

AL AHLI BANK OF KUWAIT  
(K.S.C.P.) - UNITED ARAB EMIRATES  
(UAE) BRANCHES

REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2024

Al Ahli Bank of Kuwait (K.S.C.P.) - United Arab Emirates (UAE) Branches

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## **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF AL AHLI BANK OF KUWAIT (K.S.C.P) - UNITED ARAB EMIRATES (UAE) BRANCHES**

### **Report on the audit of the financial statements**

#### **Opinion**

We have audited the financial statements of Al Ahli Bank of Kuwait (K.S.C.P) - United Arab Emirates (UAE) Branches (the "Branches"), which comprise the statement of financial position as at 31 December 2024, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Branches as at 31 December 2024 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

#### **Basis for opinion**

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

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.



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INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF  
AL AHLI BANK OF KUWAIT (K.S.C.P) - UNITED ARAB EMIRATES (UAE) BRANCHES  
(continued)

Report on the audit of the financial statements (continued)

Key audit matter (continued)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Expected credit losses ("ECL") on financial assets</p> <p>Refer to Note 2 to the financial statements for the material accounting policy and Note 24 for the credit risk disclosures</p> <p>The balance of loss allowances on financial assets represents management's best estimates, at the balance sheet date, of the expected credit losses under the expected credit loss models ("ECL Models") as stipulated by International Financial Reporting Standard No. 9: Financial Instruments ("IFRS 9").</p> <p>Management first assesses whether the credit risk of financial assets has increased significantly since their initial recognition, and then applies a three-stage impairment model to calculate the ECL.</p> <p>For financial assets classified in stage 1 (no significant increase in credit risk) and stage 2 (with significant increase in credit risk), loss allowances are assessed using the risk parameter modelling approach that incorporates key parameters, including probability of default, loss given default, exposure at default, discount rates and various macro-economic variables as inputs.</p> <p>For financial assets in stage 3 (default and credit-impaired), loss allowances are assessed by estimating the future discounted cash flows from the financial assets.</p>	<p>We obtained an understanding of management's assessment of impairment of financial assets, the Branches' credit impairment provision policy and the ECL modelling methodology.</p> <p>We performed process walkthroughs to identify the controls over the ECL process. We tested the design and operational effectiveness of the internal controls relating to the measurement of ECL.</p> <p>We performed the following substantive audit procedures on the computation and reasonableness of the ECL included in the Branches' financial statements:</p> <ul style="list-style-type: none"><li>• Evaluated the reasonableness and appropriateness of the IFRS 9 methodology and assumptions used in various components of ECL modelling. This typically included evaluating key assumptions/judgements relating to significant increase in credit risk, definition of default, probability of default, loss given default, recovery rates and discount rate.</li><li>• For selected samples, we performed procedures to determine whether significant increase in credit risk have been identified.</li></ul>



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INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF  
AL AHLI BANK OF KUWAIT (K.S.C.P) - UNITED ARAB EMIRATES (UAE) BRANCHES  
(continued)

Report on the audit of the financial statements (continued)

Key audit matter (continued)

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Management has also applied a significant level of judgement in the areas noted above in determining the impact of economic volatility on the allowances for expected credit losses by considering the forward-looking information, including variables used in macro-economic scenarios and their associated weightings.</p> <p>We considered ECL for financial assets as a key audit matter as the determination of ECL involves significant management judgement such as categorisation of financial assets into stages 1,2 or 3, assumptions used in the ECL model such as expected future cash flows, macro-economic factors etc. These judgments have a material impact on the financial statements of the Branches.</p>	<ul style="list-style-type: none"><li>• For a sample of exposures, we checked the Branches' application of the staging criteria including the basis for movement between stages.</li><li>• For forward-looking measurements, evaluated management's selection of economic indicators, scenarios and application of weightings; assessed the appropriateness of the prediction of economic indicators and performed sensitivity analysis.</li><li>• For selected samples, we examined key data inputs into the ECL models.</li><li>• We performed an independent credit assessment for a sample of customers, by assessing the quantitative and qualitative factors including assessment of financial performance of the customer, source of repayments and its history, discounted future cash flows of the borrower, credit risk mitigation through collateral and other relevant risk factors.</li><li>• We re-performed key elements of the ECL calculations and evaluated the model performance results.</li><li>• We assessed the appropriateness of disclosures in the financial statements against the requirements of IFRS.</li></ul>



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## INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF AL AHLI BANK OF KUWAIT (K.S.C.P) - UNITED ARAB EMIRATES (UAE) BRANCHES (continued)

### Report on the audit of the financial statements (continued)

#### **Responsibilities of management *and those charged with governance* for the financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 and the UAE Union Law No. 10 of 1980, as amended, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

#### **Auditor's responsibilities for the audit of the financial statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branches' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

**INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF  
AL AHLI BANK OF KUWAIT (K.S.C.P) - UNITED ARAB EMIRATES (UAE) BRANCHES  
(continued)**

**Report on the audit of the financial statements (continued)**

**Auditor's responsibilities for the audit of the financial statements (continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branches' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branches to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



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**INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF  
AL AHLI BANK OF KUWAIT (K.S.C.P) - UNITED ARAB EMIRATES (UAE) BRANCHES  
(continued)**

**Report on other legal and regulatory requirements**

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

For Ernst & Young

A handwritten signature in blue ink that reads 'Thodla Hari Gopal'.

Thodla Hari Gopal  
Registration No: 689

27 March 2025

Dubai, United Arab Emirates

**AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES**
**STATEMENT OF FINANCIAL POSITION**
**As at 31 December 2024**

	<i>Notes</i>	<b>2024</b> <b>AED '000</b>	2023 AED '000
<b>ASSETS</b>			
Cash and balances with Central Bank	4	<b>454,436</b>	183,914
Due from banks	5	<b>1,261,669</b>	965,594
Loans and advances, net	7	<b>4,386,963</b>	3,154,681
Investment securities	6	<b>1,631,875</b>	856,515
Property and equipment	10	<b>28,554</b>	26,065
Deferred tax assets, net	8	<b>14,361</b>	13,196
Other assets	9	<b>29,621</b>	43,943
<b>TOTAL ASSETS</b>		<b>7,807,479</b>	5,243,908
<b>LIABILITIES AND HEAD OFFICE ACCOUNT</b>			
<b>Liabilities</b>			
Due to banks	11	<b>780,385</b>	577,313
Customer deposits	12	<b>6,043,509</b>	3,723,855
Other liabilities	13	<b>143,635</b>	142,415
<b>TOTAL LIABILITIES</b>		<b>6,967,529</b>	4,443,583
<b>Head Office account</b>			
Designated capital	14	<b>690,000</b>	690,000
Statutory reserve	15	<b>44,331</b>	40,460
Voluntary reserve		<b>131</b>	131
Investment revaluation reserve		<b>1,024</b>	413
Property revaluation surplus		<b>9,311</b>	9,006
General impairment reserve		<b>16,235</b>	16,235
Retained earnings		<b>78,918</b>	44,080
<b>TOTAL HEAD OFFICE ACCOUNT</b>		<b>839,950</b>	800,325
<b>TOTAL LIABILITIES AND HEAD OFFICE ACCOUNT</b>		<b>7,807,479</b>	5,243,908


  
 Chief Executive Officer


  
 Chief Finance Officer

The accompanying notes 1 to 26 form an integral part of these financial statements.

AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2024

		2024	2023
	<i>Notes</i>	AED '000	AED '000
Interest income	16	406,604	348,565
Interest expense	17	(268,207)	(239,303)
<b>NET INTEREST INCOME</b>		<b>138,397</b>	<b>109,262</b>
Net fees and commission income	18	16,802	14,070
Net foreign exchange gain		4,915	4,588
Other income		41	1,939
<b>TOTAL OPERATING INCOME</b>		<b>160,155</b>	<b>129,859</b>
Staff costs		(53,337)	(49,163)
Other operating expenses		(35,193)	(27,441)
Depreciation and amortization		(2,093)	(1,783)
<b>OPERATING EXPENSES</b>		<b>(90,623)</b>	<b>(78,387)</b>
<b>OPERATING PROFIT BEFORE IMPAIRMENT</b>		<b>69,532</b>	<b>51,472</b>
Impairment losses charged on financial assets	19	(24,562)	(37,887)
<b>PROFIT FOR THE YEAR BEFORE TAXATION</b>		<b>44,970</b>	<b>13,585</b>
Taxation	20	(6,261)	2,247
<b>NET PROFIT FOR THE YEAR</b>		<b>38,709</b>	<b>15,832</b>

The accompanying notes 1 to 26 form an integral part of these financial statements.

AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES  
 STATEMENT OF OTHER COMPREHENSIVE INCOME  
 For the year ended 31 December 2024



	<i>Notes</i>	2024 AED '000	2023 AED '000
NET PROFIT FOR THE YEAR		38,709	15,832
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Revaluation of freehold land	10	430	2,880
- Related deferred and current tax	8 & 20	(125)	(2,251)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Fair value profit/(loss) on investments in debt instruments measured at FVTOCI		867	1,849
- Related deferred tax	8	(256)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>39,625</u>	<u>18,310</u>

The accompanying notes 1 to 26 form an integral part of these financial statements.

