# REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December, 2024

The National Bank of Ras Al-Khaimah (P.S.C.)

These audited financial statements are subject to adoption by shareholders at the annual general meeting.

## TABLE OF CONTENTS


| | |
|---|---|
| Directors' report to the shareholders | 2 – 6 |
| Independent auditor's report | 7 – 12 |
| Consolidated statement of financial position | 13 |
| Consolidated statement of profit or loss | 14 |
| Consolidated statement of comprehensive income | 15 |
| Consolidated statement of changes in equity | 16 |
| Consolidated statement of cash flows | 17 |
| Notes to the consolidated financial statements | 18 – 157 |

## DIRECTORS' REPORT TO THE SHAREHOLDERS

***For and on behalf of the Board of Directors***

We are proud and excited to present the financial and operational results of RAKBANK (the "Bank") and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2024. Group Profit after tax for the year at AED 2,075.6 million is up 16.4% over the previous year. Total Assets stood at AED 88.3 billion, increasing by 19.4% over 2023. Gross Loans and Advances closed at AED 50.1 billion, up by 19.3% over the previous year. Deposits grew by 18.4% with current and savings deposit (CASA) growing by AED 3.6 billion and time deposits growing by AED 5.6 billion. The Return on Average Assets ratio for the year was 2.6% remaining at same level compared to previous year and Return on Average Equity was 18.4%, compared to 18.4% in 2023.

***Financial performance***

The increase in Profit before tax by AED 480.6 million was mainly due to increase in Net interest income and net income from Islamic financing by AED 225.7 million, Non-interest income by AED 82.6 million, decrease in net impairment charge by AED 229.5 million partly offset by increase in operating expenses by AED 57.2 million.

Gross interest income and income from Islamic financing increased by AED 664.9 million which was offset by increase in Interest expense and distributions to depositors by AED 439.2 million that resulted in total increase in Net interest income and net income from Islamic financing of AED 225.7 million.

Non-Interest Income increased by AED 82.6 million to AED 1,150.5 million. This was mainly due to an increase of AED 25.5 million in foreign exchange and derivative income due to increase in customer volumes and increase in investment income by AED 39.4 million.

Operating Expenses increased by AED 57.2 million compared to the previous year. Increase in expenses was mainly due to staff and outsourcing costs, technology costs, marketing expenses partially offset by a decrease in credit card expenses. The Group's Cost to income ratio improved to 35.2% compared to 36.4% for the previous year.

Operating Profit before net impairment charge and tax increased by AED 251.2 million from 2023. Net impairment charge for the year decreased by AED 229.5 million compared to the previous year. Decrease in net impairment charge is driven by a shift in the business mix towards secured low risk assets with better portfolio performance, coupled with benign credit environment.

Tax expense increased by AED 188.7 million in current year compared to previous year. This increase is attributable to taxation on income generated in current year while in previous year deferred tax was accounted in line with newly enacted tax laws in UAE.

***Financial performance (continued)***

The Non-Performing Loans and Advances to Gross Loans and Advances ratio improved to 2.1% from 2.6 % in the previous year. Additionally, the net impairment charge to average loans and advances decreased to 1.7% in 2024 compared to 2.5% in 2023.

Total Assets increased by 19.4% to AED 88.3 billion compared to 2023. This was mainly due to an increase in Gross Loans and Advances by AED 8.1 billion, Investments by AED 3.4 billion, Cash and Balance with CBUAE by AED 3.0 billion. Wholesale Banking and Financial Institutions lending increased by AED 4.2 billion, Retail banking lending by AED 3.2 billion and Business Banking lending by AED 0.7 billion respectively compared to prior year.

Customer deposits grew by AED 9.3 billion to AED 59.6 billion compared to 2023. This growth came mainly from an increase of AED 5.6 billion in Time Deposits and increase of AED 3.6 billion in CASA accounts.

After taking into consideration the profit after tax for 2024 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 18.1% at 31 December 2024 as compared to 17.8% at 31 December 2023. This level of capital provides the Bank with adequate room for growth in 2024. The regulatory Eligible Liquid Asset Ratio at the end of the year was 16.4%, compared to 13.0% for the previous year. The Lending to Stable Resources ratio stood at a comfortable 80.2% compared to 82.1% at the end of 2023.

***Ratings***

The Bank is currently rated by the following agencies. The ratings are given below:

| **Rating Agency** | **Last update date** | **Deposits** | **Outlook** |
|---|---|---|---|
| Moody's | March 2024 | Baa1 / P-2 | Stable |
| Fitch | March 2024 | BBB+ / F2 | Stable |
| Capital Intelligence | August 2024 | A / A1 | Stable |

***Regulatory disclosure***

During the year, the Group has engaged its external auditor PricewaterhouseCoopers for non-audit services. Total payment made during the year for non-audit services amount to AED 1.5 million.

***Key Achievements***

Our strategic transformation is steadily advancing as we work towards becoming a 'digital bank with a human touch.'

Some highlights include:

- We became the first bank in the GCC to issue a Social Finance Bond. The proceeds are directly supporting SMEs and the healthcare sector, aligned with the "We the UAE 2031" vision.

- We proudly launched our Microfinance product, aimed at meeting the financial needs of the underbanked & financially excluded segments. With approx. 350,000 loans disbursed while we helped over 100,000 customers.

- We have also launched Skiply 2.0. Our family super app that has evolved to cover a wide range of family needs, including school fees, extracurricular activities, tuition payments, and more, with 176,000 users 296,000 Students and 315 Educational institutions now on the platform.

- In Wholesale Banking, we grew our client base by 16%, launched new escrow and trade finance services, and strengthened our partnerships with institutions across Ras Al Khaimah, Abu Dhabi, and Dubai.

- The launch of our new digital account opening journey for our SME customers.

- We established the AI Lab, focusing on leveraging artificial intelligence to enhance productivity and customer experience. The Lab's efforts support "Mission Zero"—zero errors, zero delays, and zero complaints.

- 'Equal Payment Plans' for credit cards were introduced via the mobile app, achieving 60% digitization of this service within one month.

- Full integration was achieved with Western Union for remittances and Aani for domestic payments.

- This year was also about partnerships and community. Collaborating with global leaders like Microsoft, Bitpanda, Oracle, and Western Union, we enhanced our offerings, making financial services more accessible and convenient.

- Our colleague-led councils have also continued to play an active role in supporting the communities we serve with over 800 hours dedicated to financial literacy and other volunteering throughout 2024.

***Recognition in 2024***

2024 broke the record as a year of awards and accolades for RAKBANK, and that is reflected through the 45 prestigious awards our Bank has won on numerous stages and across various categories. These accolades are the rewards for our commitment to innovation, excellence, and most importantly, customer obsession.

We would like to highlight a few:

- MENA Banking Excellence Awards – MENA SME Bank of the Year
- Middle East Banking AI & Analytics Summit Awards – Best Use Case of AI & Analytics in Cybersecurity
- The Digital Banker (Digital CX Awards) – Best Digital CX (SME Account Opening and Customer Onboarding)
- The Digital Banker – Best Digital Banking Solution (Skiply)
- The Digital Banker – Best Payments Platform Initiative (Skiply)
- Global CISO Award - Outstanding Achievement in Cybersecurity
- MEA Finance – Best User Experience in Payments (Skiply)
- Infosys Finacle Innovation Award - Business Banking Group (BBG) and IT - "Maximising Customer Engagement"
- International Finance Awards – Most Innovative Home Loan Product in the UAE (Home in One)
- ABF Retail Banking Awards 2024 - Website of the Year; Best Fintech Start-up and the Best Payments Solution (Skiply)
- MEA Finance Banking & Technology Awards - Best Cybersecurity and Risk Management Implementation

## DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

***Outlook for 2025***

2024 was a year of significant milestones with record profitability. The performance furthers our confidence in our strategy and ability to deliver sustainable and scalable results through continued diversification and digitization.

While concerns of a global recession have receded, we remain watchful of policy changes in key economies as inflation remains above long-term targets. This, coupled with potential changes to economic policy in the United States post the presidential election, continues to create an uncertain global outlook. Despite this uncertainty, the UAE has shown exceptional resilience and robust growth. With increased Government investment and spending on infrastructure and a thriving non-oil economy across tourism, real estate, trade, and logistics, supported by population growth across the Emirates, the economic diversification agenda established by the UAE leadership continues to remain on track.

With that backdrop, and the significant progress made on the Bank's transformation program, we remain optimistic for the year ahead with a focus on progressing our digital transformation to deliver a hype-personalized and seamless customer experience. We will continue to invest in technology, including emerging capabilities in AI, to drive sustainable and scalable growth. Alongside this, we remain committed to supporting our customers across all business lines with their aspirations and in their moments of truth. We believe this strategy will continue to deliver sustainable growth for our shareholders and allow us to continue to support the communities we operate in, our home emirate of Ras Al-Khaimah and the UAE.



**Mohamed Omran Alshamsi**
**Chairman**

23 January 2025

# Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C)

## Report on the audit of the consolidated financial statements

### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The National Bank of Ras Al-Khaimah (P.S.C) (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

**What we have audited**

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2024;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

### 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 consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

# Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

## Our audit approach

### Overview

| Key Audit Matters | Measurement of Expected Credit Losses |
|---|---|

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Measurement of Expected Credit Losses ("ECL")** | |
| The Group applies ECL provisions on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments and performance guarantees.<br><br>The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria subject to ECL. | We performed the following audit procedures on computation and reasonableness of the ECL provision included in the Group's consolidated financial statements for the year ended 31 December 2024.<br><br>We tested the completeness and accuracy of the data used in the calculation of ECL provision.<br><br>For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria, including the basis for movement between the stages.<br><br>We involved our internal experts for the new ECL models developed and implemented by the management to assess the following areas:- |

## Our audit approach (continued)

### **Key audit matters** (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of such collateral.<br><br>The Group's impairment policy under IFRS 9 Financial Instruments is presented in Note 3 (g) to the consolidated financial statements.<br><br>Measurement of ECL is considered as a key audit matter as the Group applies significant judgments, estimates, the use of complex models and this has a material impact on the consolidated financial statements of the Group. | • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9 Financial Instruments.<br>• Reasonableness and appropriateness of the methodology and assumptions used in calculation of various components of ECL modelling including the computation of Probability of Default (PD), Loss Given Default (LGD) and Exposure At Default (EAD) for the models selected for testing.<br>• Reasonableness of the key assumptions made in developing the modelling framework including assumptions used for Significant Increase in Credit Risk (SICR) and for estimating forward-looking scenarios.<br>• For a sample of exposures, we recomputed ECL provisions for selected portfolios across different stages to assess mathematical integrity of the ECL computation.<br><br>We performed an independent credit assessment for a sample of exposures, including stage 3 exposures, by assessing quantitative and qualitative factors, including as necessary, assessment of financial performance of the borrower, assessment of financial performance of the borrower, source of repayments and its history, credit risk mitigation through discounted future cash flows of the borrower including collateral and other relevant risk factors.<br><br>We assessed the adequacy of the disclosures made in the Group's consolidated financial statement around ECL provisions as required by IFRS Accounting Standards. |



# Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

## Other information

The Directors are responsible for the other information. The other information comprises the Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Annual report is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the Annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of Directors and those charged with governance for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the UAE Federal-Decree Law No. (32) of 2021, and Article (114) of the Decretal Federal Law No. (14) of 2018, as amended, and for such internal control as Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

pwc

# Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of the Directors' 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 Group's 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 consolidated 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 Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

# Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

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

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 consolidated 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.

## Report on other legal and regulatory requirements

As required by the UAE Federal-Decree Law No. (32) of 2021, we report that:

(i) we have obtained all the information we considered necessary for the purposes of our audit;
(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal-Decree Law No. (32) of 2021;
(iii) the Group has maintained proper books of account;
(iv) the financial information included in the Directors' report to the shareholders is consistent with the books of account of the Group;
(v) as disclosed in note 7 to the consolidated financial statements the Group has purchased or invested in shares during the year ended 31 December 2024;
(vi) note 36 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
(vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2024 any of the applicable provisions of the UAE Federal-Decree Law No. (32) of 2021, or in respect of the Bank, it's Articles of Association which would materially affect its activities or its financial position as at 31 December 2024; and
(viii) note 43 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2024.

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

PricewaterhouseCoopers Limited Partnership - RAK Branch
23 January 2025

Douglas O'Mahony
Registered Auditor Number 834
Dubai, United Arab Emirates

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2024

| | Notes | 2024 AED'000 | 2023 AED'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with UAE Central Bank | 4 | **8,770,312** | 5,725,115 |
| Due from other banks, net | 5 | **12,360,600** | 12,386,496 |
| Investment securities measured at fair value | 7 | **9,159,322** | 6,038,538 |
| Investment securities measured at amortised cost | 7 | **7,444,281** | 7,199,529 |
| Loans and advances, net | 6 | **47,223,940** | 39,467,500 |
| Reinsurance contract assets | 15 | **231,578** | 176,312 |
| Customer acceptances | | **406,612** | 273,350 |
| Other assets | 8 | **1,682,252** | 1,740,849 |
| Property and equipment | 10 | **552,246** | 485,153 |
| Right-of-use assets | | **117,632** | 109,821 |
| Goodwill and intangible assets | 9 | **376,632** | 351,971 |
| **Total assets** | | **88,325,407** | 73,954,634 |
| **LIABILITIES AND EQUITY** | | | |
| **LIABILITIES** | | | |
| Due to other banks | 12 | **7,099,475** | 6,717,589 |
| Deposits from customers | 13 | **59,649,678** | 50,395,142 |
| Customer acceptances | | **406,612** | 273,350 |
| Debt securities issued and other long-term borrowings | 14 | **4,937,818** | 3,482,001 |
| Insurance contract liabilities | 15 | **481,321** | 383,311 |
| Other liabilities | 16 | **2,922,985** | 2,231,677 |
| Lease liabilities | | **106,807** | 103,304 |
| Deferred tax liability | 11 | **8,921** | 13,733 |
| Subordinated note | 17 | **915,111** | - |
| **Total liabilities** | | **76,528,728** | 63,600,107 |
| **EQUITY** | | | |
| Share capital | 18 | **2,011,495** | 2,011,495 |
| Legal reserve | 19 | **1,128,804** | 1,128,804 |
| Retained earnings | | **5,458,933** | 4,019,394 |
| Other reserves | 20 | **3,166,371** | 3,167,378 |
| **Equity attributable to owners of the Bank** | | **11,765,603** | 10,327,071 |
| Non-controlling interests | 21 | **31,076** | 27,456 |
| **Total equity** | | **11,796,679** | 10,354,527 |
| **Total Liabilities and Equity** | | **88,325,407** | 73,954,634 |

These consolidated financial statements were duly approved and authorised for issue by the Board of Directors on 23 January 2025 and signed on their behalf by:

Mohamed Omran Alshamsi
Chairman

Raheel Ahmed
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2024

| | Notes | 2024<br>AED'000 | 2023<br>AED'000 |
|---|---|---|---|
| Interest income | 22 | **4,567,907** | 3,951,066 |
| Interest expense | 22 | **(1,407,018)** | (1,039,765) |
| **Net interest income** | | **3,160,889** | 2,911,301 |
| Income from Islamic financing | 23 | **666,549** | 618,490 |
| Distribution to depositors | 23 | **(265,401)** | (193,501) |
| **Net income from Islamic financing** | | **401,148** | 424,989 |
| **Net interest income and net income from Islamic financing** | | **3,562,037** | 3,336,290 |
| Net fees and commission income | 24 | **643,950** | 660,413 |
| Foreign exchange & derivative income | | **351,613** | 326,086 |
| Investment income | 25 | **88,070** | 48,672 |
| Insurance income | | **647,218** | 592,160 |
| Insurance expense | | **(692,174)** | (632,959) |
| Other operating income | 26 | **111,808** | 73,534 |
| **Non-interest income** | | **1,150,485** | 1,067,906 |
| **Operating income** | | **4,712,522** | 4,404,196 |
| General and administrative expenses | 27 | **(1,658,414)** | (1,601,261) |
| **Operating profit before net impairment charge and tax** | | **3,054,108** | 2,802,935 |
| Net impairment charge | 31 | **(776,018)** | (1,005,477) |
| **Profit before tax** | | **2,278,090** | 1,797,458 |
| Tax expense | 11 | **(202,446)** | (13,733) |
| **Profit for the year after tax** | | **2,075,644** | 1,783,725 |
| ***Attributed to:*** | | | |
| Owners of the Bank | | **2,072,437** | 1,783,559 |
| Non-controlling interests | 21 | **3,207** | 166 |
| **Profit for the year after tax** | | **2,075,644** | 1,783,725 |
| ***Earnings per share:*** | | | |
| Basic and diluted in AED | 28 | **1.03** | 0.89 |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2024

| | 2024<br>AED'000 | 2023<br>AED'000 |
|---|---|---|
| Profit for the year after tax | **2,075,644** | 1,783,725 |
| **Other comprehensive income:** | | |
| ***Items that will not be reclassified subsequently to profit or loss:*** | | |
| Changes in fair value of financial assets measured at fair value through other comprehensive income (FVOCI), net (equity instruments) | **52,700** | (16,294) |
| Loss on sale of equity investments held at FVOCI | **(7,002)** | (5,398) |
| Re-measurements of post-employment benefits obligation | **(3,256)** | (2,613) |
| Income tax expense related to the above | **(3,820)** | - |
| ***Items that may be reclassified subsequently to profit or loss:*** | | |
| Changes in fair value of financial assets measured at FVOCI, net (debt instruments) | **(26,265)** | 145,982 |
| Profit on sale of debt instruments transferred to profit or loss | **(20,297)** | (1,612) |
| Net changes in fair value arising from cash flow hedges | **(6,801)** | 10 |
| Deferred tax credit related to the above | **4,812** | - |
| Other comprehensive (loss)/income for the year | **(9,929)** | 120,075 |
| **Total comprehensive income for the year** | **2,065,715** | 1,903,800 |
| **Attributed to:** | | |
| Owners of the Bank | **2,062,095** | 1,902,685 |
| Non-controlling interests | **3,620** | 1,115 |
| **Total comprehensive income for the year** | **2,065,715** | 1,903,800 |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2024

| | Share capital AED'000 | Legal reserve AED'000 | Retained earnings AED'000 | Other reserves AED'000 | Equity attributable to owners of the Bank AED'000 | Non-controlling interests AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2023 | 1,676,245 | 950,431 | 3,392,307 | 2,975,326 | 8,994,309 | 26,341 | 9,020,650 |
| Profit for the year | - | - | 1,783,559 | - | 1,783,559 | 166 | 1,783,725 |
| Other comprehensive income | - | - | (7,835) | 126,961 | 119,126 | 949 | 120,075 |
| Total comprehensive income/(loss) for the year | - | - | 1,775,724 | 126,961 | 1,902,685 | 1,115 | 1,903,800 |
| Transfer to statutory reserve | - | 178,373 | (243,464) | 65,091 | - | - | - |
| Stock dividend paid | 335,250 | - | (335,250) | - | - | - | - |
| Dividend paid | - | - | (569,923) | - | (569,923) | - | (569,923) |
| At 31 December 2023 | 2,011,495 | 1,128,804 | 4,019,394 | 3,167,378 | 10,327,071 | 27,456 | 10,354,527 |
| **Balance at 1 January 2024** | **2,011,495** | **1,128,804** | **4,019,394** | **3,167,378** | **10,327,071** | **27,456** | **10,354,527** |
| **Profit for the year** | **-** | **-** | **2,072,437** | | **2,072,437** | **3,207** | **2,075,644** |
| **Other comprehensive (loss) / income** | **-** | **-** | **(9,335)** | **(1,007)** | **(10,342)** | **413** | **(9,929)** |
| **Total comprehensive income/(loss) for the year** | **-** | **-** | **2,063,102** | **(1,007)** | **2,062,095** | **3,620** | **2,065,715** |
| **Transfer to statutory reserve** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Stock dividend paid** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Dividend paid** | **-** | **-** | **(623,563)** | **-** | **(623,563)** | **-** | **(623,563)** |
| **At 31 December 2024** | **2,011,495** | **1,128,804** | **5,458,933** | **3,166,371** | **11,765,603** | **31,076** | **11,796,679** |

The accompanying notes form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2024

| | 2024<br>AED'000 | 2023<br>AED'000 |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| Profit for the year before tax | **2,278,090** | 1,797,458 |
| **Adjustments:** | | |
| Net impairment charge | **776,018** | 1,005,477 |
| Depreciation and amortization of property and equipment and intangibles | **141,807** | 144,298 |
| Depreciation of right-of-use assets | **20,525** | 22,203 |
| Interest cost on lease liability | **4,742** | 4,175 |
| Loss/(Gain) on disposal of property and equipment | **1,769** | (3,654) |
| Amortization of discount relating to investments securities | **(165,146)** | (117,602) |
| Gain on sale of investment securities measured at FVOCI | **(20,298)** | (1,612) |
| Gain on sale of investment securities held at Fair value through PL (FVTPL) | **(29,643)** | (17,582) |
| Gain on sale of investment securities measured at amortised cost | **(233)** | - |
| Net changes in fair value arising from hedge and forex revaluation | **5,756** | (20,232) |
| Fair value change on FVTPL investment securities | **(9,248)** | (8,742) |
| Amortization of discount and other changes on debt and subordinated debt | **(5,295)** | 17,471 |
| **Changes in operating assets and liabilities** | **2,998,844** | 2,821,658 |
| Increase in due from other banks with original maturities of three month or over | **(898,306)** | (511,305) |
| Increase in loans and advances, net | **(8,528,068)** | (4,343,371) |
| Decrease in Investment securities measured at FVTPL | **(168,800)** | (112,204) |
| Decrease in reinsurance contract assets | **(55,266)** | (29,448) |
| Increase in other assets | **(78,705)** | (463,150) |
| Increase in due to other banks | **381,886** | 525,755 |
| Increase in deposits from customers | **9,254,536** | 5,523,832 |
| Increase in insurance contract liabilities | **98,010** | 67,833 |
| Increase in other liabilities and customer acceptances | **605,132** | 653,801 |
| **Net cash generated from operating activities** | **3,609,263** | 4,133,401 |
| | | |
| ***Cash flows from investing activities*** | | |
| Purchase of investment securities (FVOCI and amortised) | **(15,266,981)** | (10,709,061) |
| Proceeds from maturity/disposal of investment securities | **12,281,659** | 9,278,358 |
| Purchase of property and equipment and intangible assets | **(233,558)** | (165,380) |
| Proceeds from disposal of property and equipment | **153** | 12,242 |
| **Net cash used in investing activities** | **(3,218,727)** | (1,583,841) |
| | | |
| ***Cash flows from financing activities*** | | |
| Dividends paid | **(623,563)** | (569,923) |
| Payment for rentals on lease contracts | **(26,114)** | (20,002) |
| Repayment of debt securities and other long-term borrowings | **(1,836,500)** | (2,185,435) |
| Issuance of subordinated debt | **915,090** | - |
| Issue of debt securities and other long-term borrowings | **3,297,633** | 1,650,222 |
| **Net cash used in financing activities** | **1,726,546** | (1,125,138) |
| | | |
| **Net increase in cash and cash equivalents** | **2,117,082** | 1,424,422 |
| Cash and cash equivalents, beginning of the year | **7,946,799** | 6,522,377 |
| | | |
| **Cash and cash equivalents, end of the year (Note 34)** | **10,063,881** | 7,946,799 |
| | | |
| **Interest/profit paid during the year** | **1,471,519** | 1,066,594 |

The accompanying notes form an integral part of these consolidated financial statements.

## 1. Incorporation and principal activities

The National Bank of Ras Al-Khaimah (P.S.C.) (the "Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed Road, Ras Al-Khaimah, UAE.

The Bank is engaged in providing Retail, Commercial, Islamic banking and Treasury services through a network of 19 branches (2023: 20) in the UAE. The Bank is controlled by the Government of Ras Al-Khaimah by majority of voting rights.

At 31 December 2024, The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and seven subsidiaries (together referred to as the "Group"). The consolidated financial statements for the year ended 31 December 2024 comprises the Bank and following direct subsidiaries:

| *Subsidiary* | *Share capital* | *Ownership interest* | *Incorporated* | *Principal Activities* |
|---|---|---|---|---|
| Ras Al Khaimah National Insurance Company PSC | AED 121.275 million | 79.23% | UAE | Underwriting all types of Insurance business. |
| BOSS FZCO | AED 500,000 | 80%* | UAE | Back office support services to the Bank. |
| RAK Technologies FZCO | AED 500,000 | 80%* | UAE | Technological support services to the Bank. |
| RAK Global Markets Cayman Limited | USD 50,000 Issued USD 1 | 100% | Cayman Island | To facilitate Treasury transactions. |
| Protego Insurance Brokers L.L.C. | AED 28.5 million | 100% | UAE | Insurance brokerage |

* These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

In compliance with CBUAE regulations, during the year Bank has infused additional capital of AED 20 million in Protego Insurance Brokers L.L.C.

As part of ongoing efforts to streamline operations and optimize business structure, the Group initiated voluntary liquidation of four subsidiaries RAK Technology FZCO, RAK funding Cayman Limited, RAK Global Markets Cayman Limited and RAK Financial Services Limited (RAKFS). As of 31 December 2024, the license/certificate respectively of RAKFS and Rakfunding Cayman Limited has been revoked with liquidation formalities in progress for other subsidiaries.

## 2. Application of new and revised IFRS Accounting Standards

### 2.1 Standards amendments and interpretations that are effective for the Group accounting period beginning on 1 January 2024

The following new and revised IFRS Accounting Standards, which became effective for annual periods beginning on or after 1 January 2024, have been adopted in these consolidated financial statements. The application of these revised IFRS Accounting Standards , except where stated, have not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

| *Title* | *Key requirements* | *Effective date* |
|---|---|---|
| Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback | In September 2022, the IASB finalised narrow-scope amendments to the requirements for sale and leaseback transactions in IFRS 16 Leases which explain how an entity accounts for a sale and leaseback after the date of the transaction. The amendments specify that, in measuring the lease liability subsequent to the sale and leaseback, the seller-lessee determines 'lease payments' and 'revised lease payments' in a way that does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use that it retains. This could particularly impact sale and leaseback transactions where the lease payments include variable payments that do not depend on an index or a rate. | 1 January 2024 |
| Amendments to IAS 1 - Presentation of financial statements' on classification of liabilities | Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. | 1 January 2024 |
| Amendments to IAS 1 - Non-current Liabilities with Covenants | Covenants of loan arrangements will not affect classification of a liability as current or non-current at the reporting date if the entity must only comply with the covenants after the reporting date. However, if the entity must comply with a covenant either before or at the reporting date, this will affect the classification as current or non-current even if the covenant is only tested for compliance after the reporting date. | 1 January 2024 |
| Amendments to IAS 7 and IFRS 7 - Supplier finance arrangements | The IASB has issued new disclosure requirements about supplier financing arrangements ('SFAs'), after feedback to an IFRS Interpretations Committee agenda decision highlighted that the information required by IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures falls short of meeting user information needs. The objective of the new disclosures is to provide information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and the exposure to liquidity risk. | 1 January 2024 |

## 2. Application of new and revised IFRS Accounting Standards (continued)

### 2.2 New and revised IFRS Accounting Standards that have been issued but are not yet effective

The Group has not yet applied the following new and revised IFRS Accounting Standards that have been issued but are not yet effective:

| *New and revised IFRS Accounting Standards* | *Effective for annual periods beginning on or after* |
|---|---|
| **Lack of Exchangeability – Amendments to IAS 21,** In August 2023, the IASB amended IAS 21 to add requirements to help entities to determine whether a currency is exchangeable into another currency, and the spot exchange rate to use when it is not. Prior to these amendments, IAS 21 set out the exchange rate to use when exchangeability is temporarily lacking, but not what to do when lack of exchangeability is not temporary. | January 1, 2025 |
| **Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7,** On 30 May 2024, the IASB issued targeted amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures to respond to recent questions arising in practice, and to include new requirements not only for financial institutions but also for corporate entities. These amendments:<br>(a) clarify the date of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system;<br>(b) clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion;<br>(c) add new disclosures for certain instruments with contractual terms that can change cash flows (such as some financial instruments with features linked to the achievement of environment, social and governance targets); and<br>(d) update the disclosures for equity instruments designated at fair value through other comprehensive income (FVOCI). | January 1, 2026 |
| **Presentation and Disclosure in Financial Statements - IFRS 18,** This is the new standard on presentation and disclosure in financial statements, which replaces IAS 1, with a focus on updates to the statement of profit or loss.<br>The key new concepts introduced in IFRS 18 relate to:<br>• the structure of the statement of profit or loss with defined subtotals;<br>• requirement to determine the most useful structure summary for presenting expenses in the statement of profit or loss<br>• required disclosures in a single note within the financial statements for certain profit or loss performance measures that are reported outside an entity's financial statements (that is, management-defined performance measures); and<br>• enhanced principles on aggregation and disaggregation which apply to the primary financial statements and notes in general | January 1, 2027 |

**3. Application of new and revised IFRS Accounting Standards (continued)**

**2.2 New and revised IFRS Accounting Standards that have been issued but are not yet effective *(continued)***

| *New and revised IFRS Accounting Standards* | *Effective for annual periods beginning on or after* |
|---|---|
| **Subsidiaries without Public Accountability: Disclosures - IFRS 19,** This new standard works alongside other IFRS Accounting Standards. An eligible subsidiary applies the requirements in other IFRS Accounting Standards except for the disclosure requirements; and it applies instead the reduced disclosure requirements in IFRS 19. IFRS 19's reduced disclosure requirements balance the information needs of the users of eligible subsidiaries' financial statements with cost savings for preparers. IFRS 19 is a voluntary standard for eligible subsidiaries.<br>A subsidiary is eligible if:<br>• it does not have public accountability; and<br>it has an ultimate or intermediate parent that produces consolidated financial statements available for public use that comply with IFRS Accounting Standards. | January 1, 2027 |

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are mandatorily effective. The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements.

