



Al Ahli Bank of Kuwait (UAE Branches)

Basel III - Pillar III Disclosures

31-Dec-25

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1 General Information / ABK Group Structure

The Group structure consists of Al Ahli Bank of Kuwait K.S.C.P. (“the Bank”) and its wholly-owned subsidiary, Ahli Capital Investment Company K.S.C.C (“the Subsidiary”) and Al Ahli Bank of Kuwait - Egypt (together “the Group”) which are engaged in commercial banking activities of corporate banking, retail banking, international banking, treasury services and investment activities and advisory services. The Bank and the Subsidiary are headquartered in Kuwait. The Bank has a significant investment in Credit One Kuwait Holding Company K.S.C., which is classified as an associate and located in Kuwait.

The Pillar III Disclosure herein pertains to the activities of ABK UAE and all numbers are stated in **AED thousands** unless stated otherwise.

2 Pillar III disclosures

Al Ahli Bank of Kuwait KSCP, UAE (ABK UAE, the Bank, the Branches) Basel Pillar III disclosures have been prepared in accordance with the guidelines prescribed by the Central Bank of the UAE (CBUAE) wherein the UAE banks are required to follow Standardised approaches for Pillar I minimum capital requirement i.e. Capital adequacy ratio to be at 13% or above, conduct Pillar II Supervisory Review and Evaluation Process (SREP) to assess internal Capital adequacy and Pillar III requirements to complement the other two pillars to focus on enhanced transparency of information disclosure, covering risk and capital management.

ABK UAE has adopted these guidelines in its capital adequacy assessment and management of all material risks covered under Pillar I and Pillar II:

- The Bank maintains a capital adequacy ratio at a minimum of 13 per cent.
- The Bank adopts the Standardised Approach for the calculation of Pillar 1 capital requirements in accordance with the Basel III framework and CBUAE regulations.
- The Bank conducts an Internal Capital assessment for all material risks (Pillar II risks) under the Internal Capital Adequacy Assessment Process (ICAAP). These risks include credit concentration risk, Credit Risk Mitigation CRM risks, operational risk, legal risk, interest rate risk, liquidity risk, strategic risk, reputation risk, climate risk etc.
- The Bank conducts stress testing of its one year forward business projections under different scenarios to assess the impact on capital adequacy and profitability.
- The Bank provides timely, accurate, relevant and adequate disclosures of qualitative and quantitative information that enable stakeholders to assess its activities and risk profile. The following public disclosures are made in line with the requirements of the Central Bank of UAE (standardized approach) and include:
 - Risk weighted assets of the ABK UAE - credit risk, market risk and operational risk
 - Credit risk profile of gross credit exposure including counterparty classifications and ratings profile basis, gross credit exposure, credit risk mitigation and impaired loans by economic activity, geographical region and maturity

3 Capital Structure

The Central Bank of the UAE sets and monitors capital requirements for the branches of foreign banks.

ABK UAE calculates its Capital Adequacy Ratio in line with the guidelines issued by the Central Bank of the UAE. The minimum capital adequacy ratio prescribed by the CBUAE is 13% , which must be maintained at all times based on

Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2025

Risk Weighted Assets (RWA), calculated as per the regulatory guidelines. As a branch of the Group, the capital support remains at all times from the Parent entity.

ABK UAE's regulatory capital comprises of two tiers:

- Tier 1 Capital, which primarily includes common Equity Tier 1 CET1 capital comprising of share capital, statutory reserve, other reserves and retained earnings, after deductions for goodwill and intangible assets, if any.
- Tier 2 Capital, which includes general provision of RWA under standardized approach (subject to maximum of 1.25 per cent of total credit risk weighted assets).

3.1 Table KM1: Key metrics

		a	b	c	d	e
		Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	824,314	810,619	809,354	813,230	813,891
1a	Fully loaded ECL accounting model	824,314	810,619	809,354	813,230	813,891
2	Tier 1	824,314	810,619	809,354	813,230	813,891
2a	Fully loaded ECL accounting model Tier 1	824,314	810,619	809,354	813,230	813,891
3	Total capital	865,459	849,482	845,791	849,485	853,224
3a	Fully loaded ECL accounting model total capital	865,459	849,482	845,791	849,485	853,224
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	3,581,774	3,343,241	3,148,935	3,134,626	3,380,518
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	23.01%	24.25%	25.70%	25.94%	24.08%
5a	Fully loaded ECL accounting model CET1 (%)	23.01%	24.25%	25.70%	25.94%	24.08%
6	Tier 1 ratio (%)	23.01%	24.25%	25.70%	25.94%	24.08%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	23.01%	24.25%	25.70%	25.94%	24.08%
7	Total capital ratio (%)	24.16%	25.41%	26.86%	27.10%	25.24%
7a	Fully loaded ECL accounting model total capital ratio (%)	24.16%	25.41%	26.86%	27.10%	25.24%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)					
10	Bank D-SIB additional requirements (%)					
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 (%)	13.66%	14.91%	16.36%	16.60%	14.74%
	Leverage Ratio					
13	Total leverage ratio measure	9,682,493	10,759,444	12,074,103	10,489,795	10,995,928
14	Leverage ratio (%) (row 2/row 13)	8.5%	7.5%	6.7%	7.8%	7.4%

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14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	8.5%	7.5%	6.7%	7.8%	7.4%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	8.51%	7.53%	6.70%	7.75%	7.40%
Liquidity Coverage Ratio						
15	Total HQLA					
16	Total net cash outflow					
17	LCR ratio (%)					
Net Stable Funding Ratio						
18	Total available stable funding					
19	Total required stable funding					
20	NSFR ratio (%)					
ELAR						
21	Total HQLA	1,713,025	1,958,448	2,232,383	2,162,838	1,886,166
22	Total liabilities	7,889,899	8,980,163	10,326,700	8,666,134	9,304,979
23	Eligible Liquid Assets Ratio (ELAR) (%)	21.71%	21.81%	21.62%	24.96%	20.27%
ASRR						
24	Total available stable funding	6,343,967	5,876,526	5,911,846	5,730,455	6,182,439
25	Total Advances	5,647,471	5,303,347	5,165,859	4,284,249	4,994,656
26	Advances to Stable Resources Ratio (%)	89.02%	90.25%	87.38%	74.76%	80.79%

4 Capital Management

ABK UAE follows the Group capital management philosophy aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum Pillar I as well as Pillar II capital requirements. The Pillar II capital requirements for ABK-UAE are also assessed similar to the Group's internal estimate of the capital required to cover all the material risks, including those which are not captured under Pillar I capital and these risks include credit concentration risk, interest rate risk in the banking book, liquidity risk, legal risk, residual operational risk, strategic risk, climate risk and reputation risk.

The Group manages its capital in an integrated manner with the aim of maintaining strong capital ratios and acceptable credit ratings. This calls for a balanced approach: maintaining capital levels that are sufficient to provide a high return to shareholders; meeting the requirements of regulators, rating agencies and other stakeholders (including deposit holders), while supporting future business growth. The cost of capital and its composition in terms of its quality and stability are also considered.

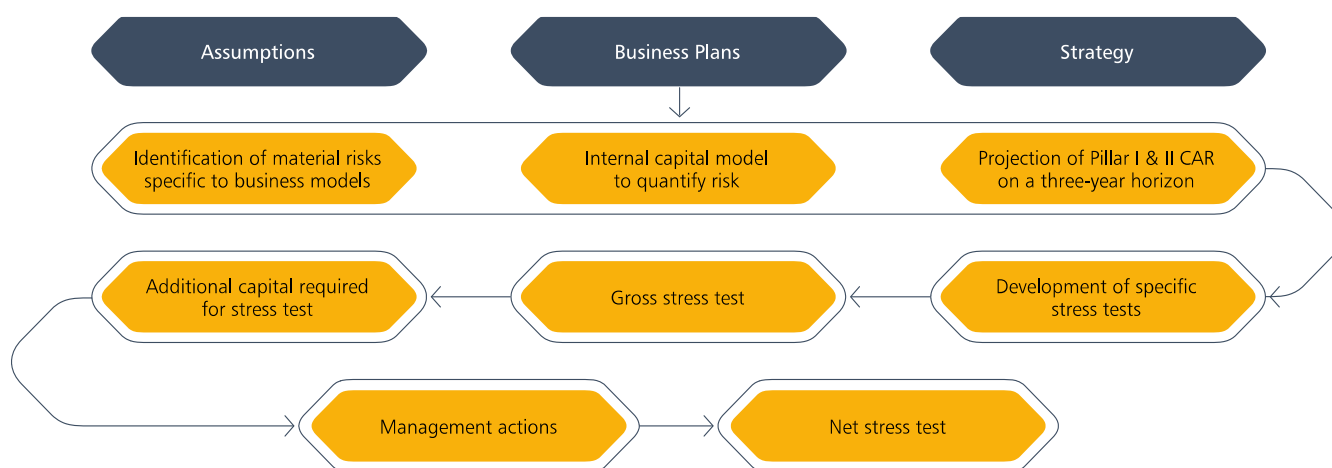
The Pillar I Capital Adequacy report is prepared by the Financial Control Division at UAE, while the Pillar II charges and stress testing is conducted jointly by the Risk Management in UAE and the Group Risk Management in Kuwait. The ICAAP assessment has a strong governance process in place with Financial Control responsible for accuracy of input data and Group Internal Audit responsible for reviewing compliance with the Group policies.

5 Capital Adequacy (Standardised approach)

The Bank has established an ICAAP framework which entails:

- Incorporation of the Bank’s business plan with a three-year horizon for capital assessment;
- Identification and assessment of all material risks in the Bank’s exposures as per Pillar I & II regulatory guidelines;
- Monitoring of risks against the risk limits established;
- Monitoring capital within the risk appetite framework
- Stress testing to assess the impact of adverse scenarios on capital adequacy; and
- Periodic assessment and reporting of the ICAAP results to the senior management and Board so the appropriate remedial actions can be taken.

6 ICAAP framework of the Bank



Capital adequacy planning framework

ABK UAE reviews the adequacy of its regulatory capital to support its current and future activities on an ongoing basis for internal capital management and regulatory reporting. Strategic business objectives and future capital needs are assessed within this framework. The Bank ensures that capital ratios are maintained above the regulatory minimum, and potential sources of capital are identified along with plans put in place to raise and retain capital, under the terms of the framework.

ABK UAE plans its capital projections for a forward-looking period in line with approved strategy of the Bank to assess capital availability and adequacy, taking into account strategic business plans and other initiatives considering the strategic business environment and other factors in capital assessment process.

ABK-UAE governance

The Executive Management and Risk Management at ABK UAE are responsible for assessing the capital requirements arising from the various risks faced by ABK-UAE in its existing as well as future business activities. The management is responsible for the following:

- Identify, assess, manage and report the material risks faced by the ABK-UAE in its existing and future business activities.

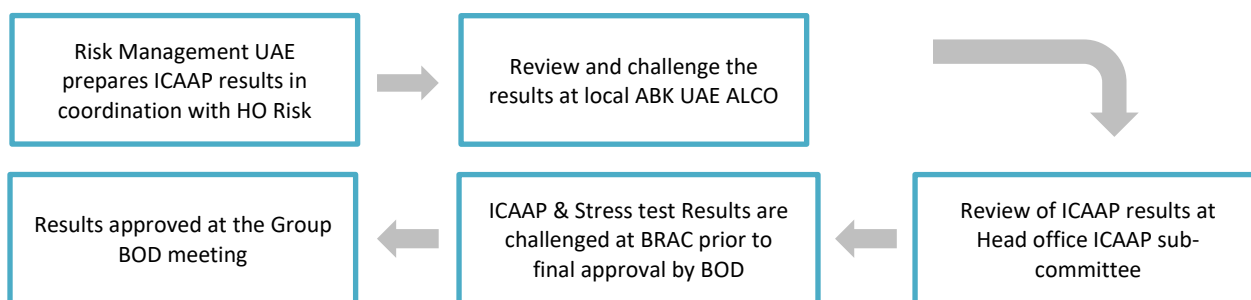
Pillar III Disclosures under the Capital Adequacy standards (Standardised approach) issued by Central Bank of UAE for the year ended 31st December 2025

- Manage the risks faced by the ABK-UAE within approved policies.
- Conduct capital assessment, prepare, and submit plan as per the Group's Board approved ICAAP Policy.

ABK UAE has a full-time resident Chief Risk Officer (CRO – UAE) who is responsible for overseeing the ICAAP process and is supported by the Group Risk Management. The CRO – UAE regularly interacts with various units of Group Risk Management, including Credit Risk, Operational Risk and Market Risk besides well as with the Group CRO on regular basis. The Group CRO also visits the UAE branches regularly to ensure effective control and monitoring of the exposures at ABK-UAE.

CRO UAE presents the standalone results to ABK UAE ALCO before submission to the Group ICAAP subcommittee, Board Risk, AML & CFT Committee, and the Board of Directors for review and approval.

The governance follows the following process:



The Branch follows the approved frameworks for carrying out the ICAAP and Stress testing exercise.

Activities and Business Strategy – ABK - UAE

The overall business strategy at UAE Branches encompasses robust capitalization, efficient balance sheet management, proven execution capability, diversified geographical footprint, modernized IT platform and recognized branding. The overall strategic objective of the UAE Branches aims to meet business growth objectives within approved risk appetite levels while maintaining adequate capital to meet unforeseen events in the form of risk buffer capital.

Capital required under Pillar 1 and Pillar 2 for the UAE Branch has been arrived on the basis of financial projections in line with board approved budget and strategic plan of the Bank.

Currently, Corporate Banking is the key business unit at both branches in the UAE that provide loans and advances and fee-based services to corporate borrowers across sectors such as real estate, construction, oil and gas, trade and services.

The key products provided by Corporate Banking in UAE include term loans, overdrafts, revolving loans, line for loan, letters of credit, letters of guarantee, loan against contracts, overdraft against payment certificates, discounting of invoices and PDCs.

ABK UAE also introduced a Real Estate Escrow account scheme for projects located exclusively in the Emirate of Dubai as part of wholesale banking operations. These services will be only provided to RERA – Dubai approved developers and reviewed every three years in line with ABK's internal policy review practices. This would help the branches in the liability management.

The growth objectives have been balanced in terms of the availability of adequate capital or sources for external funds within regulatory boundaries, required to be maintained against Pillar 1 and Pillar 2 capital requirements over the plan period and are projected to be adequate under the expected business plans. In addition, any additional capital requirements as a result of new strategic initiatives are factored into capital adequacy projections.

