sovereigns and their central banks	543,906	-	-	-	-	-	18,363	36,372
2.	Public Sector Entities	-	-	-	90,976	-	-	-	-	-	90,976
3.	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4.	Banks	-	76,135	-	37,209	-	-	189,804	21,512	-	324,660
5.	Securities firms	-	-	-	-	-	-	-	-	-	-
6.	Corporates	27,416	-	-	-	-	105,346	188,112	-	-	320,874
7.	Regulatory retail portfolios	28,071	-	-	-	338	-	6,958	-	-	35,367
8.	Secured by residential property	-	-	1,167	-	-	-	4,289	-	-	5,456
9.	Secured by commercial real estate	1,000	-	-	-	-	-	54,893	-	-	55,893
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
11.	Past-due loans	5,504	-	-	-	-	-	1,902	-	-	7,406
12.	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13.	Other assets	7,071	-	-	-	-	-	12,270	-	14,153	33,494
14.	<b>Total</b>	<b>612,968</b>	<b>76,135</b>	<b>1,167</b>	<b>128,185</b>	<b>338</b>	<b>105,346</b>	<b>476,591</b>	<b>57,884</b>	<b>14,153</b>	<b>1,472,767</b>

Sn.	31-Dec-23	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	AED'000
	Risk weight	0%	20%	35%	50%	75%	85%	100%	150%	Others	Total credit exposures amount (post CCF & CRM)
	Asset classes										
1.	Sovereigns and their central banks	535,231	-	-	-	-	-	18,363	36,244	-	589,838
2.	Public Sector Entities	-	-	-	89,223	-	-	-	-	-	89,223
3.	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4.	Banks	-	227,721	-	18,972	-	-	73,197	3,112	-	323,002
5.	Securities firms	-	-	-	-	-	-	-	-	-	-
6.	Corporates	42,191	-	-	-	-	120,299	197,542	-	-	360,032
7.	Regulatory retail portfolios	23,717	-	-	-	268	-	5,932	-	-	29,917
8.	Secured by residential property	-	-	1,914	-	-	-	5,482	-	-	7,396
9.	Secured by commercial real estate	1,000	-	-	-	-	-	57,055	-	-	58,055
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
11.	Past-due loans	749	-	-	-	-	-	1,905	-	-	2,654
12.	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13.	Other assets	8,285	-	-	-	-	-	13,252	-	-	21,537
14.	<b>Total</b>	<b>611,173</b>	<b>227,721</b>	<b>1,914</b>	<b>108,195</b>	<b>268</b>	<b>120,299</b>	<b>372,728</b>	<b>39,356</b>	<b>-</b>	<b>1,481,654</b>

## 8. Market Risk

### 8.1. General qualitative disclosure requirements related to market risk (MRA)

Provide a description of the risk management objectives and policies for market risk

#### Overview

Market Risk is the risk of losses arising from movement in market based prices. The Bank assesses the market risk exposure and sets aside pillar 1 capital charges using the standardized measurement method as prescribed under the capital adequacy guidelines by CBUAE. Additionally, the bank allocates pillar II capital charges to cover Residual Market Risk.

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

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

AKF ALCCO is responsible for managing the investment portfolio. All investments are recommended by AKF ALCCO within the regulators guidelines and then authorized by the AKF Credit and Investment Committee (AKF CIC) in line with the Group risk policies.

All foreign exchange exposures held by the Bank are to fulfill the client requirements. The Bank does not plan to deal in any derivative instruments other than very limited forward deals as part of its banking book exposures. Market risk faced by the Bank is primarily due to the exposures in the foreign currency with a major concentration (99.9%) in USD. As the USD is pegged against the AED, the volatility is minimal.

In addition to that, the Bank is also facing risk resulting from changes in interest rates and their volatility on the value of financial instruments sensitive to interest rates such as bonds and interest rate swaps.

However, as prescribed by CBUAE recently, open positions in USD pegged to AED, are permitted to be treated as open positions in AED. Other GCC currencies to be treated as open positions in their own related currencies.