## 3. Material accounting policies

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

### *(a) Basis of preparation*

The consolidated financial statements of the Group have been prepared in accordance with IFRS Accounting Standards as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE"). Group has also complied with provisions of the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") which was issued on 20 September 2021 and came into effect on 2 January 2022.

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investments at fair value which are measured at fair value and the obligation related to employees end of service benefit, which is recognised at the present value of future obligations using the Projected Unit Credit Method. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group's consolidated statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as current: cash and balances with UAE Central Bank and customer acceptances. The following balances would generally be classified as non-current: property and equipment and goodwill. The following balances are of mixed nature (including both current and non-current portions): due from other banks - net, loans and advances – net, investment securities measured at fair value, investment securities measured at amortised cost, reinsurance contract assets, other assets, right-of-use assets, due to other banks, deposits from customers, debt securities issued and other long term borrowings, subordinated note, insurance contract liabilities, other liabilities and lease liabilities.

### *(b) Consolidation*

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- *has power over an investee,*
- *is exposed, or has rights, to variable returns from its involvement with the investee, and*
- *has the ability to use its power over the investee to affect the amount of the investor's returns.*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

**3. Material accounting policies (continued)**

***(b) Consolidation (continued)***

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

*Changes in the Group's ownership interest in existing subsidiaries*

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**3. Material accounting policies (continued)**

***(c) Islamic financing***

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 3(e).

*i) Murabaha financing*

A sale contract whereby the Group sells to a customer commodities and other assets by disclosing agreed upon profit and cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

*ii) Salam*

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

*iii) Mudaraba*

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal-customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

*iv) Wakala*

An agreement between the Group and customer whereby one party (Rab Al Mal-principal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

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

**3. Material accounting policies (continued)**

***(c) Islamic financing (continued)***

*v) Ijara*

Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

*vi) Profit distribution mechanism*

Deposits of Islamic banking are managed in accordance with Shari'ah principles through a Mudaraba pool and profit is distributed in accordance with the Shari'ah approved profit distribution mechanism. To ensure the competitive return to the depositors, Shari'ah compliant reserves are maintained as followed;

- *Profit Equalization Reserves (PER) is appropriated out of the Common Mudaraba Pool's profit in order to maintain the adequate return on investments for participants of Common Mudaraba Pool as well as Wakala Pool.*
- *Investment Risk Reserve (IRR) is appropriated from the depositors' share of profits set aside as a reserve.*

PER and IRR are actively reinvested in the Joint Mudaraba Pool to optimize returns for Investment Account Holders (IAHs) and ensure reserves are utilized productively.

Group may fully or partly utilize the amount of the PER to improve the returns for IAHs during periods when the investment pool's profits are below market expectations.

As of 31 December 2024 Group holds PER of AED 494 thousand (31 December 2023: AED 216 thousand) and IRR of AED 193 thousand (31 December 2023: AED 50 thousand).

vii) Zakat

As the Group is not required to dispose Zakat by UAE law, each shareholder and investment account holder is directly responsible of the payment of the Zakat amount of the shares that he/she owns.

***(d) Business combination and goodwill***

*Business combination*

The Bank follows the acquisition method of accounting for the acquisition of a business. The Bank considers the date on which control is obtained and it legally transfer the consideration for the acquired assets and assumed liabilities of the subsidiary to be the date of acquisition. The cost of an acquisition is measured at the fair value of the consideration paid. The fair value is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree, and the equity interests issued by the Group.

**3. Material accounting policies (continued)**

***(d) Business combination and goodwill (continued)***

*Business combination (continued)*

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets acquired and liabilities assumed is recorded as goodwill. If, after reassessment, the cost of the acquisition is less than the fair value of the Bank's share of the identifiable assets acquired and liabilities assumed, the resulting gain is recognized immediately in non-interest income as a bargain purchase gain. Acquisition related costs are generally recognised in non-interest income/expense in the periods in which the costs are incurred and the services are received.

Non-controlling interests, if any, are measured are recognized at the proportionate share of the fair value of the recognised amounts of identifiable assets and liabilities, unless otherwise indicated. Where the Bank has an obligation to purchase a non-controlling interest for cash or another financial asset, a financial liability is recognized based on management's best estimate of the present value of the redemption amount. Where the Bank has a corresponding option to settle the purchase of a non-controlling interest by issuing its own common shares, no financial liability is recorded.
During the measurement period (which is within one year from the acquisition date), the Bank may, on a retrospective basis, adjust the amount recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date. Any change is recognized in non-interest income (except in the case of the option to issue common shares to non-controlling interest holders where the corresponding change is recorded in equity).

After initial recognition of goodwill in a business combination, goodwill in aggregate is measured at cost less any accumulated impairment losses. Goodwill is not amortized but tested for impairment annually or at a more frequent basis if there is objective indications that the carrying value may be impaired.

*Goodwill impairment testing*

For impairment testing, goodwill acquired in a business combination is, on the acquisition date, allocated to each of the Group's cash-generating units ("CGU") (or groups of cash-generating units) that is expected to benefit from the particular acquisition. For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business.

The Bank tests for impairment by comparing the recoverable amount of a CGU with its carrying amount. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use ("VIU") calculation using a discounted cash flow model, based on financial forecasts made by senior management, covering a five-year period. Cash flows beyond the five-year period are valued using a terminal growth rate, which management believes approximates the long-term growth rate for the industry in which the cash generating unit operates. This model is dependent upon assumptions related to revenue growth and discount rates. Management must exercise judgment and make assumptions in determining the fair value. The judgements applied in the value-in-use calculation are disclosed in Note 42(g).

If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss, in respect of goodwill, is not reversed.

**3. Material accounting policies (continued)**

***(d) Business combination and goodwill (continued)***

*Business combination (continued)*

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Significant judgment is applied in determining the recoverable amounts of the CGU and assessing whether certain events or circumstances constitute objective indications of impairment.

***(e) Classification of financial assets and financial liabilities***

***Financial assets***

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument -by-instrument basis.

All other financial assets are classified as measured at FVTPL.

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

***Financial liabilities***

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

**3. Material accounting policies (continued)**

***(e) Classification of financial assets and financial liabilities (continued)***

***Financial liabilities (continued)***

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

***Business model assessment***

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

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

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

**3. Material accounting policies (continued)**

***(e) Classification of financial assets and financial liabilities (continued)***

***Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI Test")***

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

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

In making the assessment, the Group considers:

(a) Contingent events that would change the amount and timing of cash flows;
(b) Leverage features;
(c) Prepayment and extension terms;
(d) Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
(e) Features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

***Reclassifications***

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

***Derecognition***

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

***(f) Measurement of financial assets and financial liabilities***

***Investment securities***

The investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL; these are measured at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated at FVOCI - Equity securities which are not held for trading and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments, and the group considers this classification to be more relevant.

**3. Material accounting policies (continued)**

***(f) Measurement of financial assets and financial liabilities (continued)***

***Investment securities (continued)***

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

***Financial liabilities***

Financial liabilities (including deposits from customers, due to other banks, repurchase agreements with banks, debt securities issued and other long term borrowings, and subordinated note) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

**3. Material accounting policies (continued)**

***(f) Measurement of financial assets and financial liabilities (continued)***

***Financial liabilities (continued)***

***Derecognition***

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is "substantial" or whether the original debt has been replaced by another debt with "substantially" different terms.

***(g) Impairment***

***Measurement of ECL***

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Due from other banks;
- Debt investment securities carried at FVOCI and amortised cost;
- Loans and advances to customers;
- Insurance assets and receivables;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts.

No impairment loss is recognised on equity investments.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When there has not been a Significant Increase in Credit risk (SICR) since its initial recognition, an amount equal to 12 months Expected Credit Loss (ECL) is recorded. 12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2: When a financial instrument shows a Significant Increase in Credit Risk (SICR) since its initial recognition, it is moved to Stage 2 and an amount equal to Lifetime ECL is recorded against these financial instruments. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

**3 Material accounting policies (continued)**

***(g) Impairment (continued)***

***Measurement of ECL (continued)***

Stage 3: Financial instruments considered as credit impaired are moved to Stage 3 and amount equal to Lifetime ECL is recorded against these financial instruments.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key inputs are the term structure of the following:

- Probability of default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters are derived from the Group's internally developed statistical models or external data, and other historical data. These are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust the ECL numbers for the factors not being captured in the model, as a part of Management Overlay.

Summary of statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date upto default date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and expect recovery including expected amount from sale of collateral. It is usually expressed as a percentage of the EAD.

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

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover;
- irrevocable overdraft facilities: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and;
- the Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics (Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate whether it is measured on an individual basis or a collective basis.

**3. Material accounting policies (continued)**

***(g) Impairment (continued)***

***Credit-impaired financial assets***

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

***Purchased or originated credit-impaired (POCI) financial assets***

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

***Definition of default***

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

*Quantitative criteria*

The borrower is 90 (or more) days past due on its contractual payments.

**3. Material accounting policies (continued)**

***(g) Impairment (continued)***

***Definition of default (continued)***

*Qualitative criteria:*

The bank classifies the loans as Non-performing (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
- Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.

***Expected life***

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may vary from remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle like credit cards, overdraft balances, etc. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

***Modification of financial assets***

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

**3. Material accounting policies (continued)**

***(g) Impairment (continued)***

***Modification of financial assets (continued)***

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecogntion, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

***Derecognition of Financial Assets***

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for de-recognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

**3. Material accounting policies (continued)**

***(g) Impairment (continued)***

***Write-offs***

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The Group categorises a retail loan or receivable for write off when a debtor fails to make contractual payments exceeding a certain number of days, and meets other pre-defined criteria as per bank's internal policy. As regards the non retail loans, the write off of loans is done based on the individual assessment of these loans on a case to case basis. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

***Financial guarantees contract***

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values. Subsequently they are measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies. Customer acceptances

***Curing period***

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Group is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

**3. Material accounting policies (continued)**

***(h) Derivatives and hedging***

IFRS 9 expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 envisions an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in 'Other Operating Income'.

***(i) Due from/to other banks***

Amounts due from/to banks are initially recognised at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for financial instruments.

***(j) Cash and cash equivalents***

For the purpose of consolidated statement of cash flows, cash and cash equivalents comprise of cash on hand, unrestricted balances held with central banks and highly liquid financial assets (such as current, call accounts and placements) with original maturities of three months or less from the date of its acquisition.

***(k) Customer acceptances***

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

**3. Material accounting policies (continued)**

***(l) Derivative financial instruments***

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in Note 33.

*Fair value hedge*

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

**3. Material accounting policies (continued)**

***(l) Derivative financial instruments (continued)***

*Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Amounts accumulated in cash flow hedge reserve are reclassified to profit or loss in the same period during which the hedged future cash flows affect profit or loss, in the same line in which the hedged cash flows are recognised. If the Group expects that all or a portion of the accumulated loss will not be recovered, then that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

***(m) Debt securities issued***

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. 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.

***(n) Property and equipment***

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

## 3. Material accounting policies (continued)

### *(n) Property and equipment (continued)*

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

| | ***Years*** |
|---|---|
| Buildings | 30 |
| Computer equipment and software | 2 -15 |
| Furniture, fixtures and equipment | 4 |
| Leasehold improvements | 2 – 10 |
| Motor vehicles | 4 |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

### *(o) Employee benefits*

*(i) Defined contribution plan*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

**3. Material accounting policies (continued)**

***(o) Employee benefits (continued)***

*(ii) Defined benefit plan*

Provision is made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labor Law for their periods of service up to the financial position date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the consolidated statement of financial position.

*(iii) Short-term employee benefits*

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

***(p) Fiduciary assets***

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognized in accordance with the accounting policy on fees and commission income.

***(q) Share capital***

*(i) Share issue costs*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

*(ii) Dividends on ordinary shares*

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Group's shareholders.

## 3. Material accounting policies (continued)

### *(r) Provisions and contingent liabilities*

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset only if it is virtually certain that reimbursement will be received, and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

### *(s) Deposits from customers*

Deposits from customers are recognized initially at fair value, net of transaction costs incurred. Deposits from customers are subsequently carried at amortized cost using the effective interest method.

### *(t) Foreign currencies*

Items included in the consolidated financial statements of the Group are measured using UAE Dirhams which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirhams. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-translated into UAE Dirhams at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the consolidated income statement other than for items presented in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

### *(u) Interest income and expense*

Interest income and expense are recognized in the consolidated income statement for all instruments measured at amortized cost using the effective interest method. Interest earned whilst holding investment securities is reported in interest income in the consolidated income statement.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**3. Material accounting policies (continued)**

***(u) Interest income and expense (continued)***

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

***(v) Fee and commission income***

Fees and commissions, other than loan arrangement fees, are generally recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are recognized over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

***(w) Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

***(x) Segment reporting***

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-maker. The Chief Operating Decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8 Operating Segments, the Group has the following business segments: Retail Banking, Wholesale Banking, Business Banking, and Head Office and Others.

***(y) Intangible assets***

Intangible assets acquired in a business combination are measured on initial recognition at cost, which is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

**3. Material accounting policies (continued)**

***(y) Intangible assets (continued)***

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

*(i) License*

The license represents the right to conduct insurance operations, which is granted by the relevant insurance regulator. This license is assessed as having an indefinite useful life.

*(ii) Customer relationships*

The value of customer relationships represents the value of future cash flows expected from renewals and the cross-selling of new products to customers known and identified at the time of the acquisition and will be amortized on a straight-line basis over the estimated useful life which is four years.

***(z) Insurance contracts***

***Insurance and reinsurance contracts held***

*Insurance contracts*

Insurance contracts are contracts under which the Group accepts significant insurance risk from a policyholder by agreeing to compensate the policyholder if a specified uncertain future event adversely affects the policyholder. In making this assessment, all substantive rights and obligations, including those arising from law or regulation, are considered on a contract-by-contract basis. The Group uses judgement to assess whether a contract transfer insurance risk (that is, if there is a scenario with commercial substance in which the Group has the possibility of a loss on a present value basis) and whether the accepted insurance risk is significant.

**Unit of account**

The Group manages insurance contracts issued by product lines within an operating segment, where each product line includes contracts that are subject to similar risks. All insurance contracts within a product line represent a portfolio of contracts. Each portfolio is further disaggregated into groups of contracts, which are: (i) contracts that are onerous at initial recognition; (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently; or (iii) a group of remaining contracts. These groups represent the level of aggregation at which insurance contracts are initially recognised and measured.

**3. Material accounting policies (continued)**

***(z) Insurance contracts (continued)***

**Unit of account *(continued)***

For each portfolio of contracts, the Group determines the appropriate level at which reasonable and supportable information is available, to assess whether these contracts are onerous at initial recognition and whether non-onerous contracts have a significant possibility of becoming onerous. This level of granularity determines sets of contracts. The Group determines at what level of granularity it has reasonable and supportable information that is sufficient to conclude that all contracts within a set are sufficiently homogeneous and will be allocated to the same group without performing an individual contract assessment.

**Recognition and derecognition**

Groups of insurance contracts issued are initially recognised from the earliest of the following:

(a) the beginning of the coverage period;

(b) the date when the first payment from the policyholder is due or actually received, if there is no due date; and

(c) when the Group determines that a group of contracts becomes onerous.

Reinsurance contracts held are recognised as follows:

(a) a group of reinsurance contracts held that provide proportionate coverage (quota share reinsurance) is recognised at the later of:

  i. the beginning of the coverage period of the group; and
  ii. the initial recognition of any underlying insurance contract;

(b) all other groups of reinsurance contracts held are recognised from the beginning of the coverage period of the group of reinsurance contracts held;

(c) unless the Group entered into the reinsurance contract held at or before the date when an onerous group of underlying contracts is recognised prior to the beginning of the coverage period of the group of reinsurance contracts held, in which case the reinsurance contract held is recognised at the same time as the group of underlying insurance contracts is recognised. Only contracts that individually meet the recognition criteria by the end of the reporting period are included in the groups. When contracts meet the recognition criteria in the groups after the reporting date, they are added to the groups in the reporting period in which they meet the recognition criteria, subject to the annual cohorts restriction. Composition of the groups is not reassessed in subsequent periods.

**3. Material accounting policies (continued)**

***(z) Insurance contracts (continued)***

**Contract boundary**

The Group uses the concept of contract boundary to determine what cash flows should be considered in the measurement of groups of insurance contracts.Cash flows are within the boundary of an insurance contract if they arise from the rights and obligations that exist during the period in which the policyholder is obligated to pay premiums or the Group has a substantive obligation to provide the policyholder with insurance contract services. A substantive obligation ends when:

(a) the Group has the practical ability to reprice the risks of the particular policyholder or change the level of benefits so that the price fully reflects those risks; or

(b) both of the following criteria are satisfied:

i. the Group has the practical ability to reprice the contract or a portfolio of contracts so that the price fully reflects the reassessed risk of that portfolio; and
ii. the pricing of premiums up to the date when risks are reassessed does not reflect the risks related to periods beyond the reassessment date.

In assessing the practical ability to reprice, risks transferred from the policyholder to the Group, such as insurance risk and financial risk, are considered; other risks, such as lapse or surrender and expense risk, are not included. Cash flows outside the insurance contracts boundary relate to future insurance contracts and are recognised when those contracts meet the recognition criteria.

**Measurement**

The premium allocation approach (“PAA”) is a simplified approach for the measurement of the liability for remaining coverage, that an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage (“LRC”) is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The Group uses the PAA for measuring contracts with a coverage period of one year or less. The Group is adopting the PAA measurement model for the measurement of LRC for all its insurance contracts and reinsurance contracts. This is principally based on the eligibility test for fulfillment cash flows and that coverage period for most contracts are one year or less. Some contracts have coverage period more than one year, but passed the eligibility test.

**3. Material accounting policies (continued)**

***(z) Insurance contracts (continued)***

***Measurement (continued)***

For insurance contracts issued, on initial recognition, the Group measures the LRC at the amount of premiums received, less any acquisition cash flows paid.
For reinsurance contracts held, on initial recognition, the Group measures the remaining coverage at the amount of ceding premiums paid, plus broker fees paid to a party other than the reinsurer and any amounts arising from the derecognition of any other relevant pre-recognition cash flows.
The carrying amount of a group of insurance contracts issued at the end of each reporting period is the sum of:

a. the LRC; and
b. the Liability for Incurred Claims ("LIC"), comprising the fulfillment cash flows ("FCF") related to past service allocated to the group at the reporting date.

The carrying amount of a group of reinsurance contracts held at the end of each reporting period is the sum of:

a. the remaining coverage; and
b. the incurred claims, comprising the FCF related to past service allocated to the group at the reporting date.

For insurance contracts issued, at each of the subsequent reporting dates, the LRC is:

a. increased for premiums received in the period
b. decreased for insurance acquisition cash flows paid in the period;
c. decreased for the amounts of expected premium receipts recognised as insurance revenue for the services provided in the period recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

For reinsurance contracts held, at each of the subsequent reporting dates, the remaining coverage is:

a. increased for ceding premiums paid in the period;
b. increased for broker fees paid in the period, if any; and
c. decreased for the expected amounts of ceding premiums and broker fees, if any, recognised as reinsurance expenses for the services received in the period recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The Group does not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within the coverage period of contracts, which is one year or less. The Group adjusts the remaining coverage for reinsurance contracts held for the effect of the risk of reinsurer's non- performance.

**4. Material accounting policies (continued)**

***(z) Insurance contracts (continued)***

**Onerous contract**

The Group assumes that no contracts are onerous at initial recognition, unless facts and circumstances indicate otherwise. If facts and circumstances indicate that some contracts are onerous, an additional assessment is performed to distinguish onerous contracts from non-onerous ones.

If facts and circumstances indicate that a group of insurance contracts measured under the PAA is onerous on initial recognition or becomes onerous subsequently, the Group establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. The loss component is remeasured at each subsequent reporting date.

When a loss is recognised on initial recognition of an onerous group of underlying insurance contracts or on addition of onerous underlying insurance contracts to that group, the carrying amount of the asset for remaining coverage for reinsurance contracts held measured under the PAA is increased by the amount of income recognised in profit or loss and a loss-recovery component is established or adjusted for the amount of income recognised. The referred income is calculated by multiplying the loss recognised on underlying insurance contracts by the percentage of claims on underlying insurance contracts that the Group expects to recover from the reinsurance contract held that are entered into before or at the same time as the loss is recognised on the underlying insurance contracts.

When underlying insurance contracts are included in the same group with insurance contracts issued that are not reinsured, the Group applies a systematic and rational method of allocation to determine the portion of losses that relates to underlying insurance contracts.

**Insurance revenue**

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Group allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time.

**Insurance expense**

Insurance service expenses include the following:

- incurred claims for the period.
- other incurred directly attributable expenses.
- insurance acquisition cash flows expense.
- An element of time value of money of LIC for the period.

**3. Material accounting policies (continued)**

***(z) Insurance contracts (continued)***

**Insurance acquisition costs**

Insurance acquisition cash flows are the costs that are directly associated with selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) and that are directly attributable to a portfolio of insurance contracts. Directly attributable expenses are the costs that can be fully or partially attributed to the fulfillment of the groups of insurance contracts. The Group allocates the attributable costs based on a number of drivers. Both acquisition and attributable costs fall under the insurance service expense. While the non-attributable costs are reported under other operating expenses.

**Insurance finance income or expenses and reissuance finance expense or income**

Insurance finance income or expenses and reinsurance finance expense or income comprise the change in the carrying amount of the group of insurance contracts arising from:

- the effect of the time value of money and changes in the time value of money; and
- the effect of financial risk and changes in financial risk.

For contracts measured under the PAA, the main amounts within insurance finance income or expenses are:

- interest accreted on the LIC & Assets of incurred claims (“AIC”); and
- the effect of changes in interest rates and other financial assumptions.

**3. Material accounting policies (continued)**

***(aa) Right-of-use assets and lease liabilities***

*Lease liabilities*

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

*Interest rate for discounting*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

*Right-of-use assets*

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

*Short-term leases and leases of low-value assets*

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

## 3. Material accounting policies (continued)

### *(ab) Income Tax*

Income tax expense comprises of current and deferred tax. It is recognised in profit or loss except to the extent it relates to items recognised directly in equity or OCI.

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to tax payable in respect of previous years. Taxable profit differs from profit as reported in the consolidated statement of profit or loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is recognised in respect of temporary differences at the reporting date between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is recognised for all taxable differences, except for the following:
• temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
• temporary differences relating to investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that temporary differences will not reverse in the foreseeable future.
• taxable temporary differences arising on the initial recognition of goodwill.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. 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 for all or part of the deferred tax asset to be utilised.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest maybe due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

## 4. Cash and balances with UAE Central Bank

| | **2024 AED'000** | 2023 AED'000 |
|---|---|---|
| Cash in hand | **895,228** | 819,513 |
| Balances with the Central Bank of UAE (CBUAE) | **7,875,084** | 4,905,602 |
| **Total cash and balances with** CBUAE | **8,770,312** | 5,725,115 |

As per the CBUAE regulations, the Bank is allowed to draw their balances held in the CBUAE reserve account, while ensuring that they meet the reserve requirements over 14 days period. Therefore, the balances have been classified as part of cash and cash equivalent (Note 34).

## 5. Due from other banks, net

| | **2024 AED'000** | 2023 AED'000 |
|---|---|---|
| Placements with other banks | **955,505** | 1,069,269 |
| Demand deposits | **1,127,681** | 1,635,959 |
| Banker's acceptances | **6,076,344** | 4,053,914 |
| Syndicated loans | **3,651,141** | 4,083,711 |
| Trade loans | **550,950** | 1,548,797 |
| Others | **46,693** | 46,473 |
| **Total due from other banks** | **12,408,314** | 12,438,123 |
| Provision for credit loss | **(47,714)** | (51,627) |
| **Due from other banks, net** | **12,360,600** | 12,386,496 |

*The below represents deposits and balances due from:*

| | **2024 AED'000** | 2023 AED'000 |
|---|---|---|
| Banks in UAE | **361,023** | 927,050 |
| Banks outside UAE | **12,047,291** | 11,511,073 |
| **Total due from other banks** | **12,408,314** | 12,438,123 |

## 6. Loans and advances, net

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| ***(a) Loans and advances:*** | | |
| Retail Banking | **23,303,622** | 20,106,097 |
| Wholesale Banking | **16,160,978** | 12,008,449 |
| Business Banking | **10,609,394** | 9,867,841 |
| **Total loans and advances [Note 6(b)]** | **50,073,994** | 41,982,387 |
| Provision for credit loss [Note 6(c)] | **(2,850,054)** | (2,514,887) |
| **Net loans and advances** | **47,223,940** | 39,467,500 |
| ***(b) Analysis of loans and advances:*** | | |
| Personal loans | **5,595,253** | 5,652,481 |
| Mortgage loans | **11,953,601** | 9,292,485 |
| Credit cards | **2,554,683** | 2,385,714 |
| Auto loans | **430,513** | 451,065 |
| RAK Business loans | **4,057,184** | 3,938,071 |
| Other Business banking loans | **6,552,210** | 5,929,770 |
| Wholesale banking loans | **16,160,978** | 12,008,449 |
| Other retail loans | **2,769,572** | 2,324,352 |
| **Total loans and advances** | **50,073,994** | 41,982,387 |
| ***(c) Movement in provision for credit losses:*** | | |
| Balance at the beginning of the year | **2,514,887** | 2,073,052 |
| Impairment allowance for the year [Note 6(d)] | **904,440** | 1,065,534 |
| Written-off during the year | **(569,273)** | (623,699) |
| **Balance at the end of the year** | **2,850,054** | 2,514,887 |

## 6. Loans and advances, net (continued)

### *(d) Net impairment charge on loans and advance:*

| | **2024** AED'000 | 2023 AED'000 |
|---|---|---|
| Impairment allowance for the year [Note 6(c)] | **904,440** | 1,065,534 |
| Net recovery during the year | **(132,812)** | (118,396) |
| | **771,628** | 947,138 |

Net recovery mainly represents amounts subsequently recovered from fully written-off loans.