ABK-UAE's current strategic direction includes:

- Conservative and safe approach in growing Corporate Banking Book
- Growing wholesale banking operations by targeting Escrow scheme to Dubai real estate developers
- Target well known GREs & MNCs in the region
- Target big ticket facilities on secured basis or against robust ring-fenced cash flows
- Sustainable growth while enhancing ancillary income streams and gradually diversify portfolio mix towards medium risk segments for better returns
- Maximize NIM through active funding & gapping
- Enhance Customer Experience UAE Branches, Expand Consumer Banking Business in UAE with Focus on High-Net-Worth Individuals (HNWI) and Elite Banking
- Focus on Kuwait and UAE business corridor for both Corporate and Consumer segments
- Expand and diversify funding options with key focus on Deposits and CASA Growth
- Enhance efficiencies in Operational platform by reduction in turnaround times and error rates
- Support the Emiratization plans by Increase in Emiratization headcount in line with UAE Emiratization agenda; achieve recruitment target in line with CBUAE and MOHRE requirements

Risk Management

ABK UAE's strategic objectives define the stakeholder's expectations that are managed through comprehensive risk management and capital management to achieve its goal. Risk management is part of ABK UAE's business culture and is integrated in all decision-making processes, by encouraging prudent behaviors at all levels and promoting the bank's risk culture. The different components of the risk management framework are outlined below.

Risk Identification

ABK UAE identifies its exposure to the risks outlined above and the materiality of these risks as part of its ICAAP. In addition to the Pillar 1 risks (Credit Risk, Market Risk and Operational Risk), it is also exposed to the following Pillar 2 risks:

- Credit concentration risk
- Liquidity risk
- Interest rate risk in the banking book
- Market risk
- Remained operational risks
- Reputation risk
- Strategic risk
- Legal risk & Other material risk
- Cybersecurity Risk
- AML Risk
- Climate Risk
- Model Risk
- Pillar 1 Plus (FIRB)
- Market valuation changes for HQLAs

The materiality of the different risks is quantified through the capital charge calculated for the respective risks based on the methodology discussed in the following section.

Risk Taxonomy/Inventory

The Bank maintains a risk register that provides an overview of all the risks that are relevant to ABK and establishes a common definition of these risks. These risks are identified as part of ABK's risk identification process. The risk

register is updated periodically based on the annual risk assessment process, to identify and review the changes in risks arising from the bank's strategy, business model, new products, and changes in the economic environment.

Risk Appetite & Risk Management Framework at the Group and ABK UAE

The Group has articulated its risk appetite within the overall risk capacity. The risk limits are set-up to ensure that the risk is managed within the overall risk appetite levels while supporting regional business opportunities.

The Group's strategic objectives define the stakeholders' expectations that are managed through comprehensive capital management plans outlining capital requirement to achieve its goal. These strategic objectives are translated into business plans and business monitoring methods to ensure objectives are met as per plans with flexibility to take appropriate corrective measures.

The principle and basis on which the risk appetite statement is defined and set out are explained below:

Guiding Principle

The Group's guiding principle in defining risk appetite originates from its capital base and returns expected as per the business plans. This forms as the basis in determining the risk appetite statement at an overall level. Appropriate parameters driving the expected returns are embedded into business plans to drive the risk levels. Returns expected would include earnings target based on the business risk taken that are embedded in the business plans.

Business Plans and Strategy

To integrate business strategy with capital planning, a process to drill down the capital adequacy requirements to the business level by allocating capital at division level. To this end greater awareness will be created on improved risk practices in minimizing capital in other risk areas that can release capital available for business growth activities like credit expansion of the business divisions.

The Group's Risk Management and governance structure explicitly denotes and recognizes the lines of controls and embeds them in each risk framework governed by the Board.

Risk Capacity

Risk Capacity is the maximum risk limit, the bank can take considering the regulatory capital needs under Pillar I and Pillar II capital adequacy norms. This amount is derived from the capital base of the bank determined from minimum capital adequacy levels (both for Pillar I & Pillar II).

By policy articulation the bank will always operate at lower level than its full risk-taking capacity after setting a side certain level of capital to cushion its activities against stressful conditions.

Risk Buffer

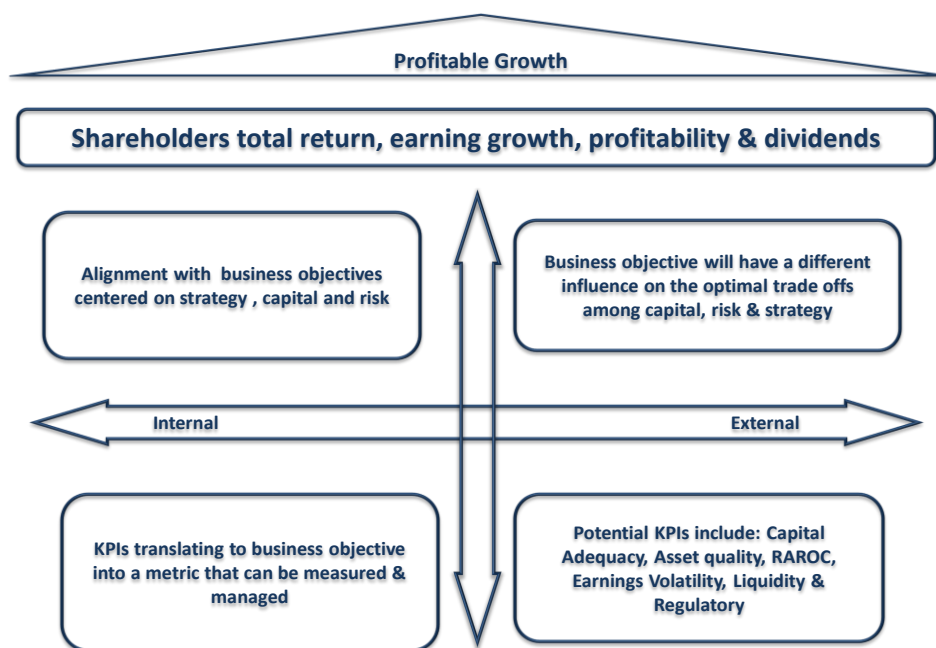
Risk Buffer is the amount of capital that the bank would maintain over and above the minimum capital requirement under Pillar I and Pillar II capital adequacy norms to act as cushion in difficult market conditions and to sustain Bank's operations under the stress scenario. The bank articulates this amount as the buffer required to cover the losses under mild stress scenario.

Risk Appetite

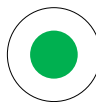
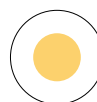
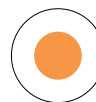
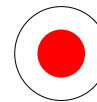
Risk appetite is the capital available after setting aside risk buffer from total risk-taking capacity. This is the capital available to meet minimum regulatory requirements for Pillar I and Pillar II capital adequacy norms. Bank's strategic objectives will be managed through Risk Limits for capital allocation that is set by division for future growth and expansion.

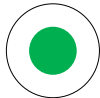
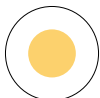

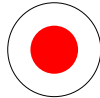
In 2022, ABK Group had developed a Risk Appetite Statement and implemented a comprehensive Group wide Risk Appetite. The same is further suitably cascaded to its Business Units (Kuwait Level – Corporate and SFD, Retail Banking and Treasury), Overseas Branches (ABK UAE) and Subsidiaries (ABK Egypt). Risk Appetite Statement for UAE was further updated in line with recommendations of Liquidity Thematic Review from CB UAE whereby LCR and NSFR ratios have been advised for ABK – Internal monitoring only and dropping from RAS.

Risk appetite strategy



Risk Appetite Levels and Related Governance and Escalation Process

Risk Appetite Levels				
	Appetite	Tolerance	Capacity	Red zone
				
Description	Appetite defines an optimal risk level aligned with strategic objectives	Tolerance marks an acceptable, although not optimal, level of risk requiring optimization	Capacity represents a level of risk that poses a serious threat requiring remedial actions	Represents unacceptable risk capacity requiring immediate corrective measures
Delegation of authority	Business Units & Risk	Business Units & Risk	CEO/Management committees	CEO/BRAC/BoD
Required mitigating action	Standard monitoring and reporting needed, in order to ensure any emerging trends, shifts in portfolio behaviour, or and macro-economic	Risk level should be closely monitored to assess the underlying drivers and potential future impact. Timed action will be taken to remediate such	Breach is escalated to the related management committee with the expectation that immediate action will be taken to remediate	Breach is escalated to CEO/ BRAC/BoD to launch swift recovery plan, including fast action to recover positions and limit losses through divestitures/reallocation

Risk Appetite Levels				
	Appetite	Tolerance	Capacity	Red zone
				
	changes are identified early.	that capacity limit will not be breached		

Risk Appetite Statement at ABK UAE

- Risk Management Department (RMD) and respective business units monitor the risk metric against the appetite level. RMD reports the risk appetite levels independently.
- CRO – UAE has effectively deployed the models and tools implemented at H.O., in identifying, measuring, managing various risks in ABK-UAE and reporting to Group Risk Management. CRO – UAE periodically submits management information to various management committees at H.O. through Group Risk Management.
- Corrective actions are agreed with UAE Management and the report follows the Group process of Risk appetite governance and escalation process

Capital Planning & Projections

The Bank’s capital management philosophy is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum Pillar 1 as well as Pillar 2 capital requirements. The Pillar 2 capital requirements are the ABK-UAE’s internal estimate of the capital required to cover material risks including those which are not captured under Pillar 1 capital adequacy calculations.

The Group manages its capital in an integrated manner with the aim of maintaining strong capital ratios and high ratings. This calls for a balanced approach of maintaining capital levels that are sufficient to provide a high return to shareholders, while meeting the requirements of regulators, rating agencies and other stakeholders. The Group uses capital management techniques to allocate capital for each of the Group’s business units through budgetary planning process to optimise returns. An annual budget plan provides an overall direction to individual business units to estimate overall growth in assets and its impact on the required regulatory capital. The Group ensures that capital adequacy ratios are maintained above the regulatory minimum under Pillar 1 to meet Pillar 2 requirements and certain stress conditions.

ABK-UAE uses an ICAAP model, integrating business projections for the years 2026-2030 to arrive at capital adequacy for the projection period. ABK-UAE also analyses capital for the projection period which is captured in detail in sections above. A strong capital position is expected to be maintained in the next five years.

Risk Measurement and Capital Adequacy

The material exposures to the risks at ABK-UAE are identified as a part of its ICAAP process. The materiality of the different risks of ABK-UAE is quantified through the capital charge calculated for the respective risks based on the methodology discussed in the following section.

Base Case (business as usual) Calculations

Financial projections based on business strategy for the next five years from reporting date are considered for capital adequacy assessment. The base case calculations involve computation of ABK-UAE’s capital adequacy requirements, assuming ABK-UAE performs in line with the projections. The base case calculations are performed to obtain capital requirements for the current year and for the future years on the basis of projected financials.

Pillar 1 Capital Calculations

ABK-UAE currently calculates the Pillar 1 capital requirements for credit, market and operational risk using the Standardized Approach (SA) and internal assessment techniques.

Pillar 2 Capital Calculations

The Pillar 2 capital charge for the current year is calculated by aggregating the internal capital requirements for each risk category on a conservative basis. However, ABK UAE does not expect all the risk events to happen at the same time. Future requirements are derived from the business plan projections and are discussed in following sections. The methodology for calculating the Pillar 2 capital requirements for the current year for each risk category is described below:

Liquidity Risk

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations and meet contractual obligations through unconstrained access to funding at reasonable market rates.

ABK-UAE has conducted liquidity stress testing by considering various “what if” scenarios on its liquidity positions to ensure that it has adequate liquidity to withstand adverse conditions. The losses incurred due to the additional cost of funds under the mild liquidity stress testing scenario (with fifty per cent impact) is assessed as the capital requirement for liquidity risk.

The capital requirement for liquidity risk will be considered as higher of the following:

- Higher of the what-if scenarios under bank-specific and market liquidity stress;
- The losses incurred due to the additional cost of funds under the mild scenario due to run-off on deposits maturing up to one month under bank specific scenario.

Market Risk

ABK-UAE defines Market risk, under Pillar 2, as exposures for FX open positions for both trading and banking books. ABK-UAE has developed an internal assessment model for FX open position and their respective volatility for Pillar 2 assessment. The model considers market risk arising from holding a position over an extended period due to illiquidity in the markets and concentration of holding in relation to traded volume.

The capital required for market risk, under Pillar 2 assessment, ABK-UAE applies the 10 days annualized volatility of a particular currency pair as a shock to the open position of that currency. The resultant FX loss is considered as an additional Pillar 2 capital charge.

Interest Rate Risk

ABK-UAE defines interest rate risk as the potential impact of the interest rate fluctuations on the Bank’s earnings and market value of equity on on-balance sheet and off-balance sheet interest sensitive asset/ liability items. For the purpose of managing interest rate risk the Bank has an Interest Rate Risk Framework for identifying, measuring, monitoring and reporting interest rate risk exposures.

ABK-UAE uses IRRBB model methodology for computing the ABK-UAE’s IRRBB exposure and capital charge as at a reporting date for Base and the three stress scenarios (Mild, Medium & Severe). IRRBB exposures has been modelled using the Economic Value of Equity (EVE) approach and Net Interest Income (NII) approach.

Economic Value of Equity (Δ EVE)

The Economic Value of Equity (EVE) approach computes a change in the net present value of the ABK-UAE's assets, liabilities and off-balance sheet items subject to specific interest rate shock and stress scenarios. It reflects changes in value over the remaining life of the ABK-UAE's assets, liabilities and off-balance sheet items, i.e., considering run-off of the Bank's balance sheet. The IRRBB EVE calculation under the standardized framework will be measured per currency for the maximum of the worst aggregated reductions to EVE across the six Basel prescribed interest rate shocks. These shock scenarios include:

- Parallel Shock Up;
- Parallel Shock Down;
- Steepener;
- Flattener;
- Short-Rate Shock Up; and
- Short-Rate Shock Down

Net Interest Income (Δ NII)

Earnings-based measures focus on changes to future profitability within a given time horizon, usually the short to medium term (12 months), eventually affecting future levels of a bank's own equity capital. It assumes a rollover of maturing items (i.e., a constant balance sheet view) and/or assess the scenario-consistent impact on ABK-UAE's future earnings inclusive of future business (i.e., a dynamic view). The shock scenarios considered have modelled a gradual movement in interest rate shock and, a one-time large interest rate shock. They include:

- Parallel Shock Up;
- Parallel Shock Down;

The results of EVE and NII are compared and, conservatively, the higher impact of the two stress impacts would be considered for Pillar2 computations

Credit Concentration Risk

At ABK-UAE four types of concentration are considered to set aside capital for credit concentration risk:

Name Concentration Risk

ABK-UAE assesses name concentration risk using a Herfindahl-Hirschman Index (HHI) based approach for credit portfolios (excluding retail and SME's). HHI-based approach for Name concentration has been published by **Prudential Regulation Authority** (PRA) in the Statement of Policy "The PRA's methodology for setting Pillar 2 Capital – July 2021".