Finance department performs on a monthly basis stress tests of the Bank's positions subject to interest rate and FX (Foreign Exchange) risk and reports the results to AKF ALCCO. The Bank's exposure to market risk is managed and monitored based on recommendations made by AKF ALCCO, and in line with the Market Risk Management policy and the risk appetite statement.

#### Capital Charge under Market Risk

Given the low exposure to Market Risk (only FX exposure) and strategic decision to refrain from open positions in the trading book, the Bank considers market risk as low. However, due to the risk arising from market movements and the limitations of predictive models, residual market risk is assessed by the Bank using the VAR model.

In case, the Bank changes its strategy and increases its exposure to trading book products, it will comply with the Group Strategy and Market Risk Management policy to ensure that the treasury and investments decisions do not expose the Bank to undue or unauthorized levels of Market Risk.

## 8. Market Risk

### 8.2. Market risk under the standardised approach (MR1)

This table provides the components of the capital requirement under the standardised approach for market risk.

Sn.	Description	(a)	(b)
		31-Dec-24	31-Dec-23
		AED'000	AED'000
1.	General Interest rate risk (General and Specific)	-	-
2.	Equity risk (General and Specific)	-	-
3.	Foreign exchange risk	788	495
4.	Commodity risk	-	-
	Options		-
5.	Simplified approach	-	-
6.	Delta-plus method	-	-
7.	Scenario approach	-	-
8.	Securitisation	-	-
9.	<b>Total</b>	<b>788</b>	<b>495</b>

## 9. Interest rate risk in the banking book

### 9.1. IRRBB risk management objectives and policies (IRRBBA)

To provide a description of the risk management objectives and policies concerning IRRBB.

#### Overview

Interest rate risk in the banking book (IRRBB) refers to the risk of changes in market prices of assets and liabilities in the banking book due to changes in the interest rate term structure. Banks have a significant portion of their assets and liabilities portfolio not marked and carried on the books at their historical prices. The economic value of such assets and liabilities is generally not ascertained on a regular basis and can be a significant source of risk if the asset or liability is not held till maturity.

#### Management

The Bank is exposed to interest rate risk as a result of mismatches in the re-pricing profile of various assets and liabilities of the Bank. The mismatch in the re-pricing profile is measured by computing the Rate Sensitive Assets (RSA) and the Rate Sensitive Liabilities (RSL) of the Bank.

Risk department with the support of the Finance department performs on a quarterly basis stress tests of the Bank's positions subject to interest rate and reports the results to AKF ALCCO and AKF RC. The Bank's exposure to IRRBB risk is managed and monitored based on recommendations made by AKF ALCCO, and in line with the Group strategy, AKF Market Risk Management policy and the Risk Appetite Statement.

The Bank estimates the capital charge by assessing the IRRBB associated with its business activities via scenario analysis that will measure the impact on market value of assets/liabilities as a result of a shift in the market reference rate. The Bank uses the method indicated in the BCBS paper to compute the impact of interest rate shock on the economic value of equity (EVE) and net interest income (NII).

- a) All assets and liabilities belonging to the banking book are slotted into a maturity ladder comprising of a number of time bands big enough to sufficiently capture the nature of interest rate risk;
- b) Fixed-rate instruments are allocated as per the residual term to maturity and floating rate instruments according to the residual term to the repricing date;
- c) For each time band, long and short positions are off-setted resulting in a net long or short position in each time band;
- d) The resulting net positions are weighted by a factor that is designed to reflect the sensitivity of the positions in the different time bands to an assumed change in market interest rates of 200bps;
- e) The weighted positions from each time band are summed to calculate the weighted position of the whole banking book;
- f) Customer non maturing deposits (CASA) are considered within the below calculation under overnight bucket;
- g) Multiple shock scenarios are used to capture parallel as well as non-parallel gap risk measured in terms of EVE.

The six interest rate shock scenarios for the Pillar 2 capital framework for IRRBB are: (i) parallel shock up; (ii) parallel shock down; (iii) steeper shock (short rates down and long rates up); (iv) flattener shock (short rates up and long rates down); (v) short rates shock up; and (vi) short rates shock down.