### *(e) Islamic financing assets:*

The below table summarizes the Islamic financing assets that are part of loans and advances above:

| | **2024** AED'000 | 2023 AED'000 |
|---|---|---|
| ***Islamic financing assets*** | | |
| Islamic retail financing assets | **3,402,960** | 3,138,902 |
| Islamic business banking assets | **2,479,573** | 2,226,653 |
| Islamic wholesale banking assets | **586,007** | 248,028 |
| **Total Islamic financing assets** | **6,468,540** | 5,613,583 |
| Provision for impairment | **(341,089)** | (411,976) |
| **Net Islamic financing assets** | **6,127,451** | 5,201,607 |
| ***Analysis of Islamic financing assets*** | | |
| Islamic Business Banking Finance | **2,479,573** | 2,226,653 |
| Islamic Salam Personal finance | **2,201,306** | 1,960,270 |
| Islamic Ijara Property Finance | **1,117,606** | 1,095,658 |
| Islamic Wholesale Banking | **586,007** | 248,028 |
| Islamic Auto Murabaha | **38,425** | 43,934 |
| Islamic Credit Cards | **45,623** | 38,797 |
| Islamic Finance – Other | **-** | 243 |
| **Total Islamic financing assets** | **6,468,540** | 5,613,583 |

## 6. Loans and advances, net (continued)

| *(f) Movement in provision for credit losses - Islamic* | **2024** **AED'000** | 2023 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **411,976** | 394,217 |
| Impairment allowance for the year | **139,807** | 126,563 |
| Written-off during the year | **(210,694)** | (108,804) |
| **Balance at the end of the year** | **341,089** | 411,976 |

## 7. Investment securities, net

| | **2024** **AED'000** | 2023 AED'000 |
|---|---|---|
| ***Securities at fair value through other comprehensive income (FVOCI)*** | | |
| Quoted equity securities | **483,497** | 445,814 |
| Quoted debt securities* | **7,861,347** | 5,232,837 |
| Unquoted debt securities | **360,763** | 113,863 |
| | **8,705,607** | 5,792,514 |
| ***Securities at fair value through profit or loss (FVTPL)*** | | |
| Quoted funds | **92,958** | 71,091 |
| Unquoted funds | **47,901** | 43,960 |
| Quoted equity securities | **54,307** | 18,964 |
| Quoted debt securities | **258,549** | 112,009 |
| | **453,715** | 246,024 |
| ***Investment securities measured at fair value*** | **9,159,322** | 6,038,538 |
| ***Securities held at amortized cost*** | | |
| Quoted debt securities* | **7,489,118** | 7,277,237 |
| | **7,489,118** | 7,277,237 |
| Provision for credit loss for Securities held at amortized cost | **(44,837)** | (77,708) |
| **Investment securities measured at amortised cost** | **7,444,281** | 7,199,529 |
| **Investment securities, net** | **16,603,603** | 13,238,067 |

## 7. Investment securities, net (continued)

* As at 31 December 2024, quoted debt securities with fair value of AED 3,089 million and carrying value of AED 3,086 million (31 December 2023: fair value of AED 2,627 million and carrying value AED 2,647 million) have been given as collateral against repurchase borrowings of AED 2,646 million (31 December 2023: AED 2,246 million) [Note 12].

During the year ended 31 December 2024, change in fair value of investment securities measured at FVTPL resulted in gain of AED 9.2 million (31 December 2023: gain of AED 8.7 million) and was recognised as investment income / loss in the consolidated statement of profit or loss (Note 25).

As at 31 December 2024, the provision for credit loss on debt securities at FVOCI amounted to AED 68 million (31 December 2023: AED 181.0 million) [Note 40]

| | **2024 AED'000** | 2023 AED'000 |
|---|---|---|
| ***The composition of the investment portfolio by category is as follows:*** | | |
| Federal and local Government - UAE | **3,360,126** | 2,374,633 |
| Government related entity - UAE | **957,828** | 759,903 |
| Government - GCC | **828,242** | 461,613 |
| Government - other | **868,770** | 574,348 |
| Banks and financial institutions - UAE | **1,534,221** | 1,270,199 |
| Banks and financial institutions - GCC | **1,266,776** | 1,003,797 |
| Banks and financial institutions - other | **3,030,966** | 2,346,014 |
| Public limited companies - UAE | **849,907** | 785,653 |
| Public limited companies - GCC | **1,609,165** | 1,113,739 |
| Public limited companies - other | **1,663,776** | 2,046,047 |
| ***Total debt securities*** | **15,969,777** | 12,735,946 |
| Quoted equity securities | **537,804** | 464,778 |
| Quoted funds | **92,958** | 71,091 |
| Unquoted funds | **47,901** | 43,960 |
| **Total investment securities** | **16,648,440** | 13,315,775 |

## 7. Investment securities, net (continued)

***Movement in investment securities for the year ended 31 December 2024 and 31 December 2023:***

| | FVOCI AED'000 | FVTPL AED'000 | Amortized Cost AED'000 | Total AED'000 |
|---|---|---|---|---|
| **At 1 January 2024** | **5,792,514** | **246,024** | **7,277,237** | **13,315,775** |
| Purchases | **5,804,909** | **3,973,558** | **9,462,074** | **19,240,541** |
| Proceeds from disposal/maturities | **(2,946,812)** | **(3,804,758)** | **(9,371,578)** | **(16,123,148)** |
| Net changes in fair value due to revaluation | **6,138** | **-** | **-** | **6,138** |
| Net changes in fair value due to hedge and forex | **(2,982)** | **-** | **(2,774)** | **(5,756)** |
| Net changes in fair value through profit or loss | **-** | **9,248** | **-** | **9,248** |
| Loss on sale of equity investments measured at FVOCI | **(7,002)** | **-** | **-** | **(7,002)** |
| Amount charged to income | **(2,676)** | **-** | **-** | **(2,676)** |
| Amortization of premium / discount | **41,220** | **-** | **123,926** | **165,146** |
| Profit on sale of debt instruments transferred to profit and loss | **20,298** | **29,643** | **233** | **50,174** |
| **At 31 December 2024** | **8,705,607** | **453,715** | **7,489,118** | **16,648,440** |

| | FVOCI AED'000 | FVTPL AED'000 | Amortized Cost AED'000 | Total AED'000 |
|---|---|---|---|---|
| At 1 January 2023 | 4,134,746 | 107,496 | 7,278,930 | 11,521,172 |
| Purchases | 3,638,742 | 2,750,473 | 7,070,319 | 13,459,534 |
| Proceeds from disposal/maturities | (2,125,188) | (2,638,269) | (7,153,170) | (11,916,627) |
| Net changes in fair value due to revaluation | 128,076 | - | - | 128,076 |
| Net changes in fair value due to hedge and forex | 19,547 | - | 685 | 20,232 |
| Net changes in fair value through profit or loss | - | 8,742 | - | 8,742 |
| Loss on sale of equity investments measured at FVOCI | (5,398) | - | - | (5,398) |
| Amount charged to income | (36,752) | - | - | (36,752) |
| Amortization of premium / discount | 37,129 | - | 80,473 | 117,602 |
| Profit on sale of debt instruments transferred to profit and loss | 1,612 | 17,582 | - | 19,194 |
| At 31 December 2023 | 5,792,514 | 246,024 | 7,277,237 | 13,315,775 |

## 8. Other assets

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Interest receivable | **594,660** | 519,593 |
| Profit receivable on Islamic financing assets | **95,327** | 94,147 |
| Prepayments | **68,539** | 67,613 |
| Foreign exchange and other derivative contracts (Note 33) | **502,670** | 516,092 |
| Gold in hand | **-** | 72,741 |
| Islamic profit paid in advance | **51,716** | 61,577 |
| Assets acquired in settlements of debts* | **-** | 73,500 |
| Others | **369,340** | 335,586 |
| | **1,682,252** | 1,740,849 |

* The carrying amount of assets acquired in settlement of debts will be recovered principally through a sale transaction rather than through continuing use. Assets acquired in settlement of debts are subject to revaluation at each reporting date and is recorded at lower of fair value less cost of sale and the carrying amount in the books.

## 9. Goodwill and intangible assets

| | Goodwill AED'000 | Intangible - License AED'000 | Intangible - Software AED'000 | Total AED'000 |
|---|---|---|---|---|
| ***Cost*** | | | | |
| At 31 December 2022 | 100,782 | 65,604 | 894,581 | 1,060,967 |
| Additions | - | - | 715 | 715 |
| Transfers | - | - | 88,083 | 88,083 |
| Disposals | - | - | (9,151) | (9,151) |
| **At 31 December 2023** | **100,782** | **65,604** | **974,228** | **1,140,614** |
| **Additions** | **-** | **-** | **879** | **879** |
| **Transfers** | **-** | **-** | **122,619** | **122,619** |
| **Disposals** | **-** | **-** | **-** | **-** |
| **At 31 December 2024** | **100,782** | **65,604** | **1,097,726** | **1,264,112** |
| ***Accumulated amortization*** | | | | |
| At 31 December 2022 | - | - | 690,470 | 690,470 |
| Charge for the year | - | - | 105,328 | 105,328 |
| Disposals | - | - | (7,155) | (7,155) |
| **At 31 December 2023** | **-** | **-** | **788,643** | **788,643** |
| **Charge for the year** | **-** | **-** | **98,837** | **98,837** |
| **Disposals** | **-** | **-** | **-** | **-** |
| **At 31 December 2024** | **-** | **-** | **887,480** | **887,480** |
| ***Net book value*** | | | | |
| **At 31 December 2024** | **100,782** | **65,604** | **210,246** | **376,632** |
| At 31 December 2023 | 100,782 | 65,604 | 185,585 | 351,971 |

For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business. Goodwill is tested for impairment annually or at a more frequent basis when there is evidence that the fair value of the unit is less than the carrying value.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial forecasts made by senior management, covering a three-year period. Cash flows beyond the three-year period are valued using a terminal growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates. The judgements applied in the value-in-use calculation are disclosed in note 42.

## 10. Property and equipment

| | Land and buildings AED'000 | Leasehold improvements AED'000 | Information technology assets AED'000 | Office Furniture and Equipment AED'000 | Motor Vehicles AED'000 | Capital work-in-progress AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| At 31 December 2022 | 671,732 | 107,675 | 236,657 | 128,734 | 4,183 | 38,271 | 1,187,252 |
| Additions | - | 2 | 3,559 | 536 | 1,161 | 159,407 | 164,665 |
| Transfers | 2,791 | 5,536 | 18,739 | 925 | - | (116,074) | (88,083) |
| Disposals | (13,809) | (22,598) | (12,011) | (11,295) | (2,221) | - | (61,934) |
| **At 31 December 2023** | **660,714** | **90,615** | **246,944** | **118,900** | **3,123** | **81,604** | **1,201,900** |
| **Additions** | **43** | **4** | **9,179** | **2,875** | **556** | **220,024** | **232,681** |
| **Transfers** | **11,966** | **594** | **6,022** | **2,337** | **-** | **(143,538)** | **(122,619)** |
| **Disposals** | **-** | **-** | **(27,028)** | **(1,895)** | **(402)** | **-** | **(29,325)** |
| **At 31 December 2024** | **672,723** | **91,213** | **235,117** | **122,217** | **3,277** | **158,090** | **1,282,637** |
| ***Accumulated depreciation and impairment*** | | | | | | | |
| At 31 December 2022 | 284,182 | 100,663 | 220,534 | 123,650 | 4,089 | - | 733,118 |
| Charge for the year | 21,790 | 3,059 | 10,903 | 2,980 | 238 | - | 38,970 |
| Disposals | (7,514) | (22,594) | (11,926) | (11,155) | (2,152) | - | (55,341) |
| **At 31 December 2023** | **298,458** | **81,128** | **219,511** | **115,475** | **2,175** | **-** | **716,747** |
| **Charge for the year** | **23,687** | **3,186** | **12,693** | **3,054** | **349** | | **42,969** |
| **Disposals** | **-** | **-** | **(27,028)** | **(1,895)** | **(402)** | | **(29,325)** |
| **At 31 December 2024** | **322,145** | **84,314** | **205,176** | **116,634** | **2,122** | **-** | **730,391** |
| ***Net book value*** | | | | | | | |
| **At 31 December 2024** | **350,578** | **6,899** | **29,941** | **5,583** | **1,155** | **158,090** | **552,246** |
| At 31 December 2023 | 362,256 | 9,487 | 27,433 | 3,425 | 948 | 81,604 | 485,153 |

## 11. Taxation

On December 9, 2022, UAE Ministry of Finance (MoF) released Federal Decree Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law (CT Law) to enact a new CT regime in the UAE. The new CT regime has become effective for accounting periods beginning on or after June 1, 2023. As the Group's accounting year ends on December 31, the first tax period will be the period from January 1, 2024 to December 31, 2024, with the respective tax return to be filed on or before September 30, 2025.

The taxable income of the entities that are in scope for UAE CT purposes will be subject to the rate of 9% on taxable profits above AED 375,000.

Below is an analysis of the group's income tax recognized during the year:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Current tax recognized in consolidated profit or loss for the year** | | |
| Current tax expense on profits for the year | **202,446** | 13,733 |
| | **202,446** | 13,733 |

Reconciliation of Group's tax on profit based on accounting and profit as per the tax laws is as follows:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Accounting profit before tax | **2,278,090** | - |
| Tax calculated on above accounting profit | **204,960** | - |
| Tax effects of: | | |
| - Income not subject to tax | **(2,578)** | |
| - Expenses not deductible for tax purposes | **64** | |
| - Deferred tax liability on Goodwill | **-** | 13,733 |
| **Total income tax expense** | **202,446** | 13,733 |

| | | |
|---|---|---|
| **Current tax recognized in other comprehensive income for the year** | | |
| Current tax expense for the year recognized on items that will not be reclassified subsequently to profit or loss | **3,820** | - |
| | **3,820** | - |

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| **Deferred tax liability** | | |
| Deferred tax liability at the beginning of the year | **13,733** | - |
| Increase during the year recognized in OCI on items that may be reclassified subsequently to profit or loss | **(4,812)** | - |
| Increase during the year recognized in profit or loss | **-** | 13,733 |
| | **8,921** | 13,733 |

## 11. Taxation (continued)

For determining the tax expense for the year the accounting profit has been adjusted for tax purposes. Adjustments for tax purpose include items relating to both income and expense. After giving effect to these adjustments the average effective tax rate is estimated to 8.89% per annum.

## 12. Due to other banks

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Term borrowings | **4,194,217** | 4,185,160 |
| Repurchase agreements (Note 7) | **2,646,762** | 2,246,190 |
| Demand deposits | **258,496** | 286,239 |
| | **7,099,475** | 6,717,589 |

## 13. Deposits from customers

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Current accounts | **32,952,421** | 29,577,190 |
| Time deposits | **22,286,210** | 16,658,812 |
| Saving deposits | **2,959,660** | 3,024,141 |
| Call deposits | **1,451,387** | 1,134,999 |
| | **59,649,678** | 50,395,142 |

Deposits include AED 2,004 million (2023: AED 1,814 million ) held by the Group as cash collateral for loans and advances granted to customers.

The below table summarizes the Islamic deposits of customers that are part of deposits from customers above:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Murabaha term deposit | **3,439,143** | 2,719,355 |
| Wakala deposits | **554,072** | 1,300,884 |
| Qard-E-Hassan - current accounts | **1,433,110** | 1,239,814 |
| Mudaraba - current accounts | **424,954** | 495,171 |
| Mudaraba - saving accounts | **214,192** | 214,513 |
| Mudaraba - call deposits | **8,075** | 9,787 |
| Mudaraba term investment deposits | **4,492** | 8,427 |
| | **6,078,038** | 5,987,951 |

## 14. Debt securities issued and other long-term borrowings

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| USD 500 million medium term note issued at discount in April 2019 (a) | - | 1,836,170 |
| AED 370 million bilateral borrowing (b) | **370,000** | 370,000 |
| USD 50 million bilateral borrowing (c) | **183,650** | 183,650 |
| AED 370 million Islamic bilateral borrowing (d) | **370,000** | 370,000 |
| USD 100 million bilateral borrowing (e) | **367,300** | 367,300 |
| USD 100 million bilateral borrowing (f) | **367,300** | 367,300 |
| AED 550 million bilateral borrowing (g) | **550,000** | - |
| AED 550 million Islamic bilateral borrowing (h) | **550,000** | - |
| USD 600 million medium term note issued at discount in July 2024 (i) | **2,198,254** | - |
| Less: Debt securities and other borrowing issue costs | **(12,398)** | (8,086) |
| Fair value adjustment on hedged medium term note | **(6,288)** | (4,333) |
| | **4,937,818** | 3,482,001 |

In April 2019, the Group issued five year USD 500 million Euro Medium Term Notes (EMTN) under its USD 2 billion EMTN programme through its subsidiary RAK Funding Cayman Limited. These were issued at a discounted rate of 99.692% and carried a fixed interest rate of 4.125% per annum. These notes got matured and were repaid in April 2024.

*(b)* In June 2023 the Group borrowed AED 370 million at an interest rate of 6 months EIBOR + 0.90% per annum which matures in June 2026.

*(c)* In June 2023 the Group borrowed USD 50 million at an interest rate of daily SOFR + 1.10% per annum which matures in June 2026.

*(d)* In June 2023 the Group borrowed AED 370 million at a profit rate of 3 months EIBOR + 0.90% per annum which matures in June 2026.

*(e)* In July 2023 the Group borrowed USD 100 million at an interest rate of USD 3 month SOFR + 1% which matures in July 2026.

*(f)* In September 2023 the Group borrowed USD 100 million at an interest rate of USD daily SOFR + 1% which matures in September 2026.

*(g)* In February 2024 the Group borrowed AED 550 million at an interest rate of 3 months EIBOR + 0.75% per annum which matures in February 2027.

*(h)* In March 2024 the Group borrowed AED 550 million at a profit rate of 3 months EIBOR + 0.75% per annum which matures in March 2027.

*(i)* In July 2024, the Group issued five-year USD 600 million EMTN Bonds under the Groups Social Finance Framework. These were issued at a discounted rate of 99.723% and carries a fixed interest rate of 5.375% per annum. These notes mature in July 2029.

## 14. Debt securities issued and other long-term borrowings (continued)

***Reconciliation of liabilities arising from financing activities***

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows.

| | 1 January 2024 AED'000 | Financing cash flows AED'000 | Non cash changes AED'000 | 31 December 2024 AED'000 |
|---|---|---|---|---|
| USD 500 million medium term note - 2019 | **1,830,631** | **(1,836,500)** | **5,869** | **-** |
| AED 370 million bilateral borrowing - 2023 | **367,663** | **-** | **966** | **368,629** |
| USD 50 million bilateral borrowing - 2023 | **183,370** | **-** | **117** | **183,487** |
| AED 370 million Islamic bilateral borrowing - 2023 | **367,632** | **-** | **964** | **368,596** |
| USD 100 million bilateral borrowing - 2023 | **365,405** | **-** | **781** | **366,186** |
| USD 100 million bilateral borrowing - 2023 | **367,300** | **-** | **-** | **367,300** |
| AED 550 million bilateral borrowing - 2027 | **-** | **549,938** | **18** | **549,956** |
| AED 550 million Islamic bilateral - 2027 | **-** | **550,000** | **-** | **550,000** |
| USD 600 million medium term note - 2029 | **-** | **2,197,695** | **(14,031)** | **2,183,664** |
| **Total liabilities from financing activities** | **3,482,001** | **1,461,133** | **(5,316)** | **4,937,818** |

## 15. Reinsurance contract assets and insurance contract liabilities

| | 2024<br>AED'000 | 2023<br>AED'000 |
|---|---|---|
| **Reinsurance contract assets** | | |
| **Incurred claims for contracts under Premium Allocation Approach (PAA)** | | |
| Present value of future cashflows | **295,802** | 308,316 |
| Risk adjustment for non-financial risk | **7,788** | 10,242 |
| | **303,590** | 318,558 |
| **Remaining coverage excluding loss-recovery component** | **(73,642)** | (145,656) |
| **Remaining coverage loss recovery component** | **1,630** | 3,410 |
| | **231,578** | 176,312 |
| **Insurance contract liabilities** | | |
| **Liabilities for Incurred Claims (LIC) under Premium Allocation Approach (PAA)** | | |
| Present value of future cashflows | **312,650** | 267,068 |
| Risk adjustment for non-financial risk | **11,949** | 13,688 |
| | **324,599** | 280,756 |
| **Liabilities for Remaining Coverage (LRC)** | | |
| Excluding loss component | **151,227** | 96,193 |
| Loss component | **5,495** | 6,362 |
| | **156,722** | 102,555 |
| | **481,321** | 383,311 |

## 16. Other liabilities

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Interest payable | **531,120** | 325,185 |
| Profit distributable on Islamic deposits | **38,615** | 43,650 |
| Accrued expenses | **623,832** | 421,363 |
| Provision for staff end-of-service benefits [Note 30] | **133,033** | 126,793 |
| Foreign exchange and other derivatives derivative contracts [Note 33] | **443,871** | 455,027 |
| Credit card payables and liabilities | **87,910** | 169,940 |
| Managers cheques issued | **316,038** | 300,249 |
| Mortgage payables and liabilities | **23,547** | 28,339 |
| Insurance related payables | **4,339** | 13,496 |
| Reinsurance contract liabilities | **27,920** | 1,398 |
| Provision for credit loss on contingent assets and customer acceptances | **23,226** | 22,034 |
| Provision for Corporate Tax | **206,266** | - |
| Others | **463,268** | 324,203 |
| | **2,922,985** | 2,231,677 |

## 17 Subordinated note

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| September 2024 issue (5.8732 percent fixed rate maturing on 10 December 2034) | **915,111** | - |
| | **915,111** | - |

In September 2024, the Bank issued USD 250 million of Subordinated Tier 2 notes. The notes, were issued at a par with coupon rate of 5.8732% p.a. The notes, are callable after 5 years and have a final maturity of 10.25 years. The notes will rank pari passu among themselves, rank subordinate and junior to all senior obligations and rank in priority only to all junior obligations.

## 18. Share capital

At 31 December 2024, the authorised, issued and fully paid share capital of the Bank comprised 2,011 million shares of AED 1 each (31 December 2023: 2011 million shares of AED 1 each).

Cash dividend of 31% amounting to AED 623.6 million of the issued and paid-up capital for the year ended 31 December 2023 (2022: 34% amounting to AED 569.9 million) was paid after the shareholder's approval in the annual general meeting held on 18 March 2024.

## 19. Legal reserve

In accordance with the UAE Federal Law No (32) of 2021 and Articles of Association of the Bank, 10% of the Bank's net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the paid-up share capital. During the year, the Bank has transferred AED Nil to legal reserve (2023: AED 178.4 million). This reserve is not available for distribution.

## 20. Other reserves

| | Voluntary reserve AED'000 | General banking risk reserve AED'000 | Credit risk reserve AED'000 | Fair value reserve AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| At 31 December 2022 | 337,208 | 1,000,000 | 1,742,000 | (103,882) | 2,975,326 |
| Changes during the year | 65,091 | - | - | 126,961 | 192,052 |
| At 31 December 2023 | 402,299 | 1,000,000 | 1,742,000 | 23,079 | 3,167,378 |
| Changes during the year | **-** | **-** | **-** | **(1,007)** | **(1,007)** |
| **At 31 December 2024** | **402,299** | **1,000,000** | **1,742,000** | **22,072** | **3,166,371** |

## 20. Other reserves (continued)

The Bank maintains a general banking risk reserve to address the risks inherent in the Bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution. This reserve is available for loss absorption.

Fair value reserve includes fair value of equity instruments that will not be reclassified subsequently to profit or loss, debt instruments that may be reclassified subsequently to profit or loss and fair value of cash flow hedges.

* The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice No.: CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE ("the Guidance").

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

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| ***Impairment reserve: General*** | | |
| General provisions under Circular 28/2010 of CBUAE | **859,407** | 752,744 |
| Less: Stage 1 and Stage 2 provisions under IFRS 9 | **2,132,737** | 1,870,401 |
| **General provision transferred to the regulatory impairment reserve*** | **-** | - |
| ***Impairment reserve: Specific*** | | |
| Specific provisions under Circular 28/2010 of CBUAE | **725,824** | 786,891 |
| Less: Stage 3 provisions under IFRS 9 | **911,444** | 986,703 |
| **Opening balance regulatory impairment reserve 1 January** | **-** | - |
| **Amount reversed from regulatory impairment reserve*** | **-** | - |
| **Total provision transferred to the regulatory impairment reserve** | **-** | - |

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

## 21 Non-controlling interests

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Balance at the beginning of the year | **27,456** | 26,341 |
| Profit for the year | **3,207** | 166 |
| Dividends paid | **-** | - |
| Change in other comprehensive income for the year | **413** | 949 |
| **Balance at the end of the year** | **31,076** | 27,456 |

## 22. Interest income and interest expense

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| ***Interest income*** | | |
| Personal Loans | **266,654** | 258,170 |
| Mortgage Loans | **333,724** | 260,686 |
| Credit Cards | **325,664** | 324,835 |
| Auto Loans | **27,430** | 24,954 |
| RAK Business loans | **522,506** | 462,825 |
| Wholesale Banking Loans | **888,699** | 714,594 |
| Other Business Banking Loans | **488,644** | 418,338 |
| Other Retail Loans | **132,870** | 159,219 |
| Investment Securities | **657,306** | 529,763 |
| Deposits with the CBUAE | **84,318** | 60,949 |
| Other Banks | **840,092** | 736,733 |
| | **4,567,907** | 3,951,066 |
| ***Interest expense*** | | |
| Deposits from customers | **898,545** | 556,688 |
| Debt securities issued and other long-term borrowings | **78,861** | 135,539 |
| Borrowings from other banks | **412,763** | 347,538 |
| Subordinated note | **16,849** | - |
| | **1,407,018** | 1,039,765 |

## 23. Income from Islamic Financing and distribution to depositors

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| ***Income from Islamic financing*** | | |
| Islamic Salam Personal Finance | **147,801** | 149,210 |
| Islamic Auto Murabaha | **3,020** | 2,856 |
| Islamic Business Banking Finance | **293,567** | 287,302 |
| Islamic Wholesale Banking Finance | **64,627** | 54,772 |
| Islamic Investment Income | **99,707** | 58,965 |
| Islamic Ijara Property Finance | **57,827** | 65,385 |
| | **666,549** | 618,490 |
| ***Distribution to depositors*** | | |
| Distribution of profit on Islamic term investment deposits | **213,278** | 179,329 |
| Bilateral long term borrowing | **51,026** | 12,883 |
| Distribution of profit on Islamic demand deposits | **1,097** | 1,289 |
| | **265,401** | 193,501 |

## 24. Net fees and commission income

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Personal Loans | **22,931** | 16,472 |
| Mortgage Loans | **12,823** | 7,653 |
| Credit Cards | **202,475** | 249,645 |
| Auto Loans | **3,794** | 4,945 |
| RAK Business Loans | **2,077** | 53,251 |
| Wholesale Banking | **71,389** | 51,681 |
| Other Business Banking | **210,330** | 183,384 |
| Fiduciary income | **49,281** | 43,248 |
| Bancassurance | **25,175** | 25,092 |
| Others | **43,675** | 25,042 |
| | **643,950** | 660,413 |

## 25. Investment income

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Dividend income | **28,648** | 20,736 |
| Net gain on disposal of investments | **50,174** | 19,194 |
| Fair value gain, net | **9,248** | 8,742 |
| | **88,070** | 48,672 |

## 26. Other operating income

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Net insurance income | **3,381** | 3,152 |
| Other income | **108,427** | 70,382 |
| | **111,808** | 73,534 |

## 27. General and administrative expenses

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Staff costs (Note 29) | **977,561** | 891,908 |
| Outsourced staff costs | **41,436** | 33,684 |
| Occupancy costs | **52,168** | 51,457 |
| Marketing expenses | **39,808** | 29,575 |
| Depreciation and amortization | **140,675** | 143,030 |
| Communication costs | **56,993** | 49,270 |
| Credit card expenses | **67,907** | 148,866 |
| Information and technology expenses | **159,861** | 122,669 |
| Other | **122,005** | 130,802 |
| | **1,658,414** | 1,601,261 |

## 27. General and administrative expenses (continued)

General and administrative expenses include below auditors' remuneration:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Audit fees | **2,586** | 2,150 |
| Non-audit fees | **1,464** | 537 |
| | **4,050** | 2,687 |

## 28. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Profit for the year (AED'000) [attributed to owners of the Bank] | **2,072,437** | 1,783,559 |
| Weighted average number of shares in issue (in 000's) | **2,011,495** | 2,011,495 |
| Basic earnings per share (AED) | **1.03** | 0.89 |

## 29. Staff costs

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Salaries, allowances and bonus | **830,030** | 777,236 |
| Pension | **16,831** | 14,750 |
| End-of-service benefits | **23,621** | 21,272 |
| Others | **107,079** | 78,650 |
| | **977,561** | 891,908 |

## 30. Provision for staff end-of-service benefits

The Group provided for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2024 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The liabilities were measured using the projected unit credit method. For valuing liability as of 31 December 2024, a discount rate of 4.65% (December 2023: 4.70%) and salary escalation rate of 2% (December 2023: 2%) were used for the Group.