Sector Concentration Risk

Sector concentration risk is the risk of losses arising as a result of the concentration of exposures due to imperfect diversification of economic sectors.

Collateral Concentration Risk

➤ Shares Collateral

For collateral concentration in shares, ABK-UAE has an internal policy of not accepting shares as collateral if the aggregate of shares held as collateral for a particular company exceeds 15% of its paid-up share capital. ABK-UAE will aggregate collateral exposures in all such shares where the ABK-UAE's collateral exposure is in excess of 15% of the respective company's paid-up capital. This excess will be taken as risk weighted assets for concentration share collaterals and accordingly, appropriate percentage of this excess will be taken as capital.

Also, ABK-UAE has assessed concentration to share collateral based on the internal Grading system. ABK-UAE grades its share collateral in to Grade I, Grade II and Grade III. ABK-UAE assesses concentration based on any exposure exceeding the maximum limits assigned to the particular grade. Policy coverage is determined based on the grade of the shares offered as collateral.

➤ **Real Estate**

ABK-UAE has a fairly diversified portfolio in terms of real estate collaterals, and assesses concentration based on internal limits placed on various types of real estates like residential, commercial, investment properties; land etc.

The total sum of Share and Real Estate concentration capital is taken as the capital for overall collateral concentration.

Country and Bank Concentration Risk

In the Bank Concentration Model, the approved policy limit is considered to compute excess exposure. Entire bank portfolio is considered in the bank concentration model. The bank guarantees against the corporate exposures have also been considered for this purpose. Capital is computed for each bank on excess exposure over policy limit based on distance to maturity and risk rating.

In the Country Concentration Model all exposures of bank, corporate, financial institutions and investment exposure to a country have been considered. ABK-UAE maintains its own capital and are subject to minimum capital requirements under CB-UAE supervisory regulations. Therefore, ABK-UAE's exposures within UAE are considered as exposures to home country not requiring any country concentration risk capital charge. For others, the excess exposure to each country is determined in relation to its country level policy limit set through country rating. The Country policy limits are obtained such a way that it could minimize expected loss considering limit as a function of Risk Rating. Country level excess % is applied to all accounts within a country that has excess concentration. Based on country level excess %, capital charge is applied to all accounts in the country having excess concentration.

Besides credit concentration risk, other risks and Pillar 2 capital requirement for ABK-UAE are as follows:

Reputation Risk

The reputation risk assessment model is scorecard model drawn as per best practices and industry standard. The scorecard has two components (i) bank wide scorecard which comprises of all the KRIs across all divisions and related risk scenarios (ii) Capital computation which comprises of budgeted net profit, risk level band, reputation risk score at bank wide level and capital allocation KRI / division wise. The Bank takes a conservative stand and does not take an aggregation by connecting into other risk areas such as credit, liquidity, market, legal or exposures.

Strategic Risk

ABK-UAE assesses its strategic risk and capital requirement through a score card model by identifying major achievement metrics of the business and support division, providing risk weightage to each of the metrics based on the Bank's strategic objective and assessing those matrices through parameters (both quantitative and qualitative). The result of the assessment is denoted as Strategic Risk in the numerical value which is mapped to division's net profit achievement for business divisions and difference in budget and the current year actual for computing capital

Residual Risks for Credit Risk Mitigation

Remained risks from credit risk mitigation are those risks emanating from credit risk mitigation such as the legal risks, documentation risks, operations risks, and liquidity on the realizable value of such collateral.

The premise of using various indices in this computation is to determine the market-based haircuts under worst case scenarios. The various indices are used as a proxy to induce market-based/implied haircuts. These indices are used at a Group-level, and the same are applied for ABK UAE as well.

Legal Risk

Legal risk arises due to the risk of loss resulting from the bank's inability to implement contracts or any other rights vested in it like defective documentation, inappropriate authorization and signing, violation of legal rules etc. The Bank internally assesses the capital required for legal risk by conducting impact and likelihood analysis of legal risk. The capital charge for legal risk is carved out of the total Operational Risk capital computed by running the Operational risk VaR.

Remained Operational Risks

Remained operational risks cover all those operational risks issues which are not covered by Pillar 1 operational risk capital charge. The Bank assesses operational risk by analyzing transaction risk, process risk, balance sheet risk, compliance risk, IT risk, Legal risk, people risk, physical security risk, pricing risk etc. The Bank uses an operational risk VaR by conducting the likelihood and severity analysis of all operational risks.

AML Risks

To carry out Pillar 2 assessment for AML Risk, the Bank used external data of AML events identified over last 20 years for preparing loss distribution to assess the quantitative impact of AML event. The losses are scaled up/down proportional to the size of company vis-à-vis the size of ABK entity in the year of event occurrence. Monte Carlo Simulation issued with Frequency and Severity of losses as parameters to arrive at loss distribution. The losses are then annualized and the aggregated capital required is calculated.

Cyber Security Risk

Keeping in consideration the current Cybersecurity threats to Bank's information assets and in line with the best practices in the industry, the bank has adopted a model incorporating Pillar 2 capital requirement to meet the Cybersecurity Risk. The model complements the Operational risk model (OpVar) for Pillar 2 capital assessment to specifically address cybersecurity risks. The Bank used external data of cyber events identified over more than 10 years, which assist in preparing a reasonable loss distribution to assess the quantitative impact of a potential cyber threat event.

Climate Risk

Climate change and environmental degradation are sources of structural change that affect economic activity and, in turn, the financial system. Climate-related and environmental risks are commonly understood to comprise two main risk drivers - Physical Risk and Transitional Risk. The Bank has adopted internal PD /LGD based approach to quantify Climate Risk.

Model Risk

Models have become an integral part of decision-making in the banking sector for risk management, business decisions, and accounting. Inaccurate model results, e.g., based on wrong assumptions or valuations, may lead to actual or potential financial losses or an underestimation of risks.

The bank has adopted a scorecard-based methodology to compute Model Risk Capital Charge.

Pillar 1 Plus (FIRB)

To carry out Pillar 2 and Stress test assessment Bank has adopted internal PD /LGD based approach to compute Capital required under Pillar 1 using Foundation – Internal Rating Based (F-IRB) methodology. F-IRB methodology (Basel Paper CRE 30- CRE 36) utilizes internal PDs and regulatory LGDs (Basel defined) to arrive at Capital Charge for exposures in the Banking Book. The Bank computed the base F-IRB based capital requirement for the credit portfolio

and compares it with Standardized approach. The additional capital if any under FIRB approach is considered as Pillar 2 capital charge.

Market Risk – HQLA market valuation

The bank will consider Pillar 2 capital reserve arising from HQLA securities as capital adjustment as the difference between amortized cost and market value representing the actual loss that affects profit and loss (CET1 capital) for the Pillar 2 capital ratio under this new model.

However, there are no HQLA positions in Amortized Cost Book at ABK UAE currently, so there is no impact of this requirement.

Business Model Analysis (BMA)

ABK UAE follows a conservative business model of lending predominantly to large corporate, Government Related Entities, secured lending backed by Real Estate, Listed shares etc. Although this is a low margin business, the risk is perceived to be low resulting in a low cost of risk. The executive management of UAE as proactive risk management sets aside pre-cautionary management provisions in order to set up buffer for any future losses that may be incurred from delinquent assets.

ABK UAE's focus and target market has always been corporate banking, however the bank has implemented a strategy in place to diversify its business by way of expansion into retail business. Treasury predominantly caters to the banking book, however with the rising interest rate scenario, we expect to have generate higher income contribution from this line of business also.

The bank has robust process, systems backed by skilled and experienced teams to handle financial data including forward looking balance sheet projections and resulting profitability projections. Annual budgeting exercise is done very thoroughly in coordination with business divisions and further 5 year strategic projections are also updated on a periodical basis. These are then reviewed at country level and later reviewed and approved by Group CFO and Group CEO before presenting to the Board committee. The UAE country Board Monitoring Committee (BMC) also monitors the 5 year strategic projections from time to time.

Stress Testing

ABK has implemented a stress testing program to assess its ability to face exposures under stress situations by measuring the effect of these exposures on the set of financial indicators of the ABK-UAE, and their impact on the capital availability and the profitability. Stress testing is an integral part of ABK's risk management system and is used to evaluate its potential vulnerability to certain remote but plausible events or movements in financial variables. The vulnerability is measured with reference to the ABK-UAE's profitability and capital position. This emphasises the importance of the current risk management systems which factor-in a forward-looking element and recognise the need to manage risks 'over the economic cycle'. The stress test is performed in accordance with the Group ICAAP & Stress Policy to determine the capital charge. In line with the 'Stress test Capital Allocation Methodology' as applied within the bank, different subject-matter experts and stakeholders are involved in the design and review of different types of stress tests, with oversight by Senior Management and the Board.

Stress scenarios are designed based on both historical events and hypothetical events. ABK-UAE stresses the relevant parameters at three levels of increasing adversity – mild, medium, and severe (as per CB UAE guidelines).

Capital Forecasts Under Stress Scenarios

ABK-UAE applies specific stress scenarios to observe the impact of these scenarios on ABK-UAE's projected capital adequacy ratios.

The Group has developed a Recovery Plan Framework which is intended to prepare the Group (Bank, its branches and overseas subsidiaries) to restore its strong financial position in case of a stress situation occurring, through the identification of suitable options that can restore liquidity and capital adequacy. ABK UAE also has a recovery plan in

place that aligns with the Group framework. Metrics defined in the framework help to assess recovery options in stress scenarios that can be utilized by ABK UAE branches to avail funding and restore the financial position.

The primary focus of Recovery Planning is on the analysis and consideration of various types of stress scenarios, ranging from idiosyncratic, systemic and combined stress conditions etc., and on the impact of those scenarios on the Bank's liquidity and capital position, and analysis and assessment & quantification of the selected Options

The Recovery Plan document outlines the process and provides guidance to the Bank for the approved Recovery Options ('Options') to be activated under different scenarios and circumstances, if the Bank's key Capital and Liquidity position fall below internal and/or regulatory minimum requirements.

The Recovery Plan Framework is aligned with the ICAAP assessment and both frameworks are complementary to each other.

Use of ICAAP Within the Bank

ABK is committed to integrate the ICAAP process into the decision-making process of the bank and have taken the following initiatives to embed the same:

- An Internal House Limit Model was developed based on borrower grades and their expected PD and IFRS 9 based losses. This model has been applied to manage the concentration in credit portfolio and define bank's risk appetite by borrower grades. This helps the bank improve the granularity in the portfolio and hence manage name concentration Pillar 2 risk capital charge. Further, and on the similar grounds, a House Limit Model for Bank and Country has been developed and rolled-out for implementation. This model forms the basis for Capital and Bank risk concentration Pillar 2 capital charge
- Sector limits considering the Global industry classification standards are placed to monitor the concentration risk within sector exposures.
- A RAROC Model for Corporate Banking and International Banking has been developed incorporating IFRS 9 Rating based provisions and Pillar 2 capital charge. ICAAP results have been embedded at the transaction level as part of the credit risk review process in terms of assessing Name, Sector and Collateral concentration.
- The stressed accounts are discussed at management level to form a strategy to mitigate the risk.
- To further enhance the efficiency of ICAAP assessment, the Bank implemented a new ICAAP System.
- Bank has also completed the validation and benchmarking of ICAAP and Stress Testing models through an external independent third-party consultant. The key objective of the exercise was to have an independent opinion/assurance by a third party on the continued appropriateness and applicability of the Bank's ICAAP and Stress Testing models, in line with regulatory requirements and best practices. The Bank's ICAAP and stress testing models were validated as conceptually sound, valid to the current market conditions and broadly aligned to regulatory requirements.
- Interest rate risk limits are set in Interest rate risk policy and monitored in Group ALCO/ABK UAE ALCO on monthly basis.
- Internal limits are placed to monitor various liquidity ratios that are monitored at Group/ABK UAE ALCO levels to ensure Liquidity risk is monitored closely.

Management Actions and Risk Monitoring

ABK-UAE calculates its capital adequacy under the 'business as usual' scenario and also strives to ensure it can absorb losses under three adverse stress (Mild, Medium, Severe) scenarios, while adhering to regulatory standards for capital adequacy.

Release of provisions and borrowings from HO are direct tools to bridge the capital gap in adverse stress scenarios.

Other planned actions and risk monitoring practices used by ABK UAE are described below:

Credit Risk

The Bank has put in place a Credit Risk Framework to manage risk inherent in extending credit as part of its corporate governance practices. This framework facilitates in driving a strong credit culture throughout the Group and includes an independent Risk Management oversight, Management and Board level Committees and approval levels under Credit Authority Matrix. Risk Management is supported by tools and systems in terms of credit policies, borrower rating system, financial evaluation methods, monitoring and reporting methods.

For borrower evaluation, the Group maintains a credit scoring method (S&P Credit Rating System) to assess the credit quality. The Group also has set in-house lending limits by credit grade for borrowers and at sector levels to manage concentration risks besides setting limits to meet the regulatory caps laid down both by CBK and CB UAE.