The Basel III approach expects banks to set aside capital charge of the allocated capital for IRRBB where it should not be lower than the maximum of the absolute EVE impact and the absolute NII impact,  $\text{Max}(\text{abs}(\text{EVE impact}), \text{abs}(\text{NII impact}))$  as maximum.

### Repricing maturity assigned to non-maturity deposits (NMDs)

Sr.	Description	Assumption
1	Average repricing maturity assigned to NMDs	No specific assumptions were applied on NMD's. All interest sensitive NMD's are assigned to overnight bucket
2	Longest repricing maturity assigned to NMDs	No specific assumptions were applied on NMD's. All interest sensitive NMD's are assigned to overnight bucket

### Stress Test

In order to assess the impact of interest rate risk due to a severe shift in interest rate term structure, the Bank considers a parallel downward shift in interest rates of 300 bps and assesses the impact on earnings of the Bank and capital charge for IRRBB.

## 9. Interest rate risk in the banking book (IRRBB)

### 9.2. Quantitative information on IRRBB (IRRBB1)

The below table provides information on the bank's changes in economic value of equity and net interest income under the prescribed interest rate shock scenarios.

In reporting currency (AED'000)	$\Delta$ EVE	$\Delta$ NII
Period	31-Dec-24	31-Dec-24
Parallel up	(30,698)	-
Parallel down	-	(7,390)
Steeper	(1,787)	
Flattener	(5,789)	
Short rate up	(17,808)	
Short rate down	-	
<b>Maximum</b>	<b>(30,698)</b>	
<b>Period</b>	<b>31-12-2024</b>	
<b>Tier 1 capital</b>	<b>599,011</b>	

In reporting currency (AED'000)	$\Delta$ EVE	$\Delta$ NII
Period	31-Dec-23	31-Dec-23
Parallel up	(23,124)	-
Parallel down	-	(10,287)
Steeper	(3,183)	
Flattener	(2,023)	
Short rate up	(11,661)	
Short rate down	-	
<b>Maximum</b>	<b>(23,124)</b>	
<b>Period</b>	<b>31-12-2023</b>	
<b>Tier 1 capital</b>	<b>548,178</b>	

## 10. Operational Risk

### 10.1. General qualitative information on a bank's operational risk framework (ORA)

To describe the main characteristics and elements of the bank's operational risk management framework.

#### Overview

Operational Risk is the risk of losses from inadequate or failed internal processes, people & systems or from external events which include but not limited to legal and information technology risk.

The Bank assesses the operational risk exposure and sets aside capital charge using the Basic Indicator Approach (BIA), as prescribed under the capital adequacy guidelines by CBUAE.

#### Identification of Operational Risk

The main sources of Operational Risk in the Bank are:

- Process (Policies and SOP has been documented);
- People: (including insufficient staff, inaccuracy/delay in performance; also related with training quality, willful circumvention of regulation and responsibility);
- Systems (including failure, system limitations, bugs etc.);
- External events (Vendors/ Cards Fraud /Phishing/Skimming etc.).

The Bank's operational risk management framework considers operational risk arising from all the business and support units of the Bank. The framework considers the operational risks arising from processes, people, systems, and internal or/and external events.

#### Assessment of process, people, systems and external events impact

Source of risk	Current position of the Bank
Process	After successful migration to the new core banking system (T24), revision of related processes tested successfully and all processes in place and being reviewed regularly.
People	The Bank is making conscious efforts to increase risk management awareness and risk culture across the bank.
Systems	System driven validations and controls are being reviewed & implemented. Adequate monitoring mechanism is in place to enhance detective controls. Furthermore, consultants are available to facilitate quick support in case of technical issues.
External events	The Bank is exposed to external stress events and market conditions that may impact adversely. External incidents are being logged through Operational Risk system (Risk Nucleus) and being maintained in the risk library.

#### Assessment of Operational Risk

The Bank annually performs a Risk and Control Self-Assessment (RCSA) at Bank-wide level to determine the inherent risks residing in the functioning of the various departments and the efficacy of the controls in place to mitigate those risks.