AL AHLI BANK OF KUWAIT (K.S.C.P.) - UNITED ARAB EMIRATES BRANCHES

STATEMENT OF CHANGES IN THE HEAD OFFICE ACCOUNT

For the year ended 31 December 2024

	Designated capital AED '000	Statutory reserve AED '000	Voluntary reserve AED '000	Investment revaluation reserve AED '000	Property revaluation surplus AED '000	General impairment reserve AED '000	Retained earnings AED '000	Total AED '000
As at 1 January 2024	690,000	40,460	131	413	9,006	16,235	44,080	800,325
Profit for the year	-	-	-	-	-	-	38,709	38,709
Other comprehensive income for the year	-	-	-	867	430	-	-	1,297
Deferred tax liability (Note 8)	-	-	-	(256)	(86)	-	-	(342)
Current tax liability (Note 20)	-	-	-	-	(39)	-	-	(39)
Total comprehensive income for the year	-	-	-	611	305	-	38,709	39,625
Transfer to statutory reserve	-	3,871	-	-	-	-	(3,871)	-
Balance as at 31 December 2024	690,000	44,331	131	1,024	9,311	16,235	78,918	839,950
As at 1 January 2023	690,000	38,877	131	(1,436)	8,377	16,235	29,831	782,015
Profit for the year	-	-	-	-	-	-	15,832	15,832
Other comprehensive income for the year	-	-	-	1,849	2,880	-	-	4,729
Deferred tax liability (Note 8)	-	-	-	-	(2,251)	-	-	(2,251)
Total comprehensive income for the year	-	-	-	1,849	629	-	15,832	18,310
Transfer to statutory reserve	-	1,583	-	-	-	-	(1,583)	-
Balance as at 31 December 2023	690,000	40,460	131	413	9,006	16,235	44,080	800,325

The accompanying notes 1 to 26 form an integral part of these financial statements.

## STATEMENT OF CASH FLOWS

For the year ended 31 December 2024

	Notes	2024 AED '000	2023 AED '000
<b>OPERATING ACTIVITIES</b>			
Profit for the year before taxation		44,970	13,585
Adjustments for:			
Depreciation of property and equipment	10	2,093	1,783
Impairment losses charged on financial assets	19	38,388	68,505
Gain on sale of asset		-	(1,749)
		<hr/>	<hr/>
Operating profit before changes in operating assets and liabilities		85,451	82,124
<i>Changes in operating assets and liabilities:</i>			
Deposits with Central Bank with original maturity of more than thirty days	4	-	-
Deposits with bank with original maturity of more than thirty days	5	(330,505)	(642,700)
Loans and advances		(1,278,614)	(470,180)
Other assets		14,272	(18,837)
Customer deposits	12	2,319,654	(744,596)
Due to banks - time deposits	11	(187,305)	444,380
Due to banks with original maturity of more than thirty days		354,675	124,131
Other liabilities		13,829	30,568
Tax paid		(12,442)	(1,007)
		<hr/>	<hr/>
Net cash flows generated from / (used in) operating activities		979,015	(1,196,117)
<b>INVESTING ACTIVITIES</b>			
Purchase of Monetary bills issued by UAE Central Bank	6	(774,493)	(134,479)
Purchase of property and equipment	10	(4,152)	(2,701)
Sale proceeds from disposal of asset		-	1,749
		<hr/>	<hr/>
Net cash flows used in investing activities		(778,645)	(135,431)
<b>FINANCING ACTIVITIES</b>			
		<hr/>	<hr/>
Net cash flows from financing activities		-	-
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		222,581	1,554,129
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>422,951</b>	<b>222,581</b>
		<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents comprise:			
Cash on hand and balances with UAE Central Bank	4	454,436	183,914
Deposits and current account with banks	5	13,019	47,469
Due to banks	11	(44,504)	(8,802)
		<hr/>	<hr/>
		422,951	222,581
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes 1 to 26 form an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 1. Incorporation and principal activities

The financial statements of Al Ahli Bank of Kuwait (K.S.C.P.) United Arab Emirates Branches (the "Branches") relate to the activities of the Abu Dhabi Branch and the Dubai Branch of Al Ahli Bank of Kuwait K.S.C.P. (the "Head Office" or the "Bank"), a public shareholding company incorporated in Kuwait on 23 May 1967 and is registered as a Bank with the Central Bank of Kuwait.

The Branches operate under separate licences issued by the UAE Central Bank and are engaged in banking activities. The registered address of the Branches and Head Office are as follows:

- Dubai Branch - P.O. Box 1719, Abu Baker Al Siddique Street, Dubai, United Arab Emirates
- Abu Dhabi Branch - P.O. Box 7941, Abu Dhabi, United Arab Emirates
- Head Office - P.O. Box 1387, Safat, Kuwait City, Kuwait.

These financial statements reflect the activities of the Dubai and Abu Dhabi Branches only and exclude all transactions, assets and liabilities of Head Office, Branch registered under the Dubai International Financial Centre ("DIFC") and other branches of the Head Office outside United Arab Emirates. Since the capital of the Branches is not publicly traded, no segmental analysis is provided.

## 2. Summary of material accounting policies

## 2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by International Accounting Standards Board (IASB) and applicable requirements of the laws of the U.A.E., including the UAE Federal Law No. 2 of 2015 (as amended) and the Decretal Federal Law No. (14) of 2018.

Federal Law No. 32 of 2021 on Commercial Companies (the "New Companies Law") issued on 20 September 2021 and effective on 2 January 2023, replaces Federal Law No. 2 of 2015 on Commercial Companies, as amended (the "2015 Law").

## 2.2 Basis of preparation

The financial statements have been prepared on the historical cost basis except for freehold land and financial instruments that are measured at fair values as explained in the accounting policies below.

## 2.3 Changes in material accounting policies and disclosures

New and revised IFRSs applied on the financial statements  
Standards, amendments and interpretations that are effective for the Bank's accounting period  
beginning on 1 January 2024

The following amendments to existing IFRS accounting standards became effective for annual periods beginning from 1 January 2024.

- Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants - Amendments to IAS 1
- Lease Liability in a Sale and Leaseback – Amendments to IFRS 16
- Disclosures: Supplier Finance Arrangements -Amendments to IAS 7 and IFRS 7

These amendments had no impact on the financial statements of the Bank as at 31 December 2024.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.3 Changes in material accounting policies and disclosures (continued)

## Standard Issued but not yet Effective

The new and amended standards and interpretations that are issued but not yet effective, up to the date of issuance of the Bank's financial statements are described below.

## i. Amendments to the Classification and Measurement of Financial Instruments—Amendments to IFRS 9 and IFRS 7

On 30 May 2024, the IASB issued Amendments to IFRS 9 and IFRS 7, Amendments to the Classification and Measurement of Financial Instruments (the Amendments). The Amendments include:

- A clarification that a financial liability is derecognised on the 'settlement date' and introduce an accounting policy choice (if specific conditions are met) to derecognise financial liabilities settled using an electronic payment system before the settlement date
- Additional guidance on how the contractual cash flows for financial assets with environmental, social and corporate governance (ESG) and similar features should be assessed
- Clarifications on what constitute 'non-recourse features' and what are the characteristics of contractually linked instruments
- The introduction of disclosures for financial instruments with contingent features and additional disclosure requirements for equity instruments classified at fair value through other comprehensive income (OCI).

With respect to the amendments on the derecognition of financial liabilities that are settled through an electronic payment system, the Bank is currently performing an assessment of all material electronic payment systems utilised in order to assess whether the amendments will result in a material change with respect to current practices and whether it meets the conditions to apply the accounting policy option to derecognise such financial liabilities before the settlement date. Moreover, the Bank is reviewing all its other payment systems (such as cheques, credit cards, debit cards) to ensure that the corresponding financial assets are derecognised when the right to cash flows are extinguished and that the corresponding financial liabilities are derecognised on settlement date.

In addition, the Bank is assessing the impact of the Amendments on its financial assets that include environmental, social and governance (ESG)-linked features and other similar contingent features, as well as on non-recourse financing and contractually linked instruments

## ii. IFRS 18 Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements for presentation within the statement of profit or loss, including specified totals and subtotals. Furthermore, entities are required to classify all income and expenses within the statement of profit or loss into one of five categories: operating, investing, financing, income taxes and discontinued operations, whereof the first three are new. There are specific presentation requirements and options for entities that have specified main business activities (either providing finance to customers or investing in specific type of assets, or both).

It also requires disclosure of newly defined management-defined performance measures, which are subtotals of income and expenses, and includes new requirements for aggregation and disaggregation of financial information based on the identified 'roles' of the primary financial statements and the notes.

Narrow-scope amendments have been made to IAS 7 Statement of Cash Flows, which include changing the starting point for determining cash flows from operations under the indirect method, from 'profit or loss' to 'operating profit or loss' and removing the optionality around classification of cash flows from dividends and interest. In addition, there are consequential amendments to several other standards.