The lending proposals are independently reviewed by Risk Management in UAE and further by Risk Management in H.O. to assess the risk profile and overall creditworthiness of exposures. The credit portfolio is continuously monitored for early warning indicators to act pro-actively and also to facilitate timely remedial actions on problem accounts. ABK-UAE Operations has effective credit management framework that include:

- Key Stakeholders from UAE attend the weekly Management International Credit Committee meetings along with approving authorities from Head Office.
- Business strategy is focussed on Secured lending, lending to GREs & large established businesses in the region.
- Credit Risk Policies have been updated and revised in line with regulations and business model.
- Recovery & Remedial department: A focused approach to NPL/High Risk/restructured accounts. Restricted lending to traders especially expat owned business with no tangible assets to support. Owing to market condition / systemic failure, the Bank identified a few high-risk accounts that were either put on exit, exposure reduced or collateralized. In addition, the bank also brought about improved facility structure on accounts where concerns existed.
- Accounts with early warning signals and those that were genuinely hit by systemic risk, were restructured and were put on exit over a period of time.
- Introduced Corporate Operational Risk Review Unit in 2018 to review the existing and new facilities extended to corporate clients on an on-going basis, thereby, strengthening control framework. Any areas of credit and operational risks are timely escalated and addressed. The Unit provides assurance on key areas such as documentation, approvals, monitoring compliance etc.
- Overall Controls environment has been enhanced; An internal Control Unit has been set-up within Operations function; RCSAs have been established for all functions and monitored periodically
- Legal action: Supported by external legal firms to initiate legal actions. In addition, an in-house legal counsel at UAE also monitors/ follows up legal cases.
- Documentation: Strengthened documentation processes.

Liquidity Risk & Interest Rate Risk management

Liquidity Risk Management

The Group has put in place Liquidity Risk and Interest Rate Risk Frameworks to manage these risks. Internal limits are in place to monitor key indicators for appropriate management, monitoring and action. Monitoring is integrated and liquidity and interest rate risks are regularly reviewed in the monthly local and group ALCO as part of management monitoring.

The monthly local ALCO meetings are conducted with stake-holders from UAE and Head-Office. Minutes of the meeting are circulated as required and maintained for records. Bank has taken following actions to manage liquidity and interest rate risk that include:

- Monitoring & managing of liquidity gaps & regulatory ratios within CB-UAE limits, monitoring regulatory ratios including LSRR, ELAR, Reserve Requirement and other liquidity ratios under the ALCO framework

- Bank has defined internal ratios and sensitivity limits to effectively monitor Liquidity and Interest rate risk metric.
- Continuous monitoring of deposit concentration and managing top 12 depositors ensuring alignment within internal limit, deposit diversification target, and early warning indicators.
 - Increase HQLA positions at UAE Branches to maintain sufficient liquidity buffers during stress, in line with regulatory expectations
 - Updated and tested the CFP to guide actions during liquidity events, including pre-identified sources of backup funding

Interest Rate Risk Management

The Bank manages Interest Rate Risk through a structured Policy that aims to measure, monitor, and mitigate the potential impact of interest rate movements on earnings and economic value. Interest rate risk is governed by ALCO, with risk oversight by the Board Risk AML & CFT Committee (BRAC). The Bank uses both earnings at Risk (Net Interest Income- NII) and economic Value of Equity (EVE) metrics to capture short-term and long-term interest rate risk exposures, respectively. Following the global development on interest rates and inflation, the Central Banks in the GCC region continue to track global monetary shifts closely, adjusting policy rates as required to safeguard regional stability and growth. Bank has taken following actions to manage liquidity and interest rate risk that include:

- Monthly ALCO updates on the Net Interest Margin (NIM) trend covering month on month and YTD performance
- Continuous review and analysis of the Bank's cost of funds, segmented by product and tenor for discussion at ALCO.
- Enhanced interest rate risk monitoring, ensuring consistent oversight of balance sheet positions and local market development.
- Performed interest rate sensitivity analysis on AED and USD books with results presented and discussed in ALCO monthly and BRAC on quarterly basis. Respectively

Operational Risk and Others

Operational Risk Management framework is in place, duly approved by the Board that drives the operational risk management. Critical operational risk gaps that may have financial impact are capitalized under the ICAAP. Operational Risk related issues remain within acceptable levels whilst identification and assessment of incidents is carried out on an on-going basis.

ABK has implemented additional and new controls to reduce / mitigate the identified risks after the due assessment of the same. Some of the new key controls implemented are:

- Oversight from Senior Management & the Board
- Special Board Monitoring Committee meeting convened for guidance, direction and updates on controls on impacts of the Pandemic

7 Risk Management Framework at ABK UAE

ABK UAE has a well-defined Risk management structure with clear reporting lines and segregation of duties. ABK UAE has a full time resident Chief Risk Officer – UAE who reports directly to the Group's Chief Risk Officer(Group CRO) who in turn reports directly to the Board Risk, AML & CFT Committee.

ABK's Group Risk Management ensures identification and measurement of collective risks affecting the Bank and implementation of an enterprise wide strategy for monitoring and control of these risks by systematic actions in a planned manner through proper understanding and communication. The major elements of such Enterprise –wide Risk Management are:

- Risk Governance
- Risk Oversight and Control Functions
- Risk Operating Model
- Risk Management Methodology
- Portfolio Review Optimization and Pricing
- Contingency Planning and Resilience
- Risk Data Aggregation, Infrastructure and Reporting

8 Risk Governance

A. Committee Structure and Authority

Board is ultimately responsible for the Bank's risk management. For optimal management of risks, Board has delegated authority to appropriate Board-level committees with a clearly defined mandates and appropriate reports are submitted regularly to the Board by the committee(s). Clear organizational structure and arrangements are in place to ensure an effective and transparent delegation of authority from the Board to Senior Executives.

B. Governing Body:

The day to day management, supervision and control of the Group is overseen by the Group Executive Officer (GCEO) who is supported by the senior executive management. The senior executive management team includes Group Risk, Group Compliance, and Group Financial Control besides Business Heads. The senior executive management team is responsible for overseeing all relevant aspects of the Bank's activities including risk evaluation and control, transaction approvals process, pricing, funding, formulation and implementation of internal policies and procedures, and regulatory reporting.

C. Group Committees

The foundation of ABK Group's Corporate Governance Framework is the commitment of its Board to set and adhere to best practices in Corporate Governance and assume accountability for ensuring ABK Group fulfils its regulatory and statutory obligations in the jurisdictions in which it operates. The principal responsibility of the ABK Group Board is to set and oversee the implementation of the Bank's strategy whilst ensuring Executive Management, who are responsible for the execution of the strategy, remain focused on long-term profitable growth and sustainable shareholder value. The Bank is subject to oversight of its activities by Management and ABK's Board Committees. To discharge its responsibilities, the Board is supported by the Board level and Management level Committee(s). A brief description of the roles and responsibilities of these committees is detailed below:

- **Board Credit & Investment Committee (BC&IC)**
The BCIC is responsible for evaluating and granting credit facilities and approving the Bank's investment activities.
- **Board Corporate Governance Committee (BCGC)**
The Board Corporate Governance Committee is responsible for overseeing the development and the assessment of the Bank's approach to corporate governance issues including organisation structure, related party transactions etc.
- **Board Audit Committee (BAC)**
The BAC is responsible for reviewing and scrutinizing the Bank's internal controls and systems and reviewing internal audit activities.

- **Board Compensation & Human Resources Committee (BCHRC)**
The Board Compensation & Human Resources Committee is responsible to enhance the effectiveness of the BOD control over hiring and promoting EM, and remuneration matters at ABK and its governance and human resource.
- **Board Nomination Committee (BNC)**
The objective of BNC is to assist the BOD in all Board Nominations and remunerations matters. BNC recommends candidature for BOD membership and assists in the continuous enhancement of both collective and individual knowledge and skill sets of ABK's BOD and its members.
- **Board Risk, AML & CFT Committee (BRAC)**
The BRAC is responsible for assisting the Board in the oversight of the risk management & risk governance framework of the Bank.
- **Board Monitoring Committee (BMC)**
The Board Monitoring Committee (BMC) is a non-executive committee over UAE branches including the DIFC branch to monitor Board-approved business operating strategy and compliance with statutory requirements.

The ABK Group Board is further supported by Independent Boards in its two subsidiaries, Ahli Capital Investment Co. (Ahli Capital) and Al Ahli Bank of Kuwait - Egypt (ABK-Egypt) who in turn are supported by their Board Committees.

The Management committees have been set-up which in turn report into Board committees. Some of the relevant management committees with which the Group work closely includes:

- The **Management and International Credit Committee** approves/recommends for approval to Board Credit and Investment committee the credit proposals submitted by the Business. It also oversees the implementation of bank-wide credit risk frameworks and review of portfolios.
- **The Provision Committee** receives reports regarding provisions made in respect of assets booked. Respective business units are responsible for implementing remedial and recovery actions instructed by the Committee. The business units must provide necessary reports to ABK Group Risk Management on periodical basis to enable incorporating such information in reports submitted to Provisions committee.
- The **Management Risk & Compliance Committee** is provided with periodic risk reports by the Operational Risk Management Division on the operational risk issues. The Risk officer will also provide necessary inputs to IT Risk and IT Security units within ABK Group's Risk Management division on relevant risks
- The **Asset and Liability Committee** guides on funding requirement and management of liquidity across the group.

Chief Group Risk Officer's role and responsibilities are clearly defined to include:

- Ensure implementation of bank-wide risk management strategies, policies and procedures.
- Review the risk profile of Group's portfolio and operations and ensure that these are within the approved risk appetite level. Ensure that appropriate actions are taken to realign the portfolio, modify risk profile or adopt hedging strategy to maintain its position within risk appetite level.
- Ensure that risk management function is well/sufficiently equipped with systems, processes and methodologies and expertise for identification, measurement and monitoring of risk adequately and efficiently.

- Design and implement a robust and comprehensive Risk Management Framework that align risk appetite with the bank strategy.
- Ensure clear and timely communication of risk related information across all levels in the bank and recommend / implement appropriate mitigation actions where necessary.
- Develop a comprehensive framework and recommend strategies, policies and procedures for managing and monitoring all risks assumed by the Bank, in accordance with the directions of the Board, and with the aim of creating “Economic Value Added” to the shareholders.
- Promote a strong risk management culture in the entire spectrum of activities and in all hierarchical levels of the Bank. Risk management culture is defined as the sum of all models, rules, and practices regarding the behavior of individuals or groups that define the way they recognize, understand, communicate, and act in dealing with risk.

D. Holistic Approach

Bank’s Risk Management goals include ensuring that ABK’s credit and operational activities, asset and liability profile, its trading positions, do not expose it to undue loss. Risk management assists in ensuring that risk exposures do not become excessive, relative to ABK’s capital and financial positions. ABK maintains a limit monitoring system to mitigate all over-the-counter transactions. It also hedges its foreign exchange risk using forward contracts and spot transactions and its interest rate risk using interest rate swaps and cross currency swaps for balance sheet management.

E. Risk Culture, Values and Behaviors

Risk culture refers to ABK’s norms, attitudes and behaviors related to risk awareness, risk-taking and risk management, and controls that shape decisions relating to risk. ABK’s risk culture influences the decisions of senior management and staff during their day-to-day activities and has an impact the level of risk assumed by the Bank.

F. Risk Appetite

A clearly articulated Risk Appetite Statement is integral to the Bank’s strategic objectives. ABK has evaluated key risks through setting materiality thresholds (in context of earnings, funding, capital or other relevant factors).

ABK has an established risk appetite framework and risk culture designed to ensure that risks are taken and managed within the risk appetite through capital budgeting, established risk limits and other measures. The risk appetite framework sets out qualitative and quantitative thresholds for risk levels and tolerance and provides the basis for:

- setting the risk-taking capacity;
- maintaining an appropriate risk buffer;
- setting risk limits within ABK’s business strategy;
- defining risk parameters aligned with overall business objectives; and
- establishing key risk indicators for monitoring and reporting.

G. Key Risk Policies

Al Ahli Bank of Kuwait (ABK) Group’s Risk framework includes its risk management policies, governance standards through committee charters, risk appetite framework, risk measurement and reporting processes, stress testing models and methodology, and capital adequacy assessment methodologies, all of which are approved by the ABK Board.

Risk is embedded in the decision making through appropriate segregation of functions and operational controls across all risk types to ensure that the risks assumed remain within acceptable levels.

Risk Oversight and control function:

A. Risk Management Mandate and Organization:

Risk Oversight and Control function is independent, objective and adequately resourced to oversee the Risk Management Framework; and possesses sufficient authority to offer robust challenge to the business.

B. Framework & Policy Oversight and maintenance

The GCRO, along with the respective Branches' Risk Officers and risk management team, is responsible for implementing the approved Risk Management Framework that enables the Head Offices and overseas locations to (a) identify, assess, mitigate, control and monitor all relevant risks faced by the branches; (b) ensure that the key risks are understood by all relevant employees; (c) systematically track and report on any risk events that occur along with their financial impact, and (d) monitor capital levels to ensure that sufficient capital is maintained to withstand such events.

To the extent relevant, such risks include but are not necessarily limited to credit risk, market risk, liquidity risk, interest rate risk in the non-trading book, operational risk, reputational risk, business continuity and group risk, and any material risks arising from non-regulated activities.

In relation to operational risk, the GCRO and Branches' Risk Officers ensure that the Risk Management Policy & Framework specifically addresses the risks associated with IT systems, information security, outsourcing and business continuity and disaster recovery.

Respective models used in risk management such as ICAAP, ECL etc. undergo model validation approvals from the Board. The results of the model must be stress tested under various.

C. Enterprise wide view and aggregation:

The Group Risk Management Framework integrates the risk management policies, procedures and guidelines followed by the Group. The Bank adopts an Enterprise wide view and aggregation risk management approach that includes:-

- Managing key risks identified such as credit risk, market risk including liquidity risk, operational risk, internal controls risk;
- Inculcating a Risk culture by identifying risks involved in various activities/products and implementing measures for controlling and monitoring the risks;
- Maintaining a Risk Register to assess the areas of weakness and initiate remedial action;
- Overseeing the implementation of the integrated risk management framework;
- Reporting on Risks to respective relevant units in Head Office (HO) / Executive Committees.

D. Key Risks for the Group

i. Credit Risk

Credit risk arises from the potential financial loss resulting from customers failing to honour the terms of their contracts. It also includes the risk of loss in portfolio value as a result of credit quality migration from lower risk to higher risk categories.

The Bank has appropriate policies, guidelines, processes and procedures covering all business areas where credit risk arises. It also ensures the consistent application of the Bank's credit extending standards and the periodic review and updating of credit policies, guidelines and procedures. Policies and procedures related to credit risk are approved by Board of Directors.

