

Bank Alfalah Limited - UAE Branch

**BASEL – PILLAR 3 DISCLOSURES
FOR THE PERIOD ENDED 31st DECEMBER 2025**



TABLE OF CONTENTS

S.No	Description	Page #
1	Introduction	3
2	Objective and Scope	3
3	Introduction to Bank's Capital adequacy framework	3
3.1	Regulatory Framework	3
4	Overview of Risk Management and RWA	5
4.1	KM1: Key Metrics	5
4.2	OVA: Bank Risk Management Approach	6
4.3	OV1: Overview of RWA	8
5	Linkages between financial statements and regulatory exposures	9
5.1	LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements	9
6	Composition of Capital	10
6.1	CC1: Composition OF Regulatory Capital	10
6.2	CC2: Reconciliation of regulatory capital to balance sheet	13
6.3	CCA: Main features of regulatory capital instruments	14
7	Geographical distribution of credit exposures used in the countercyclical buffer	14
8	Leverage ratio	15
8.1	LR2: Leverage Ratio Common Disclosure Template	15
9	Liquidity Risk	16
9.1	LIQA: Liquidity Risk Management	16
9.2	ELAR: Eligible Liquid Assets Ratio	17
9.3	ASRR: Advances to Stables Resource Ratio	17
10	Credit Risk	18
10.1	CRA: General Qualitative Information About Credit Risk	18
10.2	CR1: Credit Quality of Assets	19
10.3	CR2: Changes In Stock Of Defaulted Loans And Debt Securities	19
10.4	CRB: Additional Disclosure related to the credit quality of assets	19
10.5	CR4: Standardized Approach - Credit Risk Exposure And Credit Risk Mitigation (CRM) Effects	20
10.6	CR5: Standardized Approach - Exposures By Asset Classes And Risk Weights	21
11	Market Risk	22
11.1	MRA: General qualitative disclosure requirements related to market risk	22
11.2	MR1: Market risk under the standardized approach (SA)	22
12	Interest rate risk in the banking book	23
12.1	IRRBB1: Quantitative information on IRRBB	23
13	Operational Risk	25
13.1	OR1: General qualitative information on a bank's operational risk framework	25
14	Remuneration Policy	26
14.1	REMA: Remuneration policy	28

1. Overview of risk management, key prudential metrics and RWA

1. Introduction to Bank

Alfalah Bank Limited (the "Head Office") is a Pakistan registered bank with its principal office in Karachi, Pakistan. It commenced its operations in the United Arab Emirates (UAE) in 2017 as a wholesale bank and currently has one branch (the "Bank") in Dubai. The address of the registered office of the Bank is P.O. Box 8456, Dubai.

2.Objective and Scope

Basel Pillar III is designed to reinforce market discipline by mandating that banks disclose detailed, clear, and timely information regarding their risk exposures, risk management practices, and capital adequacy. According to the CBUAE Basel guidelines, the objective is to provide stakeholders with a transparent view of a bank's financial health, thereby enabling investors, analysts, and regulators to make well-informed assessments and decisions.

The scope of these disclosures covers all material risk areas—including credit, market, liquidity, and operational risks—ensuring consistency and comparability across institutions. This comprehensive framework not only supports prudent risk management and accountability within banks but also aligns local practices with internationally recognized Basel standards to promote a resilient financial system.

3. Introduction to Bank's Capital adequacy framework

Central Bank of UAE published final Capital Adequacy Standards and Guidance along with Notice 4980/2020 on 12th November 2020. This included revised Standards and Guidance with respect to Pillar 3 – Market Disclosures. Further to this, the Central Bank of UAE provided explanatory notes and disclosure templates for Pillar 3 on 30th November 2021 as part of Notice 5508/2021 and on 9th May 2022 as per the notice CBUAE/BSN/2022/1887.

This document presents the Pillar 3 disclosures of Alfalah Bank Limited – UAE Branch ("the Bank") as at 31st December, 2025. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of

3.1 Regulatory Framework

The framework is structured around the following three Pillars:

1. Pillar 1 on minimum capital requirements for credit, market and operational risk
2. Pillar 2 on the supervisory review process and the Internal Capital Adequacy Assessment Process (ICAAP)
3. Pillar 3 on market discipline

On top of this minimum capital requirement CBUAE has also mandated the Banks to keep additional buffers.