The Bank has implemented an operational risk reporting and management system 'Risk Nucleus' which streamlines the process of operational risk management in meeting organization's functional and regulatory requirements.

The tool is capable of capturing, collecting, managing, tracking and generating reports of operational risks events helping in maintaining operational loss database based on which assessments are being performed across the Bank. The Bank arrives at a residual risk value based on the above assessments.

The Bank maintains a Material Risk Register that monitors Key Risk Indicators (KRIs) for each business unit and activity on a periodic basis. These KRIs, which are specific, measurable, and objective, are set against predefined thresholds to identify early warning signs and facilitate effective risk management. They are also aligned with AKF UAE's approved risk appetite and business strategy. All departments within AKF UAE are required to report their KRIs to the AKF UAE Risk Management Department quarterly.

### **Management of Operational Risk**

The Bank has established an operational risk management framework which is broadly classified into the following main components:

- i) Governance;
- ii) Risk Transfer Mechanism;
- iii) ORM Tools;
- iv) Business Continuity Management;
- v) Fraud Risk Management;
- vi) Monitoring & reporting;
- vii) Vendor assessment.

#### **i) Governance**

The Bank, in line with the Group, seeks to minimize actual or potential losses from operational failures through a framework of policies and procedures that identify, assess, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education/awareness and assessment processes. Following are the roles and responsibilities performed by the Board of Directors and the Senior Management to ensure effective operational risk management:

The Head of Risk in the UAE is the owner of Operational Risk Policy. The Policy is reviewed and confirmed by the control functions at AKF UAE and approved by AKF UAE Risk Committee after being confirmed by the Group Operational Risk Manager. The responsibility for operational risk management within AKF rests with the AKF Board. They have provided the executive management with the authority to maintain day-to-day control of the management of operational risk. The AKF Risk Committee reports to the GM, who in turn reports regularly to the AKF Board on risk issues. In addition, the Chairperson of the AKF RC reports to the Group Risk Committee via Group Risk on AKF RC activities. The committee's responsibilities with respect to ORM include reviewing and recommending the Operational Risk Strategy and Operational Risk Appetite (including Limits) to the AKF Board for approval, reviewing and recommending operational risk policies for AKF Board approval, and approving risk measurement methodologies, tools, and models.

#### **ii) Risk Transfer Mechanism**

Risk Transfer is a mechanism whereby the risk of loss is transferred to another party and the other party assumes (or pays for) the consequences of the risk should it occur. Traditional risk transfer methods include entering into an insurance contract with a reputable insurer who assumes the risk on behalf of the Bank, in return for a premium payable by the Bank.

The Bank's Risk Transfer framework is an integral part of the Operational Risk Management framework and benefits the bank by improving risk coverage in the insurance contracts. Annual reviews are conducted to map the operational risks faced by the Bank to the applicable insurance contracts, in order to ascertain levels of coverage, should risk materialize.

#### **iii) ORM Tools**

The Bank has embedded operational risk management elements into its day-to-day activities and processes, through a strategic adoption of ORM tools across all business units and branches. The Bank annually develops an ORM calendar, which details the ORM programs (such as RCSAs, KRIs, etc.) that provides the assurance of required ORM activities for the year. The Bank's ORM function has been using a comprehensive operational risk

management system – ‘Risk Nucleus’ since 2011. The system is intranet-based and work-flow driven, enabling the Bank to proactively manage the measurement, monitoring and reporting of operational risks using the Incident Management, Loss Data Collection, Risk and Control Self-Assessment (RCSA) and Key Risk Indicator (KRI’s) modules. The Bank has developed various ORM tools, which cover processes, products, systems and the entire gamut of activities which may give rise to operational risks. The ORM tools are summarized below:

**A) Risk and Control Self-Assessment (RCSA):**

This is the bottom up risk identification and assessment exercise carried out at the department level. The RCSA process consists of two stages - Inherent Risk Self-Assessment and Control Self-Assessments.