The Bank is currently evaluating these amendments. The Bank will adopt it when the amendment becomes effective.

## 2. Summary of material accounting policies (continued)

### 2.4 Financial Assets and Financial Liabilities

#### Initial measurement and recognition of financial assets and financial liabilities

A financial asset or a financial liability is recognised when the Branches become a party to the contractual provisions of the instrument. All regular way purchase and sale of financial assets are recognised using settlement date accounting i.e. the date the Branches receive or deliver the assets. Changes in fair value between the trade date and settlement date are recognised in the income statement or in other comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

All financial assets or financial liabilities are initially measured at fair value. Transaction costs are added to the cost of all financial instruments except for financial assets classified as investments at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the income statement.

#### Classification and measurement of financial assets and financial liabilities

The Branches determine classification and measurement category of financial assets, except derivatives, based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

#### *Business model assessment*

The Branches determine their business model at the level that best reflects how they manage financial assets to achieve their business objective. The Branches' business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The expected frequency, value and timing of sales are also important aspects of the Branches' assessment.

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

#### *SPPI test*

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Branches assess whether the financial instruments' cash flows met the Solely Payments of Principal and Interest test (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Branches apply judgement and consider relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.4 Financial Assets and Financial Liabilities (continued)

Classification and measurement of financial assets and financial liabilities (continued)

*SPPI test (continued)*

In contrast, contractual terms that introduce a more than minimum exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

The Branches reclassify when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

## Financial assets

The Branches classify financial assets upon initial recognition of IFRS 9 into following categories:

- Amortised cost (AC)
- Fair value through other comprehensive income (FVOCI)
- Fair Value through Profit or Loss (FVTPL)

*(i) Amortised cost (AC)*

The Branches classify financial assets at AC if it meets both of the following conditions and is not designated at FVTPL:

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

Financial assets classified at AC are subsequently measured at amortised cost using the effective interest method adjusted for impairment losses, if any. Interest income, foreign exchange gains/losses and impairment are recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on derecognition is recognised in the statement of profit or loss and other comprehensive income. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest income" in the statement of profit or loss and other comprehensive income. The losses arising from impairment are recognised in the income statement under "Impairment losses charged on financial instruments".

The Branches classify cash and balances with Central Bank, due from banks, other assets (excluding prepayments and advances) and loans and advances at AC.

*(ii) Fair value through other comprehensive income (FVOCI)**Debt instruments at FVOCI*

The Branches classify debt instruments at FVOCI if it meets both of the following conditions: -

- 1) The contractual terms of the financial asset meet the SPPI test.
- 2) The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.

Debt instrument classified as FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in statement of profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to the income statement.

The Branches classify Monetary Bills issued by the Central Bank at FVOCI.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.4 Financial Assets and Financial Liabilities (continued)

Classification and measurement of financial assets and financial liabilities (continued)

Financial assets (continued)

*(iii) Fair Value Through Profit or Loss (FVTPL)*

The Branches classify financial assets as FVTPL when they have been purchased primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together and includes managed funds, for which there is evidence of a recent pattern of short-term profit taking.

In addition to the above, on initial recognition, the Branches may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at Fair Value through Other Comprehensive Income (FVOCI) at Fair Value Through Profit or Loss (FVTPL) if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets classified as FVTPL are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in the statement of profit or loss. Interest income and dividends are recognised in the statement of profit or loss according to the terms of the contract, or when the right to payment has been established.

*Day 1 profit or loss*

When the fair value of financial instruments at initial recognition differs from the transaction price, the Branches account for the Day 1 profit or loss. When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branches recognise the difference between the transaction price and fair value in the statement of profit or loss. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

## Financial liabilities

Financial liabilities are mainly classified as "Financial liabilities other than at fair value through profit or loss". This comprises of due to banks and other financial institutions, customers' deposits, medium term notes and certain other liabilities. The Branches do not have any "Financial liabilities at fair value through profit or loss".

Financial liabilities other than at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

## Financial guarantees

In the ordinary course of business, the Branches give financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, being the premium received, in other liabilities. Subsequent to initial recognition, the Branches' liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortisation recognised in the statement of profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, or - under IFRS 9 - an ECL provision as set out in (Note 21). The premium received is recognised in the statement of profit or loss in Net fees and commission income on a straight-line basis over the life of the guarantee in line with IFRS 15.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branches are required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.4 Financial Assets and Financial Liabilities (continued)

*Offsetting of financial assets and liabilities*

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

*Modification of financial assets and financial liabilities*

If the terms of a financial assets and liabilities are modified, the Branches evaluate whether the cash flows are substantially different. In this case, original financial assets and liabilities are deemed to have expired and a new financial assets and liabilities based on the modified terms are recognised at fair value.

If the cash flows of the modified financial assets and liabilities are not substantially different, then the modification does not result in derecognition of the financial assets and liabilities. In this case, the Branches recalculate the gross carrying amount of the financial asset and liabilities using the original effective interest rate and recognises the amount arising from adjusting the gross carrying amount as modification gain or loss in the consolidated income statement.

*Interest Rate Benchmark Reform*

In the context of IBOR reform, the Branches' assessment of whether a change to a financial asset or financial liability is substantial is made after applying the practical expedient introduced by Interest Rate Benchmark Reform, Amendments to IFRS 9, Phase 2. This practical expedient allows changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform to be treated as changes to a floating interest rate to that instrument, if the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis. In such cases, the Branches updates the effective interest rate to reflect the change in an interest rate benchmark from IBOR to Risk Free Rate (RFR) without adjusting the carrying amount.

When additional changes are made, which are not economically equivalent, the Branches apply accounting policy on accounting for modification of financial assets and financial liabilities.

*Derivative financial instruments*

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

*Derecognition of financial assets and financial liabilities*

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

- the contractual rights to receive the cash flows from the asset have expired; or
- the Branches retain the right to receive cash flows from the assets but have assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Branches have transferred their rights to receive cash flows from the asset and either
  - have transferred substantially all the risks and rewards of the asset, or
  - have neither transferred nor retained substantially all the risks and rewards of the asset, but have transferred control of the asset.
- if the terms of a financial asset are modified, the Branches evaluate whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and a new financial asset is recognised at fair value.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.4 Financial Assets and Financial Liabilities (continued)

## Derecognition of financial assets and financial liabilities (continued)

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

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

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

## Impairment of financial assets

The Branches recognise ECL for loans and advances, non-cash credit facilities in the form of bank guarantees, letters of guarantee, bank acceptances, revocable and irrevocable undrawn commitments (together "credit facilities"), investment in debt securities measured at AC or FVOCI and other financial assets measured at AC.

The Branches apply three-stage approach to measuring ECL. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

## Stage 1: 12 months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the ECL associated with the probability of default events occurring within next 12 months is recognised.

## Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

## Stage 3: Lifetime ECL – credit impaired

Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

Lifetime ECL is ECL that results from all possible default events over the expected life of a financial instrument. The 12-month ECL is the portion of life time expected credit loss that result from default events that are possible within the 12 months after the reporting date. Both life time ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis depending on the nature of the underlying portfolio of financial instruments.

Except for retail credit facilities, transfer of credit facilities from Stage 2 to Stage 1 is made after a period of 12 months from the satisfaction of all conditions that triggered classification of the credit facilities to Stage 2. When estimating lifetime ECL for undrawn commitments, the Branches estimate the expected portion of the commitment that will be drawn down over its expected life. ECL is then calculated on the stage of the credit facilities.

## 2. Summary of material accounting policies (continued)

## 2.4 Financial Assets and Financial Liabilities (continued)

## Impairment of financial assets (continued)

*Determining the stage of Expected Credit Loss*

At each reporting date, the Branches assess whether there has been significant increase in credit risk since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date with the risk of default at the date of 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.

At each reporting date, the Branches also assess whether a financial asset is credit impaired. The Branches consider a financial asset to be credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred or when contractual payments are 90 days past due. All credit impaired financial assets are classified as stage 3 for ECL measurement purposes.

At the reporting date, if the credit risk of a financial asset has not increased significantly since initial recognition or not credit impaired, these financial assets are classified as stage 1.

*Measurement of ECLs*

ECLs are probability weighted estimates of credit losses and are measured as the present value of all cash shortfalls discounted at the effective interest rate of the financial instrument. Cash shortfall represents the difference between cash flows due to the Branches in accordance with the contract and the cash flows that the Branches expect to receive. The key elements in the measurement of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD).

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. The through the cycle (TTC) PDs are generated from S&P risk rating system 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.

The Exposure at Default ("EAD") is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and profit, whether scheduled by contract or otherwise, expected drawdowns on committed facilities.

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

*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 performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio. 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.