Credit Risk Governance Framework

The Risk management function of the Head office and overseas locations is overseen by the Head Office and respective Country Risk Officers who will report to the GCRO. The Country Risk Officers shall cover the following:

1. Ensure all relevant information is available for risk assessment;
2. Ensure Risk assessments are carried out in consultation with relevant Risk units and Teams at ABK HO;
3. Ensure the business proposals are discussed at credit committees for decision based on authority matrix;
4. Ensure that decisions at relevant management and board committees are communicated to business and other relevant units

Credit Policies and Procedures at Group / Branches' level

ABK has clearly defined and documented policies and procedures that enable firm-wide risks to be managed in a proactive manner with emphasis on achieving:

- Objective and consistent risk identification and measurement approaches;
- Comprehensive and rigorous risk assessment and reporting systems;
- Sound valuation and stress-testing practices; and
- Effective risk monitoring measures and controls.

ABK overseas locations and Head Office operate in accordance with the relevant Credit Policies and authority matrix applicable to their respective jurisdictions. Specific procedures are defined for the operations of the overseas locations.

ii. Market Risk

Market risk is defined as the risk of losses in on and off balance sheet positions arising from adverse movement in market prices of assets or currencies or interest rate movements

Sources of Market Risk

The sources of market risk shall be limited in the branches to the open position in FX book exposing the branches to FX risk. The UAE treasury shall ensure that the branches' currency open position is minimized at all times. Since the branches will not be booking any investments it will not be exposed to any investment risk.

Market risk shall also arise from Interest rate risk in banking book.

Governance of Market Risk

The Bank will be guided by Market Risk Management framework at ABK Group. The framework lays down the market risk management policies, standards, processes and procedures. These will be suitably extended to the Branches for effective management. All exposures will be independently monitored by the Risk Management Division at Head office and appropriate limits as approved by the Asset Liability Committee of the Bank shall be adhered to.

The exposures of the Branches will be consolidated with Group exposures for management of market risk especially currency risk and interest rate risk.

iii. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Managing this risk relies on identifying risks that exist within the organization; educating the employees on the operational risks they encounter in the course of their duties; and ensuring that the control framework works effectively.

ABK identifies and assesses the operational risk in products, activities, processes and systems. It also ensures that the associated operational risks are properly assessed and mitigated, before any new products or services, activities, processes or systems are introduced.

Risk identification is vital to the development of viable operational risk monitoring and control systems. Risk identification considers internal factors such as ABK's structure, the nature of its activities, the quality of its human resources, organizational changes and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

Governance of Operational Risk

For effective management of Operational Risk, the Bank has developed a comprehensive framework, which details the governance structure and the process of identifying, measuring and monitoring of Operational risk. The framework is supported by policies and processes that help manage operational risk within approved tolerances, on behalf of its stakeholders. The Operational Risk Management function reports directly to the GCRO, lays down the operational risk management policies, standards, processes, procedures; and operational risk management framework for the Bank. These will be suitably extended to the Branches for effective management of Operational risk.

Key Elements of Group Operational Risk Management Policy

Control and mitigation of operational risk

ABK has established policies, processes and procedures to control and mitigate material operational risks. It periodically reviews risk exposures and control strategies and adjusts the operational risk profile accordingly, using appropriate strategies in light of its overall risk appetite and profile. These include:

- Ensuring that there is appropriate segregation of duties, and that personnel are not assigned responsibilities that may create a conflict of interest, or enable them to conceal losses, errors or inappropriate actions;
- Implementing policies and procedures for managing risks associated with outsourcing activities. Outsourcing arrangements are based on robust contracts and service level agreements that ensure a clear allocation of responsibilities between external service providers and the Bank;
- Ensuring independent compliance risk unit to monitor compliance with various regulatory and internal guidelines;
- Ensuring IT risk and IT security controls provide adequate IT processes for mitigating risks in IT systems and information security;
- Reviewing insurance cover to mitigate operational risk; and
- Ensure implementation of disaster recovery plan and a business continuity plan. The disaster recovery plans are regularly tested for processing transactions from the disaster recovery site.
- Ensure all operational risk incidents are logged and reported via operational risk incident report reporting losses (if any) and resolution of the incident to ensure losses will not occur again of the same nature.
- Ensure a self-risk assessment report method is formally established

Policies and Procedures

As stated above, the Branch has developed a standalone Operational Risk Policy in line with the regulatory expectations

iv. Liquidity Risk

Liquidity Risk is defined as the inability of the Bank to fund its assets and meet obligations as they come due, without incurring unacceptable losses. The types of Liquidity Risks the bank is exposed to are:

- Mismatch or structural Liquidity Risk
- Contingent Liquidity Risk
- Market Liquidity Risk

Governance of Liquidity Risk

ABK has established a framework of policies and guidelines to ensure sound and prudent management of liquidity risk.

The Bank has an effective system in place to maintain an appropriate balance between spreads, profitability and long-term viability. Some of the key elements of this framework include:

1. Liquidity Risk Measurement and monitoring through Liquidity Gap analysis, Liquidity Ratios, measuring Liquidity at Risk.
2. Placing appropriate internal risk appetite limits on maturity mismatch gaps and prudential ratios such as Liquidity coverage ratio, Net Stable Funding Ratio and Loan to Deposits Ratio
3. Measurement and monitoring of funding concentrations
4. Capital assessment and stress testing for Liquidity risk.

v. Strategic Risk

Strategic Risk is the risk associated with the future business plans and strategies of the entire Bank. This risk category includes plans for entering new business lines, expanding existing services through mergers and acquisitions, and enhancing infrastructure (e.g., information technology and networking). Strategic plans that include significant market expansion or the addition of new products may expose the Branches to increased risk.

It can be defined as “the current or prospective risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment”.

Overseas locations of ABK will be guided by the Head Office/ Group strategic risk framework for managing strategic risk.

Strategic Risk Management shall involve three components:

- Formulation of Strategy for determining the future direction of the Bank.
- Implementation of Strategy formulated.
- Strategy Control or Evaluation i.e. Success achieved with a strategy must be evaluated

The Bank shall strive to mitigate Strategic Risk by proper assessment and review of its business strategy and by effective control and evaluation.

vi. Reputational Risk

The Bank defines reputation risk as the “gap” between stakeholder’s expectation and perception on key reputational parameters and current performance/ status of those reputational risk events / issues. Major stakeholders are identified as:

- **Shareholders**
- **Customers**
- **Regulators**

- **Financial industry**
- **Community**
- **Employees**

ABK's reputation risk management framework and focuses on:

- Identifying the various types of reputation risks;
- Establishing the roles and responsibilities of different entities in the reputation risk assessment and management process; and
- Developing a formal and structured approach through implementation of Early Warning Signals / for monitoring and managing reputation risk of the Bank.

vii. Anti Money Laundering Risk

To enable ABK Group to protect its services, monitor and detect suspicious activities, disrupt the support to criminals and deny them from access to use the financial system and to ensure compliance with regulatory requirements on Combating Money Laundering and Terrorism Financing, The Group's AML & CFT & Sanctions Policy is implemented across the organization, with the division serving as a dedicated and independent entity reporting to the Board Risk and AML & CFT Committee.

ABK Group is committed to Combat Money Laundering and Terrorism Financing and asserts the implementation and communicating effective measures Bank wide aiming at preventing Money Laundering and Terrorism Financing. The Group is dedicated to comply with the local and international laws and regulations, ministerial resolutions and Central Bank of Kuwait, Central Bank of the UAE, Dubai Financial Service Authority (DFSA), Central Bank of Egypt, and FATF and CMA instructions in this respect (each according to applicable regulators). The provisions and stipulations of these instructions apply to the Chairman, board members and staff at the Bank at all levels.

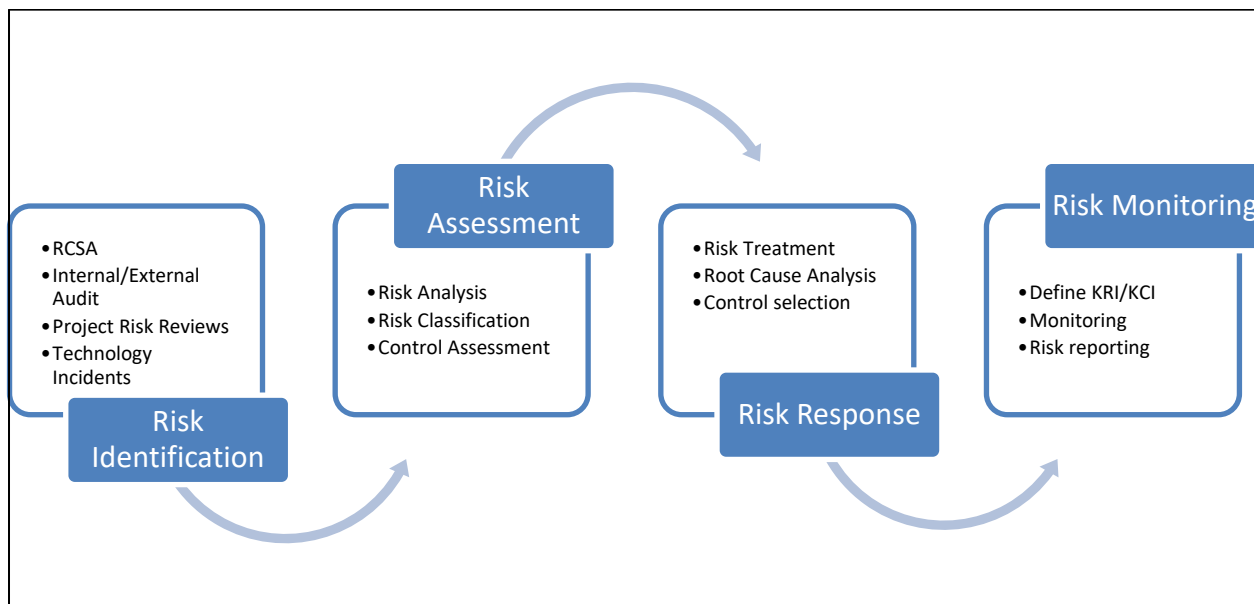
viii. Information and Technology Risk

ABK Group has an IT Risk Management Framework established which provides a structured and disciplined approach to control and governs risk exposures due to implementation and operations of information technology solutions and services. The Framework lays down the IT Risk and Information Security policies, process for Risk Identification, Risk Assessment, Risk Response and Risk Monitoring at Al Ahli Bank of Kuwait (ABK or the Bank along with its subsidiaries and overseas locations).

The bank has establish an integrated approach to identifying, measuring, monitoring and managing technology risk. Technology risk management includes but is not limited to:

- Governance and oversight controls that ensure technology, including outsourcing arrangements, are aligned with and supportive of the Bank's business objectives;
- Establishment and maintenance of appropriate information technology policies, procedures and processes to identify, assess, monitor and manage technology risks;
- Establishment of a risk appetite statement and limits as well as performance expectations to assist in controlling and managing risk;
- Implementation of an effective control environment;
- Monitoring processes that test for compliance with policy thresholds or limits; and
- Establishment and maintenance of appropriate and sound information technology infrastructure to meet the current and projected business requirements of the Bank under normal circumstances and in periods of stress and which ensures data and system integrity, security and availability.

IT Risk Management is a continuous process that involves the following key steps:



ix. Information Security Risk

ABK Group considers its information and systems as critical assets. Loss, theft, or service interruption of these assets can have a detrimental effect on ABK operations, reputation, and market edge. ITD and Information Security functions are responsible for the protection of ABK Information Technology assets including both information and property.

ABK management recognizes the importance of an information security program and is committed to support it. Therefore, Information protection is every employee’s responsibility. The Group has a robust Information Security program that focuses its efforts on ensuring the confidentiality, integrity, and availability of all ABK information resources, whether processed and stored on computer systems, transmitted over networks, or maintained in any form. The Information Security program defines specific accountability for information and emphasizes each employee’s responsibility for its protection.

All ABK employees, contractors, suppliers, joint venture partners, service providers, or affiliates who have access to and use ABK computing systems and/or other resources are expected to protect ABK, vendor, customer, and other included entities’ assets. Access to these assets must take place on a least privilege basis (strict need to know, need to have basis). Further, the Information Security Policy statements are applicable to all ABK resources at all levels of sensitivity; including temporary or permanent ABK employees, vendors, business partners, contractor personnel, and organizational units regardless of geographic location.

x. Business Continuity Risk

Business Continuity is an integral part of ABK’s current and future Operations. Due to the Scope of activities, a Crisis originating in Kuwait or any of the overseas entities may have an impact on other ABK Business Units if not appropriately handled. In this regard, the Management of the Bank has formulated the Business Continuity Policy which applies to the Group. The policy establishes the basic principles and requirements necessary to ensure response, resumption, restoration and the recovery of the Bank’s operations and Business Activities during a Business disruption.

Key Objectives of the (BCM) program at the Group are:

- To establish a framework for identifying, assessing and treating the business continuity risks to which the Bank's business processes or functions may be exposed.
- To promote awareness and preparedness level for the safety of the staff recognizing that people are the most important assets of the Bank.
- To establish clarity of roles, responsibilities and accountability for the business continuity program in the Bank.
- To minimize the impact of business disruption and maintain the Bank's services at an acceptable level to the management.
- To align with the regulatory and compliance requirements.

xi. Fraud Risk

The Bank is committed to conducting its business according to the highest standard of ethics and integrity. To foster a culture of fraud prevention, the Bank has established a Fraud Risk Management Unit as an integral part of the Risk Management Division. The primary goal of this unit is to implement a robust fraud risk management framework that enables assessment, prevention, detection and response to internal and external fraud risks. The key objectives of the Fraud Risk Management Unit include:

- Raising fraud risk awareness among employees, customers, counterparties and other relevant stakeholders.
- Conducting effective Fraud Risk Assessment and recommending mitigating strategies to reduce the likelihood and impact of identified fraud risk.
- Upholding a zero-tolerance approach to bribery and corruption.
- Reporting incidents of fraud to relevant stakeholders

RISK OPERATING MODEL

The risk operating model including the 3 Lines of Defense is well defined and explicit in terms of both functional and individual roles, responsibilities and accountabilities that should be observed for effective Risk Management.

Independent Evaluation of Risk Management Function by Audit

The Bank's Board of Directors has the ultimate responsibility for ensuring that senior management establishes and maintains an adequate and effective system of internal controls, including system for indentifying, measuring and monitoring risks and ensuring compliance with applicable laws, regulations, and supervisory and internal policies.