**a) Inherent Risk Self-Assessment:**

Departments identify their inherent operational risks and maintain a customized risk register on the operational risk system, pertaining to the products/ services offered by their units and aligned with the processes for their departments. Identified inherent operational risks are assessed at least annually.

**b) Control Self-Assessment:**

A Control Self-Assessment (CSA) is a “line of business” is defined as a process by which a department examines and improves existing internal controls and/or implements new internal controls to mitigate risks associated with a process or function. The CSA process entails documentation of the process or function, identification of all risks related to that process or function, and identification and evaluation of all internal controls that should be in place to mitigate the risks to an acceptable level. Each CSA will have its own goals and objectives; however, every CSA will also have the following three global objectives:

- Communication and understanding of each department’s roles and responsibilities within the selected process or function, including the roles and responsibilities of each individual that is part of the process or function;
- Determination of acceptable levels of risk;
- Determination of the correct cost-benefit trade-off for establishing new internal controls.

**B) Operational Loss Database (OLD):**

The data on operational losses is captured in the OLD to enable further analysis on it to understand the true cause of the operational loss incident. Based on the analysis steps are taken to prevent any further occurrences of loss incidents of similar kind. Captured incidents in the OLD are in form of direct losses, indirect losses & near misses, on the basis of the incident reporting mechanism.

**C) Key Risk Indicators (KRIs):**

GORM has introduced a structured approach to enable the development of KRIs by all business units. A reporting structure has been established for the KRIs and the business units are responsible for tracking KRI threshold breaches on a timely basis, and taking appropriate corrective actions. The validity of KRIs are reviewed on a periodic basis and the GORM is notified of changes to the same.

**iv) Business Continuity Management**

The Bank has a well-documented, effective and tested Business Continuity Management Program and detailed manual of the same have been made available to the employees. The employees are regularly updated on the same through ongoing training, education and system updates.

**v) Fraud Risk Management**

The Bank has a comprehensive Fraud Risk Management framework and policy that has been rolled out across by the Group. This covers the responsibilities of all departments, and outlines the governance framework, including the Group Special Investigations Committee, that is convened to supervise and monitor investigations into events of potential impropriety when necessary.

A Fraud Assessment covering Bank business units/activities is conducted on annual basis in line with Internal policies and CBUAE regulations. Moreover, Conflict of interest and Code of conduct policies were developed and approved by the AKF Board to enhance Fraud Management Framework at AKF UAE. Related trainings are provided to employees mainly within the Risk Team.

Further, the fraud incidents are investigated and root cause is analyzed following Group Fraud Risk policy. As fraud remains a category of Operational risk, related incidents are captured in OLD under the subcategory of Internal/External Fraud.

#### **vi) Monitoring and Reporting**

Ongoing monitoring and reporting on operational risk is crucial to ensure the continued adequacy and effectiveness of ORM activities. All relevant units monitor and measure their operational risk exposure through the use of Key Indicators [performance (KPIs), risk (KRIs) and/or controls (KCI)]. Key Indicators is used by the department as a means of control to track changes in their exposure to operational risk.

Monthly Operational risk report is issued and assessed in the monthly AKF Risk Committee & Group Risk Committee in order to:

- Study the Past - Incidents reported, trends;
- The Future - New Risks and Near term risk reduction measures;
- Action Plans tracking for control improvement and to fix control failure;
- Detailed incidents above threshold;
- Detailed commentary on indicators that have shown deterioration YTD.

Significant issues will be escalated to GRC, as GORM is authorized to follow-up departments regarding non-delivery of agreed action plans and to escalate to GRC.

Going forward the Bank has no plans in the near future to use more advanced approaches and will follow by all means CBUAE guidelines in this regard.

#### **vii) Vendor assessment**

Engagement of new vendors (and renewals) will be subject to the availability of a valid satisfactory vendor risk assessment.

The requesting department will obtain Clearance from Compliance department for new suppliers / vendors to ensure that all know your Supplier/ Vendor requirements are met.