## 2. Summary of material accounting policies (continued)

### 2.4 Financial Assets and Financial Liabilities (continued)

#### Impairment of financial assets (continued)

##### *Presentation of allowance for ECL in the statement of financial position*

Loss allowances for ECL are presented as a deduction from the gross carrying amount of the financial assets for AC. In the case of debt instruments measured at FVOCI, the loss allowances for ECL is presented in OCI with no reduction in the carrying amount of the financial asset in the statement of financial position. For revolving facilities that include both a loan and an undrawn commitment, ECLs are presented together with the loan. ECL for loan commitments, letters of credit and financial guarantee contracts are recognised in other liabilities. The Branches recognise the ECL charge in the statement of profit and loss.

##### *Write-offs*

The Branches' accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Branches have stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

Loans and advances together with the associated provision account are written off when there is no realistic prospect of future recovery and all collateral have been realised or have been transferred to the Branches. If a write off is later recovered, the recovery is recognised in the income statement.

Financial guarantees are assessed, and impairment loss is recorded in a similar manner as for loans and advances. The carrying amount of the asset is reduced through the use of a provision account and the amount of impairment loss is recognised in the income statement. If in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reversed by adjusting the provision account.

### 2.5 Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost of sale and value in use.

### 2.6 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, due from banks and UAE Central Bank with original maturities not exceeding thirty days net of due to banks (excluding time deposits) with original maturity not exceeding thirty days for the purposes of cash flow statement.

### 2.7 Renegotiated loans

In the event of a default, the Branches may seek to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. When the terms and conditions of these loans are renegotiated, the terms and conditions of the new contractual arrangement apply in determining whether these loans remain past due. If renegotiated terms are substantial, the loan is derecognised and recognised as a new facility with amended terms and conditions. Once the terms have been renegotiated without this resulting in the derecognition of the loan, any impairment is measured using the original effective interest rate as calculated before the modification of terms. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur and its classification between stages.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.8 Property and equipment

Property and equipment other than freehold land are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided on all property and equipment, other than freehold land, at rates calculated to write off the cost of each asset on a straight-line basis over its estimated useful lives.

Freehold land is initially recognised at cost. After initial recognition, freehold land is carried at its revalued amount which is the fair value at the date of revaluation based on valuations by external independent valuers. The resulting revaluation surplus or deficit is recognised, as a separate component under other comprehensive income to the extent the deficit does not exceed the previously recognised surplus. The portion of the revaluation deficit that exceeds a previously recognised surplus is recognised in the statement of profit or loss and other comprehensive income. To the extent that a revaluation surplus reverses a revaluation decrease previously recognised in the statement of profit or loss and other comprehensive income, the increase is recognised in the statement of profit or loss and other comprehensive income. Upon disposal, the revaluation surplus relating to the freehold land sold is transferred directly to retained earnings.

The asset residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end. The estimated useful lives of the assets for the calculation of depreciation are as follows:

Buildings	20 years
Furniture and fixtures	3 years to 5 years
Hardware & software	3 years to 10 years
Vehicles	5 years

The carrying amounts of property and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets are written down to their recoverable amounts and the impairment loss is recognised in the statement of profit or loss and other comprehensive income. Any gain or loss on the disposal of property and equipment other than the revaluation surplus on freehold land is recognised in the statement of profit or loss and other comprehensive income.

## 2.9 Functional and reporting currency

The financial statements have been presented in UAE Dirhams (AED), which is the functional currency of the Branches, rounded to the nearest thousand except when otherwise stated.

The principal accounting policies applied in preparation of these financial statements are set out below.

## 2.10 End of service benefits

With respect to its national employees, the Branches make contributions to a pension fund established by the UAE General Pension and Social Security Authority calculated as a percentage of the employees' salaries. The Branches' obligations are limited to these contributions, which are expensed when due.

The Branches provide end of service benefits to its other employees. The entitlement to these benefits is usually based upon the employees' length of service and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment and are not less than the liability arising under the UAE Labour and National Pension and Social Security Laws.

## 2. Summary of material accounting policies (continued)

### 2.11 Fair value measurement

For those assets and liabilities carried at fair value, the Branches measure fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

The principal or the most advantageous market must be accessible to the Branches. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Fair values of non-financial instruments are measured based on valuation provided by independent valuers.

The fair value of a derivative financial instrument is the equivalent of the unrealised gain or loss from marking to market the derivative financial instrument, using relevant market rates or internal pricing models.

All assets and liabilities for which fair value is measured are categorised and disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. Valuation is derived from recent arm's length transaction, comparison to similar instruments for which market observable prices exists which includes price to book value multiples, price earnings multiples, Net Asset Value issued by the Fund Manager and external quotes.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. Valuation techniques include discounted cash flow method, book value method or other relevant valuation techniques commonly used by market participants. The significant inputs for these valuation techniques include market interest rates, discount rates, terminal growth rate, illiquidity discount and cash flow estimates.

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

## 2. Summary of material accounting policies (continued)

### 2.12 Revenue recognition

Interest income and expenses are recognised on an effective interest basis. Once a financial instrument categorised as amortized cost is impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Interest income and expenses for all interest bearing financial instruments are recognised within the statement of profit or loss and comprehensive income.

Fees and commission that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate. Other fees and commissions are recognised over the period of service.

### 2.13 Foreign currencies

Foreign currency transactions are recorded at rates of exchange ruling at value dates of the transactions. Monetary assets and liabilities in foreign currencies outstanding at the year-end are translated into UAE Dirhams at rates of exchange ruling at the statement of financial position date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are not retranslated. Non-monetary assets and liabilities in foreign currencies that are stated at fair value are translated to UAE Dirhams at the foreign exchange rates ruling at the dates that the values were determined. In case of non-monetary assets whose changes in fair values are recognised directly in other comprehensive income, related foreign exchange differences are also recognised directly in other comprehensive income. For other non-monetary assets foreign exchange differences are recognised directly in the statement of profit or loss.

### 2.14 Contingencies

Contingent assets are not recognised in the financial statements, but are disclosed when an inflow of economic benefit is probable.

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

### 2.15 Provisions

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

### 2.16 Taxes

Taxation is provided for in accordance with local regulations for assessment of tax on branches of foreign banks operating in the relevant tax jurisdiction.

#### 2.16.1 Income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities.

Current income tax relating to items recognised directly in equity or other comprehensive income is recognised in equity or other comprehensive income respectively and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Detailed disclosures are provided in Note 20.

## 2. Summary of material accounting policies (continued)

### 2.16 Taxes (continued)

#### 2.16.2 Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognised for all taxable temporary differences, except:

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of debt instruments at fair value through OCI, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI.

Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

The Branches offset deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 2. Summary of material accounting policies (continued)

## 2.16 Taxes (continued)

## 2.16.3 Value added tax (VAT)

Expenses and assets are recognised net of the amount of VAT, except:

- When VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- When receivables and payables are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## 3. Use of judgements and estimates

The Branches base their judgements and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Branches. The basis used by management in determining the carrying values of loans and advances, freehold land and the underlying risk therein are discussed below:

*Judgements**Classification of financial assets*

The Branches determine the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest on the principal amount outstanding. Refer Note 3 classification of financial assets for more information.

*Estimates*

The key assumptions concerning the future and other key sources of estimates at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

*Fair value measurement*

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Any changes in these estimates as well as the use of different, but equally reasonable estimates may have an impact on their carrying amounts. Considerable judgement by management is required in the estimation of the fair value of the assets acquired and liabilities assumed as a result of business combination including intangibles and contingent liabilities.

*Impairment of financial assets*

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

3. Use of judgements and estimates (continued)

Estimates (continued)

*Impairment of financial assets (continued)*

Elements of the ECL models that are considered accounting judgements and estimates include:

- The Branches' internal credit grading model, which assigns PDs to the individual grades
- The Branches' criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

The Branches regularly review its models in the context of actual loss experience and adjust when necessary.

*Valuation of freehold land*

The fair value of the Branches' freehold land has been determined on the basis of a valuation carried out by appropriately qualified independent valuers with recent experience in the valuation of properties in the relevant location.

Any changes in these estimates and assumptions as well as the use of different, but equally reasonable, estimates and assumptions may have an impact on carrying amounts of loans and receivables, and freehold land.

4. Cash and balances with Central Bank

	2024 AED '000	2023 AED '000
Cash on hand	12,865	7,373
Balances with the UAE Central Bank:		
Cash reserve requirements	256,571	176,541
Interest bearing deposits with the UAE Central Bank	185,000	-
	<hr/>	<hr/>
Cash and balances with the UAE Central Bank as per statement of financial position	454,436	183,914
Deposits with the UAE Central Bank with original maturity of more than thirty days	-	-
	<hr/>	<hr/>
Cash and balances with Central Bank as per statement of cash flows	<u>454,436</u>	<u>183,914</u>

The cash reserve, which is maintained in UAE Dirhams, is determined on a fortnightly basis in accordance with the UAE Central Bank directives and cannot be withdrawn without the UAE Central Bank's approval.