- In addition to the minimum CET1 capital of 7.0% of RWA, banks must maintain a capital conservation buffer (CCB) of 2.5% of RWAs in the form of CET1 capital
- To achieve the broader macro-prudential goal of protecting the banking sector from periods of excess aggregate credit growth and in addition to the CCB requirements, banks may be required to implement the countercyclical buffer (CCyB). Banks must meet the CCyB requirements by using CET1 capital. The level of the CCyB requirements will vary between 0% - 2.5% of RWA and be communicated by the Central Bank with an adequate notice period.

These requirements are summarized in the table below:

Minimum Common Equity Tier 1 Ratio	7.0%
Minimum Tier 1 Capital Ratio	8.5%
Minimum Capital Adequacy Ratio	10.5%
Capital Conservation Buffer	2.5%
Domestic Systemically Important Banks Buffer	0.0%
Countercyclical buffer (0% - 2.5%)	0.002%

The capital ratios for Bank Alfalah Limited - UAE Branch as of 31st December, 2025 are given below. All of these are well above the CBUAE minimum.

Common Equity Tier 1 Ratio	22.3%
Capital Adequacy Ratio	22.7%

4. Overview of Risk Management and RWA

4.1 KM1: Key Metrics

AED in '000

	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
Available capital (amounts)					
1 Common Equity Tier 1 (CET1)	187,175	180,591	166,494	171,897	161,726
1a Fully loaded ECL accounting model	187,175	180,591	166,494	171,897	161,726
2 Tier 1	187,175	180,591	166,494	171,897	161,726
2a Fully loaded ECL accounting model Tier 1	187,175	180,591	166,494	171,897	161,726
3 Total capital	190,002	182,971	169,097	174,243	164,419
3a Fully loaded ECL accounting model total capital	190,002	182,971	169,097	174,243	164,419
Risk-weighted assets (amounts)					
4 Total risk-weighted assets (RWA)	838,353	627,865	620,218	590,239	578,439
Risk-based capital ratios as a percentage of RWA					
5 Common Equity Tier 1 ratio (%)	22.3%	28.8%	26.8%	29.1%	28.0%
5a Fully loaded ECL accounting model CET1 (%)	22.3%	28.8%	26.8%	29.1%	28.0%
6 Tier 1 ratio (%)	22.3%	28.8%	26.8%	29.1%	28.0%
6a Fully loaded ECL accounting model Tier 1 ratio (%)	22.3%	28.8%	26.8%	29.1%	28.0%
7 Total capital ratio (%)	22.7%	29.1%	27.3%	29.5%	28.4%
7a Fully loaded ECL accounting model total capital ratio (%)	22.7%	29.1%	27.3%	29.5%	28.4%
Additional CET1 buffer requirements as a percentage of RWA					
8 Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9 Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10 Bank D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11 Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
12 CET1 available after meeting the bank's minimum capital requirements (%)	12.2%	18.6%	16.8%	19.0%	17.9%
Leverage Ratio					
13 Total leverage ratio measure	1,968,146	1,653,141	1,900,502	1,731,658	1,725,136
14 Leverage ratio (%) (row 2/row 13)	9.5%	10.9%	8.8%	9.9%	9.4%
14a Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.5%	10.9%	8.8%	9.9%	9.4%
14b Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.5%	10.9%	8.8%	9.9%	9.4%
Liquidity Coverage Ratio					
15 Total HQLA					
16 Total net cash outflow					
17 LCR ratio (%)					
Net Stable Funding Ratio					
18 Total available stable funding					
19 Total required stable funding					
20 NSFR ratio (%)					
ELAR					
21 Total HQLA	990,748	1,003,031	1,194,784	1,109,711	1,093,539
22 Total liabilities	1,617,964	1,356,994	1,569,965	1,562,513	1,538,773
23 Eligible Liquid Assets Ratio (ELAR) (%)	61.2%	73.9%	76.1%	71.0%	71.1%
ASRR					
24 Total available stable funding	1,285,657	1,126,413	1,382,940	1,345,970	1,382,410
25 Total Advances	343,426	265,417	214,459	116,824	195,626
26 Advances to Stable Resources Ratio (%)	26.7%	23.6%	15.5%	8.7%	14.2%

4.2 OVA: Bank Risk Management Approach

Introduction to Bank

Bank Alfalah Limited - Dubai Branch operates as a branch of Bank Alfalah Limited with its Head Office in Pakistan since 01 November 2017 through its one branch located in the emirate of Dubai under license number 770308 issued by the Central Bank of the UAE ("UAE Central Bank"). Bank Alfalah Limited, is listed on the Pakistan Stock Exchange.