Below table illustrates the impact of shift in the discount rate and the salary increment assumption on staff end-of-service benefits liabilities.

| **Scenario** | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Discount Rate: Increase by 1% increase | **(7,477)** | (6,836) |
| Discount Rate: Decrease by 1% decrease | **8,335** | 7,625 |
| Salary Escalation Rate: Increase by 1% Increase | **8,449** | 7,735 |
| Salary Escalation Rate: Decrease by 1% decrease | **(7,712)** | (7,055) |

| **Change in Defined Benefit Obligation**: | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| Balance at 1 January | **126,793** | 125,496 |
| Service cost: | | |
| -Current service cost | **19,353** | 17,581 |
| -Past service cost | **-** | (16) |
| Interest expense | **5,236** | 4,621 |
| Net benefits paid / transferred | **(20,925)** | (23,863) |
| Remeasurements: | | |
| -Effect of changes in financial assumptions | **(237)** | (4,277) |
| -Effect of experience adjustments | **2,813** | 6,858 |
| Consolidation adjustments | **-** | 393 |
| **Balance at 31 December** | **133,033** | 126,793 |

The present value of the obligations at 31 December 2024 is not materially different from the provision computed in accordance with the UAE Labour Law. The provision arising is disclosed as 'provision for staff end-of-service benefits' in the consolidated statement of financial position under 'Other liabilities' (Note 16).

## 31. Net impairment charge

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Net impairment charge on loans and advances [Note 6(d)] | **771,628** | 947,138 |
| Net impairment release on due from other banks | **(3,913)** | (5,671) |
| Net impairment charge on investment securities measured at fair value through OCI | **2,676** | 36,752 |
| Net impairment charge on investment securities measured at amortised cost | **3,859** | 20,584 |
| Net impairment (release)/charge on other receivables and acceptances | **(4,151)** | 8,938 |
| Net impairment charge/(release) on off balance sheet items | **5,919** | (2,264) |
| **Net impairment charge for the year** | **776,018** | 1,005,477 |

## 32. Contingencies and commitments

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Irrevocable commitments to extend credit | **3,207,468** | 3,646,516 |
| Letters of guarantee - Financial | **1,549,175** | 1,150,304 |
| Letters of guarantee – Non-Financial | **992,318** | 696,093 |
| Letters of credit | **365,569** | 113,414 |
| Capital commitments and other contingencies | **70,588** | 20,025 |
| | **6,185,118** | 5,626,352 |

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. Commitments to extend credit amounting to AED 11,097 million (2023: AED 8,179 million) that are revocable at the option of the Group and not included in the above table.

## 32. Contingencies and commitments (continued)

The Group is holding AED 30.7 million (31 December 2023: AED 24.8 million ) provision for expected credit loss on off balance sheet items, out of which AED 6.3 million (31 December 2023: AED 9.6 million) of provision relates to irrevocable commitments.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

## 33. Derivative contracts

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Unrealised gains and losses are either recognised in profit and loss or in cash flow hedge reserve. In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

(a) Swaps are commitments to exchange one set of cash flows for another. In interest rate swaps, counterparties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. In cross-currency swaps interest payments and principal in one currency are exchanged for interest payments and principal in another currency. In periodic knockout swaps, counterparties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal, however they have a rate knockout beyond which neither counterparty is obligated to the other.

(b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.

(c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.

(d) Forward rate agreements are similar to interest rate futures but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

**33. Derivative contracts (continued)**

(e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

(f) Coupon only Swap is a contract to exchange coupons in one currency for coupons in another currency. It is a form of cross-currency swap that entails no exchange of principal in different currencies at maturity, and only interest payments are exchanged.

(g) Range accrual is a structured product where the coupon is linked to a reference index, such as LIBOR, being within a defined range. Callable range accrual is a range accrual where the issuer has option to call the note at specified dates in the future.

(h) Interest rate cap is a type of interest rate derivative in which the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. Interest rate floor is a derivative contract in which the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price.

(i) A target redemption forward (TARF) is a structured forward contract that allows the holder to buy or sell a currency against another in a regular sequence of transactions at a lower or higher level than the respective forward rate on the trade date. The product automatically expires if the enhanced rate reaches a target level.

***Derivatives held or issued for hedging purposes***

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts, NDFs, Futures and swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain floating interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

The Group has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk on certain Fixed rate Investments and Loans.

The group's accounting policy for its derivative financial instruments and fair value and cash flow hedges are set out in note 3(h).

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 42(d).

## 33. Derivative contracts (continued)

***Hedge effectiveness***

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item. The group uses the hypothetical derivative method to assess hedge effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty.

The group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship between the hedged item and the hedging instrument.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases which may occur due to difference in critical terms between the interest rate swaps and hedged items.

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional 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.

## 33. Derivative contracts (continued)

| 31 December 2024 | | | | Notional amount by term to maturity | | | | |
|---|---|---|---|---|---|---|---|---|
| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Up to 3 months AED'000 | 3 – 6 months AED'000 | 6 – 12 months AED'000 | 1 – 5 years AED'000 | Over 5 Years AED'000 |
| **Derivatives held for trading:** | | | | | | | | |
| Forward foreign exchange contract | 129,253 | 118,244 | 29,422,792 | 19,869,310 | 5,304,707 | 3,512,858 | 735,917 | - |
| Foreign exchange options (bought) | 6,059 | - | 363,722 | 115,605 | - | 63,426 | 184,691 | - |
| Foreign exchange options (sold) | - | 5,900 | 213,699 | 29,008 | - | - | 184,691 | - |
| Interest rate swaps | 266,631 | 176,795 | 8,866,363 | 465,653 | - | 73,460 | 6,627,514 | 1,699,736 |
| Knockout swaps | 413 | 413 | 50,000 | - | - | - | 50,000 | - |
| Cross-currency swap | 1,564 | 1,564 | 155,622 | - | - | - | 155,622 | - |
| Structured forward contracts (bought) | 33 | 78 | 96,547 | - | 22,442 | 74,105 | - | - |
| Structured forward contracts (sold) | 78 | 33 | 96,547 | - | 22,442 | 74,105 | - | - |
| Structured -Equity options (bought) | - | 8,448 | 224,530 | 83,230 | 58,217 | 75,737 | 7,346 | - |
| Structured -Equity options (sold) | 8,448 | - | 224,530 | 83,230 | 58,217 | 75,737 | 7,346 | - |
| Futures Contracts | 21,059 | 35,426 | 2,826,623 | 2,826,623 | - | - | - | - |
| Multi callable range arrangement | 1,805 | 66,725 | 870,000 | - | - | - | 770,000 | 100,000 |
| **Sub total** | 435,343 | 413,626 | 43,410,975 | 23,472,659 | 5,466,025 | 3,949,428 | 8,723,127 | 1,799,736 |
| **Derivatives held as fair value hedge** | | | | | | | | |
| Interest rate swap | 66,065 | 10,025 | 3,590,756 | - | 88,152 | - | 3,269,504 | 233,100 |
| Sub total | 66,065 | 10,025 | 3,590,756 | - | 88,152 | - | 3,269,504 | 233,100 |
| **Derivative held as cash flow hedge:** | | | | | | | | |
| Forward foreign exchange contract | 119 | 10,744 | 1,618,453 | 1,618,453 | - | - | - | - |
| Interest rate swap | 1,143 | - | 200,000 | 200,000 | - | - | - | - |
| Cross-currency swap | - | 9,476 | 1,100,000 | - | - | - | 1,100,000 | - |
| **Sub total** | 1,262 | 20,220 | 2,918,453 | 1,818,453 | - | - | 1,100,000 | - |
| **Total Derivatives** | 502,670 | 443,871 | 49,920,184 | 25,291,112 | 5,554,177 | 3,949,428 | 13,092,631 | 2,032,836 |

## 33. Derivative contracts (continued)

| 31 December 2023 | | | | Notional amount by term to maturity | | | | |
|---|---|---|---|---|---|---|---|---|
| | Positive fair value AED'000 | Negative fair value AED'000 | Notional amount AED'000 | Up to 3 months AED'000 | 3 – 6 months AED'000 | 6 – 12 months AED'000 | 1 – 5 years AED'000 | Over 5 Years AED'000 |
| Derivatives held for trading: | | | | | | | | |
| Forward foreign exchange contract | 49,849 | 49,277 | 16,600,274 | 13,990,611 | 717,669 | 1,891,994 | - | - |
| Foreign exchange options (bought) | 15,151 | - | 5,821,286 | 5,821,286 | - | - | - | - |
| Foreign exchange options (sold) | - | 15,031 | 5,718,780 | 5,718,780 | - | - | - | - |
| Interest rate swaps | 371,659 | 275,336 | 11,033,997 | 183,650 | 721,611 | 134,112 | 4,545,912 | 5,448,712 |
| Knockout swaps | 6,339 | 5,486 | 734,600 | - | - | - | 734,600 | - |
| Cross-currency swap | - | - | - | - | - | - | - | - |
| Structured forward contracts (bought) | 2 | - | 4,253 | - | - | 4,253 | - | - |
| Structured forward contracts (sold) | - | 2 | 4,253 | - | - | 4,253 | - | - |
| Structured -Equity options (bought) | 5,761 | - | 156,231 | 2,387 | 48,429 | 105,415 | - | - |
| Structured -Equity options (sold) | - | 5,761 | 156,231 | 2,387 | 48,429 | 105,415 | - | - |
| Futures Contracts | 8,409 | 8,311 | 712,570 | 712,570 | - | - | - | - |
| Multi callabale range arrangement | 1,406 | 74,209 | 870,000 | - | - | - | 770,000 | 100,000 |
| Sub total | 458,576 | 433,413 | 41,812,475 | 26,431,671 | 1,536,138 | 2,245,442 | 6,050,512 | 5,548,712 |
| Derivatives held as fair value hedge | | | | | | | | |
| Interest rate swap | 49,154 | 15,980 | 2,418,743 | 110,190 | 587,680 | - | 1,337,983 | 382,890 |
| Sub total | 49,154 | 15,980 | 2,418,743 | 110,190 | 587,680 | - | 1,337,983 | 382,890 |
| Derivative held as cash flow hedge: | | | | | | | | |
| Forward foreign exchange contract | 7,119 | 3,336 | 1,037,407 | 1,021,831 | 15,576 | - | - | - |
| Interest rate swap | - | 2,298 | 200,000 | - | - | - | 200,000 | - |
| Cross-currency swap | 1,243 | - | 330,570 | - | 146,920 | 183,650 | - | - |
| Sub total | 8,362 | 5,634 | 1,567,977 | 1,021,831 | 162,496 | 183,650 | 200,000 | - |
| Total Derivatives | 516,092 | 455,027 | 45,799,195 | 27,563,692 | 2,286,314 | 2,429,092 | 7,588,495 | 5,931,602 |

## 33. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

**31 December 2024**

| | Carrying amount of hedged item | | Accumulated amount of fair value adjustments on hedged item | | Balance sheet item | Cash flow hedge reserve | |
|---|---|---|---|---|---|---|---|
| | Assets AED'000 | Liabilities AED'000 | Assets AED'000 | Liabilities AED'000 | | Continuing hedges AED'000 | Discontinued hedges AED'000 |
| Derivatives held as fair value hedge | | | | | | | |
| Interest rate swap | **1,623,436** | - | **48,591** | **2,429** | Investment securities measured at fair value | - | - |
| Interest rate swap | - | **723,696** | - | **7,148** | Debt securities issued and other long-term borrowings | - | - |
| Interest rate swap | **1,125,218** | - | **17,474** | **448** | Loans and advances, net | - | - |
| **Sub total** | **2,748,654** | **723,696** | **66,065** | **10,025** | | - | - |
| Derivative held as cash flow hedge: | | | | | | | |
| Forward foreign exchange contract | **849,001** | - | - | - | Loans and advances, net | **348** | - |
| Forward foreign exchange contract-Margin FI deposit | - | | | | Deposits from customers | | |
| Forward foreign exchange contract-Call deposit | - | **616,044** | - | - | Deposits from customers | **(330)** | - |
| Interest rate swap | **200,346** | - | - | - | Loans and advances, net | **(384)** | - |
| Cross-currency swap | - | **1,099,955** | - | - | Debt securities issued & other long-term borrowings | **(8,986)** | - |
| Cross-currency swap | - | - | - | - | Investment securities measured at amortised cost | - | - |
| Sub total | **1,049,347** | **1,715,999** | - | - | | **(9,352)** | - |
| Total Derivatives | **3,798,001** | **2,439,695** | **66,065** | **10,025** | | **(9,352)** | |

## 33. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2023

| | Carrying amount of hedged item | | Accumulated amount of fair value adjustments on hedged item | | Balance sheet item | Cash flow hedge reserve | |
|---|---|---|---|---|---|---|---|
| | Assets AED'000 | Liabilities AED'000 | Assets AED'000 | Liabilities AED'000 | | Continuing hedges AED'000 | Discontinued hedges AED'000 |
| Derivatives held as fair value hedge | | | | | | | |
| Interest rate swap | 1,799,622 | - | 49,154 | 4,590 | Investment securities measured at fair value | N/A | N/A |
| Interest rate swap | - | 472,758 | - | 11,390 | Debt securities issued and other long-term borrowings | N/A | N/A |
| Interest rate swap | - | - | - | - | Loans and advances, net | N/A | N/A |
| Sub total | 1,799,622 | 472,758 | 49,154 | 15,980 | | N/A | N/A |
| Derivative held as cash flow hedge: | | | | | | | |
| Forward foreign exchange contract | 342,948 | - | - | - | Loans and advances, net | 199 | - |
| Forward foreign exchange contract-Margin FI deposit | - | - | - | - | Deposits from customers | - | - |
| Forward foreign exchange contract-Call deposit | - | 618,213 | - | - | Deposits from customers | (116) | - |
| Interest rate swap | 200,346 | - | - | - | Loans and advances, net | (3,732) | - |
| Coupon only swap | - | - | - | - | Debt securities issued & other long-term borrowings | - | - |
| Cross-currency swap | 329,934 | - | - | - | Investment securities measured at amortised cost | 1,098 | - |
| Sub total | 873,228 | 618,213 | - | - | | (2,551) | - |
| Total Derivatives | 2,672,850 | 1,090,971 | 49,154 | 15,980 | | (2,551) | - |

## 34. Cash and cash equivalents

| | 2024 AED'000 | 2023 AED'000 |
|---|---|---|
| Cash in hand and balances with UAE Central Bank | **8,770,312** | 5,725,115 |
| Due from other banks | **12,408,314** | 12,438,123 |
| | **21,178,626** | 18,163,238 |
| Less: Due from other banks with original maturity of greater than three months | **(11,114,745)** | (10,216,439) |
| | **10,063,881** | 7,946,799 |

## 35. Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

To align with the direction of the Group's strategy there is a reclassification and aggregation of segments. The Chief Operating Decision Maker (CODM) has reassessed the segments getting reported.

Following re-alignments and aggregation have been made within our internal reporting:

*(a)* Aggregation of business performance of "Treasury & other" with "Wholesale Banking", into one reporting segment of "Wholesale Banking" The shift in internal reporting and aggregation was further augmented to include financial information and metrics on the consumption of, and returns on, capital. The aggregated view of the operating segment is used by management to allocate resources and assess performance.

*(b)* Aggregation of business performance of "Head office & unallocated cost" and "Insurance business" into one reporting segment disclosed as "Head office & others" on reassessment of the financial significance of the reporting segments. Further, we have reviewed the central costs previously reported within "Head office & Unallocated cost" and reallocated them to the other operating segments as appropriate.

The Group has four main business segments:

- Retail banking – incorporating individual customer and certain business current accounts, savings accounts, deposits, credit and debit cards, individual customer loans and mortgages;
- Wholesale banking – incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate customers and financial institutions, including Treasury related activities on the dealing room, related money market, and foreign exchange transactions and hedging activities with other banks and financial institutions;
- Business banking – incorporating transactions comprising of loans, advances, deposits and trade finance transactions of SME; and
- Head Office and Others – Comprises Central funding & other support functions including insurance related transactions of Raknic subsidiary.

## 35. Operating segments (continued)

The above segments include conventional and Islamic products and services of the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Group's funds transfer pricing guidelines. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the CEO (the chief operating decision maker) in order to allocate resources to the segment and to assess its performance.

## 35. Operating segments (continued)

The segment information provided to the management for the reportable segments for the year ended 31 December 2024 and 2023 are as follows:

| | Retail Banking AED'000 | Wholesale Banking AED'000 | Business Banking AED'000 | Head office & Others AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2024** | | | | | |
| Net external interest income | **868,032** | **1,641,778** | **895,173** | **(244,094)** | **3,160,889** |
| Income from Islamic financing net of distribution to depositors | **179,349** | **(13,265)** | **286,512** | **(51,448)** | **401,148** |
| Internal revenue | **37,664** | **(732,769)** | **489,262** | **205,843** | **-** |
| Net interest income and net income from Islamic financing | **1,085,045** | **895,744** | **1,670,947** | **(89,699)** | **3,562,037** |
| Non-interest income | **457,974** | **391,318** | **321,088** | **(19,895)** | **1,150,485** |
| **Operating income** | **1,543,019** | **1,287,062** | **1,992,035** | **(109,594)** | **4,712,522** |
| General and administrative expenses | **(819,821)** | **(256,907)** | **(578,209)** | **(3,477)** | **(1,658,414)** |
| **Operating profit before net impairment charge and tax** | **723,198** | **1,030,155** | **1,413,826** | **(113,071)** | **3,054,108** |
| Net impairment charge | **(400,239)** | **(84,909)** | **(240,063)** | **(50,807)** | **(776,018)** |
| **Profit before tax** | **322,959** | **945,246** | **1,173,763** | **(163,878)** | **2,278,090** |
| Tax expense | | | | **(202,446)** | **(202,446)** |
| **Profit for the year after tax** | **322,959** | **945,246** | **1,173,763** | **(366,324)** | **2,075,644** |
| **As at 31 December 2024** | | | | | |
| Segment assets | **22,999,414** | **53,611,658** | **9,545,088** | **2,169,247** | **88,325,407** |
| Segment liabilities | **18,936,509** | **24,693,886** | **23,492,182** | **9,406,151** | **76,528,728** |

## 35. Operating segments (continued)

| | Retail Banking AED'000 | Wholesale Banking AED'000 | Business Banking AED'000 | Head office & Others AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| **31 December 2023** | | | | | |
| Net external interest income | 837,479 | 1,539,851 | 790,219 | (256,248) | 2,911,301 |
| Income from Islamic financing net of distribution to depositors | 194,788 | (37,313) | 280,623 | (13,109) | 424,989 |
| Internal revenue | 67,566 | (677,022) | 487,807 | 121,649 | - |
| Net interest income and net income from Islamic financing | 1,099,833 | 825,516 | 1,558,649 | (147,708) | 3,336,290 |
| Non-interest income | 450,323 | 316,330 | 328,841 | (27,588) | 1,067,906 |
| **Operating income** | 1,550,156 | 1,141,846 | 1,887,490 | (175,296) | 4,404,196 |
| General and administrative expenses | (858,657) | (217,501) | (511,323) | (13,780) | (1,601,261) |
| **Operating profit before net impairment charge and tax** | 691,499 | 924,345 | 1,376,167 | (189,076) | 2,802,935 |
| Net impairment charge | (165,446) | (79,822) | (295,332) | (464,877) | (1,005,477) |
| **Profit before tax** | 526,053 | 844,523 | 1,080,835 | (653,953) | 1,797,458 |
| Tax expense | | | | (13,733) | (13,733) |
| **Profit for the year after tax** | 526,053 | 844,523 | 1,080,835 | (667,686) | 1,783,725 |
| **As at 31 December 2023** | | | | | |
| Segment assets | 19,943,928 | 43,045,849 | 8,841,635 | 2,123,222 | 73,954,634 |
| Segment liabilities | 17,806,382 | 22,404,453 | 21,759,554 | 1,629,718 | 63,600,107 |

## 36. Related parties' transactions and balances

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits.

During the year, the Group entered into transactions with related parties in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. No stage 3 provisions for impairment have been recognized pertinent to related parties (2023: Nil). Further, stage 1 and 2 ECL amounted to AED 32.9 million (2023: AED 11.6 million).

The transactions with related parties and balances arising from these transactions are as follows:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| ***Transactions during the year*** | | |
| Interest income | **132,338** | 70,283 |
| Insurance income | **82,160** | 46,629 |
| Commission income | **5,470** | 861 |
| Other income | **3,977** | 2,700 |
| Interest expense | **166,030** | 77,657 |
| Insurance expense | **48,754** | 44,090 |
| Other expenses | **400** | 348 |
| Directors' and key management personnel's remuneration and sitting fees | **76,960** | 55,321 |
| ***Balances*** | | |
| ***Loans and advances:*** | | |
| - Shareholders and their related companies | **1,988,941** | 1,783,452 |
| - Directors and their related companies | **4,469** | 116,617 |
| - Key management personnel | **16,861** | 10,839 |
| | **2,010,271** | 1,910,908 |
| ***Deposits:*** | | |
| - Shareholders and their related companies | **4,898,438** | 3,278,338 |
| - Directors and their related companies | **22,316** | 13,163 |
| - Key management personnel | **12,911** | 13,060 |
| | **4,933,665** | 3,304,561 |
| ***Other assets:*** | | |
| - Shareholders and their related companies | **29,121** | 15,051 |
| ***Other liabilities:*** | | |
| - Shareholders and their related companies | **1,250** | 6,218 |
| - Post-retirement benefits payable | **9,011** | 8,031 |
| | **10,261** | 14,249 |
| ***Commitments, contingent liabilities and derivative contracts:*** | | |
| - Shareholders and their related companies | **1,288,709** | 1,368,905 |
| - Directors and their related companies | **1,050** | 34,582 |
| - Key management personnel | **1,288** | 1,119 |
| | **1,291,047** | 1,404,606 |

Interest income and expense majorly relates to transactions with major shareholder and their related entities.

## 37. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2024, the market value of such assets amounted to AED 5,905 million (2023: AED 5,627 million) and are excluded from the consolidated financial statements of the Group.

## 38. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if settled unfavorably.

The Bank's subsidiary, RAKNIC as common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

## 39. Seasonality of results

There is no income of seasonal nature during year 2024 and 2023.

## 40. Financial risk management

***Risk management review***

The Group's activities expose it to various financial risks, necessitating the analysis, evaluation, acceptance, and management of these risks. Risk-taking is fundamental to the financial services sector. Therefore, the Group aims to balance risk and return effectively, while minimizing potential adverse effects on its financial performance.

The Group's Board and Management firmly believe that a robust risk management department is crucial for the sustainable achievement of the Bank's strategic growth objectives. The Board Risk Committee supports the Bank's comprehensive risk management strategy and appetite, offering essential direction for the Group's risk management measures. The Group's Risk Management function operates independently from the risk-taking functions, aligning with the UAE Central Bank's guidelines and adhering to the Group's three lines of defence model.

The Group has a Board-approved Enterprise Risk Management policy encompassing the Group's Risk Appetite framework, which includes Financial Risks. This policy ensures that operations remain within the approved thresholds for Financial Risks

The Group's risk management policies are crafted to identify, analyze, establish appropriate limits and controls, and ensure adherence through reliable and up-to-date information systems. The Group consistently reviews and updates its risk management policies and systems to adapt to changes in markets, products, and emerging best practices.

The Group leverages advanced quantitative approaches in its risk management strategy to assess and improve its capabilities. This sophisticated methodology allows for more precise classification of risk segments among customers, thereby enhancing due diligence processes. By utilizing complex statistical models and data analytics, the Group is able to identify patterns and trends that might not be visible through traditional methods.

Moreover, the Group incorporates forward-looking market parameters in its analyses to ensure that its risk management practices are not only aligned with current risks but also capable of identifying and mitigating emerging and future risks. This proactive approach includes stress testing and scenario analysis to anticipate how various economic and market conditions could impact the Group's risk profile. These efforts ensure that the Group remains resilient and adaptive in an ever-changing financial landscape.