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## 5. Due from banks

	2024 AED '000	2023 AED '000
Deposits with banks	1,248,650	767,553
Current accounts with other banks	9,666	10,276
Deposits and current accounts with related parties	3,392	187,824
	<u>1,261,708</u>	<u>965,653</u>
Less: Allowance for impairment losses	(39)	(59)
	<u>1,261,669</u>	<u>965,594</u>
Less: Deposits with banks with original maturity of more than thirty days	(1,248,650)	(918,125)
	<u>13,019</u>	<u>47,469</u>

## 6. Investment securities

	2024 AED '000	2023 AED '000
Monetary Bills issued by the UAE Central Bank	1,413,730	856,515
US Treasury Bills	218,145	-
	<u>1,631,875</u>	<u>856,515</u>

Both monetary bills and US treasury bills are classified at Fair value through other comprehensive income (FVOCI). Valuation of Monetary Bills is determined based on the quoted bid price and falls under level 1 fair value hierarchy.

As of 31 December 2024, investment securities include Monetary bills amounting to AED 200,000 thousand (2023: AED Nil) provided as collateral under repurchase agreements with banks (Note 11).

## 7. Loans and advances, net

The composition of the loans and advances portfolio is as follows:

## a) By type

	2024 AED '000	2023 AED '000
Loans	3,531,328	2,367,993
Overdrafts	677,646	936,639
Loans against trust receipts	91,474	54,274
Bills discounted	193,296	-
	<u>4,493,744</u>	<u>3,358,906</u>
Less: Allowance for impairment losses including IIS (refer Note 7 c)	(106,781)	(204,225)
	<u>4,386,963</u>	<u>3,154,681</u>

7. Loans and advances, net (continued)

b) *By currency*

	2024 AED '000	2023 AED '000
UAE Dirham	1,634,262	1,722,951
US Dollar	2,859,482	1,635,955
Gross loans and advances	<u>4,493,744</u>	<u>3,358,906</u>

Five customers represent 52% of the total loans and advances portfolio as at 31 December 2024 (2023: 44%).

c) *IFRS 9 Stage wise classification and impairment allowance for loans and advances*

The table below shows the credit quality and the maximum exposure to credit risk based on the Branches' internal credit rating system and year-end stage classification. The amounts presented are gross of impairment allowances and interest in suspense.

*In AED '000*

	2024			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>Performing</i>				
High grade	4,360,581	43,077	-	4,403,658
Standard grade	86,582	2,600	-	89,182
Past due but not impaired	-	-	-	-
<i>Non-performing</i>				
Individually impaired	-	-	904	904
Total	<u>4,447,163</u>	<u>45,677</u>	<u>904</u>	<u>4,493,744</u>

*In AED '000*

	2023			
	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
<i>Performing</i>				
High grade	3,108,431	57,291	-	3,165,722
Standard grade	37,050	12,295	-	49,345
Past due but not impaired	-	-	-	-
<i>Non-performing</i>				
Individually impaired	-	-	143,839	143,839
Total	<u>3,145,481</u>	<u>69,586</u>	<u>143,839</u>	<u>3,358,906</u>

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7. Loans and advances, net (continued)

c) IFRS 9 Stage wise classification and impairment allowance for loans and advances (continued)

An analysis of changes in the gross carrying amount in relation to Loans and advances is, as follows:

2024:

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount as at 1 January 2024	3,145,481	69,586	143,839	3,358,906
New assets originated or purchased	1,877,634	2	-	1,877,636
Assets derecognised or repaid (excluding write offs)	(575,048)	(23,911)	(2)	(598,961)
Interest in suspense for the year	-	-	7,583	7,583
Transfers to Stage 3	(904)	-	904	-
Amounts written off	-	-	(151,420)	(151,420)
At 31 December 2024	<u>4,447,163</u>	<u>45,677</u>	<u>904</u>	<u>4,493,744</u>

Loans and advances in the statement of financial position are stated net of impairment allowances and interest in suspense. The movements for impairment allowances and Interest In Suspense ("IIS") are as follows:

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
ECL allowance as at 1 January 2024	57,420	2,966	143,839	204,225
ECL and IIS charge/(reversal) during the year	47,643	(1,310)	7,581	53,914
Amounts written off	-	-	(151,420)	(151,420)
At 31 December 2024	<u>105,063</u>	<u>1,656</u>	<u>-</u>	<u>106,719</u>

2023:

<i>In AED' 000</i>	<i>Stage 1</i>	<i>Stage 2</i>	<i>Stage 3</i>	<i>Total</i>
Gross carrying amount as at 1 January 2023	2,687,388	50,012	136,127	2,873,527
New assets originated or purchased	1,445,933	-	-	1,445,933
Assets derecognised or repaid (excluding write offs)	(925,668)	(42,598)	-	(968,266)
Interest in suspense for the year	-	-	7,712	7,712
Transfers to Stage 2	(62,172)	62,172	-	-
At 31 December 2023	<u>3,145,481</u>	<u>69,586</u>	<u>143,839</u>	<u>3,358,906</u>

7. Loans and advances, net (continued)

c) IFRS 9 Stage wise classification and impairment allowance for loans and advances (continued)

In AED' 000	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at 1 January 2023	12,683	2,689	84,891	100,263
ECL and IIS charge/(reversal) during the year	45,059	(45)	58,948	103,962
Transfers to Stage 2	(322)	322	-	-
At 31 December 2023	57,420	2,966	143,839	204,225

As at 31 December 2024, gross loans and advances to customers individually determined to be impaired amounted to AED 904 thousand (2023: AED 143,839 thousand) with a specific provision including interest in suspense of AED 62 thousand (2023: AED 143,839 thousand).

The available provision on non-cash facilities is AED 6,801 thousand (2023: AED 14,775 thousand) and is included in other liabilities (Note 13).

For disclosures relating to credit risk management, credit concentration, credit quality by class and credit risk mitigants for loans and advances, refer to Note 24A.

8. Deferred tax assets, net

The following table shows the net deferred tax recorded in the statement of financial position and changes recorded in the Income tax expense:

2024	At 1 January 2024 AED '000	Charge to the statement of P&L AED '000	Charge to OCI AED '000	At 31 December 2024 AED '000
Deferred tax asset on ECL	15,447	1,361	-	16,808
Deferred tax asset on depreciation	-	146	-	146
Total deferred tax asset	15,447	1,507	-	16,954
Deferred tax liability on investment revaluation reserve	-	-	(256)	(256)
Deferred tax liability on Land revaluation reserve	(2,251)	-	(86)	(2,337)
Total deferred tax liability	(2,251)	-	(342)	(2,593)
Deferred tax (Net)	13,196	1,507	(342)	14,361

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## 8. Deferred tax assets, net (continued)

2023	At 1 January 2023 AED '000	Charge to the statement of P&L AED '000	Charge to OCI AED '000	At 31 December 2023 AED '000
Deferred tax asset on ECL	-	15,447	-	15,447
Total deferred tax asset	-	15,447	-	15,447
Deferred tax liability on Land revaluation reserve	-	-	(2,251)	(2,251)
Total deferred tax liability	-	-	(2,251)	(2,251)
Deferred tax (Net)	-	15,447	(2,251)	13,196

## 9. Other assets

	2024 AED '000	2023 AED '000
Interest receivable	25,722	34,025
Others	3,899	9,918
	29,621	43,943

## 10. Property and equipment

During the year, the Dubai Branch revalued its freehold land at AED 19,510 thousand (2023: AED 19,080 thousand). The difference in revaluation has been transferred to other comprehensive income.

The freehold land is valued at the lower of the two valuations obtained from independent valuers with experience and knowledge of the Dubai real estate market. Fair value is determined by reference to active market prices, adjusted for any differences in the nature, location or condition of the specific property. Had the freehold land been measured using the cost model, it's carrying amount as at 31 December 2024 would be AED 7,823 thousand (2023: AED 7,823 thousand).

Freehold land was fair valued using significant valuation inputs based on unobservable market data and is classified under level 3 fair value hierarchy.

	Office Equipment AED'000	Motor Vehicles AED'000	Computer Hardware & Software AED'000	Furniture & Fixtures AED'000	Land AED'000	Building AED'000	Warehouse AED'000	Capital WIP AED'000	Total AED'000
<i>Cost:</i>									
Balance as at 1 January 2024	2,872	471	21,405	8,589	19,080	16,735	-	1,127	70,279
Additions during the year	43	-	1,390	48	-	-	-	2,671	4,152
Revaluation of freehold land	-	-	-	-	430	-	-	-	430
Capital WIP transferred to PPE	161	-	1,624	262	-	-	-	(2,047)	-
Balance as at 31 December 2024	<u>3,076</u>	<u>471</u>	<u>24,419</u>	<u>8,899</u>	<u>19,510</u>	<u>16,735</u>	<u>-</u>	<u>1,751</u>	<u>74,861</u>
<i>Accumulated depreciation:</i>									
Balance as at 1 January 2024	2,548	118	17,339	7,474	-	16,735	-	-	44,214
Depreciation charge for the year	119	94	1,489	391	-	-	-	-	2,093
Balance as at 31 December 2024	<u>2,667</u>	<u>212</u>	<u>18,828</u>	<u>7,865</u>	<u>-</u>	<u>16,735</u>	<u>-</u>	<u>-</u>	<u>46,307</u>
Carrying amount as at 31 December 2024	<u><u>409</u></u>	<u><u>259</u></u>	<u><u>5,591</u></u>	<u><u>1,034</u></u>	<u><u>19,510</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>1,751</u></u>	<u><u>28,554</u></u>