The principal activity of Bank Alfalah Limited – Dubai Branch (the "Bank" or "the Branch") is to provide wholesale banking services in the UAE. The registered address of the Bank is Unit # 5, Ground Floor, Eiffel 2 Building, Sheikh Zayed Road, Umm Al Sheif– Dubai, U.A.E.

Risk Culture

The risk culture within the Bank supports its business objectives and fosters an environment that enables management to execute the business strategy more efficiently and sustainably. The board of directors regularly reviews the risk profile of the Bank and makes every senior leader a responsible stakeholder in developing a strong risk culture within the Bank. Further, the Bank ensures that each employee comprehensively understands the responsibilities concerning the risks they undertake at each stage in their regular business activities.

The Bank has established a risk management framework that incorporates a risk management structure consisting of various sub committees. It includes clearly defined reporting lines to ensure the independent operation of risk management functions. Risk governance of the Bank also includes setting the risk appetite statement, risk limits, risk management functions, capital and liquidity planning, risk management policies, risk infrastructure, MIS and analysis to monitor the Bank's risk profile.

Risk Governance Framework

The Board of Directors is the ultimate governing body responsible for overseeing risk management to maximize shareholder returns. It ensures that the Bank has the necessary culture, practices, and systems to effectively manage risks. The Board of Directors holds the primary responsibility for setting the strategic objectives, approving the risk appetite, and reviewing key risks and mitigation measures. It ensures that the bank-wide risk management framework is formulated, maintained, and integrated into the bank's overall strategy. Additionally, the Board assesses the effectiveness of risk management policies and infrastructure through periodic reporting and compliance reviews.

Supporting the Board, Board Committees such as the Board Risk Management Committee (BRMC), Board Information Technology Committee (BITC), Board Audit Committee (BAC), Board Strategy and Finance Committee (BSFC), and the Board Crisis Management Committee (BCMC) play a critical role in overseeing different facets of risk, compliance, finance, and strategic direction. These committees are supported by the management level committees formalized at BAFL Pakistan which are also responsible to oversee the international operations and respective committees.

Senior Management is responsible for defining and proposing the risk appetite at Bank level for Board approval and ensures its continuous monitoring on a quarterly basis. It oversees the design and sustainable implementation of the Enterprise Risk Management (ERM) framework and internal control systems. Furthermore, management evaluates the adequacy of risk mitigation plans and ensures regulatory compliance through various management committees, including the Central Management Committee, Digital Council Committee, Central Credit Committee, Control and Compliance Committee, Asset Liability Management Committee, Process Improvement Committee, Governance Committee for Overseas Operations, IFRS 9 Steering Committee, IT Steering Committee, and the Crisis Management Team.

At the Dubai branch, further committees are being formulated along with their respective terms of reference for areas such as Finance, Strategy, Risk, Compliance, and HR. These include the Country Management Committee, the Country Finance, Strategy & HR Committee, and the Country Risk, Compliance & Controls Committee. Their role is to ensure that the Bank's activities reflect its vision, purpose, and aims. The committees will meet periodically as defined by their terms of reference, and any recommendations or decisions will be communicated to the competent bodies at the Head Office for further review.

The Credit & Risk Management Group plays a crucial role in developing risk policies, guiding business units on risk standards, setting operational limits, and ensuring adherence to regulations. It monitors key risk ratios and ensures that risk levels remain within acceptable thresholds through routine testing and reporting. The group reports its findings to both the management and regulatory authorities. Within this group, specific Risk Divisions such as the Risk Management Division, Information Security, Credit Policy & Portfolio Management, Credit Administration, Operational Risk, Credit Division, Consumer & Digital Risk, and CRM Governance & First Line Operational Risk (OR) work collaboratively to ensure robust risk assessment and mitigation measures.

The governance model follows the Three Lines of Defense approach. The First Line of Defense is the business and operational units, responsible for identifying and managing risks in their daily functions. The Second Line of Defense consists of control functions such as risk management and compliance teams that provide oversight and independent monitoring of risks. The Third Line of Defense is the internal audit function, which provides independent assurance on the effectiveness of risk management frameworks and control activities.

Stress Testing

A key aspect of BAFL's risk management framework is stress testing, which evaluates the Bank's ability to withstand financial shocks. By simulating hypothetical scenarios, stress testing helps assess the capital required to absorb potential losses in extreme conditions. The Bank's stress testing framework is designed to serve as a crucial risk management tool, incorporating both regulatory-prescribed and internally developed stress scenarios. These tests are conducted across various risk categories, including credit, market, operational, liquidity, and other material risks.