## 40. Financial risk management (continued)

***Risk management review (continued)***

The Board of Directors have established six mentioned below board committees to supervise specific areas and to prepare topics for consideration by the complete Board. The broad role of each committee is described in the table below:

| Committee | Roles & Responsibilities |
|---|---|
| **1. Board Credit Committee (BCC):** | |
| The Board Credit Committee has been established by the Board of Directors (the Board) to assist the Board of Directors to primarily manage credit risks of all segments of the Bank, recommend, review, and approve individual or group credits within the authorities delegated by the Board.<br><br>Board/BCC will thereafter sub delegate or approve delegated authorities of Management Credit Committee (MCC) and other delegated authorities. | ▪ Noting the Credit policies of the Bank that will spell out among others, the target markets, products, risk acceptance criteria and general guidelines for lending.<br>▪ Review and approve, the Product Program Guidelines (PPGs) for Asset products relating to all segments of the Bank and any other areas of Business.<br>▪ Review and approve Credit grading methodology for the Bank.<br>▪ Approve the terms of engagement, nature and scope of consultants / professionals appointed to assist in managing Credit portfolios of the Bank.<br>▪ Approve investments within the delegated lending authority as stated in the Investment Policy of the Bank and recommend to higher authority for approval where proposal is beyond BCC's Delegated Lending Authority (DLA).<br>▪ Review any breach in the Investment Policy of the Bank and wherever required escalate the same to the Board of Directors.<br>▪ Review and approve credit facilities in respect of individual and Group Credits. Typically, the credits referred are those that are beyond the Delegated Lending Authorities of MCC, Chief Credit Officer and any other DLA holder of the Bank.<br>▪ Where credit approving authority in respect of a specific proposal is beyond that of the respective Credit Committee, they will recommend the proposal for approval by the next higher authority. For example, the MCC will recommend to BCC and BCC to Board.<br>▪ The proposals of the respective Business Units/PPGs will be presented to the BCC by Unit Heads or their representative with respect to proposals pertaining to their respective areas.<br>▪ Call for periodic reviews of specific portfolios or credits to assess emerging risks that in the opinion of the BCC merit special attention. Call for review of portfolio and Credit MIS as and when required and monitor the level of delinquent and non-performing assets.<br>▪ Any other matter delegated by the Board of Directors |

## 40. Financial risk management (continued)

### *Risk management review (continued)*

| Committee | Roles & Responsibilities |
|---|---|
| **2. Board Nomination & Remuneration Committee (BNRC):**<br><br>The Board Nomination and Remuneration Committee has been established by the Board of Directors to assist the Board in areas of board composition, nomination and remuneration of board members and senior management, setting the induction and director ongoing development programs, assessment of the Board, its committees and directors, succession planning for Board Members and Senior Management, and human resource related policies. | **Duties and Responsibilities under Nomination:**<br>• The Committee shall review the composition and diversity at the Board and Board committees' level to ensure an appropriate balance of skills, diversity, expertise, independence and meet regulatory requirements and recommend to the Board changes if and when required. The Committee shall ensure that the Board Members and Committee members remain individually and collectively qualified for their positions, as per applicable CBUAE and SCA regulations.<br>• The Committee shall review and oversee the implementation the process for identifying and selecting the candidates of the Board, reviewing and approving the Fit and Proper process.<br>• The Committee shall establish, assess, and review the application and elections of Board Membership policy while taking into account diversity, in particular gender diversity requiring at least 20% of candidates for consideration for the Board to be female.<br>• The Committee shall oversee the appointment documentation of Board Members.<br>• The Committee shall periodically monitor the independence of Board Members and recommend necessary actions.<br>• The Committee shall have an ex-ante review and approval process in place to be completed before a member on the Board accepts nomination to serve on another Board as permitted by CBUAE regulations and to avoid conflict of interest.<br>• The Committee shall review and maintain succession plans for the Board and Senior Management members.<br>• The Committee shall review and approve appointment and termination of executive/ senior management, including the fit and proper process for the selection of senior management.<br>• The Committee shall review the appointment and re-appointment of the members on the boards of subsidiaries, as required.<br><br>**Duties and Responsibilities under Remuneration:**<br><br>▪ The Committee is responsible for the oversight of management's implementation of the compensation for the entire Bank, ensuring it is in line with the strategy, risk appetite, objectives, values and long – term interests of the Bank.<br>▪ The Committee shall review the compensation plans, processes and outcomes at least annually. The Committee must arrange for an independent assessment by an external third party at least once every 5 years. |

## 40. Financial risk management (continued)

### *Risk management review (continued)*

| Committee | Roles & Responsibilities |
|---|---|
| **3. Board Nomination & Remuneration Committee (BNRC):** | Duties and Responsibilities under Remuneration (continued):<br>▪ The Committee must regularly monitor and review outcomes to assess whether the Bank's wide compensation system is creating the desired incentives for managing risk, capital and liquidity. It must work closely with the Board Risk Committee in the evaluation of incentives created by the compensation system.<br>▪ The Committee shall review annually the remuneration framework that will apply to the Group Chief Executive Officer (CEO) and senior management.<br>▪ The Committee shall review on annual basis and propose to the Board the amount and fees payable to Board and Committees members.<br><br>Duties and Responsibilities under HR:<br>▪ The Committee shall prepare and review annually policies related to human resources and training and monitor their implementation.<br>▪ The Committee shall have oversight and monitor the implementation of the Emiratization program.<br>▪ The Committee shall monitor the performance of executive / senior management against objectives and budget.<br>▪ The Committee shall review and approve the Bank's policy on staff grading and remuneration structure.<br>▪ The Committee shall approve the overall budget for annual performance/retention payments for all staff.<br><br>Duties and Responsibilities under Corporate Governance:<br>▪ The Committee, assisted by the Group Company Secretary, shall review and approve an induction program for Board Members and Senior Management regarding the business and other areas necessary to assist them in carrying out their duties.<br>▪ The Committee, assisted by the Group Company Secretary, shall carry annual assessments of the Board, committees, and individual members.<br>▪ The Committee, assisted by the Group Company Secretary, shall review and approve on an annual basis the Directors' Development Program that supports the directors' ongoing training to ensure that the Board members acquire, maintain, and enhance knowledge and skills relevant to their responsibilities.<br>▪ The Committee shall secure the Board Members annual and quarterly confirmation as per regulatory requirements including the confirmation that Board Members have sufficient time available to manage the time commitments required for their role in the Bank.<br>▪ Review the Corporate Governance report and other related disclosures particularly those relating to Directors details and remuneration to ensure compliance with regulatory requirements.<br>Any other matter delegated by the Board of Directors. |

## 40. Financial risk management (continued)

### Committee

**3. Board Audit Committee (BAC):**

The Board Audit Committee has been established by the Board of Directors (the Board) of the Bank to assist the Board in the oversight, monitoring and review of the following aspects of the Bank and its subsidiaries' operations:

- The quality and integrity of financial statements and financial reporting.
- The effectiveness of governance, risk management and internal control systems.
- Compliance with laws and regulations.
- Compliance with the Group Code of Conduct.
- The Group Internal Audit (GIA) function.
- The statutory audit process and External Auditors.
- Compliance with the Sharia in respect of Islamic Banking products and services.

### Roles & Responsibilities

- Monitor and review the integrity of the Bank's financial and accounting policies and procedures, including the review of significant financial reporting issues and judgements contained in the financial statements.
- Monitor the appropriateness and integrity of the interim and published financial statements and annual report of the Bank and its businesses and subsidiaries, including significant financial reporting judgments contained in them.
- Review the content of the annual report and financial statements and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Bank's performance, business model and strategy. The review undertaken by the Committee should assess whether the narrative is consistent with the accounting information.
- Review and approve the Audit Charter annually in line with the mandatory guidance of the IIA's International Professional Practices Framework and GIA strategy, annual audit and resource plan, performance measures and outcomes and make recommendations relevant to GIA activities. Ensure the independence of the GCAO and the GIA function and review GIA reports and achievements relative to the audit plan and follow up on corrective measures of key risks arising from the audit reviews.
- Review and approve the policy for the tendering of the audit engagement that includes requirements for knowledge, competence, objectivity, independence, professional scepticism and quality control. Consider and recommend to the Board the appointment, re-appointment resignation, removal and compensation of External Auditors.
- Review and approve the Whistleblowing policy that enables the Bank's staff to confidentially report potential violations in financial reports, internal control, or any other issues and sets out procedures for conducting independent and fair investigations concerning such violations.
- Ensure that all Related Party Transactions (RPT) are appropriately reported through the published financial statements of the Group in accordance with the applicable international accounting standards.
- Evaluate the effectiveness of policies established for supervising compliance with the Sharia, as approved by the Internal Sharia Supervisory Committee ("ISSC"). Assess the effectiveness and adequacy of the Internal Sharia Audit Department ("ISAD"), and its contribution in ensuring compliance with the Sharia. Review reports prepared by ISAD to ensure necessary measures have been taken in their regard by Senior Management.

## 40. Financial risk management (continued)

### *Risk management review (continued)*

**Committee**

**4. Board Risk Committee (BRC):**

- The Board Risk Committee has been established by the Board of Directors to assist the Board in fulfilling its responsibilities with respect to the oversight of Strategic Risk, Strategic Risk, Credit Risk, Operational Risk, Information security/ Cybersecurity Risk, Conduct Risk, Model Risk, Reputational Risk, Legal Risk, Concentration Risk, Cross Border Risk, Compliance Risk, Market Risk & Counterparty Credit Risk, ESG & Climate Risk, Liquidity Risk, Interest Rate Risk, Shari'ah Non-Compliance Risk, Displaced Commercial Risk, Rate of Return Risk, Equity Investment Risk, Others.

**Roles & Responsibilities**

- Ensure Bank has a comprehensive risk management strategy, risk governance framework and policies that are consistent with the nature and volume of the Bank's activities; monitor its implementation and review and update it based on the Bank's internal and external changing factors.
- Maintain a thorough understanding of the internal and external sources of material risk impacting the bank and provide strategic advice to the Board of Directors on risk perspectives to inform the formulation of RAKBANK's strategic direction. The committee shall continuously review portfolio deep dives and portfolio risk management to ensure the proactive identification and mitigation of risks.
- Assure an effective risk culture, compliance culture, and internal controls across the Bank by providing guidance to management as needed to assist them in improving their risk management practices and mitigating certain risks. Ensure the presence of qualified management personnel to carry out risk management activities effectively.
- Ensure that the Bank's risks are at acceptable level according to the risk appetite without exceeding that level, and report regularly to the Board on the Bank's risk profile, promptly informing them of any significant changes in the volume of risk.
- Oversee the Bank's risk management framework, ensuring adherence to all applicable laws, regulations, and internal policies. The committee will review the reports from management on compliance related to Anti-Money Laundering, Sanctions, Regulatory Compliance, Subsidiaries Compliance, Shari'ah Compliance, and Consumer Protection.
- Make recommendations to the Board on matters related to Compliance (including Shari'ah Compliance), Corporate Governance, and Legal functions.
- Recommend & approve compliance related policies.
- Review the Shari'ah Compliance Report and periodic reports received from the Central Bank of the UAE, the Internal Shari'ah Supervision Committee (ISSC), Shari'ah auditors, and other regulators, and approve the management responses submitted in response to these reports.
- Provide direct access to the Shari'ah controls function and obtain its opinion.
- Review and approve the framework for managing risks specific to Islamic banking as part of the overall risk management framework.

## 40. Financial risk management (continued)

### *Risk management review (continued)*

| Committee | Roles & Responsibilities |
|---|---|
| **4. Board Risk Committee (BRC): (continued)** | ▪ Ensure the ability of the information system to measure, assess, and report risks specific to Islamic banking. Also, ensure such reports are shared with the Board and Senior Management in a timely manner.<br>▪ Supervise and monitor the management of risks specific to Islamic banking and set controls through the Internal Shari'ah Control Division in consultation with the Internal Shari'ah Supervision Committee.<br>▪ Review the adequacy of the Shari'ah controls function as a delegated representative of the Board of Directors, and manage matters related to performance assessment, promotions, bonuses, and the removal of ISCD personnel in consultation with the ISSC.<br>▪ Review the effective implementation and ongoing management of Consumer Protection Regulations and Standards as prescribed by the Central Bank of the UAE from time to time.<br>▪ Ensure effective governance and implementation of the Conduct Risk Management framework across the bank to safeguard the interests of its customers and uphold the bank's integrity and reputation.<br>▪ Review the Bank's outsourcing activities and promptly inform the Board of any significant changes in the volume of outsourcing risk.<br>▪ Obtain assurance from the executive management and internal audit through the oversight committees that the risk, compliance, corporate governance, and legal processes and systems operate effectively with appropriate controls, in addition to compliance with approved policies.<br>▪ Oversee ESG policies, frameworks, and procedures to ensure alignment with the Bank's overall strategy and values, as well as compliance with ESG related laws, regulations, Shari'ah requirements, and standards.<br>▪ Review and approve ESG related risks and opportunities within the bank's operations, investments, and financing activities, including risks related to climate change, social responsibility, and governance issues.<br>▪ Oversee the Bank's ESG performance and track progress against established ESG goals and targets.<br>▪ The Board Risk Committee is tasked with overseeing model risk by approving significant modeling decisions, defining the bank's model risk appetite, ensuring adequate technical expertise among staff, reviewing model development and validation processes, and approving related policies and reporting in compliance with CBUAE regulations.<br>▪ Ensure that the bank maintains a best-in-class risk infrastructure, including robust risk management systems and tools, to effectively identify, assess, and mitigate risks across all operations.<br>▪ The Board Risk Committee has oversight of People risk in the areas such as Emiratization, Training, Disciplinary Actions, Code of Conduct, and Employee Attrition.<br>▪ In line with Board delegation, review the appointment, performance, and replacement of the Group Chief Risk Officer and monitor the effectiveness of the risk management division in general. |

## 40. Financial risk management (continued)

### *Risk management review (continued)*

| Committee | Roles & Responsibilities |
|---|---|
| **5.Board Strategy Committee (BSC):**<br><br>The Board Strategy Committee has been established by the Board of Directors to assist the Board and give guidance to the Group Chief Executive Officer and Senior Management in managing the affairs of the Bank in areas of the Bank's overall strategy, operational and financial performance monitoring, and budgeting. The scope of the Committee includes RAKBANK and its subsidiaries**.** | • Review the Bank's strategic plan and recommend it to the Board of Directors for approval.<br>• Monitor the Bank's business objectives and strategy implementation.<br>• Review the developments and trends shaping the future of the industry to align the Bank's strategy and positioning, accordingly.<br>• Review and consider the Management's proposals re new strategic initiatives, such as partnerships and alliances.<br>• Advise the Chief Executive Officer on strategic issues that members of the Committee believe are relevant.<br>• Review and approve strategic proposals relating to the expansion of the business in terms of organic growth and/or acquisitions, distribution, and new lines of business.<br>• Consider strategic matters related to the Bank's subsidiaries and Group companies.<br>• Review the Bank's proposed annual budget and financial objectives, including achieving cost optimization and recommend it to the Board of Directors for approval.<br>• Review the Bank's performance at least quarterly against the budget.<br>• Review any other matter delegated by the Board of Directors |

## 40. Financial risk management (continued)

### *Risk management review (continued)*

| Committee | Roles & Responsibilities |
|---|---|
| **6. Board Islamic Profit Equalization Committee (BIPEC):**<br><br>The Board Islamic Profit Equalization Committee has been established by the Board of Directors to assist the Board and give guidance to:<br><br>1. Scrutinize the utilization of reserves specific to RAKislamic's Investment Account Holders (saving accounts and terms investment deposits), such as Profit Equalization Reserve (PER) and Investment Risk Reserve (IRR), and to make appropriate recommendations to the Board. The Committee shall coordinate and integrate the implementation of the governance policy framework, with the primary objective of protecting the interests of stakeholders, other than the shareholders, in line with the Higher Shari'ah Authority (HSA) of CBUAE and Internal Shari'ah Supervision Committee (ISSC) resolutions.<br><br>2. Governance and oversight on RAKislamic Charity Framework covering the:<br><br>i. Late Payment Charges/Fees received from customers based on "Commitment to Donate" (Penalty on Customers).<br>ii. Financial penalty imposed by Internal Shari'ah Supervision Committee (ISSC) or Higher Shari'ah Authority (HSA) due to non-compliance with Shari'ah principles (Penalty on the Bank). | • The Committee shall review and approve policies and strategies of the investments, and strategies for the management of Displaced Commercial Risk (DCR). The Committee shall conduct regular reviews of the investment policies and the performance of the asset portfolio in which Investment Account Holder's (IAH's) funds are invested. The policies and strategies shall address the following areas:<br>o Management of DCR, including the limits to and tolerance level;<br>o Mechanisms used in respect of the IB forgoing its share of profits in favor of the IAH; and<br>o Appropriations to reserves and provisioning, in accordance with the agreed contractual terms and conditions for IAH.<br>• In order to ensure that profit equalization, including utilization of reserves such as PER and IRR are appropriately checked and monitored, the Committee is mandated to scrutinize the utilization of such reserves and to make appropriate recommendations to the Board. The Committee shall coordinate and integrate the implementation of the governance policy framework, with the primary objective of protecting the interests of stakeholders, other than the shareholders, in line with the HSA and ISSC resolutions.<br>• The Board or its committees must ensure rigorous and diligent oversight policy, process and procedures over the following:<br>o The financing and investment activities undertaken by the IB using IAH's funds;<br>o The fiduciary duties performed by the IB, which must be in accordance with the terms and conditions of the Mudarabah and Wakala contracts between the IB and its IAH; and<br>o The level of reserve allocation, ensuring that it is appropriate and fair to both existing and new IAHs.<br>• The Committee shall also evaluate the disclosures made by the IB regarding its asset allocation and investment strategies in respect of IA, in order to monitor closely the performance of IB as managers of such accounts.<br>• The Committee shall approve the Framework covering the collection and distribution of charity amount received from following two sources:<br>o Late payment charges/fees received from customers based on their commitment to donate (penalty on customers due to delay in paying installments/debt).<br>o Penalty on the bank imposed by ISSC or HSA due to non-compliance with Shari'ah principles e.g.:<br>- Sequence of events mandated by Shari'ah are not followed, leading to impermissibility of income earned.<br>- Executing transaction documents without Shari'ah approval, whereby income is earned by the Bank utilizing funds of Islamic banking window.<br>The Committee shall evaluate the periodic reports related to collection and distribution of charity. |

## 40. Financial risk management (continued)

*Compliance risk*

Compliance Risk at the Group is defined as the risk emanating from regulatory sanctions, material financial loss or loss to reputation that the bank will suffer as a result of its failure to comply with laws, regulations, self-regulatory organizational rules & standards/controls and codes of conduct applicable to its banking activities.

The definition of compliance at Group thereby includes:

- Compliance with local and international regulatory requirements
- Compliance with internal policy dictates
- Compliance with internal controls embedded in operating procedures of the Group

The Group has an established Compliance function, as its second line of defence. The Regulatory & Compliance function is managed by Chief Compliance Officer reporting to the CEO. The function is responsible for identification, monitoring and reporting of all compliance related risks. It works closely with all business and support units of the bank in formulating compliance policies and has oversight responsibility for implementation and advice of prudential regulations and conduct of business. This Division also acts as the main liaison with the Central Bank of the U.A.E. The framework and guidelines for compliance are designed by management and approved by board of directors, in line with Basel guidelines in this regard.

***Operational Risk***

Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people, systems, or external events. The Group strives to effectively manage and mitigate Operational Risk through a robust and effective control environment across the organization.

The Bank has established a formal Operational Risk Management (ORM) governance structure under the Management Risk Committee and Board Risk Committee, which provides strategic direction and oversight for ORM activities.

The governance structure is designed to clearly delineate responsibilities among risk owners (Business, Operations, and Support units), Control functions (Risk Management/Compliance), and the Internal Audit function, ensuring the Bank's assets and reputation are safeguarded against potential operational risks from daily business activities. The governance structure is outlined as follows:

- First Line of Defence: Business, Operations and Support Units
- Second Line of Defence: Risk Management and Compliance
- Third Line of Defence: Internal Audit

Several key Operational Risk processes are in place to enhance risk management in Operational Risk:

- The Bank has embedded a new OR framework and established an operational risk appetite for various risk categories.
- Setup the baseline for Risk and Control Self Assessments (RCSAs) and activate a business operational risk team within first-line functions.
- Conducted specialist risk assessments in areas such as Third-Party Risk Management and Fraud Risk Management.

## 40. Financial risk management (continued)

***Conduct Risk***

Conduct Risk is the risk of causing harm or an adverse effect to the customers or other stakeholders, or on market stability or of hindering effective competition resulting from Bank's actions, including its business practices, culture, and ethics. It can arise from wide range of activities including, misleading advertising and marketing practices, inappropriate sales techniques, unfair treatment of customers, conflicts of interest, or failure to comply with regulatory requirements.

The Bank has a comprehensive Conduct Risk Management Policy and governance structure to assist RAKBANK to proactively identify, assess, monitor, mitigate, control and advise on conduct risk, minimize regulatory non-compliance and financial threats, and uphold the Bank's integrity and reputation in the financial market in UAE. The Conduct Risk governance structure thus ensures ethical behaviour, regulatory compliance, and the protection of customer interests.

The Conduct Risk Management function has been created within the Group Risk Management and manages the policy and framework, which equally applies to the Bank.

***Information and Cyber Security Risk***

The Group considers information and cyber security risk as one of the most important risks to be managed. This is the risk posed by internal and external threat actors targeting the bank's technology infrastructure which can have an impact on Bank's ability to service its customers through technology disruptions, data theft etc. and lead to financial or reputational loss.

The Group has a dedicated Information and Cyber Security unit managed by a Chief Information Security Officer (CISO), who reports to the Deputy Chief Risk Officer. This unit manages security risk assessments, perimeter security monitoring, compliance to technical regulatory requirements and overarching governance for compliance to the Group's Information and Cyber Security policy.

***Fraud risk***

The Group's Management and Board recognize that proactive fraud risk management is a crucial component of the Group's overall risk management strategy. The Group's new framework employs a four-pronged approach to Fraud Risk Management, which includes:

- Fraud Governance
- Fraud Prevention
- Fraud Detection
- Fraud Response

The Bank has a frontline fraud prevention and detection unit that manages the fraud alerts and performs the case management. The Fraud Risk team within the risk function provides independent oversight of fraud prevention and detection activities, sets the fraud Risk policy, and reports independently to executive committees. The Fraud Investigations unit also operates within the risk function and conducts independent investigations of referred cases.

The Group has adopted a Fraud Risk Management Framework (FRMF) aimed at implementing an effective Fraud Risk Management (FRM) policy and processes across the Group. This overall approach helps to manage fraud risk efficiently and promptly by establishing systems and procedures to identify and mitigate fraud risks.

## 40. Financial risk management (continued)

***Credit risk***

Credit risk refers to the possibility that customers or counterparties of the Group may be unable, unwilling, or fail to meet their contractual obligations, either partially or fully. This includes defaults on principal, interest, fees, profit, or any other contractual commitments under loan arrangements, credit facilities, or similar transactions facilitated by the Group. Such defaults can lead to financial losses for the Group. Credit risk also emerges from the downgrading of counterparties whose credit instruments are held by the Group, leading to a decline in the value of these assets.

Given that credit risk is the Group's most significant risk, substantial resources, expertise, and controls are dedicated to managing it within the Bank's core departments.

The Group's credit policy establishes a systematic and consistent approach to identifying and managing borrower and counterparty risks across all retail, business banking, and wholesale banking assets.

The Chief Credit Officer and their team are responsible for recognizing and managing credit risk at both the transaction/origination and portfolio levels. They ensure that risk procedures adhere to the framework outlined in the Credit Policy, Product Programs Guidelines (PPG), and Credit Circulars, while complying with all regulatory requirements.

Under the direction of the Chief Risk Officer, the risk teams manage credit risk by setting the Bank's risk appetite, issuing and updating credit policies, product programs, policy circulars, and conducting comprehensive portfolio analysis.

The Group acknowledges that the Central Bank of UAE has issued the Credit Risk Management Standards in October 2024. The bank is committed to meet all the requirements by the stipulated timelines.

Respective Business Heads and their teams conduct thorough analyses of all commercial loan applications submitted for approval. They focus on aspects such as ownership, business management, industry specifics, financial health, structure, and collateral. The Chief Credit Officer and their team then review these loan applications, identifying and measuring the associated credit risks before presenting them to the Delegated Authorities for approval. Both Business and Credit Units continuously monitor the portfolio to ensure it remains healthy.

In the Retail lending business, credit risk is managed through appropriate front-end sales and credit underwriting processes, as well as back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled out to ensure consistency in underwriting and the on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments.

For Wholesale exposures, credit risk is managed by identifying target market segments, structured credit approval processes and robust post-disbursement monitoring and remedial processes. Board approved risk appetite framework and credit policies lay the governing principles for any credit on boarding, underwriting and monitoring of the portfolio.

## 40. Financial risk management (continued)

*Credit risk (continued)*

The Group manages, limits and controls concentration of credit risk wherever it is identified - in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group builds, validates and uses Credit Scoring tools that are populated by internally and externally derived historical data, forward looking models and behavioural models to assess counterparty risk on a customer and portfolio level for most of its Retail products.

*Expected Credit Loss under IFRS9*

Expected Credit Loss (ECL) under IFRS9 is used to estimate the potential loss a bank or financial institution may incur from its credit exposures over a specified period. Unlike traditional models that only consider losses once a default occurs, ECL models are forward-looking and consider possible future credit events. The approach incorporates various risk factors, including borrower creditworthiness, macroeconomic conditions, and historical loss data, to predict the likelihood and impact of defaults. ECL is calculated for borrowers or segment of borrowers as Exposure at Default * Probability of Default * Loss Given Default

This method helps the Bank to proactively manage credit risk, maintain adequate provisions, and ensure financial stability. As advised in IFRS9 framework, Bank uses three stages of credit risk assessment i.e. stage 1, stage 2 and stage 3 based on the quality of credit for a facility/borrower. Bank applies stage movement criteria as defined in SICR section for movement between these stages.

***Significant increase in credit risk***

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the financial asset will be moved to Stage 2 and the loss allowance will be based on lifetime basis (lifetime ECL). The broad factors that are considered to determine whether a financial asset has experienced SICR are: days past due of more than 29 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, whether an exposure has been restructured since initial recognition etc. During the year the SICR criteria is refined as per the updated regulatory requirements.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 29 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

## 40. Financial risk management (continued)

*Credit risk (continued)*

***Internal credit risk ratings***

Credit Risk ratings of its customers and facilities enables the bank to minimize its credit risk and hold sufficient provision for the risk it carries in its credit portfolio. The credit rating information for the wholesale portfolio is derived from a comprehensive range of data considered predictive of default risk, combined with experienced credit judgment. The analysis takes into account the nature of the exposure and the type of borrower. Credit risk grades are assigned based on both qualitative and quantitative factors indicative of default risk.

For retail products, bank has adopted a scorecard / segmentation based approach to classify its loans into various risk segments. Retail scorecards uses customer characteristics, bureau information and customer behaviour to assess credit quality of the facility.

Equipped with rating and scorecard models, the group uses multiple statistical methods to assess probability of default for its customer and how these are expected to change over time. And significant deterioration in customers probability of default will represent significant increase in credit risk for the customer / facility.

***Incorporation of forward-looking information***

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn.

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 5%. The table below outlines the total ECL per portfolio as at 31 December 2024, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 5%. The changes are applied in isolation for illustrative purposes, and are applied to each probability-weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

## 40. Financial risk management (continued)

*Credit risk (continued)*

*Incorporation of forward-looking information (continued)*

| | | ECL AED'000 |
|---|---|---|
| **Auto Loans** | | |
| | Current | 8,123 |
| | +[5]% | 7,040 |
| Commodity prices: Crude oil [Dubai Fateh], (USD per Bbl, NSA) | -[5]% | 9,424 |
| | Current | 8,123 |
| Real Residential property prices: All dwellings, (Index 2010=100, NSA) | +[5]% | 8,112 |
| | -[5]% | 8,135 |
| | Current | 8,123 |
| National accounts: Gross domestic product [GDP] - Real, (Mil. 2014 AED, SAAR) | +[5]% | 8,126 |
| | -[5]% | 8,121 |

| | | ECL AED'000 |
|---|---|---|
| **Credit Cards** | | |
| | Current | 176,491 |
| | +[5]% | 173,445 |
| Commodity prices: Crude oil [Dubai Fateh], (USD per Bbl, NSA) | -[5]% | 179,607 |
| | Current | 176,491 |
| National accounts: Gross domestic product [GDP] - Real, (Mil. 2014 AED, SAAR) | +[5]% | 176,448 |
| | -[5]% | 176,535 |
| | Current | 176,491 |
| House Prices: Residential properties - Abu Dhabi and Dubai, (Index 2010=100, NSA) | +[5]% | 152,967 |
| | -[5]% | 204,605 |

## 40. Financial risk management (continued)

*Credit risk (continued)*

*Incorporation of forward-looking information (continued)*

| | | ECL AED'000 |
|---|---|---|
| **Personal Loans** | | |
| | Current | 224,098 |
| | +[5]% | 208,107 |
| Commodity prices: Crude oil [Dubai Fateh], (USD per Bbl, NSA) | -[5]% | 239,822 |
| | Current | 224,098 |
| | +[5]% | 207,586 |
| Hotel occupancy, (%, SA) | -[5]% | 240,345 |
| | Current | 224,098 |
| National accounts: Gross domestic product [GDP] - Real, (Mil. 2014 | +[5]% | 224,472 |
| AED, SAAR) | -[5]% | 223,725 |
| **Mortgage Loans** | | |
| | Current | 170,439 |
| House Prices: Residential properties - Abu Dhabi and Dubai, (Index | +[5]% | 170,393 |
| 2010=100, NSA) | -[5]% | 170,484 |
| | Current | 170,439 |
| National Accounts: Nominal Gross Domestic Product [GDP], (Bil. | +[5]% | 170,423 |
| AED, SAAR) | -[5]% | 170,454 |
| | Current | 170,439 |
| | +[5]% | 170,295 |
| Money & Banking: Claims on Private Sector | -[5]% | 170,586 |

## 40. Financial risk management (continued)

*Credit risk (continued)*

*Incorporation of forward-looking information (continued)*

| | | ECL AED'000 |
|---|---|---|
| **RAK Business Loans** | | |
| Commodity prices: Crude oil [Dubai Fateh], (USD per Bbl, NSA) | Current | 378,318 |
| | +[5]% | 372,937 |
| | -[5]% | 383,903 |
| Hotel occupancy, (%, SA) | Current | 378,318 |
| | +[5]% | 372,599 |
| | -[5]% | 384,263 |
| National accounts: Gross domestic product [GDP] - Real, (Mil. 2014 AED, SAAR) | Current | 378,318 |
| | +[5]% | 378,333 |
| | -[5]% | 378,304 |
| **Non-Retail loans (Wholesale Banking loans)** | | |
| Money Supply: M3, (Bil. AED, NSA) | Current | 646,188 |
| | +[5]% | 650,297 |
| | -[5]% | 645,427 |
| House Prices: Residential properties - Abu Dhabi and Dubai | Current | 646,188 |
| | +[5]% | 643,646 |
| | -[5]% | 647,740 |
| **Non-Retail loans (Other Business Banking loans)** | | |
| Energy: Production - Crude oil including lease condensate, (Mil. Bbl per day, NSA) | Current | 523,288 |
| | +[5]% | 522,966 |
| | -[5]% | 525,545 |
| National accounts: Expenditure approach - Non-oil sector, (Bil. 2010 AED, NSAAR)/Real Gross Domestic Product [GDP] | Current | 523,288 |
| | +[5]% | 498,936 |
| | -[5]% | 565,002 |

The impact is of change in each variable while other variables are kept constant. ECL is calculated by changing +/-5% of the forecast values of macro-economic variables to all three scenarios, for each variable keeping other variables constant. PD's are weighted by scenario probabilities.