The requesting department will also ensure that Vendor Risk Assessment (VRA) is conducted through control departments such as Operational Risk, InfoSec, Finance, Legal etc. where applicable for further validation and evaluation and submit the same together with all supporting information and documents for approval.

## 11. Remuneration policy

### 11.1. Remuneration policy (REMA)

To describe the bank's remuneration policy as well as key features of the remuneration system to allow meaningful assessments by users of Pillar 3 data of banks' compensation practices

#### Overview

HR Policy supports the development of an efficient, transparent and accountable organization. The manpower planning, recruitment, performance management, development and promotion policies are focused on hiring and developing a balanced mix of UAE nationals and expatriate workers based on their objectively measured performance and capacity to grow.

The HR policy is tailored in each region to be aligned with the market practices and subject to compliance with the UAE Labor Laws in relevant operating jurisdictions of the Bank.

Within Al Khaliji France, the base of remuneration is fixed. Variable pay in the form of cash recognized as annual bonus could be awarded based on the performance of the Bank and on the individual performance. The payment of bonus is linked to the previous performance period.

To ensure a comprehensive link between remuneration and performance, individual objectives are fixed by the employees at the beginning of each year and consist of a set of financial and non-financial objectives to be achieved partly or completely over the same year. The payment of a bonus is not guaranteed, and performance management processes ensures that bad performers are not rewarded.

## 11. Remuneration policy

### 11.2. Remuneration awarded during the financial year (REM1)

Provides quantitative information on remuneration for the financial year.

Sn.	Description		31-Dec-2024	31-Dec-2024
			AED'000	AED'000
			(a)	(b)
			Senior	Other Material
			Management	Risk-takers
1.	Fixed Remuneration	Number of employees	5	-
2.		Total fixed remuneration (3 + 5 + 7)	2,983	-
3.		Of which: cash-based	2,983	-
4.		Of which: deferred	-	-
5.		Of which: shares or other share-linked instruments	-	-
6.		Of which: deferred	-	-
7.		Of which: other forms	-	-
8.		Of which: deferred	-	-
9.	Variable Remuneration	Number of employees	4	-
10.		Total variable remuneration (11 + 13 + 15)	500	-
11.		Of which: cash-based	500	-
12.		Of which: deferred	-	-
13.		Of which: shares or other share-linked instruments	-	-
14.		Of which: deferred	-	-
15.		Of which: other forms	-	-
16.		Of which: deferred	-	-
17.	Total Remuneration (2+10)		3,483	-

Sn.	Description		31-Dec-2023	31-Dec-2023
			AED'000	AED'000
			(a)	(b)
			Senior	Other Material
			Management	Risk-takers
1.	Fixed Remuneration	Number of employees	4	-
2.		Total fixed remuneration (3 + 5 + 7)	2,868	-
3.		Of which: cash-based	2,868	-
4.		Of which: deferred	-	-
5.		Of which: shares or other share-linked instruments	-	-
6.		Of which: deferred	-	-
7.		Of which: other forms	-	-
8.		Of which: deferred	-	-
9.	Variable Remuneration	Number of employees	4	-
10.		Total variable remuneration (11 + 13 + 15)	305	-
11.		Of which: cash-based	305	-
12.		Of which: deferred	-	-
13.		Of which: shares or other share-linked instruments	-	-
14.		Of which: deferred	-	-
15.		Of which: other forms	-	-
16.		Of which: deferred	-	-
17.	Total Remuneration (2+10)		3,173	-