The Bank's internal stress testing framework aligns with its risk appetite and overall risk management strategy, ensuring that stress tests play a vital role in capital and liquidity planning. A strong governance structure is in place, defining the roles and responsibilities of senior management, oversight bodies, and teams responsible for executing the stress testing framework. The results are reviewed at both management at Branch level and senior management at Head Office level, influencing business strategies and risk limit adjustments.

4.3 OV1: Overview of RWA

	AED in '000		
	RWA		Minimum capital requirements
	Dec-25	Sep-25	Dec-25
1 Credit risk (excluding counterparty credit risk)	725,869	531,060	76,216
2 Of which: standardised approach (SA)	725,869	531,060	76,216
3 Of which: foundation internal ratings-based (F-IRB) approach			
4 Of which: supervisory slotting approach			
5 Of which: advanced internal ratings-based (A-IRB) approach			
6 Counterparty credit risk (CCR)	1,288	1,291	135
7 Of which: standardised approach for counterparty credit risk	1,288	1,291	135
8 Of which: Internal Model Method (IMM)			
9 Of which: other CCR			
10 Credit valuation adjustment (CVA)			
11 Equity positions under the simple risk weight approach			
12 Equity investments in funds - look-through approach	-	-	-
13 Equity investments in funds - mandate-based approach	-	-	-
14 Equity investments in funds - fall-back approach	-	-	-
15 Settlement risk	-	-	-
16 Securitisation exposures in the banking book	-	-	-
17 Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18 Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19 Of which: securitisation standardised approach (SEC-SA)	-	-	-
20 Market risk	40	6,124	4
21 Of which: standardised approach (SA)	40	6,124	4
22 Of which: internal models approach (IMA)			
23 Operational risk	111,156	89,390	11,671
24 Amounts below thresholds for deduction (subject to 250% risk weight)			
25 Floor adjustment			
26 Total (1+6+10+11+12+13+14+15+16+20+23)	838,353	627,865	88,027

5. Linkages between financial statements and regulatory exposures

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

AED in '000

	Items subject to:				
	Total	Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1 Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1,803,008	1,803,008	-	-	-
2 Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(151,540)	(151,540)	-	-	-
3 Total net amount under regulatory scope of consolidation	1,651,468	1,651,468	-	-	-
4 Off-balance sheet amounts*	130,114	119,104	-	11,011	-
5 <i>Differences in valuations</i>	-	-	-	-	-
6 <i>Differences due to different netting rules, other than those already included in row 2</i>	-	-	-	-	-
7 <i>Differences due to consideration of provisions</i>	-	-	-	-	-
8 <i>Differences due to prudential filters</i>	-	-	-	-	-
9 Exposure amounts considered for regulatory purposes	1,781,582	1,770,572	-	11,011	-

6. Composition of Capital

6.1 CC1: Composition OF Regulatory Capital

		AED in '000	
Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	100,000	Same as (h) from CC2 template
2	Retained earnings	68,345	
3	Accumulated other comprehensive income (and other reserves)	19,082	
4	Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)	-	
5	Common share capital issued by third parties (amount allowed in group CET1)	-	
6	Common Equity Tier 1 capital before regulatory deductions	187,427	
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	218	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash flow hedge reserve	-	
12	Securitisation gain on sale	-	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
14	Defined benefit pension fund net assets	34	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	-	
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	-	
24	Total regulatory adjustments to Common Equity Tier 1	252	
25	Common Equity Tier 1 capital (CET1)	187,175	
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC2 (i)

	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
	Amounts
27 Of which: classified as equity under applicable accounting standards	-
28 Of which: classified as liabilities under applicable accounting standards	-
29 Directly issued capital instruments subject to phase-out from additional Tier 1	-
30 Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
31 Of which: instruments issued by subsidiaries subject to phase-out	-
32 Additional Tier 1 capital before regulatory adjustments	-
33 Investments in own additional Tier 1 instruments	-
34 Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
35 Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
36 CBUAE specific regulatory adjustments	-
37 Total regulatory adjustments to additional Tier 1 capital	-
38 Additional Tier 1 capital (AT1)	-
39 Tier 1 capital (T1= CET1 + AT1)	187,175
40 Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41 Directly issued capital instruments subject to phase-out from Tier 2	-
42 Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
43 Of which: instruments issued by subsidiaries subject to phase-out	-
44 Provisions	2,827
45 Tier 2 capital before regulatory adjustments	2,827
46 Investments in own Tier 2 instruments	-
47 Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
48 Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
49 CBUAE specific regulatory adjustments	-
50 Total regulatory adjustments to Tier 2 capital	-
51 Tier 2 capital (T2)	2,827
52 Total regulatory capital (TC = T1 + T2)	190,002
53 Total risk-weighted assets	838,353

	Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
54 Common Equity Tier 1 (as a percentage of risk-weighted assets)	22.3%	
55 Tier 1 (as a percentage of risk-weighted assets)	22.3%	
56 Total capital (as a percentage of risk-weighted assets)	22.7%	
57 Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	0.0%	
58 Of which: capital conservation buffer requirement	0.0%	
59 Of which: bank-specific countercyclical buffer requirement	0.0%	
60 Of which: higher loss absorbency requirement (e.g. DSIB)	0.0%	
61 Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	12.2%	
62 Common Equity Tier 1 minimum ratio	7.0%	
63 Tier 1 minimum ratio	8.5%	
64 Total capital minimum ratio	10.5%	
65 Non-significant investments in the capital and other TLAC liabilities of other financial entities		
66 Significant investments in common stock of financial entities	-	
67 Mortgage servicing rights (net of related tax liability)		
68 Deferred tax assets arising from temporary differences (net of related tax liability)	-	
69 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	-	
70 Cap on inclusion of provisions in Tier 2 under standardised approach	-	
71 Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)		
72 Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		
73 Current cap on CET1 instruments subject to phase-out arrangements	-	
74 Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-	
75 Current cap on AT1 instruments subject to phase-out arrangements	-	
76 Amount excluded from AT1 due to cap (excess after redemptions and maturities)	-	
77 Current cap on T2 instruments subject to phase-out arrangements	-	
78 Amount excluded from T2 due to cap (excess after redemptions and maturities)	-	

6.2 CC2: Reconciliation of regulatory capital to balance sheet

AED in '000

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks	569,782	569,784	
Items in the course of collection from other banks	-		
Trading portfolio assets	-		
Financial assets designated at fair value	-		
Derivative financial instruments	11,011	11,011	
Loans and advances to banks	183,971	184,101	
Loans and advances to customers	232,907	234,940	
Reverse repurchase agreements and other similar secured lending	-		
Available for sale financial investments (Includes FVOCI)	791,172	791,172	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	15,371	15,371	
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	218	218	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	218	218	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	7,641	7,641	
Total assets	1,812,072	1,814,238	
Liabilities			
Deposits from banks	122,573	122,573	
Items in the course of collection due to other banks			
Customer accounts	1,287,147	1,287,147	
Repurchase agreements and other similar secured borrowing	151,540	151,540	
Trading portfolio liabilities	-		
Financial liabilities designated at fair value	-		
Derivative financial instruments	-		
Debt securities in issue	-		
Accruals, deferred income and other liabilities	54,223	54,223	
Current and deferred tax liabilities			
Of which: DTLs related to goodwill			(d)
Of which: DTLs related to intangible assets (excluding MSRs)			(e)
Of which: DTLs related to MSRs			(f)
Subordinated liabilities			
Provisions			
Retirement benefit liabilities	1,398	1,398	
Total liabilities	1,616,881	1,616,881	
Shareholders' equity			
Paid-in share capital	100,000	100,000	
Of which: amount eligible for CET1	100,000	100,000	(h)
Of which: amount eligible for AT1	-	-	(i)
Retained earnings	68,346	68,346	
Accumulated other comprehensive income	26,845	29,010	
Total shareholders' equity	195,191	197,356	

6.3 CCA: Main features of regulatory capital instruments

The capital of BAFL Dubai branch represents the amount received from the Head Office as "Allocated capital" in accordance with the Federal Laws of UAE and the Minimum Capital for Banks Regulation (Circular No. 12/2021) issued by the Central Bank of the UAE ("CBUAE"). Relevant details as of December 31, 2025, are as follows:

		Quantitative / qualitative information
1	Issuer	Bank Alfalah Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	Not Applicable
3	Governing law(s) of the instrument	Federal laws of the U.A.E and Circular No 12/2021 of CBUAE
Regulatory treatment		
7	Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 100 Mn
10	Accounting classification	Assigned Capital

7. Geographical distribution of Credit Exposures (CCyB1)

AED in '000

Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
Korea	1%	1,828	914	0.002%	9,139
Sum		1,828	914	0.002%	9,139
Total		683,680	474,169	0.002%	9,139