PD Stage 1 : customers with no past due or past due up to 29 days
PD Stage 2 : customers with significant increase in credit risk

## 40. Financial risk management (continued)

### *ECL Measurement*

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

The Group uses external benchmark information for portfolios with limited historical data and for low default portfolios where there is no instances of historical default.

The Group has in place policies, which govern the determination of eligibility of various collateral including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Group's major collaterals are mortgaged properties, investments, vehicles and other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

## 40. Financial risk management (continued)

*Measurement of ECL (continued)*

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVTPL) as at 31 December.

| | Maximum exposure to credit risk | |
|---|---|---|
| | **2024** | 2023 |
| | **AED '000** | AED '000 |
| **Securities quoted at fair value through profit or loss:** | | |
| Quoted funds | **92,958** | 71,091 |
| Unquoted funds | **47,901** | 43,960 |
| Quoted equity securities | **54,307** | 18,964 |
| Quoted debt securities | **258,549** | 112,009 |
| **Derivatives assets** | | |
| Trading derivatives | **435,343** | 458,576 |

As at 31 December 2024, margin money of AED 152.7 million (31 December 2023: AED 215.6 million) have been held as collateral against trading derivatives.

The Group has used the updated macro-economic forecasts for the year and used the weightings of (40:30:30) for Baseline: Upside: Downside scenarios. The sensitivity to 10% increase in Downside Scenario, with a corresponding decrease of 10% in Upside scenario is AED 37.7 million as of 31 December 2024 (31 December 2023: AED 31.9 million).

## 40. Financial risk management (continued)

***Maximum exposure to credit risk before collateral held or other credit enhancements:***

Maximum Credit Risk Exposure as at 31 December 2024

| Particular | AED '000 | | | |
|---|---|---|---|---|
| **Rating grid wise** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Due from other banks** | | | | |
| 1 to 4- | **5,475,502** | **-** | **-** | **5,475,502** |
| 5+ to 6- | **6,928,935** | **-** | **-** | **6,928,935** |
| 7+ to 7- | **2,572** | **1,305** | **-** | **3,877** |
| Total | **12,407,009** | **1,305** | **-** | **12,408,314** |
| **Loans and Advances** | | | | |
| 1 to 4- | **14,794,332** | **12,964** | **-** | **14,807,296** |
| 5+ to 6- | **9,209,751** | **179,035** | **-** | **9,388,786** |
| 7+ to 7- | **16,714** | **500,021** | **10,331** | **527,066** |
| 8 to 10 | **-** | **-** | **431,127** | **431,127** |
| Unrated | **23,230,260** | **1,005,408** | **684,051** | **24,919,719** |
| Total | **47,251,057** | **1,697,428** | **1,125,509** | **50,073,994** |
| **Investment securities (at amortized costs and FVOCI)** | | | | |
| AA to AA- | **4,585,232** | | | **4,585,232** |
| A+ to A- | **3,977,345** | | | **3,977,345** |
| BBB+ to BBB- | **4,511,671** | | | **4,511,671** |
| BB+ to BB- | **1,240,434** | | | **1,240,434** |
| B+ to B- | **918,799** | **331,274** | **-** | **1,250,073** |
| D | **-** | **7,062** | **-** | **7,062** |
| Unrated | **119,122** | **-** | **88,273** | **207,395** |
| Total Amount | **15,352,603** | **338,336** | **88,273** | **15,779,212** |
| **Customer Acceptances** | | | | |
| 1 to 4- | **47,245** | **-** | **-** | **47,245** |
| 5+ to 6- | **349,362** | **10,005** | **-** | **359,367** |
| Total | **396,607** | **10,005** | **-** | **406,612** |
| **Off balance sheet items** | | | | |
| 1 to 4- | **4,804,070** | **2,607** | **-** | **4,806,677** |
| 5+ to 6- | **1,203,295** | **41,409** | **-** | **1,244,704** |
| 7+ to 7- | **7,279** | **4,119** | **-** | **11,398** |
| 8 to 10 | **-** | **-** | **10,948** | **10,948** |
| Unrated | **40,803** | **-** | **-** | **40,803** |
| Total | **6,055,447** | **48,135** | **10,948** | **6,114,530** |

## 40. Financial risk management (continued)

*Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)*

Maximum Credit Risk Exposure as at 31 December 2023

| Particular | AED '000 | | | |
|---|---|---|---|---|
| **Rating grid wise** | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
| **Due from other banks** | | | | |
| 1 to 4- | 6,780,158 | - | - | 6,780,158 |
| 5+ to 6- | 5,655,613 | - | - | 5,655,613 |
| 7+ to 7- | 1,274 | 1,078 | - | 2,352 |
| Total | 12,437,045 | 1,078 | - | 12,438,123 |
| **Loans and Advances** | | | | |
| 1 to 4- | 9,641,704 | 15,041 | - | 9,656,745 |
| 5+ to 6- | 7,076,155 | 142,969 | - | 7,219,124 |
| 7+ to 7- | 167,215 | 339,654 | 97 | 506,966 |
| 8 to 10 | - | - | 469,557 | 469,557 |
| Unrated | 22,969,289 | 474,143 | 686,563 | 24,129,995 |
| Total | 39,854,363 | 971,807 | 1,156,217 | 41,982,387 |
| **Investment securities (at amortized costs and FVOCI)** | | | | |
| AA to AA- | 3,130,916 | - | - | 3,130,916 |
| A+ to A- | 2,362,458 | - | - | 2,362,458 |
| BBB+ to BBB- | 4,609,678 | - | - | 4,609,678 |
| BB+ to BB- | 1,298,266 | - | - | 1,298,266 |
| B+ to B- | 560,791 | 302,604 | - | 863,395 |
| D | - | - | 215,536 | 215,536 |
| Unrated | 254,593 | 14,978 | 55,129 | 324,700 |
| Total Amount | 12,216,702 | 317,582 | 270,665 | 12,804,949 |
| **Customer Acceptances** | | | | |
| 1 to 4- | 17,337 | 1,405 | - | 18,742 |
| 5+ to 6- | 254,608 | - | - | 254,608 |
| Total | 271,945 | 1,405 | - | 273,350 |
| **Off balance sheet items** | | | | |
| 1 to 4- | 4,014,970 | 4,580 | - | 4,019,550 |
| 5+ to 6- | 879,298 | 8,650 | - | 887,948 |
| 7+ to 7- | - | 5,024 | 25 | 5,049 |
| 8 to 10 | - | - | 4,561 | 4,561 |
| Unrated | 101,998 | - | - | 101,998 |
| Total | 4,996,266 | 18,254 | 4,586 | 5,019,106 |

## 40. Financial risk management (continued)

***Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)***

*Investment securities*

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by external ratings from credit rating agencies at 31 December 2024 and 31 December 2023:

| | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| AAA | **22,783** | 24,200 |
| AA to AA- | **4,698,593** | 3,109,919 |
| A+ to A- | **3,969,987** | 2,410,338 |
| BBB+ to BBB- | **4,576,006** | 4,662,096 |
| BB+ to BB | **1,273,873** | 1,309,065 |
| B+ to B- | **1,246,546** | 840,842 |
| CCC+ to C | **-** | 29,892 |
| D | **7,062** | 67,373 |
| Unrated | **174,927** | 282,221 |
| | **15,969,777** | 12,735,946 |

*Concentration of risks of financial assets with credit risk exposure*

Concentrations 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 indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments to avoid concentration. The group considers the collateralisation levels, financial position, industry growth prospects, etc., before taking the exposure. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors. Portfolio monitoring includes ad hoc stress tests, rapid portfolio reviews along with end-to-end quality assurance checks.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

## 40. Financial risk management (continued)

***Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)***

*Geographical risk concentration*

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2024 and 31 December 2023.

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

*On balance sheet items*

| | UAE AED'000 | OECD AED'000 | Others AED'000 | Provision for credit loss AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| ***31 December 2024*** | | | | | |
| Due from other banks, net | **361,023** | **3,013,799** | **9,033,492** | **(47,714)** | **12,360,600** |
| Investment securities measured at fair value | **3,150,008** | **1,257,644** | **4,751,670** | **-** | **9,159,322** |
| Investment securities measured at amortised cost | **4,071,441** | **729,001** | **2,688,676** | **(44,837)** | **7,444,281** |
| Loans and advances, net | **45,130,533** | **528,956** | **4,414,505** | **(2,850,054)** | **47,223,940** |
| Reinsurance contract assets | **-** | **-** | **231,578** | **-** | **231,578** |
| Customer acceptances | **96,220** | **2,659** | **307,733** | **-** | **406,612** |
| **Total** | **52,809,225** | **5,532,059** | **21,427,654** | **(2,942,605)** | **76,826,333** |
| *31 December 2023* | | | | | |
| Due from other banks, net | 927,050 | 3,350,547 | 8,160,526 | (51,627) | 12,386,496 |
| Investment securities measured at fair value | 2,237,906 | 341,583 | 3,459,049 | - | 6,038,538 |
| Investment securities measured at amortised cost | 3,401,003 | 454,033 | 3,422,201 | (77,708) | 7,199,529 |
| Loans and advances, net | 38,516,609 | 827,261 | 2,638,517 | (2,514,887) | 39,467,500 |
| Reinsurance contract assets | - | - | 176,312 | - | 176,312 |
| Customer acceptances | 38,752 | - | 234,598 | - | 273,350 |
| Total | 45,121,320 | 4,973,424 | 18,091,203 | (2,644,222) | 65,541,725 |

## 40. Financial risk management (continued)

***Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)***

The following table breaks down the Bank's credit exposures on loans and advances, investment securities, due from other banks and off balance sheet items categorised by industry as of 31 December 2024 and 2023:

| | On balance sheet items | | | | | |
|---|---|---|---|---|---|---|
| | **Loans and advances** | **Investment securities** | **Due from other banks** | **Total funded** | **Off balance sheet Items** | **Total** |
| ***31 December 2024*** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** | **AED'000** |
| Agriculture, fishing & related activities | **54,709** | **62,081** | **-** | **116,790** | **34,756** | **151,546** |
| Crude oil, gas, mining & quarrying | **1,137,447** | **954,370** | **-** | **2,091,817** | **234,765** | **2,326,582** |
| Manufacturing | **3,761,723** | **604,479** | **-** | **4,366,202** | **88,899** | **4,455,101** |
| Electricity & water | **7,659** | **855,419** | **-** | **863,078** | **162,464** | **1,025,542** |
| Construction and real estate | **3,101,545** | **401,067** | **-** | **3,502,612** | **1,342,559** | **4,845,171** |
| Trading | **7,177,282** | **-** | **-** | **7,177,282** | **1,017,029** | **8,194,311** |
| Transport, storage & communication | **1,679,792** | **512,089** | **-** | **2,191,881** | **645,118** | **2,836,999** |
| Financial institutions | **4,966,302** | **7,960,016** | **12,408,314** | **25,334,632** | **581,728** | **25,916,360** |
| Services | **3,313,573** | **241,781** | **-** | **3,555,354** | **1,975,965** | **5,531,319** |
| Government | **455,214** | **5,057,138** | **-** | **5,512,352** | **26,790** | **5,539,142** |
| Retail and consumer banking | **24,418,748** | **-** | **-** | **24,418,748** | **4,457** | **24,423,205** |
| Total exposures | **50,073,994** | **16,648,440** | **12,408,314** | **79,130,748** | **6,114,530** | **85,245,278** |
| Provision for credit loss | **(2,850,054)** | **(44,837)** | **(47,714)** | **(2,942,605)** | **(30,674)** | **(2,973,279)** |
| Net exposures | **47,223,940** | **16,603,603** | **12,360,600** | **76,188,143** | **6,083,856** | **82,271,999** |

| | On balance sheet items | | | | | |
|---|---|---|---|---|---|---|
| | Loans and advances | Investment securities | Due from other banks | Total funded | Off balance sheet Items | Total |
| *31 December 2023* | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 | AED'000 |
| Agriculture, fishing & related activities | 147,008 | 74,234 | - | 221,242 | 24,871 | 246,113 |
| Crude oil, gas, mining & quarrying | 795,560 | 598,986 | - | 1,394,546 | 73,963 | 1,468,509 |
| Manufacturing | 3,153,314 | 586,640 | - | 3,739,954 | 175,027 | 3,914,981 |
| Electricity & water | 104,387 | 609,885 | - | 714,272 | 111,625 | 825,897 |
| Construction and real estate | 1,645,791 | 368,000 | - | 2,013,791 | 668,582 | 2,682,373 |
| Trading | 5,785,347 | - | - | 5,785,347 | 476,005 | 6,261,352 |
| Transport, storage & communication | 2,206,916 | 546,904 | - | 2,753,820 | 1,095,260 | 3,849,080 |
| Financial institutions | 1,770,318 | 6,985,166 | 12,438,123 | 21,193,607 | 681,768 | 21,875,375 |
| Services | 4,969,205 | 135,366 | - | 5,104,571 | 2,223,275 | 7,327,846 |
| Government | 367,666 | 3,410,594 | - | 3,778,260 | 72,205 | 3,850,465 |
| Retail and consumer banking | 21,036,875 | - | - | 21,036,875 | 3,746 | 21,040,621 |
| Total exposures | 41,982,387 | 13,315,775 | 12,438,123 | 67,736,285 | 5,606,327 | 73,342,612 |
| Provision for credit loss | (2,514,887) | (77,708) | (51,627) | (2,644,222) | (24,755) | (2,668,977) |
| Net exposures | 39,467,500 | 13,238,067 | 12,386,496 | 65,092,063 | 5,581,572 | 70,673,635 |

## 40. Financial risk management (continued)

### *Credit quality*

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument:

| *Class of financial instrument* | *Notes* |
|---|---|
| Due from other banks | 5 |
| Loans and advances | 6 |
| Investment securities measured at fair value | 7 |
| Investment securities measured at amortised cost | 7 |
| Reinsurance contract assets | 15 |

An analysis of the Group's credit risk exposure without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

## 40. Financial risk management (continued)

*Exposure stage transitions*

| Loans and advances | 31 December 2024 | | | AED '000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2024 | **39,854,363** | **971,807** | **1,156,217** | **41,982,387** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **(2,448,330)** | **2,448,330** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **(856,243)** | **856,243** | **-** |
| Stage 2 to Stage 1 Transfer | **406,414** | **(406,414)** | **-** | **-** |
| Stage 3 to Stage 2 Transfer | **-** | **73,945** | **(73,945)** | **-** |
| Change in Exposures during the year | **(29,761,419)** | **(718,585)** | **(243,733)** | **(30,723,737)** |
| New Financial Assets Originated and other transfers | **39,200,029** | **184,588** | **-** | **39,384,617** |
| Write offs | **-** | **-** | **(569,273)** | **(569,273)** |
| Closing Balance 31 December 2024 | **47,251,057** | **1,697,428** | **1,125,509** | **50,073,994** |

| Loans and advances | 31 December 2023 | | | AED '000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2023 | 35,631,176 | 1,310,642 | 1,202,501 | 38,144,319 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (1,700,347) | 1,700,347 | - | - |
| Stage 2 to Stage 3 Transfer | - | (1,034,704) | 1,034,704 | - |
| Stage 2 to Stage 1 Transfer | 384,992 | (384,992) | - | - |
| Stage 3 to Stage 2 Transfer | - | 59,886 | (59,886) | - |
| Change in Exposures during the year | (28,835,896) | (964,811) | (443,359) | (30,244,066) |
| New Financial Assets Originated and other transfers | 34,374,438 | 285,439 | 45,956 | 34,705,833 |
| Write offs | - | - | (623,699) | (623,699) |
| Closing Balance 31 December 2023 | 39,854,363 | 971,807 | 1,156,217 | 41,982,387 |

## 40. Financial risk management (continued)

*Exposure stage transitions (continued)*

| Investment securities – FVOCI* | 31 December 2024 | | | AED'000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2024 | **5,190,248** | **103,749** | **233,715** | **5,527,712** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | - | - | - | - |
| Stage 2 to Stage 3 Transfer | - | - | - | - |
| Stage 2 to Stage 1 Transfer | - | - | - | - |
| Change in Exposures during the year | **(1,091,121)** | **25,423** | **(27,171)** | **(1,092,869)** |
| New Financial Assets Originated | **3,973,522** | - | - | **3,973,522** |
| Write offs | - | - | **(118,271)** | **(118,271)** |
| Closing Balance 31 December 2024 | **8,072,649** | **129,172** | **88,273** | **8,290,094** |

| Investment securities – FVOCI* | 31 December 2023 | | | AED'000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2023 | 3,653,255 | - | 182,885 | 3,836,140 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (177,323) | 177,323 | - | - |
| Stage 2 to Stage 3 Transfer | - | - | - | - |
| Stage 2 to Stage 1 Transfer | - | - | - | - |
| Change in Exposures during the year | (1,197,954) | (73,574) | 50,830 | (1,220,698) |
| New Financial Assets Originated | 2,912,270 | - | - | 2,912,270 |
| Write offs | - | - | - | - |
| Closing Balance 31 December 2023 | 5,190,248 | 103,749 | 233,715 | 5,527,712 |

* Exposures are gross of IFRS 9 provisions held

## 40. Financial risk management (continued)

*Exposure stage transitions (continued)*

| Investment securities - Amortized Cost | 31 December 2024 | | | AED'000 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening Balance 1 January 2024 | **7,026,454** | **213,833** | **36,950** | **7,277,237** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 1 Transfer | **-** | **-** | **-** | **-** |
| Change in Exposures during the year | **(4,843,791)** | **(4,669)** | **(220)** | **(4,848,680)** |
| New Financial Assets Originated | **5,097,291** | **-** | **-** | **5,097,291** |
| Write offs | **-** | **-** | **(36,730)** | **(36,730)** |
| Closing Balance 31 December 2024 | **7,279,954** | **209,164** | **-** | **7,489,118** |

| Investment securities - Amortized Cost | 31 December 2023 | | | AED'000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2023 | 7,224,475 | 17,447 | 37,008 | 7,278,930 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (195,826) | 195,826 | - | - |
| Stage 2 to Stage 3 Transfer | - | - | - | - |
| Stage 2 to Stage 1 Transfer | - | - | - | - |
| Change in Exposures during the year | (4,237,056) | 560 | (58) | (4,236,554) |
| New Financial Assets Originated | 4,234,861 | - | - | 4,234,861 |
| Write offs | - | - | - | - |
| Closing Balance 31 December 2023 | 7,026,454 | 213,833 | 36,950 | 7,277,237 |

## 40. Financial risk management (continued)

*Exposure stage transitions (continued)*

| Due from banks | 31 December 2024 | | | AED '000 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening balance 1 January 2024 | **12,437,045** | **1,078** | **-** | **12,438,123** |
| Stage Transfer | | | | |
| Stage 2 to Stage 1 transfer | **-** | **-** | **-** | **-** |
| Change in Exposures during the year | **(9,115,202)** | **227** | **-** | **(9,114,975)** |
| New Financial Assets Originated | **9,085,166** | **-** | **-** | **9,085,166** |
| Closing Balance 31 December 2024 | **12,407,009** | **1,305** | **-** | **12,408,314** |

| Due from banks | 31 December 2023 | | | AED '000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening balance 1 January 2023 | 11,510,110 | 3,509 | - | 11,513,619 |
| Stage Transfer | | | | |
| Stage 2 to Stage 1 transfer | - | - | - | - |
| Change in Exposures during the year | (12,374,179) | (2,431) | - | (12,376,610) |
| New Financial Assets Originated | 13,301,114 | - | - | 13,301,114 |
| Closing Balance 31 December 2023 | 12,437,045 | 1,078 | - | 12,438,123 |

| Customer Acceptances | 31 December 2024 | | | AED 000 |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening balance 1 January 2024 | **271,945** | **1,405** | **-** | **273,350** |
| Stage Transfers | | | | |
| Stage 1 to Stage 2 Transfer | **(4,866)** | **4,866** | **-** | **-** |
| Change in Exposures during the year | **52,811** | **3,734** | **-** | **56,545** |
| New Financial Assets Originated | **76,717** | **-** | **-** | **76,717** |
| Closing Balance 31 December 2024 | **396,607** | **10,005** | **-** | **406,612** |

## 40. Financial risk management (continued)

*Exposure stage transitions (continued)*

| Customer Acceptances | 31 December 2023 | | | AED 000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening balance 1 January 2023 | 128,228 | 17,745 | - | 145,973 |
| Stage Transfers | | | | |
| Stage 1 to Stage 2 Transfer | - | - | - | - |
| Change in Exposures during the year | (120,515) | (16,340) | - | (136,855) |
| New Financial Assets Originated | 264,232 | - | - | 264,232 |
| Closing Balance 31 December 2023 | 271,945 | 1,405 | - | 273,350 |

| Off balance sheet items and irrevocable Commitments | **31 December 2024** | | | **AED'000** |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening Balance 1 January 2024 | **4,996,266** | **18,254** | **4,586** | **5,019,106** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **(35,985)** | **35,985** | **-** | **-** |
| Stage 1 to Stage 3 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **(4,536)** | **4,536** | **-** |
| Stage 2 to Stage 1 Transfer | **5,025** | **(5,025)** | **-** | **-** |
| Change in Exposures during the year | **(3,469,606)** | **-** | **-** | **(3,469,606)** |
| New Financial Assets Originated | **4,559,747** | **3,457** | **1,826** | **4,565,030** |
| Closing Balance 31 December 2024 | **6,055,447** | **48,135** | **10,948** | **6,114,530** |

| Off balance sheet items and irrevocable Commitments | 31 December 2023 | | | AED'000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2023 | 4,964,269 | 28,265 | 2,245 | 4,994,779 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (12,003) | 12,003 | - | - |
| Stage 1 to Stage 3 Transfer | - | - | - | - |
| Stage 2 to Stage 3 Transfer | - | (3,000) | 3,000 | - |
| Stage 2 to Stage 1 Transfer | 160 | (160) | - | - |
| Change in Exposures during the year | (1,747,423) | (18,854) | (659) | (1,766,936) |
| New Financial Assets Originated | 1,791,263 | - | - | 1,791,263 |
| Closing Balance 31 December 2023 | 4,996,266 | 18,254 | 4,586 | 5,019,106 |

## 40. Financial risk management (continued)

***Movement of the provision for credit loss***

Summary of provision for credit loss and net movement on the financial instruments by category are as follows:

**Particulars**

| | 1 January 2024 AED '000 | Net change during the year AED '000 | Other Movement AED '000 | 31 December 2024 AED '000 |
|---|---|---|---|---|
| Due from other banks | **51,627** | **(3,913)** | **-** | **47,714** |
| Loans and Advances | **2,514,887** | **904,440** | **(569,273)** | **2,850,054** |
| Investment Securities - FVOCI | **181,012** | **2,676** | **(115,705)** | **67,983** |
| Investment Securities – amortised cost | **77,708** | **3,859** | **(36,730)** | **44,837** |
| Other receivables | **33,441** | **4,360** | **(52)** | **37,749** |
| Customer Acceptances | **7,115** | **(4,727)** | **-** | **2,388** |
| Off balance sheet items | **24,755** | **5,919** | **-** | **30,674** |
| **Total** | **2,890,545** | **912,614** | **(721,760)** | **3,081,399** |

The tables below analyse the movement of the provision for credit loss during the year per class of financial assets:

**Due from banks**

| | Stage 1 AED '000 | Stage 2 AED '000 | Stage 3 AED '000 | Grand Total AED '000 |
|---|---|---|---|---|
| Opening balance 1 January 2024 | **51,594** | **33** | **-** | **51,627** |
| Stage Transfers | | | | |
| Stage 2 to Stage 1 transfer | **-** | **-** | **-** | **-** |
| Due to changes in PD's/ LGD's/ EAD | **(25,829)** | **777** | **-** | **(25,052)** |
| Due to new financial assets originated | **21,139** | **-** | **-** | **21,139** |
| Closing Balance 31 December 2024 | **46,904** | **810** | **-** | **47,714** |

| | Stage 1 AED '000 | Stage 2 AED '000 | Stage 3 AED '000 | Grand Total AED '000 |
|---|---|---|---|---|
| Opening balance 1 January 2023 | 57,153 | 145 | - | 57,298 |
| Stage Transfers | | | | |
| Stage 2 to Stage 1 transfer | - | - | - | - |
| Due to changes in PD's/ LGD's/ EAD | (35,873) | (112) | - | (35,985) |
| Due to new financial assets originated | 30,314 | - | - | 30,314 |
| Closing Balance 31 December 2023 | 51,594 | 33 | - | 51,627 |

## 40. Financial risk management (continued)

*Movement of the provision for credit loss* (continued)

| **Loans and advances** | AED '000 | | | |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| **Opening Balance 1 January 2024** | **1,265,143** | **462,155** | **787,589** | **2,514,887** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **(500,284)** | **500,284** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **(459,215)** | **459,215** | **-** |
| Stage 2 to Stage 1 Transfer | **184,270** | **(184,270)** | **-** | **-** |
| Stage 3 to Stage 2 Transfer | **-** | **34,791** | **(34,791)** | **-** |
| Due to changes in PD's/ LGD's/ EAD | **(373,347)** | **108,283** | **75,553** | **(189,511)** |
| Due to new financial assets originated and other transfers | **821,087** | **124,061** | **148,803** | **1,093,951** |
| Write offs | **-** | **-** | **(569,273)** | **(569,273)** |
| **Closing Balance 31 December 2024** | **1,396,869** | **586,089** | **867,096** | **2,850,054** |

| | AED '000 | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| **Opening Balance 1 January 2023** | 703,593 | 475,638 | 893,821 | 2,073,052 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (224,766) | 224,766 | - | - |
| Stage 2 to Stage 3 Transfer | - | (393,398) | 393,398 | - |
| Stage 2 to Stage 1 Transfer | 159,741 | (159,741) | - | - |
| Stage 3 to Stage 2 Transfer | - | 28,425 | (28,425) | - |
| Due to changes in PD's/ LGD's/ EAD | 138,740 | 203,708 | 113,912 | 456,360 |
| Due to new financial assets originated and other transfers | 487,835 | 82,757 | 38,582 | 609,174 |
| Write offs | - | - | (623,699) | (623,699) |
| **Closing Balance 31 December 2023** | 1,265,143 | 462,155 | 787,589 | 2,514,887 |