## 12. Acronyms

Sn.	Abbreviations	Description
1.	<b>AKF</b>	<b>Al Khaliji France S.A.</b> (Head office in France and its Branches in the UAE)
2.	<b>AKF ALCCO</b>	<b>AKF Asset, Liability and Capital Committee</b>
3.	<b>AML</b>	<b>Anti-Money Laundry</b>
4.	<b>AKF RC</b>	<b>AKF Risk Committee</b>
5.	<b>ASRR</b>	<b>Advances to Stable Resources Ratio</b>
6.	<b>AT1</b>	<b>Additional Tier 1</b>
7.	<b>BBB</b>	<b>Bankers Blanket Bond</b>
8.	<b>BCBS</b>	<b>Basel Committee on Banking Supervision</b>
9.	<b>BCM</b>	<b>Business Continuity Management</b>
10.	<b>BIA</b>	<b>Business Indicator Approach</b>
11.	<b>CB UAE</b>	<b>Central Bank of U.A.E.</b>
12.	<b>CCF</b>	<b>Credit Conversion Factor</b>
13.	<b>CCP</b>	<b>Central Counterparty</b>
14.	<b>CCR</b>	<b>Counterparty Credit Risk</b>
15.	<b>CET1</b>	<b>Common Equity Tier 1</b>
16.	<b>CIC</b>	<b>Credit and Investment Committee</b>
17.	<b>CRC</b>	<b>Group Board Compliance &amp; Risk Committee</b>
18.	<b>CRM</b>	<b>Credit Risk Mitigation</b>
19.	<b>CSA</b>	<b>Control Self-Assessment</b>
20.	<b>D&amp;O</b>	<b>Directors &amp; Officers</b>
21.	<b>D-SIB</b>	<b>Domestic Systemically Important Banks</b>
22.	<b>EAD</b>	<b>Exposure At Default</b>
23.	<b>ECL</b>	<b>Expected Credit Losses</b>
24.	<b>ELAR</b>	<b>Eligible Liquid Asset Ratio</b>
25.	<b>EVE</b>	<b>Economic Value of Equity</b>
26.	<b>FVOCI</b>	<b>Fair Value through Other Comprehensive Income</b>
27.	<b>GALCCO</b>	<b>Group Asset, Liability and Capital Committee</b>
28.	<b>GDP</b>	<b>Gross Domestic Product</b>
29.	<b>GORM</b>	<b>Group Operational Risk Manager</b>
30.	<b>GRC</b>	<b>Group Risk Committee</b>
31.	<b>Group</b>	<b>Al Rayan Bank, Qatar and its subsidiaries (ARB Doha or Qatar)</b>
32.	<b>H.O</b>	<b>Al Khaliji France Paris (AKF Paris or France)</b>
33.	<b>HNWI</b>	<b>High Net-Worth Individuals</b>
34.	<b>HQLA</b>	<b>High Quality Liquid Assets</b>
35.	<b>ICAAP</b>	<b>Internal Capital Adequacy Assessment Process</b>
36.	<b>IFRS</b>	<b>International Financial Reporting Standards</b>
37.	<b>KCI</b>	<b>Key Control Indicators</b>
38.	<b>KPI</b>	<b>Key Performance Indicators</b>
39.	<b>KRI</b>	<b>Key Risk Indicators</b>
40.	<b>LC</b>	<b>Letter of Credit</b>
41.	<b>LCR</b>	<b>Liquidity Coverage Ratio</b>
42.	<b>LGD</b>	<b>Loss Given Default</b>
43.	<b>LR</b>	<b>Leverage Ratio</b>
44.	<b>MRA</b>	<b>Moody's Risk Analyst</b>
45.	<b>MVE</b>	<b>Market Value of Equity</b>
46.	<b>NPL</b>	<b>Non-Performing Loans</b>
47.	<b>NSFR</b>	<b>Net Stable Funding Ratio</b>
48.	<b>O.E.C.D.</b>	<b>Organization for Economic Co-operation and Development</b>