The Board through its Audit Committee shall ensure that the scope and frequency of the audit programme is appropriate to the risk exposures. The frequency of internal audit shall be as per the annual audit plan for the Bank approved by the Board Audit Committee.

RISK MANAGEMENT PROCESS

(IDENTIFICATION, ASSESSMENT, REPORT & MONITOR)

Business Divisions and Support maintain a Risk Registers identifying key risks for each business line to which the Branches are exposed, the controls in place to mitigate or reduce such risk, and an estimation of the residual risk to which the Branches are exposed assuming effective operation of controls.

As mentioned the above, Control and mitigation of operational risk, the branches maintain operational risk reports for management. A loss management database should also be maintained for reconciliation and reporting.

The Branches' Risk Register shall be reviewed at least annually, or earlier if there is any change in the business model of the Branches.

The key controls shall be subject to testing to ensure effectiveness.

The Branches' Risk Register shall assess Strategy risk holistically for the entire branches, and also assess each business line against the following risk categories.

Type of Risk	Description
Credit risk	A credit risk is the risk of default on a debt that may arise from a borrower failing to make required payments.
Foreign Exchange Risk,	Foreign exchange risk (also known as FX risk , exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the bank .
Liquidity risk	Liquidity risk is the risk that a given security or asset cannot be traded or liquidated
Interest Rate Risk	Interest rate risk is the risk that arises from fluctuating interest rates . How much interest rate risk asset and liability has depends on how sensitive its price is to interest rate changes in the market.
Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed processes, people and systems or from external events
Regulatory and non-compliance risk	Regulatory risk is the risk of a change in regulations and law that might affect the bank and also risk arising out of noncompliance of rules and regulations.
Legal risk	Legal risk is the risk of loss to an institution which is primarily caused by: (a) a defective transaction; or (b) a claim (including a defense to a claim or a counterclaim) being made or some other event occurring which results in a liability for the institution or other loss (for example, as a result of the termination of a contract), or; (c) failing to take appropriate measures to protect assets (for example, intellectual property) owned by the institution; or (d) change in law
Reputational Risk	The Bank defines reputation risk as the “gap” between stakeholder’s expectation and perception on key reputational parameters and current performance/ status of those reputational risk events / issues. Major stakeholders whose expectation / perception matters: shareholders, customers, employees, regulator, financial industry and community. All reputational risk issues to be addressed by the Primary Risk Owner(s)
AML Risk	The Bank defines AML Risk as the risk of direct or indirect loss resulting from engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have been derived from legitimate origins or constitute legitimate assets;
Cyber Security Risk	Cyber Risk is a failure of systems, processes and people and the Bank includes Cyber Risk as an explicit sub-component of Operational Risk. The cause of Cyber risk can be by insiders as well as outsiders.
Climate Risk	Climate change and environmental degradation are sources of structural change that affect economic activity and, in turn, the financial system. Climate-related and environmental risks are commonly understood to comprise two main risk drivers - Physical Risk and Transitional Risk. The Bank has adopted internal PD /LGD based approach to quantify Climate Risk.
Model Risk	Models have become an integral part of decision-making in the banking sector for risk management, business decisions, and accounting.

RISK ASSESSMENT

Level of Risk

The Bank will follow guidelines issued from time to time regarding classification and assessment of levels of risk.

There are three levels of risk which are defined as below:-

High (H)

Excessive potential for damage to the financial standing or reputation of the branches. Exposure to regulatory consequences.

Medium (M)

Possible risk for damage to the financial standing or reputation of the branches, or exposure to regulatory consequences.

Low (L)

The Risk of damage to the financial standing, reputation, and exposure to regulatory consequences considered to be unlikely.

Three levels of controls are also defined which are Strong, Adequate and Weak.

The Board or its designated committee(s) and senior management will recognize the biases and assumptions embedded in, and the constraints of, the methods or models chosen (including associated valuation and pricing methodologies) in order to better assess the results generated from risk assessment methods or models. The committee(s) will also satisfy themselves as to the adequacy and appropriateness of the key assumptions, data sources and procedures used to measure or assess the risks.

Product and services:

Bank will perform a comprehensive post implementation evaluation of new products or services (as well as existing products or services following any significant changes to their features or risk profile) to ensure no risk remains unidentified or unaddressed. The evaluation results will be taken into account for the development of any similar products or services in the future. In addition, ABK will perform regular reviews of products and services (adopting a risk-based approach as appropriate).

The GCRO will have a holistic oversight of the risks associated with new products and services and the related risk management processes. To achieve this, the risk management function will monitor and participate in the process of approving new products or services and maintain a centralized list of approved products and services. Bank must have a clear overview of the roll-out of new products or services (or significant changes to existing products or services) across different business units. Risk management function will be responsible for determining whether a new initiative should be classified or categorized as a new product/service, and have the authority to make significant changes to existing products or services. Internal audit will undertake regular reviews of the new product approval process encompassing the business units.

RISK REPORTING AND SYSTEM

The Risk Reporting structure is designed to ensure that the GCRO has oversight of the management of all material risks; The same is reviewed at quarterly intervals by Board Risk Management, AML & CFT Committee. Divisions & Functions establish and maintain a management information system with adequate technological support and processing capacity (even in times of stress) to effectively capture, aggregate and report on the risks of major business activities within the organization. The risk data aggregation and risk reporting framework and any

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substantial change to them will be reviewed and approved by the Board (or its Risk Committee) and senior management.

8.1 Table OV1: Overview of RWA

		a	b	c
		RWA		Minimum capital requirements
		Dec-25	Sep-25	Dec-25
1	Credit risk (excluding counterparty credit risk)	3,245,447	3,017,609	340,772
2	Of which: standardised approach (SA)	3,245,447	3,017,609	340,772
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	45,567	90,795	4,785
7	Of which: standardised approach for counterparty credit risk	45,567	90,795	4,785
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	563	663	59
11	Equity positions under the simple risk weight approach			
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	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	6,324	2,020	664
21	Of which: standardised approach (SA)	6,324	2,020	664
22	Of which: internal models approach (IMA)			
23	Operational risk	283,874	232,155	29,807
24	Amounts below thresholds for deduction (subject to 250% risk weight)			
25	Floor adjustment			
26	Total (1+6+10+11+12+13+14+15+16+20+23)	3,581,774	3,343,241	376,086

8.2 Table LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	7,465,200	7,614,840			658
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation	7,465,200	7,614,840	-	-	658
4	Off-balance sheet amounts	1,491,689	3,529,501			
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 and interest in suspense</i>	149,640	-			
8	<i>Differences due to prudential filters</i>					
9	<i>Others (Commitments)</i>	2,037,812				
10	Exposure amounts considered for regulatory purposes	11,144,341	11,144,341	-	-	658

Main sources of differences between regulatory exposure amounts and carrying values in financial statements

IFRS Stage 1 and Stage 2 expected credit loss provision are netted against Loans and advances and Due from banks/Other Assets in the Financial Statements. However, the General provision as per CBUAE 28/2010 are not deducted for the purposes of Basel reporting and these amounts are reported under Other Liabilities. There are no material differences between carrying values and amounts considered for regulatory purposes shown in LI2.

8.3 Table CC1: Composition of regulatory capital

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
Common Equity Tier 1 capital: instruments and reserves			
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	690,000	Same as from CC2 template
2	Retained earnings	92,662	
3	Accumulated other comprehensive income (and other reserves)	44,660	
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)		
6	Common Equity Tier 1 capital before regulatory deductions	827,322	
Common Equity Tier 1 capital regulatory adjustments			
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)	(3,008)	CC2 (a) minus (d)
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		
24	Total regulatory adjustments to Common Equity Tier 1	(3,008)	
25	Common Equity Tier 1 capital (CET1)	824,314	

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Additional Tier 1 capital: instruments			
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
27	OF which: classified as equity under applicable accounting standards		
28	Of which: classified as liabilities under applicable accounting standards		
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>		
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	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
32	Additional Tier 1 capital before regulatory adjustments		
Additional Tier 1 capital: regulatory adjustments			
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)	0	
39	Tier 1 capital (T1= CET1 + AT1)	824,314	
Tier 2 capital: instruments and provisions			
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	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)		
43	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>		
44	Provisions	41,145	1.25% of CRWA
45	Tier 2 capital before regulatory adjustments	41,145	
Tier 2 capital: regulatory adjustments			
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)		
49	CBUAE specific regulatory adjustments		
50	Total regulatory adjustments to Tier 2 capital	0	
51	Tier 2 capital (T2)	41,145	
52	Total regulatory capital (TC = T1 + T2)	865,459	
53	Total risk-weighted assets	3,581,774	
Capital ratios and buffers			

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54	Common Equity Tier 1 (as a percentage of risk-weighted assets)	23.01%	
55	Tier 1 (as a percentage of risk-weighted assets)	23.01%	
56	Total capital (as a percentage of risk-weighted assets)	24.16%	
57	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	0	
58	Of which: capital conservation buffer requirement	2.50%	
59	Of which: bank-specific countercyclical buffer requirement		
60	Of which: higher loss absorbency requirement (e.g. DSIB)		
61	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	13.66%	
The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
Amounts below the thresholds for deduction (before risk weighting)			
66	Significant investments in common stock of financial entities	0	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0	
Applicable caps on the inclusion of provisions in Tier 2			
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	48,682	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	41,145	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
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>		

8.4 Table CC2: Reconciliation of regulatory capital to balance sheet

31-Dec-2025	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks	82,850	1,529,507	(a)
Items in the course of collection from other banks			
Trading portfolio assets			
Financial assets designated at fair value	1,630,175	183,518	(a)
Derivative financial instruments			
Due from banks	209,955	579,136	(b)
Loans and advances to customers	5,457,487	5,237,892	(b)
Reverse repurchase agreements and other similar secured lending			
Available for sale financial investments (Includes FVOCI)			
Current and deferred tax assets	17,954		(c)
Property, plant and equipment	24,973	24,973	
Other assets	38,798	1,354,991	(d)
Investments in associates and joint ventures			
Goodwill and other intangible assets	3,008	3,008	
Of which: goodwill			
Of which: intangibles (excluding MSRs)	3,008	3,008	
Of which: MSRs			
Total assets	7,465,200	8,913,025	
Liabilities			
Due to banks	419,810	420,766	(e)
Items in the course of collection due to other banks			
Customer accounts	6,042,980	6,042,980	
Repurchase agreements and other similar secured borrowing			
Trading portfolio liabilities			
Financial liabilities designated at fair value			
Derivative financial instruments			
Debt securities in issue			
Current and deferred tax liabilities	2,487		(f)
Of which: DTLs related to goodwill			
Of which: DTLs related to intangible assets (excluding MSRs)			
Of which: DTLs related to MSRs			

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Of which: DTLs related to others	2,487		(f)
Subordinated liabilities			
Provisions and Interest in Suspense		152,358	(g)
Retirement benefit liabilities Staff benefits		24,134	(g)
Other liabilities	129,153	1,402,017	(d), (f) & (g)
Total liabilities	6,594,430	8,042,255	
Shareholders' equity			
Paid-in share capital	690,000	690,000	
Of which: amount eligible for CET1	690,000	690,000	
Of which: amount eligible for AT1			
Retained earnings	123,037	92,662	(h)
Accumulated other comprehensive income (and other reserves)	57,733	88,108	(h)
Total shareholders' equity	870,770	870,770	

Difference between carrying value reported in Financial statements and regulatory consolidation

- Under balance sheet as in published financial statements, M bills are disclosed under Financial assets designated at fair value whereas under regulatory scope of consolidation its grouped with cash and bank balances at central banks.
- Bills discounted are presented under Loans and advances in the published financial statements whereas its included under due from banks under regulatory scope of consolidation. Further, the IFRS-9 general provision is netted off from the due from banks and loans and advances whereas the general provision as per CBUAE 28/2010 are reported under other liabilities.
- Current and deferred tax is disclosed separately in published financial statements whereas under regulatory scope of consolidation it is part of other assets.
- Acceptances are reported under other assets and other liabilities in regulatory scope of consolidation whereas they are not reported in the balance sheet as in published financial statements. These are reported separately under contingent liabilities in the notes to the financial statements.
- Cashier order and CBUAE statutory reserve adjustment amounts are reported under Due to banks in regulatory consolidation whereas these amounts are reported under other liabilities in the financial statements.
- Deferred tax liability is disclosed separately in published financial statements whereas under regulatory scope of consolidation it is part of other liabilities.
- Other liabilities as reported in the financial statements include non cash provisions, retirement benefits and other liabilities whereas these are separately disclosed in the regulatory reporting. Further the provisions and interest in suspense include provisions on due from banks, Loans and advances and Interest in suspense and excess provision over and above IFRS-9 provision in line with CBUAE general provision as per 28/2010.
- 10% of the net profit for the year is transferred from retained earnings to a statutory reserve in the financial statements whereas in regulatory scope of consolidation it is part of retained earnings. Further, Current year profit is reported under retained earnings in the published financial statements whereas in regulatory scope of consolidation it is part of accumulated other comprehensive income (and other reserves).

8.5 Table CCA: Main features of regulatory capital instruments

		Quantitative / qualitative information
1	Issuer	Designated capital from Head Office
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	
3	Governing law(s) of the instrument	
	Regulatory treatment	
4	Transitional arrangement rules (i.e. grandfathering)	
5	Post-transitional arrangement rules (i.e. grandfathering)	
6	Eligible at solo/group/group and solo	
7	Instrument type (types to be specified by each jurisdiction)	
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	
9	Nominal amount of instrument	
9a	Issue price	
9b	Redemption price	
10	Accounting classification	
11	Original date of issuance	
12	Perpetual or dated	
13	Original maturity date	
14	Issuer call subject to prior supervisory approval	
15	Optional call date, contingent call dates and redemption amount	
16	Subsequent call dates, if applicable	
	Coupons / dividends	
17	Fixed or floating dividend/coupon	
18	Coupon rate and any related index	
19	Existence of a dividend stopper	
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	
21	Existence of step-up or other incentive to redeem	
22	Non-cumulative or cumulative	
23	Convertible or non-convertible	
24	Writedown feature	
25	If writedown, writedown trigger(s)	
26	If writedown, full or partial	
27	If writedown, permanent or temporary	
28	If temporary write-own, description of writeup mechanism	
28a	Type of subordination	

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29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	
30	Non-compliant transitioned features	
31	If yes, specify non-compliant features	

9 Liquidity Risk

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations and meet contractual obligations through unconstrained access to funding at reasonable market rates.