## 40. Financial risk management (continued)

***Movement of the provision for credit loss* (continued)**

| **Investment securities – FVOCI** | **Stage 1** | **Stage 2** | **Stage 3** | **AED '000 Grand Total** |
|---|---|---|---|---|
| Opening Balance 1 January 2024 | **5,246** | **15,188** | **160,578** | **181,012** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 1 Transfer | **-** | **-** | **-** | **-** |
| Due to changes in PD's/ LGD's/ EAD | **1,139** | **3,985** | **(1,307)** | **3,817** |
| Due to new financial assets originated | **1,425** | **-** | **-** | **1,425** |
| Write offs | **-** | **-** | **(118,271)** | **(118,271)** |
| Closing Balance 31 December 2024 | **7,810** | **19,173** | **41,000** | **67,983** |

| **Investment securities – FVOCI** | Stage 1 | Stage 2 | Stage 3 | AED '000 Grand Total |
|---|---|---|---|---|
| Opening Balance 1 January 2023 | 7,816 | - | 136,312 | 144,128 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (19,660) | 19,660 | - | - |
| Stage 2 to Stage 3 Transfer | - | - | - | - |
| Stage 2 to Stage 1 Transfer | - | - | - | - |
| Due to changes in PD's/ LGD's/ EAD | 14,597 | (4,472) | 24,266 | 34,391 |
| Due to new financial assets originated | 2,493 | - | - | 2,493 |
| Write offs | | | | |
| Closing Balance 31 December 2023 | 5,246 | 15,188 | 160,578 | 181,012 |

## 40. Financial risk management (continued)

*Movement of the provision for credit loss* (continued)

| **Investment securities - Amortized Cost** | | | | **AED '000** |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening Balance 1 January 2024 | **7,214** | **33,764** | **36,730** | **77,708** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **-** | **-** | **-** |
| Stage 2 to Stage 1 Transfer | **-** | **-** | **-** | **-** |
| Due to changes in PD's/ LGD's/ EAD | **632** | **5,921** | **-** | **6,553** |
| Due to new financial assets originated | **(2,694)** | **-** | **-** | **(2,694)** |
| Write offs | **-** | **-** | **(36,730)** | **(36,730)** |
| Closing Balance 31 December 2024 | **5,152** | **39,685** | **-** | **44,837** |

| **Investment securities - Amortized Cost** | | | | AED '000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2023 | 18,557 | 9,183 | 29,384 | 57,124 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (6,141) | 6,141 | - | - |
| Stage 2 to Stage 3 Transfer | - | - | - | - |
| Stage 2 to Stage 1 Transfer | - | - | - | - |
| Due to changes in PD's/ LGD's/ EAD | (15,562) | 18,440 | 7,346 | 10,224 |
| Write offs | - | - | - | - |
| Due to new financial assets originated | 10,360 | - | - | 10,360 |
| Closing Balance 31 December 2023 | 7,214 | 33,764 | 36,730 | 77,708 |

| **Customer Acceptances** | | | | **AED '000** |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening balance 1 January 2024 | **7,110** | **5** | **-** | **7,115** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **(212)** | **212** | **-** | **-** |
| Due to changes in PD's/ LGD's/ EAD | **(6,501)** | **(20)** | **-** | **(6,521)** |
| Due to new financial assets originated | **1,794** | **-** | **-** | **1,794** |
| Closing Balance as at 31 December 2024 | **2,191** | **197** | **-** | **2,388** |

## 40. Financial risk management (continued)

***Movement of the provision for credit loss* (continued)**

| **Customer Acceptances** | | | | AED '000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening balance 1 January 2023 | 602 | 80 | - | 682 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (5) | 5 | - | - |
| Due to changes in PD's/ LGD's/ EAD | (529) | (80) | - | (609) |
| Due to new financial assets originated | 7,042 | - | - | 7,042 |
| Closing Balance as at 31 December 2023 | 7,110 | 5 | - | 7,115 |

| **Off balance sheet items and irrevocable Commitments** | | | | **AED '000** |
|---|---|---|---|---|
| | **Stage 1** | **Stage 2** | **Stage 3** | **Grand Total** |
| Opening Balance 1 January 2024 | **23,175** | **83** | **1,497** | **24,755** |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | **(998)** | **998** | **-** | **-** |
| Stage 2 to Stage 3 Transfer | **-** | **(1,468)** | **1,468** | **-** |
| Stage 2 to Stage 1 Transfer | **28** | **(28)** | **-** | **-** |
| Due to changes in PD's/ LGD's/ EAD | **(4,225)** | **865** | **(506)** | **(3,866)** |
| Due to new financial assets originated | **9,785** | **-** | **-** | **9,785** |
| Closing Balance 31 December 2024 | **27,765** | **450** | **2,459** | **30,674** |

| **Off balance sheet items and irrevocable Commitments** | | | | AED '000 |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Grand Total |
| Opening Balance 1 January 2023 | 25,722 | 912 | 384 | 27,018 |
| Stage Transfer | | | | |
| Stage 1 to Stage 2 Transfer | (52) | 52 | - | - |
| Stage 2 to Stage 3 Transfer | | (592) | 592 | - |
| Stage 2 to Stage 1 Transfer | 1 | (1) | - | - |
| Due to changes in PD's/ LGD's/ EAD | (9,862) | (288) | 521 | (9,629) |
| Due to new financial assets originated | 7,366 | - | - | 7,366 |
| Closing Balance 31 December 2023 | 23,175 | 83 | 1,497 | 24,755 |

## 40. Financial risk management (continued)

***Collateral held as security and other credit enhancements***

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVOCI, amortized cost and at FVTPL.

| | ***Type of collateral held*** |
|---|---|
| Derivative asset | Fixed Deposit/Cash Margin |
| Loans and advances to banks | Letter of Comfort/Export Bills |
| Mortgage lending | Mortgage over Property |
| Corporate lending | Fixed Deposit/Cash Margin; Mortgage over Properties/Vehicles; Bank Guarantee/Stand-by Letter of Credit; Pledge of Shares; Stocks and Receivables etc. |
| Investment securities | Underlying investments |

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

There was no change in the Group's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

| | **2024** | 2023 |
|---|---|---|
| | **AED '000** | AED '000 |
| **Credit Impaired Loans and Advances** | | |
| Stage 3 Loans and Advances | **1,125,509** | 1,156,217 |
| Less: Provisions held | **(867,096)** | (787,589) |
| **Net Exposures** | **258,413** | 368,628 |
| **Market value of Collateral held** | | |
| Property | **674,461** | 660,450 |
| Vehicles & others | **3,071** | 4,852 |
| Securities | **30,177** | 25,429 |
| **Total value of Collaterals** | **707,709** | 690,731 |

***Off-setting of collateral***

| | **2024** | 2023 |
|---|---|---|
| | **AED '000** | AED '000 |
| Cash collaterals held against outstanding loans | **1,334,202** | 1,203,692 |

## 40. Financial risk management (continued)

***Restructured loans and advances***

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline and policy. The Group has reviewed the entire portfolio and reported only restructured loans with financial difficulties under this note. The group has a full-fledged Collections and Recovery Unit that follow-up with overdue/delinquent customers for regularising the loan/advances. The table below presents loans restructured during the year 2024 and 2023.

*Restructured loans during the year:*

| | **2024** | | 2023 | |
|---|---|---|---|---|
| **Product** | **No of accounts** | **Loan amount AED'000** | No of accounts | Loan amount AED'000 |
| Personal loans | **172** | **57,717** | 197 | 54,718 |
| Mortgage loans | **1** | **878** | 1 | 7,700 |
| Credit cards | **914** | **31,885** | 762 | 26,507 |
| Auto loans | **9** | **414** | 1 | 121 |
| Other business banking loans | **32** | **24,095** | 40 | 36,377 |
| Wholesale banking loans | **-** | **-** | 1 | 15,355 |
| RAK business loans | **150** | **91,054** | 106 | 63,095 |
| **Total** | **1,278** | **206,043** | 1,108 | 203,873 |

The table below presents restructured loan portfolio outstanding as at 31 December:

| | **2024** | | 2023 | |
|---|---|---|---|---|
| **Product** | **No of accounts** | **Loan amount AED'000** | No of accounts | Loan amount AED'000 |
| Personal loans | **1,846** | **563,400** | 2,038 | 608,321 |
| Mortgage loans | **37** | **65,472** | 52 | 86,382 |
| Credit cards | **3,293** | **61,882** | 4,080 | 77,071 |
| Auto loans | **44** | **1,388** | 61 | 1,948 |
| Other business banking loans | **122** | **53,968** | 169 | 106,554 |
| Wholesale banking loans | **1** | **44,490** | 2 | 59,861 |
| RAK finance business loans | **524** | **222,624** | 561 | 259,119 |
| **Total** | **5,867** | **1,013,224** | 6,963 | 1,199,256 |

## 40. Financial risk management (continued)

***Restructured loans and advances*** **(continued)**

*Mortgage lending*

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

*Corporate lending*

The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance, cash-flow generation, their liquidity, advantage, management effectiveness and growth ratios. Additionally, the Group may also request collateral and guarantees for corporate lending. The valuation of collateral held against corporate lending, after initial approval, is updated once every two years for a performing asset. The valuation of such collateral is monitored more closely if the loan is put on "watch-list".

***Offsetting financial assets and financial liabilities:***

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group has no offsetting financial assets and financial liabilities to report as at 31 December 2024 and 31 December 2023.

## 40. Financial risk management (continued)

**Risk Management – Hedging:**

The following note explains the group's exposure to financial risks that are hedged, and for which hedge accounting is applied:

| Risk | Exposure Arising from | Measurement | Management |
|---|---|---|---|
| Currency risk | Loans and advances in foreign currency<br><br>Deposit from customer in foreign currency<br><br>Investment securities in foreign currency | Cash flow forecasting | Currency forwards<br><br>Currency forwards<br><br>Cross currency swaps |
| Interest rate risk | Investment in debt securities<br><br>Debts securities and other long term borrowing<br><br>Loans and advances | Sensitivity analysis | Interest rate swaps |

The financial details of the hedged exposures are covered in Note 33.

***Market risk***

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Financial Officer and comprises of the Chief Executive Officer, Divisional heads of Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the Banks key financial indicators and ratios, sets the thresholds to manage and monitor the market risk and also analyses the sensitivity of the Banks interest rate and maturity mismatches. ALCO in conjunction with Group's Investment Committee guides the investment decisions and provides guidance in terms of interest rate and currency movements.

Market Risk and Treasury Mid Office functions with Risk Management are responsible for day to day monitoring of Market risk exposures within Board approved Policies and Market Risk Appetite .

The exposures to derivatives include forward exchange contracts, Option Contracts and Interest Rate Swaps which are entered to meet customer needs and covered back to back in the interbank market. Further the Group has executed some interest rate swaps and a Cross Currency Swap for economic hedging purposes. Also, the Group has executed some derivatives on proprietary books within Board approved Risk Limits for Trading.

Group's proprietary Investments are managed according to the group's approved Market Risk Investments & Trading Policy.

## 40. Financial risk management (continued)

***Price risk***

The Group is exposed to price risk as a result of its holdings in debt securities classified as fair value through OCI and fair value through profit and loss in investment securities. The fair values of investments quoted in active markets are based on current prices. Group's Investment Committee meets regularly to discuss the return on investment and concentration across the Group's investment portfolio and manages the risk through diversification in terms of Counterparty, Country Industry and Rating. Any trading positions in securities under the fair value through profit and loss are guided by the approved Limits for Trading

The sensitivity analysis for price risk illustrates how changes in the fair value of quoted equity securities and funds held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market.

The table below summarizes the impact of increases/decreases of the indexes on the group's equity and profit for the year. The analysis is based on the assumption that the equity indexes had increased or decreased by 5% and 2% respectively with all other variables held constant, and that all of the group's equity and fund instruments moved in line with the indexes.

| | **Impact on Profit** | | **Impact on OCI** | |
|---|---|---|---|---|
| | **2024** | 2023 | **2024** | 2023 |
| | **AED'000** | AED'000 | **AED'000** | AED'000 |
| Increase / decrease by 5% (+/-) | **7,363** | 4,503 | 24,175 | 22,291 |
| Increase / decrease by 2% (+/-) | **2,945** | 1,801 | 9,670 | 8,916 |

Post-tax profit for the year would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVTPL. Other components of equity would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVOCI.

***Interest rate risk***

Interest rate risk is the risk of loss due to changes in the level and/or the volatility of interest rates. Structural interest rate risk arises when changes in interest rates affect the market value, cash flows, and earnings of assets and liabilities to our banking activities. The objective of structural interest rate risk management is to maintain high-quality earnings and maximize sustainable product spreads, while managing risk to the economic value of our net assets arising from changes in interest rates.

The Group measures and monitors interest rate risk and rate of return risk in the Banking Book through the use of earning based measures (Net Interest Income, "NII") and equity based measures (Economic Value of Equity, "EVE") under various stress scenarios to analyze the impact of anticipated movement in interest rates on the Bank's profitability and equity. The Group has an overarching Group Risk Appetite Framework that includes risk appetite tolerance levels for Interest Rate Risk in the Banking Book ("IRRBB") triggers. The Group has a Board approved IRRBB Framework as part of Bank's Enterprise Risk Management Framework that includes governance, methodologies, the escalation mechanisms and the reporting required at the Management and Board Risk Committees. The annual ICAAP process also includes an exhaustive stress testing exercise to assess the impact of interest rate shocks on the Banking Book. IRRBB is overseen by the Asset Liability Committee ("ALCO") along with the Management Risk Committee and under the oversight of the Board Risk Committee.

## 40. Financial risk management (continued)

### *Interest rate risk* (continued)

The Bank has a Hedging framework which articulates the hedging strategies and the governance process for both fair value and cash flow interest rate risks hedging. The Bank uses several types of derivative products, including interest rate swaps, futures, and options to hedge interest rate risk exposures.

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates:

| | Less than 3 months AED'000 | 3 months to 1 year AED'000 | 1 – 3 years AED'000 | 3 – 5 years AED'000 | Over 5 years AED'000 | Non - interest bearing AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| ***At 31 December 2024*** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with the UAE Central Bank | - | - | - | - | - | 8,770,312 | 8,770,312 |
| Due from other banks, net | 6,530,722 | 5,006,947 | 870,645 | - | - | (47,714) | 12,360,600 |
| Loans and advances, net | 26,132,675 | 6,351,473 | 11,179,574 | 5,450,409 | 1,232,938 | (3,123,129) | 47,223,940 |
| Investment securities measured at fair value | 614,825 | 242,897 | 1,790,607 | 2,935,876 | 2,950,761 | 624,356 | 9,159,322 |
| Investment securities measured at amortised cost | 1,433,564 | 2,007,842 | 1,958,408 | 699,231 | 1,390,073 | (44,837) | 7,444,281 |
| Reinsurance contract assets | - | - | - | - | - | 231,578 | 231,578 |
| Customer Acceptances | 400,411 | 6,201 | - | - | - | - | 406,612 |
| Goodwill and intangible assets, Right of use assets, Property and equipment and other assets | 318,437 | 169,104 | 12,908 | 516 | 1,704 | 2,226,093 | 2,728,762 |
| **Total** | 35,430,634 | 13,784,464 | 15,812,142 | 9,086,032 | 5,575,476 | 8,636,659 | 88,325,407 |
| ***Liabilities and shareholders' equity*** | | | | | | | |
| Due to other banks | 5,370,465 | 1,729,010 | - | - | - | - | 7,099,475 |
| Deposits from customers | 51,628,078 | 7,718,575 | 302,182 | 841 | 2 | - | 59,649,678 |
| Debt securities issued and other long term borrowings | 2,385,556 | 368,598 | - | 2,183,664 | - | - | 4,937,818 |
| Insurance contract liabilities | - | - | - | - | - | 481,321 | 481,321 |
| Other liabilities | 232,402 | 127,966 | 58,132 | 23,667 | 1,704 | 2,594,842 | 3,038,713 |
| Customer acceptances | 400,411 | 6,201 | - | - | - | - | 406,612 |
| Subordinated note | - | - | - | - | 915,111 | - | 915,111 |
| Shareholders' equity | - | - | - | - | - | 11,796,679 | 11,796,679 |
| **Total** | 60,016,912 | 9,950,350 | 360,314 | 2,208,172 | 916,817 | 14,872,842 | 88,325,407 |
| **Interest rate sensitivity gap** | (24,586,278) | 3,834,114 | 15,451,828 | 6,877,860 | 4,658,659 | (6,236,183) | - |

## 40. Financial risk management (continued)

### *Interest rate risk* (continued)

| | Less than 3 months AED'000 | 3 months to 1 year AED'000 | 1 – 3 years AED'000 | 3 – 5 years AED'000 | Over 5 years AED'000 | Non - interest bearing AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2023 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with the UAE Central Bank | - | - | - | - | - | 5,725,115 | 5,725,115 |
| Due from other banks, net | 9,791,682 | 2,642,582 | 3,859 | - | - | (51,627) | 12,386,496 |
| Loans and advances, net | 23,729,613 | 6,623,174 | 7,924,236 | 2,647,742 | 1,248,828 | (2,706,093) | 39,467,500 |
| Investment securities measured at fair value | 282,966 | 393,859 | 1,186,254 | 1,737,180 | 1,858,450 | 579,829 | 6,038,538 |
| Investment securities measured at amortised cost | 1,171,831 | 1,239,055 | 1,949,866 | 1,531,454 | 1,385,031 | (77,708) | 7,199,529 |
| Reinsurance contract assets | - | - | - | - | - | 176,312 | 176,312 |
| Customer Acceptances | 160,764 | 112,586 | - | - | - | - | 273,350 |
| Goodwill and intangible assets, Right of use assets, Property and equipment and other assets | 299,224 | 177,306 | 28,899 | 10,662 | - | 2,171,703 | 2,687,794 |
| Total | 35,436,080 | 11,188,562 | 11,093,114 | 5,927,038 | 4,492,309 | 5,817,531 | 73,954,634 |
| Liabilities and shareholders' equity | | | | | | | |
| Due to other banks | 6,350,289 | 367,300 | - | - | - | - | 6,717,589 |
| Deposits from customers | 42,435,136 | 7,286,203 | 642,209 | 31,594 | - | - | 50,395,142 |
| Debt securities issued and other long-term borrowings | 1,283,737 | 2,198,264 | - | - | - | - | 3,482,001 |
| Insurance contract liabilities | - | - | - | - | - | 383,311 | 383,311 |
| Other liabilities | 193,807 | 150,677 | 28,899 | 81,644 | - | 1,893,687 | 2,348,714 |
| Customer acceptances | 160,764 | 112,586 | - | - | - | - | 273,350 |
| Subordinated note | - | - | - | - | - | - | - |
| Shareholders' equity | - | - | - | - | - | 10,354,527 | 10,354,527 |
| Total | 50,423,733 | 10,115,030 | 671,108 | 113,238 | - | 12,631,525 | 73,954,634 |
| Interest rate sensitivity gap | (14,987,653) | 1,073,532 | 10,422,006 | 5,813,800 | 4,492,309 | (6,813,994) | - |

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

| | **2024** **AED'000** | 2023 AED'000 |
|---|---|---|
| Fluctuation in interest rates by 25 bps | **47,908** | 31,177 |

## 40. Financial risk management (continued)

***Interest rate risk (continued)***

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 49,215 million (2023: AED 46,625 million) of interest-bearing assets with maturities within one year and AED 69,967 million (2023: AED 60,539 million) of interest-bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

***Fundamental review of the trading book***

The final Basel III reforms implemented in the second quarter of 2023 as it pertains to the Fundamental Review of the Trading Book ("FRTB") have not yet been implemented in the UAE. The Group currently monitors and manages market risk in the Trading Book through defined Stop Loss limits, Sensitivities limits, Position limits, VaR Limits, and by performing portfolio-wide stress tests on a periodic basis. Positions classified in the Trading Book are positions that are classified or designated as Fair Value through P&L ("FVTPL").

**Interest Rate Benchmark Reform**

Regulators and central banks in various jurisdictions convened national working groups to identify replacement rates for the interbank offer rates (IBORS") to facilitate an orderly transition to these rates.

The Group has successfully transitioned all of its USD LIBOR contracts to alternative risk-free rates either through amendments or reliance through fallback provisions (the Bank did not have exposure to GBP, EUR, CHF, nor JPY LIBOR benchmarks).

## 40. Financial risk management (continued)

***Interest rate risk (continued)***

*Business Risk Review: the global economic outlook remains uncertain given increasing geopolitical uncertainty, and declining interest rate environment*

The UAE economy has remained buoyant during 2024, supported by continued rapid growth in non-oil related GDP. In line with UAE's economic diversification efforts ('We the UAE 2031' vision), the country continues to make significant progress to reduce its reliance on oil and shift towards a competitive economy driven by knowledge and innovation. Financial and insurance activities are the fastest growing sector due to the increase in local credit to the private sector and is the leading non-oil economic sector contributing to GDP growth.

Global inflation has been moderating due to the combined effects of restrictive monetary policies implemented in 2022 and 2023. Average inflation for UAE is expected at around 2 percent in 2024 as per IMF, up from 1.6 percent in 2023. Transportation and shelter costs remain elevated and potential for restrictive US trade policies has the potential to disrupt further rate cuts.

Given the nature of the Bank's business, a lower interest rate environment creates headwinds for the Bank's financial performance, particularly in terms of NII generation. The Bank has been positioning for lower asset yields and will continue to manage through the uncertain interest rate cycle and had made a conscious decision to increase fixed and long-term assets to lock in yields at higher rates. These risks are continuously reviewed via the various governance forums within the Bank.

Whilst the global economic outlook remains uncertain, the fundamentals of the UAE economy remain strong. The Banks in the UAE are adequately capitalized and sufficiently liquid, though nonperforming loans remain elevated, albeit down from the peaks, and real estate prices have risen sharply in some segments. The outlook remains cautiously optimistic subject to heightened global uncertainty. A decline in oil demand and reduced global trade and tourism from slower global growth, tighter financial conditions, or geopolitical developments would weigh on growth and pressure fiscal and external balances.

***Foreign Currency risk***

Foreign currency risk is the risk that the value of a Financial instrument will fluctuate due to the changes in foreign exchange rates (Spot rates, Forward rates & Volatilities) and arises from financial instruments denominated in a foreign currency. Such Foreign Currency Positions are closely monitored and are strategies are used to ensure such positions are maintained within established Board approved Limits. Positions are mitigated through hedges using foreign exchange positions and derivatives.

## 40. Financial risk management (continued)

*Foreign Currency risk (continued)*

At 31 December, the Group has below mentioned currency exposures

| | **At 31 December 2024** | | | At 31 December 2023 | | |
|---|---|---|---|---|---|---|
| | **Net spot Position AED AED'000** | **Net forward Position AED AED'000** | **Net Position AED AED'000** | Net spot Position AED AED'000 | Net forward Position AED AED'000 | Net Position AED AED'000 |
| US Dollars - USD | **13,381,879** | **1,338,132** | **14,720,011** | 12,177,220 | (6,049,309) | 6,127,911 |
| Euro – EUR | **(395,728)** | **399,955** | **4,227** | (341,100) | 332,046 | (9,054) |
| Pound Sterling - GBP | **(212,458)** | **219,654** | **7,196** | (220,755) | 215,307 | (5,448) |
| Saudi Riyal - SAR | **(29,406)** | **1,429,123** | **1,399,717** | 35,327 | (269,712) | (234,385) |
| Kuwaiti Dinar – KWD | **316,941** | **(279,429)** | **37,512** | 1,140 | 0 | 1,140 |
| Gold – XAU | **411,636** | **(414,818)** | **(3,182)** | 342,924 | (332,948) | 9,976 |
| Bahrain Dinar - BHD | **109,024** | **73,861** | **182,885** | - | - | - |
| Indian Rupee - INR | **33,206** | **15,224** | **48,430** | 43,335 | 1,348 | 44,683 |
| Others | **38,436** | **(3,846)** | **34,590** | 28,340 | (91,995) | (63,655) |
| | **13,653,530** | **2,777,856** | **16,431,386** | 12,066,431 | (6,195,263) | 5,871,168 |

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Group has the largest net open position at 31 December 2024 and 2023. All currency positions are within limits laid down by Board Risk Committee.

*Impact of fluctuation in market rate on open currency position other than USD*

| | **2024 AED'000** | 2023 AED'000 |
|---|---|---|
| Net open currency position non-USD | **1,711,375** | (256,743) |
| Impact of 1 % change in currency rate (+/-) | **17,114** | 2,567 |

## 40. Financial risk management (continued)

### *Liquidity risk*

Liquidity risk is the risk that the Group is unable to meet its financial obligations in a timely manner at reasonable prices. Liquidity problems can arise as a result of customer deposits being withdrawn as a large scale at a fast speed, unexpected cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments.

### *Liquidity risk management process*

Effective liquidity risk management is essential to maintain the confidence of depositors and counterparties, manage the Bank's cost of funds, and to support core business activities, even under adverse circumstances.

Liquidity risk is managed by the Board-approved Liquidity Risk Management Framework. It defines the Liquidity Risk Appetite of the Group; various liquidity risk triggers to monitor the short-term dynamics of balance sheet and medium to long term structure of its funding; roles and responsibilities of different divisions in the Group in relation to liquidity risk taking, measurement, monitoring and mitigation of liquidity risk; and articulates the contingency funding plan. Liquidity risk oversight is the responsibility of the ALCO and Management Risk Committee under the oversight of the Board Risk Committee. Based on the directives of the ALCO, the Treasury manages the liquidity of the Group.

As a contingency funding plan, the Bank evaluates and keeps ready debt financing plans which can be quickly executed if required.

### *Statutory reserve requirement*

The Central Bank of the UAE has prescribed cash reserve requirements on deposits, 1% for time deposits and 14 % on current, saving, call and similar accounts (31 December 2023 - 11%).

### *Liquid assets*

Liquid assets are a key component of liquidity management and the Bank holds these types of assets to meet potential needs for liquidity management. These assets are of high-credit rating and can be used to generate cash either through sale, repurchase agreements, or other transactions where these assets can be used as collateral to generate cash. Liquid assets include balances with the UAE Central Bank, Monetary Bills (M-Bills) issued by the Central Bank, and investment securities including investments in local government bonds.

### *Eligible liquid assets ratio*

The Eligible Liquid Assets Ratio ("ELAR") is a measure to ensure banks hold minimum buffers of liquid assets as defined by the Central bank of the UAE. The ELAR requires the Bank to hold an amount equivalent to 10% of its total balance sheet liabilities (excluding those included in regulatory capital) in high-quality liquid assets. The ELAR of the Group stood at 16.4% as at 31 December 2024 (2023: 13.0%).

## 40. Financial risk management (continued)

*Liquidity risk (continued)*

***Lending to stable resources ratio***

The Lending to Stable Resources Ratio ("LSRR") is a measure that recognizes both the actual uses as well as the likely uses of funds in terms of the contractual maturity and behavioural profile of the sources of funds available to the Bank, in order to ensure that there are limited maturity mismatches and cliff effects. The LSRR is calculated as loans and advances (combined with inter-bank placements having a remaining term of greater than three months) to stable funds as defined by the Central Bank of the UAE. The Bank is subject to a regulatory maximum threshold for LSRR of 100%. The LSRR as at 31 December 2024, stood at 80.2% (31 December 2023: 82.1%).

Treasury management monitors the LSRR and ELAR ratios daily. The Bank has established internal Management Alert Triggers and Board Approved Risk Appetite Triggers to take suitable corrective actions once the internal thresholds have been reached.

***Funding***

On the funding side, the Group relies on deposits from its relationship-based retail banking, business banking and wholesale banking customers as its primary source of funding, and mainly relies on interbank borrowings to fund its assets in the short-run. The Group's debt securities typically are issued with maturities of greater than two years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short-term nature of these deposits increase the Group's liquidity risk and the Bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Based on empirical evidence, most of the deposit customers of the Group are relationship based and it is observed that these deposits are sticky in nature, thus reducing the liquidity risk. The Group's depositor profile is diverse leading to a more stable funding.