8. Leverage Ratio

8.1 LR2: Leverage Ratio Common Disclosure Template

		AED in '000	
		Dec-25	Sep-25
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,801,061	1,533,257
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	(252)	(268)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	1,800,809	1,532,989
Derivative exposures			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,596	5,149
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	843	1,305
10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	Total derivative exposures (sum of rows 8 to 12)	6,439	6,454
Securities financing transactions			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	Total securities financing transaction exposures (sum of rows 14 to 17)	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	589,905	566,495
20	(Adjustments for conversion to credit equivalent amounts)	(429,006)	(452,797)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	Off-balance sheet items (sum of rows 19 to 21)	160,899	113,698
Capital and total exposures			
23	Tier 1 capital	187,175	180,591
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,968,146	1,653,141
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	9.5%	10.9%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.5%	10.9%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%

8. Liquidity Risk

8.1 LIQA: Liquidity Risk Management

Liquidity refers to a financial institution's ability to meet its obligations as they come due or the inability to convert assets into cash without incurring unacceptable losses. Liquidity risk arises due to mismatch in the timings of assets and liabilities and its potential impact on earnings, capital, and reputation when an institution cannot meet its contractual obligations in a timely manner.

Liquidity Risk Management Framework

The Bank manages and controls liquidity risk through a comprehensive risk management framework, which includes a Board of Directors (BoD) approved policy, the management-level procedural document, and Asset & Liability Committee (ALCO) level guidelines at Bank Alfalah Head Office and Bank Alfalah Dubai Branch level. Under this framework, various liquidity metrics are implemented and monitored on a regular basis. The Treasury function is responsible for managing liquidity on a day-to-day basis, while the independent Risk Management function is responsible for measurement, monitoring, formulation of policy framework and provide periodic updates to the senior management. Liquidity Risk is monitored using regulatory risk limits, including the Eligible Liquid Assets Ratio (ELAR) and Lending to Stable Resources Ratio (LSRR) as well as internal liquidity ratios approved by ALCO HO in line with board approved liquidity risk management framework.

Stress Testing

Stress testing is a crucial component of the Liquidity Risk Management Framework. Its primary objective is to ensure that the branch maintains an adequate level of liquidity to withstand a range of severe stress scenarios. This involves assessing all significant known and anticipated cash outflows, along with the availability of liquidity or marketable securities that can be utilized to secure additional funding if required. The framework also encompasses meticulous monitoring and reporting of daily liquidity position, as well as periodic liquidity stress testing to senior management and Head Office ALCO.

Contingency funding plan (CFP)

The Bank has an approved Contingency Funding Plan (CFP) that sets out Bank Alfalah Limited's Dubai Branch strategies for handling severe liquidity disruption due to internal or external sources to ensure that the branch's funding needs are met in a timely manner and at a reasonable cost. Contingency Funding Plan (CFP) for Dubai branch outlines a process to assess the liquidity sources available under times of stress and how liquidity will be used and managed.

CFP for Dubai Branch addresses the following:

- Identification of sources of liquidity risks and early warning indicators
- The Identification of available liquidity sources
- Roles and responsibilities of designated team to handle liquidity situation
- Communication and management action plan based on severity of liquidity situation for clear implementation and escalation procedures

Maturity Profile of Assets and Liabilities as of December 31, 2025

AED in '000

	Up to 3 months	3 months to 1 year	1 – 5 years	Over 5 years	No fixed maturity	Total
Assets						
Cash and balances with the UAE Central Bank	415,000	-	-	-	154,784	569,784
Due from Banks, net	-	-	-	-	79,228	79,228
Due from head office and its branches abroad	-	-	-	-	-	-
Loans and advances	192,702	60,979	86,131	-	-	339,812
Investment securities	104,625	270,894	285,581	128,069	10,778	799,946
Other assets	2,336	5,141	3,637	1,583	2,674	15,371
Total Assets	714,663	337,014	375,349	129,652	247,464	1,804,141
Liabilities						
Due to banks	151,540	-	-	-	-	151,540
Due to Head office and its branches abroad	-	-	-	-	122,573	122,573
Deposits and other accounts	387,967	5,500	-	-	893,680	1,287,147
Other liabilities	2,067	882	-	-	48,015	50,964
Lease liabilities	-	-	3,764	-	-	3,764
Total liabilities	541,574	6,382	3,764	-	1,064,268	1,615,988
Net liquidity gap	173,089	330,632	371,585	129,652	(816,804)	188,153