Liquidity needs are monitored on a forward looking basis, and strategies are implemented according to approved liquidity policies and a contingency funding plan. A liquidity stress test is conducted to assess the impact of deposit withdrawals, crystallisation of contingent liabilities etc. in the mild, medium and severe scenario, both under Bankspecific, and general market crisis scenarios. The funding concentration in deposits is monitored on a regular basis and reviewed by ALCO.

Branches also monitors Liquidity risk through risk appetite parameters that include –, loans to deposits; cumulative negative maturity mismatch; concentration of deposits; stress testing under severe scenario and capital consumption, etc. These appetite parameters are used for driving liquidity risk and the exposure the Bank would be willing to take and manage risk levels within the appetite levels.

Under Pillar II, the liquidity risk is assessed for bank specific and general market scenario and capital provided to manage the risk.

9.1 Table LR2: Leverage ratio common disclosure

		a	b	b
		Dec-25	Sep-25	Jun-25
On-balance sheet exposures				
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	7,614,839	7,759,963	8,609,835
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 recognised 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)	(3,008)	(3,190)	(3,800)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	7,611,831	7,756,773	8,606,035
Derivative exposures				

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8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	921	2,582	11,581
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	136,998	241,031	265,049
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	Total derivative exposures (sum of rows 8 to 12)	137,920	243,613	276,630
Securities financing transactions				
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	Total securities financing transaction exposures (sum of rows 14 to 17)	-	-	-
Other off-balance sheet exposures				
19	Off-balance sheet exposure at gross notional amount	3,529,501	4,034,046	4,344,239
20	(Adjustments for conversion to credit equivalent amounts)	(1,596,759)	(1,274,987)	(1,152,801)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)			
22	Off-balance sheet items (sum of rows 19 to 21)	1,932,742	2,759,059	3,191,438
Capital and total exposures				
23	Tier 1 capital	824,314	810,619	809,354
24	Total exposures (sum of rows 7, 13, 18 and 22)	9,682,493	10,759,444	12,074,103
Leverage ratio				
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	8.51%	7.53%	6.70%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)			
26	CBUAE minimum leverage ratio requirement	3%	3%	3%
27	Applicable leverage buffers	5.51%	4.53%	3.70%

9.2 Table ELAR: Eligible Liquid Assets Ratio

		Dec-25	
1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,529,507	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	1,529,507	1,529,507
1.3	UAE local governments publicly traded debt securities	0	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	183,518	183,518
1.6	Total	1,713,025	1,713,025
2	Total liabilities		7,889,899
3	Eligible Liquid Assets Ratio (ELAR)		21.71%

9.3 Table ASRR: Advances to Stables Resource Ratio

Items			Dec-25
1	Computation of Advances		Amount
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)		5,162,892
1.2	Lending to non-banking financial institutions		75,000
1.3	Net Financial Guarantees & Stand-by LC (issued - received)		48,700
1.4	Interbank Placements		360,879
1.5	Total Advances		5,647,471
2	Calculation of Net Stable Ressources		
2.1	Total capital + general provisions		1,021,874
	Deduct:		
2.1.1	Goodwill and other intangible assets		3,008
2.1.2	Fixed Assets		24,973
2.1.3	Funds allocated to branches abroad		0
2.1.5	Unquoted Investments		0
2.1.6	Investment in subsidiaries, associates and affiliates		0
2.1.7	Total deduction		27,981
2.2	Net Free Capital Funds		993,893
2.3	Other stable resources:		
2.3.1	Funds from the head office		0

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	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	56,492
	2.3.5	Customer Deposits	5,293,582
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Total other stable resources	5,350,074
	2.4	Total Stable Resources (2.2+2.3.7)	6,343,967
3		Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)	89.02%

10 Credit Risk Management

Bank's Credit Risk Management Policy Framework:

Risk Management ensures that credits are granted according to the approved standards and that all risks are highlighted in the credit risk review, including policy exceptions.

With international borrowers and foreign financial institutions, the Bank relies on credit rating agencies for credit grading assessments, including political risk assessment, and deals mainly with investment grade borrowers and countries. The Bank uses Standard & Poor's, Moody's and Fitch Ratings for claims on sovereign and bank exposures. The Bank chooses the higher of the lowest two ratings for assigning risk weight to an exposure.

The Bank follows mapping notation of Standard & Poor's public issue ratings to assets in the Bank's books.

S&P Rating	ABK Revised Risk Grade
AAA	1
AA+, AA, AA-	2
A+, A, A-	3
BBB+, BBB, BBB-	4+, 4, 4-
BB+, BB, BB-	5+, 5, 5-
B+, B, B-	6+, 6, 6-
CCC/CC/C	7,8,9
D	10

Credit risk is the most significant risk to which the Bank is exposed to, and its proactive management is key to ensuring the Bank's long-term sustainability.

The Bank maintains a comprehensive due diligence framework to assess and approve credit facilities. It also maintains well-defined policies for controlling and managing credit risk at the counter-party, group, economic sector and country levels. Credit risk soundness is further enhanced through a robust obligor risk rating system to assess the default risk of corporate borrowers incorporating international best practices. Wholesale credit borrowers are graded

on a scale of 1 to 10, where “1” denotes excellent credit quality and “10” reflects the weakest rating. The obligor risk rating model considers key risk factors, such as business and financial risk performance including country, industry, competitive position, cash-flow & leverage parameters, and other factors such as management and governance, financial policy, capital structure and business diversification which are duly weighted to arrive at the rating. Borrowers’ risk rating changes/migration are monitored annually

Branches at UAE at present do not undertake retail lending or credit cards issuance except a few on exceptional basis.

All corporate, international and sovereign credit requires an independent credit risk review as per risk management practice. Borrower exposures are managed through exposure limits to them, and wherever group exposure exceeds a stipulated limit, the Board Credit & Investment Committee’s approval is sought. Credits extended to the Board of Directors are approved strictly in accordance with Central Bank of Kuwait requirements and executed on an armslength basis, which are governed through the Bank’s corporate governance process

The policy sets limit criteria for individual exposures, group exposures, economic sector and countries. Business with any counterparty does not commence until a credit line has been approved. A strict credit approval process exists with authority levels delegated to ensure the efficient conduct of business considering relevant risk elements.

Risk Management ensures that credits are granted according to the approved standards and that all risks are comprehensively highlighted in the credit risk review, including policy exceptions. Credit facility risk covers the analysis of the nature of on and off-balance sheet counter-party exposure (size, tenor, complexity and liquidity), including secured and unsecured credit facilities, and reporting thereof.

Portfolio risk arises because of high positive correlation between individual credit facilities and default of one borrower can lead to several related borrowers who bear that correlation. This would include:

- Concentration of exposure in geographical areas, sectors, groups, counterparties or rating categories
- Trend analysis in volume, sectors and concentration
- Trends in portfolio quality (borrowers’ risk migration, non-performing loan)

ABK UAE reports to CBUAE, on a quarterly basis, on large exposures as per CBUAE circular. At the consolidated level, the Bank also monitors and reports to Central Bank of Kuwait (CBK) on quarterly basis, statements of all credit concentrations and large exposures as per CBK guidelines.

In addition, the Bank has prudent internal portfolio exposure limits to manage concentration in various sectors. Portfolio exposure analysis is performed at regular intervals to manage the risk in various sectors. Whenever required, the Bank revises and/ or limits its exposures to manage risks.

Past due loans and non-performing loans are monitored and managed for follow up and recovery. The recovery is managed independently through a resource not involved in the origination of the credit or approval of the credit in line with CBUAE Credit Risk Management Standards.

The Bank manages the provisioning process on its past dues and NPLs through appropriate committees (as defined in the risk policy manual) to ensure provision against loan assets are taken appropriately in line with the specifics of the case, IFRS-9 & CBUAE guidelines & accounting practices.

Under Pillar II risk concentration risk is also assessed to provide capital and manage the concentration risk prudently. CRM risk is also assessed based on the quality of collateral, the liquidity, the volatility and the effectiveness of documentation etc.

10.1 Table CR1: Credit quality of assets

		a	b	c	d	e	f
		Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non- defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	-	5,607,064	149,577	-	149,577	5,457,487
2	Debt securities	-	183,518	-			183,518
3	Off-balance sheet exposures	3,126	1,488,563	2,719	1,252	1,467	1,488,970
4	Total	3,126	7,279,145	152,296	1,252	151,044	7,129,975

10.2 Table CR2: Changes in stock of defaulted loans and debt securities

		a
1	Defaulted loans and debt securities at the end of the previous reporting period	904
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	
4	Amounts written off	-
5	Other changes	(904)
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	-

Additional disclosures related to the credit quality of assets

ABK UAE applies a three-stage approach as per IFRS 9 requirements for determining the credit quality of assets. Under IFRS 9 regime, financial instruments within the scope of impairment model are assigned to one of the three stages that reflect the respective credit risk of the financial instrument since their origination.

- Stage 3: All financial instruments that are credit impaired (for e.g. in default stage) i.e. having objective evidence of default / credit impaired shall be classified under Stage 3.
- Stage 2: Financial instruments having Significant Increase in Credit Risk ("SICR") since initial recognition (origination of facilities) will be classified under (if not impaired) stage 2.
- Stage 1: Remaining financial instruments will be treated as Stage 1 (i.e. financial instruments which are not credit impaired & for which the credit risk has not increased significantly since initial recognition).

The impairment model and approach for ECL calculations are as follows:

Stage Definition	Details	Expected Credit Losses (Provision Calculations)
Stage 1	Low credit risk	12-Month expected credit loss (12 Month

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Stage Definition	Details	Expected Credit Losses (Provision Calculations)
		Probability of Default - PD)
Stage 2	Significant increase in credit risk since initial recognition	Lifetime expected Credit Loss (Lifetime PD till maturity of the facility)
Stage 3	Credit impaired financial asset	Lifetime expected Credit Loss

Minimum Provision Requirements

- Stage 1 and Stage 2:
 - Minimum provision for combined Stage 1 and Stage 2 exposures remain 1.5% of the Credit Risk Weighted Assets (CRWA)
 - Where computed ECL falls below this floor, the shortfall is charged to current income or held in an impairment reserve.
- Stage 3

Classification	Criteria	Provision
Substandard loans	Payment of principal is in arrears beyond 90 days or some loss is possible due to adverse factors.	Specific Provision Minimum 25% of the net exposure amount
Doubtful loans	Full recovery seems doubtful based on the available information, leading to a loss or part of these loans.	Specific Provision Minimum 50% of the net exposure amount
Loss loans	Possibility of no recovery at all after the bank has exhausted all available courses of action	Specific Provision Minimum 100% of the net exposure amount

Significant increase in credit risk

The Branches continuously monitor all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12 months ECL or life time ECL, the Branches assess whether there has been a significant increase in credit risk since initial recognition. The quantitative criteria used to determine a significant increase in credit risk is a series of relative and absolute thresholds. All financial assets that are 30 days past due are deemed to have significant increase in credit risk since initial recognition and migrated to stage 2 even if other criteria do not indicate a significant increase in credit risk.

Credit facilities are classified under Stage 2 when there has been a downgrade in the facility's credit rating in line with the IFRS 9 policy of the Branches.

The Branches also consider qualitative events as mentioned below are indicators of significant increase in credit risk as opposed to a default.

- Deterioration of financial performance, including but not limited to, actual or expected decline in revenues or margins, increase in operating risks, deficiencies in working capital, breaching/deterioration of quantitative Credit Facility covenants and/or rising liquidity risks.

- Deterioration in the value, quality or income-producing ability of the Obligor's assets, increase in balance sheet leverage and/or negative equity. Deterioration in the ability of the Obligor to utilise its assets, for instance caused by the loss or damage of these assets.
- Deterioration in the competitive position of the Obligor. Disruption in the position of the Obligor vis-a-vis its clients and/or suppliers. Disruption in the business and/or economic conditions, in particular, bankruptcy of a counterparty, economic difficulty in the sector in which the Obligor operates, particularly when taking into account the Obligor's position in that sector.
- Ineffective governance, sudden management changes, sudden change in the scope of business or organizational structure (such as the discontinuance of a segment of the business) that can result in a significant change in the Obligor's ability to meet its obligations.
- Downgrade of the Credit Facility in publicly available information from external parties, such as rating agencies and/or a credit bureau.
- Any other contributor to deterioration in credit worthiness, such as the following:
 - Unavailable/inadequate financial information and/or financial statements,
 - Qualified report by external auditors,
 - Significant contingent liabilities,
 - Pending litigation resulting in a detrimental impact,
 - Loss of key staff critical to the organization,
 - Increase in operational risk and higher occurrence of fraudulent activities which are material to impact Repayment of Facilities,
 - Continued delay and non-cooperation by the Obligor in providing key relevant documentation to the LFI.
- Any other evidence that full Repayment of Interest and principal without realization of collateral is unlikely.
- For Wholesale Obligors, where the majority owning Parent is showing stress such as SICR or worse, then there is a risk of diversion of funds from the Obligor, who should also be considered as subject to SICR.

The Branches consider a financial instrument with an external rating of "investment grade" as at the reporting date to have low credit risk.

ABK UAE has adopted the "definition of default", restructuring process, categorization of restructuring into distress and non-distress restructuring, stage curing rules in line with CBUAE Credit Risk Management Standards.

Internal rating and PD estimation process

In managing its portfolio, the Branches utilise ratings and other measures and techniques which seek to take account of all aspects of perceived risk. The Branches use S&P Risk Rating System (ICON) as its internal credit-rating engine. The ICON tool provides the ability to analyze a business and produce risk ratings at both the obligor and facility level. The analysis supports the usage of financial factors as well as non-financial subjective factors. The Branches also use external ratings by recognised rating agencies for externally rated portfolios.

The Probability of Default (PD) is the likelihood that an obligor will default on its obligations in the future. PD estimation process requires the use of separate PD for a 12-month duration and lifetime duration depending on the stage allocation of the obligor. A PD used for IFRS 9 should reflect the Branches' estimate of the future asset quality. Then through the cycle, (TTC) PDs are generated from rating tool based on the internal/external credit ratings. The Branches convert the TTC PD to a point in time (PIT) PD term structures using appropriate models and techniques.