## 10. Property and equipment (continued)

	Office Equipment AED'000	Motor Vehicles AED'000	Computer Hardware & Software AED'000	Furniture & Fixtures AED'000	Land AED'000	Building AED'000	Warehouse AED'000	Capital WIP AED'000	Total AED'000
<i>Cost:</i>									
Balance as at 1 January 2023	2,606	340	20,789	7,701	16,200	16,735	538	327	65,236
Additions / (Disposal) during the year	222	131	83	72	-	-	(538)	2,193	2,163
Revaluation of freehold land	-	-	-	-	2,880	-	-	-	2,880
Capital WIP transferred to PPE	44	-	533	816	-	-	-	(1,393)	-
Balance as at 31 December 2023	2,872	471	21,405	8,589	19,080	16,735	-	1,127	70,279
<i>Accumulated depreciation:</i>									
Balance as at 1 January 2023	2,458	28	15,963	7,247	-	16,735	538	-	42,969
Depreciation for the year	90	90	1,376	227	-	-	-	-	1,783
Disposal of asset	-	-	-	-	-	-	(538)	-	(538)
Balance as at 31 December 2023	2,548	118	17,339	7,474	-	16,735	-	-	44,214
Carrying amount as at 31 December 2023	324	353	4,066	1,115	19,080	-	-	1,127	26,065

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 11. Due to Banks

	2024 AED '000	2023 AED '000
<i>Due to banks</i>		
Sight deposits	22	25
Time deposits	735,881	568,511
Due to Central Bank of the UAE	3,935	0
Due to related parties	40,547	8,777
	<u>780,385</u>	<u>577,313</u>
Due to banks as per statement of financial position		
Due to banks with original maturity of less than thirty days	(257,075)	(444,380)
Due to banks with original maturity of more than thirty days	(478,806)	(124,131)
	<u>44,504</u>	<u>8,802</u>

The Time Deposits includes the repurchase agreements amounting to AED 188,809 thousand as at 31 December 2024 (2023: Nil). Collateral provided as security against these repo borrowings is disclosed in Note 6.

## 12. Customer deposits

	2024 AED '000	2023 AED '000
<i>By type</i>		
Sight deposits	822,110	548,657
Time deposits	5,221,399	3,175,198
	<u>6,043,509</u>	<u>3,723,855</u>
<i>By currency</i>		
UAE Dirham	3,079,224	1,992,844
US Dollar	2,848,640	1,692,533
Others	115,645	38,478
	<u>6,043,509</u>	<u>3,723,855</u>

Five customers account for 46% of the total customers' deposits as at 31 December 2024 (2023: 54.9 %).

## 13. Other liabilities

	2024 AED '000	2023 AED '000
Expected credit loss on contingent liabilities (note 21)	6,801	14,775
Accrued expenses	33,033	28,668
Employees' end of service benefits	11,892	11,669
Interest payable	70,855	55,658
Income Tax payable	11,157	15,792
Others	9,897	15,853
	<u>143,635</u>	<u>142,415</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 14. Designated capital

The UAE Central Bank requires a designated minimum capital of AED 100,000 thousand for branches of foreign banks operating within the United Arab Emirates. The designated capital for the Branches amounted to AED 690,000 thousand as at 31 December 2024 (31 December 2023: AED 690,000 thousand).

## 15. Statutory reserve

As required by Article 239 of Federal Law No. (2) of 2015, 10% of the net profit for the year is to be transferred to a statutory reserve. As such transfers may be discontinued when the reserve equals 50% of the designated capital. During the current year, amount of AED 3,871 thousand (31 December 2023: AED 1,583 thousand) has been transferred to the statutory reserve from the current year profits. This reserve is not available for distribution, except under the circumstances stipulated by the Law.

## 16. Interest income

	2024 AED '000	2023 AED '000
Loans and advances	253,027	188,087
Investment securities, Central Bank and other banks	153,577	160,478
	<u>406,604</u>	<u>348,565</u>

## 17. Interest expense

	2024 AED '000	2023 AED '000
Customer deposits:		
Time deposits	244,032	209,302
Sight deposits	3,305	20,889
Due to banks	20,870	9,112
	<u>268,207</u>	<u>239,303</u>

## 18. Net fees and commission income

	2024 AED '000	2023 AED '000
Fees and commission income	17,020	14,274
Fees and commission expense	(218)	(204)
	<u>16,802</u>	<u>14,070</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 19. Impairment losses on financial assets, net

	2024 AED '000	2023 AED '000
Impairment losses charged on cash credit facilities	46,331	88,763
Impairment losses (reversed)/charged on non-cash credit facilities	(7,974)	(20,276)
Impairment losses charged on non-credit facilities	31	18
Recoveries during the year	(13,826)	(30,618)
	24,562	37,887

## 20. Taxation

*UAE Corporate Tax Law*

Current taxes should be measured at the amount expected to be paid to or recovered from the tax authorities by reference to tax rates and laws that have been enacted or substantively enacted, by the end of the any reporting period. Since the Company is expected to pay tax in accordance with the provision of the UAE CT Law on its operational results with effect from 1 June 2023, current taxes have been accounted for in the financial statements for the period beginning from 1 January 2024.

Deferred taxes should be measured by reference to the tax rates and laws, as enacted, or substantively enacted, by the end of the reporting period, that are expected to apply in the periods in which the assets and liabilities to which the deferred tax relates are realized or settled. As the UAE CT Law is considered "substantive enactment" as at 9 December 2022, for the purposes of IAS 12, the Company considered the application of IAS 12 and any requirements for the measurement and recognition of deferred taxes (if any) for the year ended 31 December 2024. Based on an assessment conducted by the Company's management, there were temporary differences identified where the deferred tax should have been accounted for.

	2024 AED '000	2023 AED '000
Movement in Income tax provision		
Opening balance as at 1 January	15,792	3,599
Income tax paid	(12,442)	(1,007)
Current tax expense in the P&L	7,768	13,200
Current tax expense in the OCI	39	-
Closing balance as at 31 December (Note 13)	11,157	15,792
	2024 AED '000	2023 AED '000
<i>Current tax</i>		
Income tax charge	7,768	13,200
<i>Deferred tax</i>		
Relating to origination and reversal of temporary differences	(1,507)	(15,447)
	6,261	(2,247)

20. Taxation (continued)

Reconciliation of accounting income

	2024 AED '000
Accounting profit before tax	44,970
At United Arab Emirates' statutory income tax rate of 29%	13,041
Adjustments related to Emirate Tax:	
Non-deductible expenses	121
Additional expense on interest expenditure (Article 11)	(112)
Federal tax credit	(1,883)
Other adjustments	(4,894)
Adjustments related to federal Tax:	
Non-deductible expenses	10
Effect of standard exemption	(23)
Income tax expense / (credit) reported in the income statement	6,261
Effective tax rate	13.92%

21. Commitments and contingent liabilities

	2024 AED '000	2023 AED '000
<i>Contingent liabilities</i>		
Guarantees	140,408	113,967
Letters of credit	58,577	201,281
Acceptances	2,341,660	3,531,443
	2,540,645	3,846,691
Less: Allowances for impairment losses	(6,801)	(14,775)
	2,533,844	3,831,916

The above balances represent the irrevocable contractual amounts of the Branches' off-balance sheet financial instruments that commit the Branches to make payments on behalf of the customers in the event of a specific act. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced and that any collateral or other security is of no value. The total contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments may expire or terminate without being funded. Total commitments to extend credit at the statement of financial position date amounted to AED 428,537 thousand (2023: AED 273,600 thousand).

As at 31 December 2024, the gross balance of contingent liabilities in Stage 1 and Stage 2 amounted to AED 2,517,557 thousand and AED 8,961 thousand, respectively (31 December 2023: AED 3,786,736 thousand and AED 37,531 thousand respectively). The ECL for Stage 1 and Stage 2 amounted to AED 1,420 thousand and AED 272 thousand, respectively (31 December 2023: AED 964 thousand and AED 365 thousand respectively). The credit impaired balance in Stage 3 amounted to AED 14,126 thousand against which a specific provision of AED 5,109 thousand has been taken (31 December 2023: AED 22,423 thousand against which a specific provision of AED 13,446 thousand).

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 22. Derivative financial instruments

In the normal course of its business, the Branches utilise derivative financial instruments to manage their exposure to fluctuations in foreign exchange rates. Derivative transactions result, to varying degrees, in credit as well as market risks.

The Branches' measure of derivative related credit risk is the cost of replacing contracts at current market rates should the counterparty defaults on or prior to the settlement date, and is limited to the positive fair value of instruments that are favourable to the Branches.