Sn.	Abbreviations	Description
49.	<b>OLD</b>	<b>O</b> perational <b>L</b> oss <b>D</b> atabase
50.	<b>OLEM</b>	<b>O</b> ther <b>L</b> oans <b>E</b> specially <b>M</b> entioned
51.	<b>ORM</b>	<b>O</b> perational <b>R</b> isk <b>M</b> anagement
52.	<b>ORR</b>	<b>O</b> bligor <b>R</b> isk <b>R</b> ating
53.	<b>PD</b>	<b>P</b> robability of <b>D</b> efault
54.	<b>PFE</b>	<b>P</b> otential <b>F</b> uture <b>E</b> xposure
55.	<b>PI</b>	<b>P</b> rofessional <b>I</b> ndemnity
56.	<b>RCSA</b>	<b>R</b> isk and <b>C</b> ontrol <b>S</b> elf- <b>A</b> ssessment
57.	<b>RSA</b>	<b>R</b> ate <b>S</b> ensitive <b>A</b> ssets
58.	<b>RSL</b>	<b>R</b> ate <b>S</b> ensitive <b>L</b> iabilitys
59.	<b>RWA</b>	<b>R</b> isk <b>W</b> eighted <b>A</b> ssets
60.	<b>SA</b>	<b>S</b> tandardized <b>A</b> pproach
61.	<b>SFT</b>	<b>S</b> ecurities <b>F</b> inancing <b>T</b> ransactions
62.	<b>SICR</b>	<b>S</b> ignificant <b>I</b> ncrease in <b>C</b> redit <b>R</b> isk
63.	<b>SOP</b>	<b>S</b> tandard <b>O</b> perating <b>P</b> rocedures

## 13. Glossary

### **1. Capital conservation buffer**

A capital buffer prescribed by BCBS and CBUAE under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should the bank's CET1 capital fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

### **2. Countercyclical capital buffer (CCyB)**

The countercyclical capital buffer is part of a set of macro prudential instruments, designed to help counter pro-cyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets.

### **3. Counterparty credit risk (CCR)**

The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

### **4. Credit Conversion Factor (CCF)**

As prescribed by CBUAE, an estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default.

### **5. Credit risk adjustment (CRA)**

This includes impairment allowances or provisions balances, and changes in ECL.

### **6. Credit risk mitigation (CRM)**

Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

### **7. Domestic systemically important banks (D-SIB)**

Domestic systemically important banks are deemed systemically relevant for the domestic financial system in which they operate. The CBUAE and the BCBS have developed a framework for identifying and dealing with D-SIBs. The Central Bank of the UAE annually assesses national banks at their consolidated group level and foreign banks at their UAE branch level; to designate banks whose failure could escalate to systemic risk for the UAE banking sector and eventually impact the economy.

### **8. Economic Value of Equity (EVE)**

The economic value of equity (EVE) is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. Unlike earnings at risk and value at risk (VAR), a bank uses the economic value of equity to manage its assets and liabilities. This is a long-term economic measure used to assess the degree of interest rate risk exposure—as opposed to net-interest income (NII), which reflects short-term interest rate risk.

### **9. Fully Loaded ECL**

Means Bank's regulatory capital compared with a situation where the transitional arrangement for IFRS 9 had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements".

### **10. Internal Capital Adequacy Assessment Process (ICAAP)**

A requirement under Pillar 2 of the Basel framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks.

**11. Key Control Indicators (KCI's)**

Key Control Indicators or KCIs also referred to as Control Effectiveness Indicators are metrics that provide information on the extent to which a given control is meeting its intended objectives in terms of loss prevention, reduction, etc.

**12. Key Performance Indicators (KPIs)**

Key Performance Indicators refer to a set of quantifiable measurements used to gauge a Bank's overall long-term performance. KPIs specifically help determine a Bank's strategic, financial, and operational achievements, especially compared to those of other businesses within the same sector.

**13. Key Risk Indicators (KRIs)**

Key Risk Indicators are used by financial firms to measure their exposure to a given risk at a particular time. By comparing an appropriate set of key risk indicators with internal limits and thresholds, banks can determine whether their operational risk exposures are within their risk appetite.

**14. Leverage ratio**

A ratio introduced under Basel III/CRD that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

**15. Liquidity Coverage Ratio (LCR)**

The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

**16. Net stable funding ratio (NSFR)**

The ratio of available stable funding (ASF) to required stable funding (RSF) over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon.

**17. Securities Financing Transactions (SFT)**

Securities Financing Transactions are secured (i.e. collateralized) transactions that involve the temporary exchange of cash against securities, or securities against other securities, e.g. stock lending or stock borrowing or the lending or borrowing of other financial instruments, a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction.

**18. Standardized Approach (SA)**

In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk-weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.