8.2 ELAR: Eligible Liquid Assets Ratio

AED in '000

1	High Quality Liquid Assets	Nominal Amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	902,229	
1.2	UAE Federal Government Bonds and Sukuks	0	
	Sub Total (1.1 to 1.2)	902,229	902,229
1.3	UAE local governments publicly traded debt securities	54,601	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	54,601	54,601
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	33,918	33,918
1.6	Total	990,748	990,748
2	Total liabilities		1,617,964
3	Eligible Liquid Assets Ratio (ELAR)		61.2%

8.3 ASRR: Advances to Stables Resource Ratio

AED in '000

	Items	Amount
1	Computation of Advances	
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	237,339
1.2	Lending to non-banking financial institutions	-
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	106,087
1.4	Interbank Placements	-
1.5	Total Advances	343,426
2	Calculation of Net Stable Resources	
2.1	Total capital + general provisions	206,788
	Deduct:	
2.1.1	Goodwill and other intangible assets	218
2.1.2	Fixed Assets	7,641
2.1.3	Funds allocated to branches abroad	-
2.1.5	Unquoted Investments	7,346
2.1.6	Investment in subsidiaries, associates and affiliates	-
2.1.7	Total deduction	15,205
2.2	Net Free Capital Funds	191,583
	2.3 Other stable resources:	
2.3.1	Funds from the head office	-
2.3.2	Interbank deposits with remaining life of more than 6 months	-
2.3.3	Refinancing of Housing Loans	-
2.3.4	Borrowing from non-Banking Financial Institutions	-
2.3.5	Customer Deposits	1,094,074
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
2.3.7	Total other stable resources	1,094,074
2.4	Total Stable Resources (2.2+2.3.7)	1,285,657
3	ADVANCES TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	26.71

10. Credit Risk

10.1 CRA: General Qualitative Information About Credit Risk

Credit risk is the identification of probability that counterparty will cause a financial loss to the Bank due to its inability or unwillingness to meet its contractual obligation. This credit risk arises mainly from lending, hedging, settlement and other financial transactions. Credit risk management processes encompass identification, assessment, measurement, monitoring and control of the Bank's exposure to credit risk.

Credit Risk Strategy & Appetite

BAFL's credit risk strategy is designed to align seamlessly with its overarching business strategy, ensuring a consistently prudent credit risk profile. The bank operates within a robust and well-defined framework to uphold a balanced risk-return approach. Credit limits are established across multiple dimensions, including individual counterparties, connected groups, geographical regions, industries, and sectors, ensuring a comprehensive risk management approach at the bank level.

The bank's credit risk appetite is defined within the broader Risk Appetite Framework (RAF) and cascades down to various segments, reflecting the way BAFL conducts its business and support activities. To maintain alignment with business strategy, regulatory requirements, and the desired risk profile, key stakeholders—including Business Functions and Control Functions (Credit and Risk)—actively participate in shaping the credit risk appetite.

Measurement of Credit Risk

The Bank has built and maintained a robust loan portfolio under a clearly defined credit policy approved by its Board of Directors. Its comprehensive credit evaluation system features a structured process for appraisal, sanctioning, and periodic reviews, all aimed at ensuring prudent lending and maintaining a high-quality asset portfolio.

An advanced internal credit rating system is in place to quantify both counterparty and transaction risks in accordance with best practices. This system evaluates qualitative and quantitative factors—including the counterparty's financial strength, transaction structure, and security—to generate ratings at both the obligor and facility levels.

To ensure compliance with approved credit terms and regulatory requirements, a centralized Credit Administration Division (CAD) within the Credit & Risk Management Group oversees all aspects of credit documentation and disbursement. This unit ensures that all credit sanctions and security documents are complete, enforceable, and that disbursements are authorized only after meeting the necessary conditions.

The Credit Policy & Portfolio Management team continuously monitors the quality of the credit portfolio by tracking borrower behavior and identifying early signs of deterioration. Any weakening relationships are promptly reported to the appropriate authorities, enabling proactive measures to mitigate further risks.

The Bank has a dedicated unit to manage delinquent accounts, focusing on repayment and settlement. The Special Asset Management Group (SAMG) prioritizes recovery and may restructure, reschedule, or settle debts to protect the Bank's interests. If necessary, SAMG will take legal action. The Credit & Risk Management Group monitors the non-performing loan (NPL) portfolio and reports to the CCC and BRMC. As of December 31, 2025, BAFL Dubai has no Stage-3 Portfolio.

Bank employs the Standardized Approach (SA) for estimating risk-weighted assets, which allows for the incorporation of external counterparty ratings in its credit risk calculations.