Market risk arises as foreign exchange rates fluctuate affecting the value of a contract. For risk management purposes and to control these activities, the Branches have established appropriate procedures and limits approved by the Head Office.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their contractual amounts. The contractual amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The contractual amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

	2024			2023		
	Positive fair value AED '000	Negative fair value AED '000	Notional amounts AED '000	Positive fair value AED '000	Negative fair value AED '000	Notional amounts AED '000
Forward foreign exchange contracts	1,702	1,846	1,482,478	8,318	8,107	1,262,966

Forward foreign exchange contracts are contractual agreements to buy, sell or exchange a specified financial instrument at a specific price and date in the future.

All derivative contracts are fair valued based on observable market inputs and are classified as level 2.

## 23. Related party transactions

Related parties represent the Head Office, directors of the Head Office, major shareholders of Head Office, senior management personnel of the Head Office and Branches, transactions with close members of their families and entities controlled, jointly controlled or significantly influenced by such parties. The terms of these transactions are approved by the Head Office's management.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 23. Related party transactions (continued)

The year end balances in respect of related parties which arise in the ordinary course of business, included in the statement of financial position are as follows:

	2024 AED '000	2023 AED '000
<i>Deposits and current account with related parties</i>		
Deposits with Head Office (note 5)	-	183,625
Current account with Head Office (note 5)	3,392	4,199
Bills discounted	183,625	-
	<u>187,017</u>	<u>187,824</u>
<i>Borrowings from and current accounts due to related parties</i>		
Borrowings from Head Office and its subsidiaries (note 11)	40,547	8,777
	<u>40,547</u>	<u>8,777</u>
<i>Due to Directors</i>		
Deposits (included in customers' deposits)	591	-
	<u>591</u>	<u>-</u>

Related party transactions, which arise in the ordinary course of business, included in the statement of profit or loss and other comprehensive income are as follows:

	2024 AED '000	2023 AED '000
<i>Related parties</i>		
Interest income	2,335	9,158
Interest expense	8,939	4,280
Management fees (included in other operating expenses)	20,599	18,071
	<u>20,599</u>	<u>18,071</u>

The details of deposits and credit facilities granted to senior management of the Bank and the Branches:

	2024 AED '000	2023 AED '000
Loans	133	-
Deposits	34,272	14,168
	<u>34,272</u>	<u>14,168</u>

The details of compensation for key management of the Branches:

	2024 AED '000	2023 AED '000
Salaries and other benefits	4,453	4,024
End of service benefits	146	116
	<u>4,599</u>	<u>4,140</u>

## 24. Risk management

### Introduction

Risk is inherent in the Branches' activities but is managed through a process of ongoing risk identification, measurement and monitoring and by setting risk limits and controls. This process of risk management is critical to the Branches' continuing profitability and each individual within the Branches is accountable for the risk exposures relating to his or her area of responsibilities. The Branches have established comprehensive risk frameworks for managing all material risks. The frameworks address the risk identification, measurement and monitoring processes of all material risks across the Branches. Risk management is embedded in the decision-making process on all risk types to enable Branches to manage the risks assumed within acceptable levels.

Descriptions of the risk appetite statement along with the risks identified and the methodology used to manage those risks are stated below:

### A Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Branches manage credit risk by setting limits for individual borrowers and groups of borrowers and for geographical and industry segments. The Branches also monitor credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Branches obtain security where appropriate, enter into master netting arrangements and collateral arrangements with counterparties, and limits the duration of exposures.

The maximum exposure to credit risk, as at the reporting date, is represented by the carrying amount of each financial asset in the statement of financial position.

For details of the composition of the loans and advances portfolio refer to Note 7.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Branches' performance to developments affecting a particular industry or geographic location.

The Head Office has an internal committee which is composed of competent professional staff and which has as its purpose to study and evaluate the existing credit facilities of each customer of the Branches. This committee is required to identify any abnormal situations and difficulties associated with a customer's position, which might cause the debt to be classified as irregular, and to determine an appropriate provisioning level.

### 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## A Credit risk (continued)

## Significant increase in credit risk (continued)

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

- Significant deterioration of credit risk rating of the borrower with consideration to relative increase in PD.
- Accounts expired (pending renewal) for a period of 6 months or more (excluding all accounts with technical reasons).
- Contractual disputes between borrower and contracting entity, leading to detrimental impact on the borrower's cash flow.
- Management dispute or loss of key management personnel leading to detrimental impact on borrowers' repayment capacity.
- Restructured accounts where there is principal haircut, or a standstill agreement is signed or where the restructured account carries specific provision.
- In the case of retail portfolio, qualitative indicators such as fraudulent customers, and death of customer.

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

## Event of default

The Branches consider a financial asset to be in default and therefore Stage 3 (credit impaired) for ECL calculations when:

- the borrower is unlikely to pay its credit obligations to the Branches in full, without recourse by the Branches to actions such as realising security (if any is held);
- the borrower is past due more than 90 days on any material credit obligation to the Branches; or borrower is considered as credit impaired based on qualitative assessment for internal credit risk management purposes.

Any credit impaired or stressed facility that has been restructured would also be considered as in default. The restructured facilities would be required to complete the moratorium period (if any) and meet the scheduled payments (all on current basis) for at least 1 year, or as determined by the Branches for consideration for moving the facility to stage 2/stage 1.

The Branches consider investments and interbank balances as in default when the coupon or principal payment is past due for 1 day. The Branches consider externally-rated portfolio with ratings 'D' for S&P and Fitch, and 'C' for Moody's as defaulted.

## 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 (CRE) as its internal credit-rating engine. The CRE 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## A Credit risk (continued)

## 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 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.

## Derivative financial instruments

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, as recorded in the statement of financial position.

## Credit-related commitments risks

The Branches make available to its customers, financial guarantees which may require that the Branches make payments on their behalf. Such payments are collected from customers based on the terms of the financial guarantees. They expose the Branches to similar risks to loans and advances and these are mitigated by the same control processes and policies.

## Credit concentration risks

The distribution of financial assets and contingent liabilities by geographic region and industry sector are as follows:

	2024		2023	
	Assets AED '000	Contingent liabilities AED '000	Assets AED '000	Contingent liabilities AED '000
<i>Geographic region:</i>				
Domestic (UAE)	5,833,877	1,603,832	3,884,851	2,374,096
Kuwait	549,983	3,428	466,214	3,595
Other Middle East	918,217	566,135	214,305	367,250
Rest of the world	37,681	367,250	404,055	1,101,750
Europe	184,771	-	220,217	-
United States of America	225,493	-	6,431	-
Total	<u>7,750,022</u>	<u>2,540,645</u>	<u>5,196,073</u>	<u>3,846,691</u>
<i>Industry sector:</i>				
Government	2,890,757	18	1,695,200	18
Banks and other financial institutions	2,992,988	3,106	1,124,327	3,323
Construction and real estate	878,560	51,806	563,913	22,466
Trading and manufacturing	332,851	2,431,950	444,770	3,763,943
Other	654,866	53,764	1,367,863	56,941
Total	<u>7,750,022</u>	<u>2,540,644</u>	<u>5,196,073</u>	<u>3,846,691</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## A Credit risk (continued)

## Maximum exposure and credit quality of financial instruments

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

The table also shows the credit risk exposure by credit quality of financial assets (net of provisions) by class, grade and status.

2024

	Neither past due nor impaired			Past due or individually impaired AED '000	Total maximum Exposure AED '000
	High Grade AED '000	Standard Grade AED '000	Sub-standard Grade AED '000		
Cash reserve with Central Bank of UAE	256,571	-	-	-	256,571
Deposits with Central Bank of UAE	185,000	-	-	-	185,000
Deposits with banks	1,261,669	-	-	-	1,261,669
Loans and advances	4,297,486	88,573	-	904	4,386,963
Investment Securities	1,631,875	-	-	-	1,631,875
Other assets	27,944	-	-	-	27,944
	<u>7,660,545</u>	<u>88,573</u>	<u>-</u>	<u>904</u>	<u>7,750,022</u>

2023

	Neither past due nor impaired			Past due or individually impaired AED '000	Total maximum Exposure AED '000
	High Grade AED '000	Standard Grade AED '000	Sub-standard Grade AED '000		
Cash reserve with Central Bank of UAE	176,541	-	-	-	176,541
Deposits with banks	965,594	-	-	-	965,594
Loans and advances	3,106,852	47,829	-	-	3,154,681
Investment Securities	856,515	-	-	-	856,515
Other assets	42,742	-	-	-	42,742
	<u>5,148,244</u>	<u>47,829</u>	<u>-</u>	<u>-</u>	<u>5,196,073</u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## A Credit risk (continued)

## Maximum exposure and credit quality of financial instruments (continued)

The credit risk exposures relating to contingencies amounted to AED 2,540,645 thousand (31 December 2023: AED 3,846,691 thousand).

The high, standard and acceptable grades of classification of financial assets is based on inherent credit quality of the counterparties, the assessed risk profile, acceptability and availability of collateral in accordance with the Branches' internal rating model. The borrower risk rating model takes into consideration key factors, such as business trends, management, financials, collaterals, etc., which are duly weighted to arrive at the rating. These ratings changes/migrations are monitored annually. Grading of balances with banks and loans to banks is based on the external rating of the counterparties.