***Contractual maturities and obligations***

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest and foreign exchange rates. Contractual undiscounted repayment obligations are not significantly different from those reported in the table below.

The Group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

## 40. Financial risk management (continued)

*Liquidity risk (continued)*

The table below summarises the maturity profile of the Bank's financial assets and liabilities as at 31 December 2024 and 2023.

| | Up to 3 months AED'000 | 3 – 12 Months AED'000 | 1 - 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Provision for Credit loss AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **At 31 December 2024** | | | | | | | |
| **Assets** | | | | | | | |
| Cash and balances with the UAE Central Bank | **8,770,312** | **-** | **-** | **-** | **-** | **-** | **8,770,312** |
| Due from other banks | **4,308,125** | **6,055,075** | **2,045,114** | **-** | **-** | **(47,714)** | **12,360,600** |
| Loans and advances | **12,279,149** | **6,984,612** | **12,770,591** | **4,986,947** | **13,052,695** | **(2,850,054)** | **47,223,940** |
| Investment securities at fair value | **1,052,516** | **188,588** | **1,804,776** | **3,144,229** | **2,969,213** | **-** | **9,159,322** |
| Investment securities at amortised cost | **1,433,563** | **2,007,843** | **1,958,408** | **699,231** | **1,390,073** | **(44,837)** | **7,444,281** |
| Reinsurance contract assets | **51,721** | **88,520** | **76,780** | **22,836** | **2,886** | **(11,165)** | **231,578** |
| Customer acceptances | **400,411** | **6,201** | **-** | **-** | **-** | **-** | **406,612** |
| Goodwill and intangible assets | **-** | **-** | **-** | **-** | **376,632** | **-** | **376,632** |
| Property and equipment, Right of use asset and other assets | **1,441,597** | **38,127** | **92,758** | **177,869** | **617,446** | **(15,667)** | **2,352,130** |
| **Total** | **29,737,394** | **15,368,966** | **18,748,427** | **9,031,112** | **18,408,945** | **(2,969,437)** | **88,325,407** |

## 40. Financial risk management (continued)

*Liquidity risk (continued)*

| At 31 December 2024 | Up to 3 Months AED'000 | 3 - 12 months AED'000 | 1 - 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Provision Credit loss AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|---|
| **Liabilities and Equity** | | | | | | | |
| Due to other banks | **2,975,976** | **3,156,062** | **967,437** | **-** | **-** | **-** | **7,099,475** |
| Deposit from customers | **51,628,077** | **7,718,576** | **302,182** | **841** | **2** | **-** | **59,649,678** |
| Debts securities issue and other long-term borrowings | **-** | **-** | **2,754,154** | **2,183,664** | **-** | **-** | **4,937,818** |
| Insurance contract liabilities | **51,108** | **280,245** | **114,583** | **29,436** | **5,949** | **-** | **481,321** |
| Customer acceptances | **400,411** | **6,201** | **-** | **-** | **-** | **-** | **406,612** |
| Other liabilities, lease liabilities and Deferred tax liability | **2,727,453** | **30,577** | **77,117** | **153,923** | **49,643** | **-** | **3,038,713** |
| Subordinated note | **-** | **-** | **-** | **-** | **915,111** | **-** | **915,111** |
| Shareholders' equity | **-** | **-** | **-** | **-** | **11,796,679** | **-** | **11,796,679** |
| **Total** | **57,783,025** | **11,191,661** | **4,215,473** | **2,367,864** | **12,767,384** | **-** | **88,325,407** |
| Net cumulative liquidity gap | **(28,045,631)** | **(23,868,326)** | **(9,335,372)** | **(2,672,124)** | **2,969,437** | **-** | **-** |
| At 31 December 2023 | | | | | | | |
| Total assets | 24,584,916 | 14,002,093 | 14,545,137 | 7,792,079 | 15,682,691 | (2,652,282) | 73,954,634 |
| Total liabilities and equity | 48,250,314 | 11,405,624 | 2,398,429 | 1,335,501 | 10,564,766 | - | 73,954,634 |
| Net cumulative liquidity gap | (23,665,398) | (21,068,929) | (8,922,221) | (2,465,643) | 2,652,282 | - | - |

## 40. Financial risk management (continued)

*Liquidity risk (continued)*

The table below summarises the maturity profile of the Bank's financial liabilities as at 31 December 2024 and 2023 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be contractually required to pay, and the table is not representative of the expected cash flows indicated by behavioural history of the Bank's deposits.

| **31-December-2024** | **Up to 3 months AED'000** | **3 to 12 months AED'000** | **1 to 3 years AED'000** | **3 to 5 years AED'000** | **Over 5 years AED'000** | **Total AED'000** |
|---|---|---|---|---|---|---|
| Due to other banks | **3,025,591** | **3,304,738** | **1,140,209** | **-** | **-** | **7,470,538** |
| Deposits from customers | **52,000,787** | **8,055,204** | **324,954** | **957** | **2** | **60,381,904** |
| Debt securities issued and other long term borrowings | **62,505** | **62,505** | **3,449,128** | **2,433,684** | **-** | **6,007,822** |
| Subordinated note | **26,862** | **26,862** | **107,447** | **107,447** | **1,197,159** | **1,465,777** |
| **Grand Total** | **55,115,745** | **11,449,309** | **5,021,738** | **2,542,088** | **1,197,161** | **75,326,041** |

| 31-December-2023 | Up to 3 months AED'000 | 3 to 12 months AED'000 | 1 to 3 years AED'000 | 3 to 5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|---|---|
| Due to other banks | 3,780,188 | 1,983,730 | - | 1,413,461 | - | 7,177,379 |
| Deposits from customers | 42,735,091 | 7,579,520 | 646,440 | 37,894 | - | 50,998,945 |
| Debt securities issued and other long term borrowings | - | 1,868,388 | 1,965,618 | - | - | 3,834,006 |
| Subordinated note | - | - | - | - | - | - |
| **Grand Total** | 46,515,279 | 11,431,638 | 2,612,058 | 1,451,355 | - | 62,010,330 |

## 40. Financial risk management (continued)

### *Liquidity risk (continued)*

*Off-balance sheet items*

| | No later than 1 year AED'000 | 1-5 years AED'000 | Over 5 years AED'000 | Total AED'000 |
|---|---|---|---|---|
| ***At 31 December 2024*** | | | | |
| Credit commitments | **3,207,468** | | | **3,207,468** |
| Letter of credits and guarantees | **2,535,035** | **371,517** | **510** | **2,907,062** |
| **Total** | **5,742,503** | **371,517** | **510** | **6,114,530** |
| *At 31 December 2023* | | | | |
| Credit commitments | 3,449,262 | 197,254 | - | 3,646,516 |
| Letter of credits and guarantees | 1,425,588 | 534,097 | 126 | 1,959,811 |
| Total | 4,874,850 | 731,351 | 126 | 5,606,327 |

### *Financial instruments*

*Categories of financial instruments*

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

| | At amortized cost AED'000 | Fair value through comprehensive income AED'000 | Hedging derivatives AED'000 | Fair value through profit or loss AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| ***At 31 December 2024*** | | | | | |
| ***Assets*** | | | | | |
| Investment securities | **7,444,281** | **8,705,607** | **-** | **453,715** | **16,603,603** |
| Derivative financial instruments | **-** | **-** | **67,327** | **435,343** | **502,670** |
| Cash and balances with the UAE central Bank | **8,770,312** | **-** | **-** | **-** | **8,770,312** |
| Due from other banks | **12,360,600** | **-** | **-** | **-** | **12,360,600** |
| Loans and advances | **47,223,940** | **-** | **-** | **-** | **47,223,940** |
| Reinsurance contract assets | **231,578** | **-** | **-** | **-** | **231,578** |
| Customer acceptances | **406,612** | **-** | **-** | **-** | **406,612** |
| **Total financial assets** | **76,437,323** | **8,705,607** | **67,327** | **889,058** | **86,099,315** |
| ***Liabilities*** | | | | | |
| Due to other banks | **7,099,475** | **-** | **-** | **-** | **7,099,475** |
| Deposits from customers | **59,649,678** | **-** | **-** | **-** | **59,649,678** |
| Debt securities issued and other long-term borrowings | **4,937,818** | **-** | **-** | **-** | **4,937,818** |
| Insurance contract liabilities | **481,321** | **-** | **-** | **-** | **481,321** |
| Derivative financial instruments | **-** | **-** | **30,245** | **413,626** | **443,871** |
| Customer acceptances | **406,612** | **-** | **-** | **-** | **406,612** |
| Subordinated note | **915,111** | **-** | **-** | **-** | **915,111** |
| **Total financial liabilities** | **73,490,015** | **-** | **30,245** | **413,626** | **73,933,886** |

## 40. Financial risk management (continued)

*Financial instruments (continued)*

*Categories of financial instruments (continued)*

| | At amortized cost AED'000 | Fair value through comprehensive income AED'000 | Hedging derivatives AED'000 | Fair value through profit or loss AED'000 | Total AED'000 |
|---|---|---|---|---|---|
| ***At 31 December 2023*** | | | | | |
| ***Assets*** | | | | | |
| Investment securities | 7,199,529 | 5,792,514 | - | 246,024 | 13,238,067 |
| Derivative financial instruments | - | - | 57,516 | 458,576 | 516,092 |
| Cash and balances with the UAE central Bank | 5,725,115 | - | - | - | 5,725,115 |
| Due from other banks | 12,386,496 | - | - | - | 12,386,496 |
| Loans and advances | 39,467,500 | - | - | - | 39,467,500 |
| Reinsurance contract assets | 176,312 | - | - | - | 176,312 |
| Customer acceptances | 273,350 | - | - | - | 273,350 |
| **Total financial assets** | 65,228,302 | 5,792,514 | 57,516 | 704,600 | 71,782,932 |
| ***Liabilities*** | | | | | |
| Due to other banks | 6,717,589 | - | - | - | 6,717,589 |
| Deposits from customers | 50,395,142 | - | - | - | 50,395,142 |
| Debt securities issued and other long-term borrowings | 3,482,001 | - | - | - | 3,482,001 |
| Insurance contract liabilities | 383,311 | - | - | - | 383,311 |
| Derivative financial instruments | - | - | 21,614 | 433,413 | 455,027 |
| Customer acceptances | 273,350 | - | - | - | 273,350 |
| Subordinated note | - | - | - | - | - |
| **Total financial liabilities** | 61,251,393 | - | 21,614 | 433,413 | 61,706,420 |

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

***Fair value hierarchy***

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

***Quoted market prices - Level 1***

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

***Valuation techniques using observable inputs - Level 2***

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

## 40. Financial risk management (continued)

***Financial instruments (continued)***

***Fair value hierarchy (continued)***

**Valuation techniques using significant unobservable inputs - Level 3**

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

| Financial assets measured | Level | Valuation techniques and key inputs |
|---|---|---|
| FVTPL Quoted debt investments | Level 1 | Quoted mid prices in an active market |
| Quoted equity investments | Level 1 | Quoted mid prices in an active market |
| Unquoted debt investments | Level 2 | Based on the recent similar transaction in market |
| Unquoted debt investments | Level 3 | Based on discounted cash flow model |
| Mutual and other funds | Level 2 | Quoted prices in secondary market. |

The assets and liabilities measured at fair value as per the hierarchy are disclosed in the table below:

| | Quoted market prices Level 1 AED'000 | Observable inputs Level 2 AED'000 | Significant unobservable inputs Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| ***31 December 2024*** | | | | |
| ***Asset at fair value*** | | | | |
| Through other comprehensive income | | | | |
| Investment securities – debt | **7,861,347** | **360,763** | **-** | **8,222,110** |
| Investment securities – equity | **483,497** | **-** | **-** | **483,497** |
| Through profit and loss | | | | |
| Investment market fund | **92,958** | **-** | **47,901** | **140,859** |
| Investment securities – debt | **258,549** | **-** | **-** | **258,549** |
| Investment securities – equity | **54,307** | **-** | **-** | **54,307** |
| Assets acquired in settlement of debts | **-** | **-** | **-** | **-** |
| Derivative financial instruments | **-** | **502,670** | **-** | **502,670** |
| | **8,750,658** | **863,433** | **47,901** | **9,661,992** |
| ***Liabilities at fair value*** | | | | |
| Derivative financial instruments | **-** | **443,871** | **-** | **443,871** |
| | **-** | **443,871** | **-** | **443,871** |

There are no transfers between levels during the year.

## 40. Financial risk management (continued)

***Financial instruments (continued)***

***Fair value hierarchy (continued)***

| | Quoted market prices Level 1 AED'000 | Observable inputs Level 2 AED'000 | Significant unobservable inputs Level 3 AED'000 | Total AED'000 |
|---|---|---|---|---|
| *31 December 2023* | | | | |
| *Asset at fair value* | | | | |
| Through other comprehensive income | | | | |
| Investment securities – debt | 5,232,837 | 113,863 | - | 5,346,700 |
| Investment securities – equity | 445,814 | - | - | 445,814 |
| Through profit and loss | | | | |
| Investment market fund | 71,091 | | 43,960 | 115,051 |
| Investment securities – debt | 112,009 | | | 112,009 |
| Investment securities – equity | 18,964 | - | - | 18,964 |
| Assets acquired in settlement of debts | - | 73,500 | - | 73,500 |
| Derivative financial instruments | - | 516,092 | - | 516,092 |
| | 5,880,715 | 703,455 | 43,960 | 6,628,130 |
| *Liabilities at fair value* | | | | |
| Derivative financial instruments | - | 455,027 | - | 455,027 |
| | - | 455,027 | - | 455,027 |

There were no transfers between levels during the year.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

**Reconciliation of Level 3 fair value measurement of financial assets measured at FVOCI**

| **Investment securities - equity** | **2024 AED'000** | 2022 AED'000 |
|---|---|---|
| At 1 January | - | 5,240 |
| Purchases | - | - |
| Disposals/matured/written-off | - | (5,240) |
| Change in fair value | - | - |
| **At 31 December** | - | - |

## 40. Financial risk management (continued)

***Financial instruments (continued)***

***Fair value hierarchy (continued)***

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTPL

| **Investment market fund** | **2024** | 2023 |
|---|---|---|
| | **AED'000** | AED'000 |
| At 1 January | **43,960** | 41,425 |
| Purchases | **-** | - |
| Disposals/matured | **-** | - |
| Change in fair value | **3,941** | 2,535 |
| **At 31 December** | **47,901** | 43,960 |

## 40. Financial risk management (continued)

***Financial instruments (continued)***

***Fair values of financial assets and liabilities***

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December, the carrying value of the Group's financial assets and liabilities approximates their fair values:

| | Fair value | | Carrying value | |
|---|---|---|---|---|
| | **31 December 2024 AED'000** | 31 December 2023 AED'000 | **31 December 2024 AED'000** | 31 December 2023 AED'000 |
| **Assets** | | | | |
| Loans and advances | **47,162,268** | 39,649,047 | **47,223,940** | 39,467,500 |
| Investment securities measured at fair value | **9,159,322** | 6,038,538 | **9,159,322** | 6,038,538 |
| Investment securities measured at amortised cost | **7,443,511** | 7,147,308 | **7,444,281** | 7,199,529 |
| Cash and balances with the UAE central Bank | **8,770,312** | 5,725,115 | **8,770,312** | 5,725,115 |
| Due from other banks | **12,201,002** | 12,143,008 | **12,360,600** | 12,386,496 |
| **Total financial assets** | **84,736,415** | 70,703,016 | **84,958,455** | 70,817,178 |
| **Liabilities** | | | | |
| Due to other banks | **7,256,335** | 6,858,658 | **7,099,475** | 6,717,589 |
| Deposits from customers | **59,707,909** | 50,358,220 | **59,649,678** | 50,395,142 |
| Debt securities issued and other long term borrowings | **5,159,121** | 3,529,614 | **4,937,818** | 3,482,001 |
| Subordinated note | **921,427** | - | **915,111** | - |
| Total financial liabilities | **73,044,792** | 60,746,492 | **72,602,082** | 60,594,732 |

## 40. Financial risk management (continued)

### *Capital Management*

**Overview**

The Bank is committed to maintaining a strong capital base to support the risks associated with its diversified business activity and to meet regulatory capital requirements at all times. Strong capital levels contribute to financial safety for the Bank's customers, fosters investor confidence, and supports our credit ratings. It also allows the Bank to take advantage of current and future business opportunities as they arise and to enhance shareholder returns through dividends.

The Bank has a comprehensive internal capital adequacy assessment process ("ICAAP") aimed at ensuring the Bank's capital is adequate to meet current and potential future risks and achieve its strategic objectives.

**Governance and Oversight**

Capital is managed in accordance with the Board-approved Capital Management Policy. The Board overseas capital adequacy and capital management by reviewing adherence to capital targets and approving the annual capital and strategic plan. Senior management within Finance, Treasury, Enterprise Risk are responsible for reviewing the ongoing adherence to established capital targets in support of the effective and prudent management of the Bank's capital position and maintenance of adequate capital. Finance is responsible for computing, forecasting, and monitoring compliance with capital targets, with oversight provided by the Asset and Liability Committee ("ALCO").

**Risk Appetite Statement**

The Bank has a defined Risk Appetite Statement which establishes the risk tolerance to capital limits. It encompasses the targets with respect to regulatory capital thresholds and other risk-based parameters. These thresholds drive behaviour to ensure the Bank achieves its objective of exceeding regulatory and capital targets, managing capital levels commensurate with the risk profiles of the Bank, maintains strong credit ratings, and provides the Bank's shareholders with acceptable returns.

**Regulatory Capital Requirements**

The Bank is subject to the capital adequacy requirements as published by the Basel Committee on Banking Supervisions ("BCBS") and commonly referred to as Basel III. Under Basel III, there are three primary risk-based regulatory capital ratios used to assess capital adequacy: Common Equity Tier 1 ("CET1"), Tier 1, and Total Capital, which are determined by dividing those capital components by risk-weighted assets ("RWA").

As per the Central Bank of UAE Regulation for Basel III, the Minimum Capital requirement includes a Capital Conservation Buffer of 2.5% for 2024, which is in the form of CET1. Regulatory minimum requirements are thus 9.5% CET1, 11% Tier 1, and 13% Total.

Additionally, Central Bank of UAE regulation dated 22 April 2020 provides for a "Prudential Filter" that permits Banks and Finance Companies to add back increases in IFRS 9 provisions to the regulatory capital over a transition period of 5 years, on a proportionate basis.

## 40. Financial risk management (continued)

***Capital Management (continued)***

**Capital structure and capital adequacy[(1)] as at 31 December**

| | **31 December 2024 AED'000** | 31 December 2023 AED'000 |
|---|---|---|
| ***Tier 1 capital*** | | |
| Ordinary share capital | **2,011,495** | 2,011,495 |
| Legal and other reserves | **4,214,933** | 4,209,900 |
| Retained earnings | **3,669,608** | 2,632,066 |
| Current year profit | **2,060,205** | 1,782,917 |
| Dividend | **(1,005,747)** | (623,563) |
| **Tier 1 capital base** | **10,950,494** | 10,012,815 |
| Total regulatory adjustments | **(364,155)** | (344,951) |
| **Tier 1 Capital base after Regulatory Adjustments** | **10,586,339** | 9,667,864 |
| General Provisions | **716,172** | 627,287 |
| Subordinated note | **918,250** | - |
| **Total Tier 2 capital base** | **1,634,422** | 627,287 |
| **Total capital base** | **12,220,761** | 10,295,151 |
| ***Risk weighted assets*** | | |
| Credit risk | **57,293,830** | 50,182,963 |
| Market risk | **3,077,707** | 1,412,204 |
| Operational risk | **7,159,154** | 6,210,430 |
| **Total risk weighted assets** | **67,530,691** | 57,805,597 |
| **Regulatory Capital** | | |
| Common Equity Tier 1 Ratio | **15.68%** | 16.72% |
| Tier 1 ratio | **15.68%** | 16.72% |
| Tier 2 ratio | **2.42%** | 1.09% |
| Total Capital adequacy ratio | **18.10%** | 17.81% |

*(1) Regulatory capital ratios are based upon the Central Bank of the UAE "Standards for Capital Adequacy of Banks in the UAE" which were published on 12 November 2020*

## 40. Financial risk management (continued)

*Capital Management (continued)*

**Capital Management – Insurance subsidiary**

The Insurance subsidiary's objectives when managing capital, are:

- to comply with the insurance capital requirements required by UAE Federal Law No. (48) of 2023 (previously Federal Law No. 6 of 2007, as amended), concerning Financial Regulations of Insurance Companies issued by the Central Bank of United Arab Emirates and regulation of its operations;
- to protect its policyholders' interests;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The minimum required capital for the insurance subsidiary is AED 100 millio (2023: AED 100 million) against which the total paid up capital held for the insurance subsidiary is AED 121.275 million (2023: AED 121.275 million).

The solvency regulations identify the required Solvency Margin to be held in addition to insurance liabilities. The Solvency Margin (presented in the table below) must be maintained at all times throughout the year. The Company is subject to solvency regulations which it has complied with during the year. The Company has incorporated in its policies and procedures the necessary tests to ensure continuous and full compliance with such regulations. The table below summarises the Minimum Capital Requirement, Minimum Guarantee Fund and Solvency Capital Requirement of the Company and the total capital held to meet these required Solvency Margins.

| | **2024** | 2023 |
|---|---|---|
| | **AED** | AED |
| | **AED'000** | AED'000 |
| Minimum Capital Requirement (MCR) | **100,000** | 100,000 |
| Solvency Capital Requirement (SCR) | **88,794** | 68,817 |
| Minimum Guarantee Fund (MGF) | **68,522** | 69,303 |
| Basic Own Funds | **142,976** | 139,201 |
| MCR Solvency Margin - Minimum Capital Requirement surplus | **42,976** | 39,201 |
| SCR Solvency Margin - Solvency Capital Requirement surplus | **54,182** | 70,384 |
| MGF Solvency Margin – Minimum Guarantee Fund surplus | **74,454** | 69,898 |

## 41. Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Group writes the general, medical and life insurance contracts. General insurance contracts of the Group include Liability, Property, Motor, Fire, Marine and Engineering insurance contracts. Medical insurance contracts include both individual and group medical insurance contracts. Life insurance contracts include group, retail and credit life insurance contracts.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

***Risk management framework***

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group mainly issues short term insurance contracts.

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

***Underwriting strategy***

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolio’s outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio.

**Reinsurance strategy**

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group enters into a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

## 41. Insurance risk (continued)

***Frequency and severity of claims***

The Group manages insurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria, as well as the use of reinsurance arrangements.

The Group has the right not to renew individual policies, re-price the risk, impose deductibles and reject the payment of a fraudulent claim for both short and long-term insurance contracts. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation).

The reinsurance arrangements include excess of loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer net insurance losses above a set limit. In addition to the overall Group's reinsurance program, business units are permitted to purchase additional facultative reinsurance protection, if needed. Whenever required, the Group engages professional competent surveyors for claims management. The surveyors using their market knowledge and expertise may investigate and recommend adjustments to claims. The claims are reviewed individually at least once a year and adjusted to reflect the latest information on the underlying facts.

***Sources of uncertainty in the estimation of future claim payments***

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until several months, quarters and sometimes years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Group considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. The Group involved an independent external actuary as well. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

The liability for these contracts comprises a provision for IBNR and a provision for reported claims not yet paid at the end of the reporting period.

The amount of insurance claims is in some cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

## 41. Insurance risk (continued)

***Sources of uncertainty in the estimation of future claim payments (continued)***

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques are based on Actuarial calculation which can be based purely on historical development of claims or Expected Loss Ratios or a combination of both. The method and weightage are based on the merit of the line of business. The Expected Loss-Ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The Group believes that the claim liabilities under insurance contracts outstanding at the year-end are adequate. However, the insurance claim liabilities are sensitive to the various assumptions.

***Concentration of insurance risk***

Substantially all of the Group's underwriting activities related to insurance are carried out in the United Arab Emirates. In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group primarily deals with reputed counter parties and monitors the receivable position from these parties on a regular basis.

## 42. Critical accounting estimates and judgments in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

### *(a) Critical judgments in applying the group's accounting policies - IFRS 9*

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *Business model assessment*

Classification and measurement of financial assets depends on the results of the "solely payments of principal and interest" and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets are evaluated and measured, the risks that affect the performance of the assets and how they are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate, whether there has been a change in business model resulting in a prospective change to the classification of those assets.

- *Significant increase of credit risk*

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

The broad level factors that are considered to determine whether a financial asset has experienced SICR are: days past due of more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, Whether an exposure has been restructured since initial recognition. The criteria may be rebutted on a case-by-case basis, depending upon actual situation/credit Quality of financial asset/customer.

**42. Critical accounting estimates and judgments in applying accounting policies (continued)**

***(a) Critical judgments in applying the group's accounting policies - IFRS 9 (continued)***

Definition of default and credit-impaired assets:

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

*Quantitative criteria*

The borrower is 90 (or more) days past due on its contractual payments.

*Qualitative criteria:*

The bank classifies the loans as Non-performing account (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).

Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered

- *Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics according to product. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

- *Models and assumptions used*

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

**42. Critical accounting estimates and judgments in applying accounting policies (continued)**

***(b) Classification of and measurement of financial assets and liabilities***

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

***(c) Fair value measurement***

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates, prepayment rates and default rate assumptions for asset backed securities. The Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

***(d) Derivative financial instruments***

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, Bank uses Counterparty valuations (third party valuations) or fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared

**42. Critical accounting estimates and judgments in applying accounting policies (continued)**

***(e) Provision for outstanding claims, whether reported or not***

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

***(f) Useful lives of property and equipment***

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset. The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

***(g) Impairment of goodwill and license***

**Goodwill**

The calculation of value-in-use is sensitive to the following assumptions:

*(i) Growth rate*

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Terminal growth rate of 3.5% per annum has been applied in the calculation.

*(ii) Profit margins*

Profit margins are based on the management's assessment of the performance potential of the cash generating unit for the next three years.

*(iii) Discount rates*

Management has used the discount rate of 8.20% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

No impairment is triggered even if growth rate and discount rate are stressed by 2%.

**42. Critical accounting estimates and judgments in applying accounting policies (continued)**

***(g) Impairment of goodwill and license (continued)***

**License**

The calculation of value-in-use is sensitive to the following assumptions:

*(iv) Growth rate*

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Terminal growth rate of 3.5% per annum has been applied in the calculation.

*(v) Profit margins*

Profit margins are based on the management's assessment of the performance potential of the cash generating unit for the next three years.

*(vi) Discount rates*

Management has used the discount rate of 8.20% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

Even if the group stress the growth rate and discount rate by 2% there would be enough headroom and no impairment would be triggered.

**42. Critical accounting estimates and judgments in applying accounting policies (continued)**

***(h) Measurement of ECL under IFRS 9***

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:* When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- *Probability of default:* PD *constitutes* a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- *Loss Given Default:* LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the *product* of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities

***(i) Critical judgments in applying the group's accounting policies for "IFRS 16 – Leases"***

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements:

*Determining the lease term*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

*The amount payable under residual value guarantees*

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

## 42. Critical accounting estimates and judgments in applying accounting policies (continued)

### *(j) Process used to decide on insurance contract assumptions*

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Group has reviewed the individual contracts and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market- based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that a weighted average of different techniques has been selected for individual accident years or groups of accident years within the same class of business. The Group has an internal actuary and independent external actuaries are also involved in the valuation of technical reserves of the Group and has used historical data for the past 9 years.

Substantially all of the Group's underwriting activities are carried out in the United Arab Emirates. In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

## 43. Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 1.1 million (2023: AED 0.81 million).

## 44. Subsequent Events

The Board of Directors have proposed a cash dividend of 50 fils per share at their meeting held on 23 January 2025.

## 45. Approval of the consolidated financial statements

The consolidated financial statements were approved on **23 January 2025.**