Incorporation of forward-looking information

The Branches incorporate forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Branches have

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performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio relevant to United Arab Emirates. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations.

GROSS CREDIT EXPOSURE BY CURRENCY TYPE AS ON 31 DECEMBER 2025

	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
Foreign Currency	3,544,990	183,518	3,728,508	685,885	344,331	1,371,826	2,402,043	6,130,550
AED	2,062,074	1,446,657	3,508,731	300,000	308,043	119,863	727,906	4,236,637
Total	5,607,064	1,630,175	7,237,239	985,885	652,374	1,491,689	3,129,949	10,367,188

GROSS CREDIT EXPOSURE BY GEOGRAPHY AS ON 31 DECEMBER 2025

GEOGRAPHY	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
United Arab Emirates	5,301,820	1,446,511	6,748,330	886,728	412,850	1,091,736	2,391,314	9,139,644
GCC excluding UAE	305,244	-	305,244	-	-	399,953	399,953	705,198
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	-	-	-	99,157	239,524	-	338,682	338,682
Africa	-	-	-	-	-	-	-	-
North America	-	183,664	183,664	-	-	-	-	183,664
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total	5,607,064	1,630,175	7,237,239	985,885	652,374	1,491,689	3,129,949	10,367,188

GROSS CREDIT EXPOSURE BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2025

INDUSTRY SEGMENT	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
Agriculture, Fishing and related industries	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	-	-	-	146,900	-	-	146,900	146,900
Manufacturing	-	-	-	466,407	-	371,644	838,051	838,051
Electricity and water	281,823	-	281,823	-	-	-	-	281,823
Construction and Real Estate	654,157	-	654,157	300,000	-	64,734	364,734	1,018,891

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Trade	705,644	-	705,644	45,034	1,603	997,230	1,043,868	1,749,512
Transport, Storage and Communication	260,453	-	260,453	27,544	-	1,344	28,888	289,341
Financial Institutions	2,389,975	-	2,389,975	-	650,771	32,381	683,152	3,073,127
Services	5,200	-	5,200	-	-	18,250	18,250	23,450
Government	993,916	1,630,175	2,624,091	-	-	18	18	2,624,109
Retail / Consumer Banking	147,632	-	147,632	-	-	-	-	147,632
All Others	168,263	-	168,263	-	-	6,088	6,088	174,351
Total	5,607,064	1,630,175	7,237,239	985,885	653,374	1,491,689	3,129,949	10,367,188

GROSS CREDIT EXPOSURES BY RESIDUAL CONTRACTUAL MATURITY AS ON 31 DECEMBER 2025

RESIDUAL CONTRACTUAL MATURITY	Loans	Debt Securities	Total Funded	Commitments	OTC Derivatives	Other – Off Balance Sheet Exposures	Total Non-Funded	Total
Less than 3 months	1,157,617	1,155,175	2,312,792	985,885	370,663	117,877	1,474,425	3,787,217
3 months to one year	2,019,405	475,000	2,494,405	-	281,711	1,338,890	1,620,601	4,115,006
One to five years	2,153,119	-	2,153,119	-	-	27,186	27,186	2,180,305
Over five years	276,922	-	276,922	-	-	7,737	7,737	284,659
Total	5,607,064	1,630,175	7,237,239	985,885	652,374	1,491,689	3,129,949	10,367,188

IMPAIRED LOANS BY INDUSTRY SEGMENT AS ON 31 DECEMBER 2025

INDUSTRY SEGMENT	Overdue			Provisions		Adjustments		Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General	Write - offs	Write - backs	
Agriculture, Fishing and related industries	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining and Quarrying	-	-	-	-	-	-	-	-
Manufacturing	-	-	-	-	-	-	-	-
Electricity and water	-	-	-	-	-	-	-	-
Construction	-	-	-	-	-	-	-	-
Trade	-	-	-	-	-	-	-	-
Transport, Storage and Communication	-	-	-	-	-	-	-	-
Financial Institutions	-	-	-	-	-	-	-	-
Services	-	-	-	-	-	-	-	-
Government	-	-	-	-	-	-	-	-
Retail / Consumer Banking	-	-	-	-	-	-	-	-
All Others	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

IMPAIRED LOANS BY GEOGRAPHICAL DISTRIBUTION AS ON 31 DECEMBER 2025

GEOGRAPHY	Overdue			Provisions		Adjustments		Total Impaired Assets
	Less than 90 days	90 days and above	Total	Specific	General	Write - offs	Write - backs	
GCC excluding UAE	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

11 Credit Risk Mitigation

The policies and processes for on- and off-balance sheet netting (and the extent to which ABK UAE makes use of them); policies and processes for collateral valuation and management; and a description of the main types of collateral taken are described below.

Credit risk mitigation (CRM) encompasses collateral management, credit guarantee and netting arrangements. Netting techniques are currently not employed as a CRM technique.

However, ABK UAE has in place collateral valuation and management.

Real estate collateral is valued each year. All listed equity collaterals are valued daily, for the collateral coverage determination. To manage the concentration risk of equity collateral, the Bank has a stipulated percentage of paid-up capital of the company as the maximum that can be accepted as collateral.

To manage the quality of quoted equity collaterals the equity shares have been graded in three groups based on the liquidity and financial strength of the equity with Grade I representing high quality. The required collateral coverage increases from Grade I to Grade III.

11.1 Table CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

31-Dec-25		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	2,584,446	-	2,584,446		-	0%
2	Public Sector Entities	371,769	-	371,769		371,769	100%
3	Multilateral development banks	-	-			-	
4	Banks	579,136	32,381	579,136	19,730	236,081	39%
5	Securities firms	-	-			-	
6	Corporates	3,361,115	3,469,594	3,361,115	1,878,883	1,983,040	38%
7	Regulatory retail portfolios	3,394	-	3,394		1,994	59%
8	Secured by residential property	57,268	-	57,268		20,044	35%

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9	Secured by commercial real estate	561,746	24,400	561,746	24,400	566,369	97%
10	Equity Investment in Funds (EIF)						
11	Past-due loans	-	3,126		1,874	0	0%
12	Higher-risk categories	-	-			-	
13	Other assets	95,965	-	95,965		111,717	116%
14	Total	7,614,839	3,529,501	7,614,839	1,924,886	3,291,014	

11.2 Table CR5: Standardised approach - exposures by asset classes and risk weights

31-Dec-25		a	b	c	d	e	f	g	h	i
Risk weight		0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Asset classes										
1	Sovereigns and their central banks	2,584,446								2,584,446
2	Public Sector Entities						371,769			371,769
3	Multilateral development banks									-
4	Banks		211,174		387,692		-			598,866
5	Securities firms									-
6	Corporates	3,240,312	4,336		11,750		1,934,921		48,678	5,239,998
7	Regulatory retail portfolios	1,400				-	1,994			3,394
8	Secured by residential property			57,268						57,268
9	Secured by commercial real estate	19,777					566,369			586,146
10	Equity Investment in Funds (EIF)									-
11	Past-due loans	1,874			-		-			1,874
12	Higher-risk categories									-
13	Other assets	11,179	-				66,832		17,954	95,965
14	Total	5,858,988	215,510	57,268	399,442	-	2,941,886	-	66,632	9,539,726

12 Financial Risk Management

Market Risk

Market risk is the risk of adverse impact on the value of assets, liabilities or revenues arising from changes in market conditions or movements in market rates and prices. Market-sensitive exposures originate from loans, investments, and proprietary trading operations. For measuring market risk in the trading book, all positions are marked to market daily, and limits are approved and independently monitored by Risk Management function. Appropriate limits are endorsed by the Asset Liability Management Committee (ALCO) and Investment committee in line with Board-approved policies. Market risk capital is also assessed under Pillar II for exposures such as concentration in trading positions, market illiquidity, positions marked-to-model. The Bank adopts a standardised approach under Pillar I for the measurement of market Risk

12.1 Table MR1: Market risk under the standardised approach (SA)

31-Dec-25		a
		RWA
1	General Interest rate risk (General and Specific)	
2	Equity risk (General and Specific)	
3	Foreign exchange risk	6,324
4	Commodity risk	
	Options	
5	Simplified approach	
6	Delta-plus method	
7	Scenario approach	
8	Securitisation	
9	Total	6,324

Interest rate risk in the banking book (IRRBB)

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The ABK UAE is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Head Office in line with Board approved interest rate risk policy has established acceptable levels of interest rate risk by setting limits on the interest rate gaps for stipulated periods. The adherence to these limits is monitored by local and Group ALCO.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2025.

12.2 Table IRRBB1: Quantitative information on IRRBB

In reporting currency (AED)	ΔEVE		ΔNII	
Period	2025	2024	2025	2024
Parallel up	0	0	0	-141
Parallel down	-14,855	-2,780	-35,167	-8,700
Steeper	-6,019	0		
Flattener	0	-1,317		
Short rate up	0	-222		
Short rate down	-14,609	-86		
Maximum	-14,855	-2,780		
Period	2025		2024	
Tier 1 capital	824,314		813,891	

Foreign Exchange Risk

Foreign exchange risk represents the Bank's exposures to fluctuations in the values of current holdings and future cash flows denominated in other currencies. The types of instruments exposed to this risk include: foreign currency-denominated loans, future cash flows in foreign currencies arising from foreign exchange transactions, the Bank's proprietary positions and customers' foreign exchange transactions.

Instruments used to mitigate this risk are foreign exchange spot, forwards, options etc. These instruments help to insulate the Bank against losses that may arise due to significant movements in foreign exchange rates. All foreign exchange exposures of UAE are centrally managed by ABK-UAE's Treasury and are daily marked to market. Limits have been assigned with respect to overnight open exposures, stop loss and authorized currencies.

Operational Risk Management

The Bank identifies and assesses the operational risk in products, activities, processes and systems. It also ensures that the associated operational risks are properly assessed and mitigated, before any new products or services, activities, processes or systems are introduced.

Risk identification is vital to the development of operational risk monitoring and control systems. Risk identification considers internal factors such as the Bank's structure, the nature of its activities, the quality of its human resources, organisational changes and employee turnover. It also examines external factors such as changes in the industry, major political and economic changes, and technological advances.

Operational Risk Models

The Bank has developed Operational Risk Models (ORMs) that cover key risks identified in the Bank's business and support areas through a self-assessment exercise and/or other risk assessment methods. The risks highlighted in the ORMs are discussed with the respective business units and are reviewed at H.O.

The Bank has an operational risk Value at Risk (VaR) model to quantify its exposure by systematically tracking and recording the frequency and severity of individual error and loss events, and other relevant information, and measures the losses through operational risk VaR. Under Pillar II, remaining operational risk is assessed using the VaR model to assess all material operational risks. The Bank separately measures and reports Pillar II risks arising out of Cybersecurity risks as well as AML Risks using Board approved models. Legal risks are assessed as part of the operational risk VaR model, and capital is assessed based on the impact and likelihood of material legal risk issues. The Bank's internal error/loss database captures loss events from material activities and exposures. It tracks individual internal error/loss data (actual loss, potential loss, near misses and attempted frauds), mapping these into the relevant business lines. The Bank also collects information about the events and recoveries, as well as descriptive information about the causes and drivers of the loss events. The loss data events collected are analysed and any deficiencies in the Bank's processes are remedied.

13 Remuneration Governance & Process

ABK UAE is governed by the group's remuneration policy. ABK Group has a centralised performance evaluation system for determining the overall remuneration and rewards for all employees including employees in UAE branches. In addition, ABK UAE also structures remuneration packages based on the requirements of local law & regulations. For this purpose, the Bank has set up the Board Compensation and Human Resources Committee (BCHRC). The objective of the BCHRC is to enhance the board of directors effectiveness in overseeing the hiring and promotion of Executive Management, as well as remuneration matters for the bank and its governance and human resources. BCHRC will have an effective composition, size and commitment to enable it to discharge its responsibilities and shall promote coherent remuneration policies and practices across ABK to attract and retain key individuals that create value for shareholders; develop ABK's remuneration and performance management policy and on a regular basis oversee its operation and effectiveness.

The remuneration policy provides the basis of determining remuneration to the Bank's associates, senior management and executive management based on their responsibilities and authority levels. This remuneration philosophy and general framework apply to all ABK employees of the Group with appropriate changes based on local legislations, market conditions and practices.

The guiding principle of the remuneration policy is pay for performance. The remuneration has fixed and variable components, which comprises both a cash and deferred component. Specific employee role and responsibility-related performance metrics are designed in the form of Key Performance Indicator Metrics (KPIs) to continuously evaluate executive and staff performance, which is evaluated based on a combination of

- a) targets and their achievement measured on a transparent basis and
- b) behavioural dimension or expected behaviours which represent robust and prudent leadership, and applied for determining rewards.

The objective of the policy is to link reward to performance, while considering the panning out of risk over a long-term horizon through a claw back on the deferred remuneration for key risk taking as well as other executives.

The remuneration philosophy remains centred on linking rewards to performance, with both ex-ante and ex-post measures utilized to determine compensation. This includes a range of performance metrics, such as key performance indicators (KPIs), operating profit, and asset quality, ensuring a long-term view that incorporates risk considerations. The remuneration of risk and audit employees is not linked to the Bank's financial performance. The Board Risk, AML & CFT Committee and Board Audit Committee oversee the remuneration of risk and audit staff respectively, based on performance measures determined by the respective committees.

The KPIs are in the form of a balanced scorecard and are based on financial, risk and control parameters, as well as strategic achievements.

UAE Senior Management and Material Risk Takers that have been considered are as follows:

- Chief Executive Officer
- Deputy CEO & Head of Corporate Banking
- Head of Consumer Banking
- Chief Risk Officer
- Head of Treasury
- Head of Internal Audit
- Head of Compliance
- Chief Financial Officer

13.1 Table REM1: Remuneration awarded during the financial year

	Remuneration Amount		Senior Management / Material Risk Takers
1	Fixed Remuneration	Number of employees	9
2		Total fixed remuneration (3 + 5 + 7)	8,378
3		Of which: cash-based	8,378
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	9
10		Total variable remuneration (11 + 13 + 15)	6,188
11		Of which: cash-based	5,482
12		Of which: deferred	955
13		Of which: shares or other share-linked instruments	
14		Of which: deferred	
15		Of which: other forms	706
16		Of which: deferred	
17	Total Remuneration (2+10)		14,566