Where financial instruments are recorded at fair value, the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

## Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are cash, securities, and charges over real estate properties and counter-guarantees. At 31 December 2024, of the total outstanding loans and advances, AED 2,551,621 thousand (31 December 2023: AED 1,385,931 thousand) were secured with eligible collateral value of AED 2,306,764 thousand (31 December 2023: AED 1,236,005 thousand).

## Impairment Reserve under the Central Bank of UAE (CBUAE) Guidance

Per the Credit Risk Management Regulation and accompanying Standards, Circular No. 3/2024 dated 25/7/2024 issued by CBUAE, Banks must ensure that total provision corresponding to corresponding to Stage 1 and Stage 2 exposures is not less than 1.5% of the CRWA as computed under the CBUAE capital regulations. Where the collective provisions held are lower, the shortfall must be deducted from current year income. Alternatively, the shortfall in provisions may be held in a dedicated non-distributable balance sheet reserve called the 'impairment reserve-general'. The amount held in impairment reserve general must be deducted from the capital base (Tier 1 capital for Banks) when computing the regulatory capital.

	2024 AED '000	2023 AED '000
Minimum provision for Stage 1 & 2 exposures as per CBUAE requirements	47,200	37,464
Less: Stage 1 and stage 2 impairment provision taken against income *	108,574	61,850
General impairment reserve	16,235	16,235
	<u>124,809</u>	<u>78,085</u>
Regulatory Stage 1 and stage 2 impairment provision (including reserve)		
Stage 1 and stage 2 impairment provision (including reserve) as on 01 January	78,085	34,222
Add: Stage 1 and stage 2 impairment provision taken against income (net)	46,724	43,863
	<u>124,809</u>	<u>78,085</u>
Stage 1 and stage 2 impairment provision (including reserve) as on 31 December	<u>124,809</u>	<u>78,085</u>

\* Includes stage 1 and 2 ECL relating to loans and advances to banks and customers, debt securities and due from head office and branches abroad and contingent and commitments.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## B Liquidity risk

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

Liquidity risk is the risk that the Branches will encounter difficulty in raising funds to meet commitments associated with financial investments. Liquidity risk may also result from an inability to sell a financial asset quickly at close to its fair value. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, the management has diversified funding sources and assets are managed with liquidity in mind and the management monitors liquidity on a daily basis.

The contractual amounts of gross settled derivative positions amounting to AED 876,020 thousand (31 December 2023: AED 1,116,146 thousand) expire within three months.

All acceptances and letters of credit commitments expire within a period not exceeding one year. 99% (31 December 2023: 95%) of the guarantees expire within one year.

The table below summarises the maturity profile of the Branches' assets and liabilities. The maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the expected maturity date, except for property and equipment which has been determined based on management's estimate of liquidation of those assets.

The actual maturities may differ from the maturities shown below since the borrower may have the right to prepay obligations with or without prepayment penalties, and customers' deposits might have to be repaid on demand.

The maturity profile of the assets and liabilities are as follows:

2024	Less than one month AED '000	One month to one year AED '000	One year to five years AED '000	Over five years AED '000	Total AED '000
<b>ASSETS</b>					
Cash and deposits with Central Bank of UAE	454,436	-	-	-	454,436
Deposits with banks	86,469	1,175,200	-	-	1,261,669
Loans and advances	752,060	1,441,370	1,212,218	981,315	4,386,963
Investment securities	237,394	1,394,481	-	-	1,631,875
Property and equipment	-	-	-	28,554	28,554
Deferred tax assets, net	-	-	14,361	-	14,361
Other assets	29,185	-	-	436	29,621
<b>Total</b>	<b>1,559,544</b>	<b>4,011,051</b>	<b>1,226,579</b>	<b>1,010,305</b>	<b>7,807,479</b>
<b>LIABILITIES</b>					
Other liabilities	131,743	-	-	11,892	143,635
Due to banks	591,579	188,806	-	-	780,385
Customers' deposits	1,903,873	3,829,556	301,739	8,341	6,043,509
<b>Total</b>	<b>2,627,195</b>	<b>4,018,362</b>	<b>301,739</b>	<b>20,233</b>	<b>6,967,529</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## B Liquidity risk (continued)

2023	Less than one month AED '000	One month to one year AED '000	One year to five years AED '000	Over five years AED '000	Total AED '000
<b>ASSETS</b>					
Cash and deposits with Central Bank of UAE	183,914	-	-	-	183,914
Deposits with banks	451,444	514,150	-	-	965,594
Loans and advances	675,739	912,430	1,321,148	245,364	3,154,681
Investment securities	404	856,111	-	-	856,515
Property and equipment	-	-	-	26,065	26,065
Deferred tax assets, net	-	-	13,196	-	13,196
Other assets	43,507	-	-	436	43,943
<b>Total</b>	<b>1,355,008</b>	<b>2,282,691</b>	<b>1,334,344</b>	<b>271,865</b>	<b>5,243,908</b>
<b>LIABILITIES</b>					
Other liabilities	111	130,635	-	11,669	142,415
Due to banks	577,313	-	-	-	577,313
Customers' deposits	1,392,663	1,728,100	595,240	7,852	3,723,855
<b>Total</b>	<b>1,970,087</b>	<b>1,858,735</b>	<b>595,240</b>	<b>19,521</b>	<b>4,443,583</b>

Maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date and do not take account of the effective maturities as indicated by the Branches' deposit retention history and the availability of liquid funds.

## C Market risk

Market risk mainly arises from fluctuations in interest rates and foreign exchange rate. The Branches have set limits on the value of risk that may be accepted. This is monitored on a regular basis by the management.

## C.1 Interest rate risk

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 Branches are exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities. The Board of Directors of the Branches has established limits on the interest rate gaps for stipulated periods. The Branches manage this risk by matching the repricing of assets and liabilities through risk management strategies.

The sensitivity of the statement of profit or loss and other comprehensive income 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 2024.

The following table reflects the effect of 200 basis points change in interest rates on the statement of profit or loss and other comprehensive income, with all other variables held constant.

	2024 AED '000	2023 AED '000
All currencies	8,700	22,247

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 24. Risk management (continued)

## C Market risk (continued)

## C.1 Interest rate risk (continued)

## Interest rate benchmark reform

As at 31 December 2024 the Branches' exposure to unreformed financial asset contracts that are linked to USD LIBOR amounts to Nil (31 December 2023: AED Nil).

The Branches do not have exposure to any USD LIBOR linked financial liabilities.

## C.2 Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Board of Directors of the Head Office has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits. The Branches use forward foreign exchange contracts to manage its currency risks.

USD is the major foreign currency. Since AED is pegged to USD there is no effect on net profit and all other currency exposures are not significant.

## C.3 Prepayment risk

Prepayment risk is the risk that the Branches will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected such as fixed rate loans and advances when interest rates fall. Majority of the Branches' interests bearing financial assets are at floating rates. Also, the interest bearing financial liabilities (except for the Head Office) have a maturity of less than 1 year and, accordingly, the Branches are not exposed to significant prepayment risk.

## D Operational risk

Operational risk is the risk of loss caused by failures in operational processes, people, fraud, external events and system failures that supports operational processes. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Branches cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Branches are able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

The Branches manage this risk by setting policies and procedures, which are approved by the Board of Directors of the Head Office and are applied to identify, assess and supervise operational risk in addition to other types of risks relating to the banking and financial activities of the Branches. The Branches manage operational risk through the Risk Management Division of the Branches and the guidance of Head Office.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2024

## 25. Regulatory capital

The Central Bank of the UAE ("CBUAE") sets and monitors capital requirements for the Branches. Effective from 2017, the capital is computed at the Branches level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

Minimum Capital Requirements

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

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

The Branches' regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes assigned capital, statutory reserve and retained earnings, after deductions for goodwill and intangible assets, if any.
- Tier 2 capital includes general provisions (eligible up to 1.25% of Credit RWA) and qualifying sub-ordinated liabilities. The Bank currently does not have any sub-ordinated liabilities as of 31 Dec 2024.

Total capital, calculated as sum of Tier 1 capital and Tier 2 capital, must be at least 10.5% of Risk Weighted Assets (RWA). During the year ended 31 December 2024, the Branches had complied with the CBUAE minimum capital requirements.

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

	2024 AED '000	2023 AED '000
Tier 1 capital		
Designated capital	690,000	690,000
Statutory and voluntary reserve	45,243	39,195
Retained earnings	82,789	29,831
Regulatory deductions: Deferred tax asset	-	(15,447)
Other intangibles	(4,141)	-
	<u>813,891</u>	<u>743,579</u>
Tier 2 capital		
Collective provision	39,333	31,220
Total capital base	<u>853,224</u>	<u>790,631</u>
Risk-weighted assets		
Credit Risk	3,146,643	2,497,624
Market Risk	1,719	167
Operational Risk	232,156	180,019
Total risk-weighted assets	<u>3,380,518</u>	<u>2,677,810</u>
Capital Adequacy Ratio	<u>25.24%</u>	<u>29.53%</u>

26. Approval of the financial statements

The financial statements were approved on behalf of the Head Office and authorised for issue on 27 March 2025.