10.2 CR1: Credit Quality of Assets

AED in '000

		Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	-	339,813	2,161	-	2,161	337,652
2	Debt securities	-	789,168	8,774	-	8,774	780,394
3	Off-balance sheet exposures	-	171,955	662	-	662	171,293
4	Total	-	1,300,936	11,596	-	11,596	1,289,340

10.3 CR2: Changes In Stock Of Defaulted Loans And Debt Securities

AED in '000

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

10.4 CRB: Additional Disclosure related to the credit quality of assets

The most important types of risk are credit risk, market risk, liquidity risk, and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause financial loss to the Bank by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, due from other banks, investment securities and other receivables. There is also credit risk in financial arrangements not reflected on the statement of financial position such as credit commitments.

Internal credit risk ratings

The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The Bank measures credit risk of loans and advances to customers and to financial institutions at a counterparty level by using an internally developed technique named "Obligor Risk Rating" (ORR) considering various factors over a scale of 1 to 12 points. The better the customer credit strength the lower is the grade. This credit risk measurement technique is embedded in the Bank's daily operational management.

Classification	Grades	Risk significance
Performing	1 to 9a	Exceptional
Performing	9b	Watchlist
Non-Performing	9c	OAEM
Non-Performing	10	Substandard
Non-Performing	11	Doubtful
Non-Performing	12	Loss

Measurement of ECL

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

- Deposits and balances and due from banks;
- Debt investment securities carried at amortised cost;
- Loans and advances to customers;
- Other financial assets;
- Loan commitments; and
- Financial guarantees and contracts

With the exception of purchased or originated credit impaired (POCI) financial assets), ECL is required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECL is measured at an amount equal to the 12-month ECL.

ECL is a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Branch under the contract and the cash flows that the Branch expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's interest rate.

- for undrawn loan commitments, the ECL is the difference between the present value of the contractual cash flows that are due to the Branch if the holder of the commitment draws down the loan and the cash flows that the Branch expects to receive if the loan is drawn down; and for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Branch expects to receive from the holder, the debtor or any other party.

The Branch measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the ECL is based on the present value of the asset's expected cash flows using the asset's original interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The Branch employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

- **Probability of default (PD)**
PD is the historical PDs in relation to investments, loans to financial institutions, and cash at banks are estimated based on global default rates taken from S&P rating-wise transition matrices. These historical annual default rates are converted into forward-looking PDs using the Vasicek model under multiple economic scenarios (Base case, Upside and Downside); which factors in forward looking information based on global macro-economic variables (i.e. GDP) to arrive at forward looking PDs. Furthermore, in order to account for country specific macro-economic factors, overlays are applied based on external ratings derived from Fitch's Sovereign Risk Model (SRM). The SRM tool is based on wide array of structural indicators, macro-economic performance based indicators, public finance & external finance related indicators and expert judgement based quantitative overlays. Based on these indicators, Fitch's SRM tool provides an SRM score for each country, which is further mapped into rating, as per its mapping with Fitch's rating scale.
- **Loss Given default (LGD)**
LGD is the percentage that determines the amount of loss that will arise if the borrower were to default. For Sovereign bonds the Branch has estimated LGD on the basis of global historical default and recovery rates for Sovereign bonds, published by Moody's. Furthermore, for the rest of the portfolio, secured against collateral, the Branch has adopted the approach prescribed by CBUAE in the Credit Management Standards. The referred standard permits taking benefit of collaterals to scale down LGDs for secured portfolios.
- **Credit Conversion Factors (CCF)**
In line with IFRS 9 and the Bank's internal policy, Credit Conversion Factors (CCFs) are applied to off balance sheet exposures (e.g., commitments and guarantees). CCFs are determined in accordance with Basel standards or specific regulatory instructions, ensuring that potential future drawdowns are appropriately captured in the Expected Credit Loss (ECL) framework.
The ECL is calculated by combining PD, LGD, and CCF across three forward looking scenarios—Baseline, Upside, and Downside. Scenario weights are assigned based on a normal distribution framework, ensuring a balanced representation of potential economic outcomes. This methodology provides a robust, risk sensitive measure of credit impairment that integrates historical data, forward looking macroeconomic variables, sovereign overlays, and regulatory standards.
- **Exposure at default (EAD)**
EAD is an estimation of the extent that the Bank may be exposed to an obligor in the event of default. The estimation of EAD should take into account any expected changes in the exposure after the assessment date, including expected drawdowns on committed facilities through the application of a credit conversion factor ("CCF"). In accordance with the requirements of IFRS 9, the Bank models exposure at default (EAD) based on the nature of its products.

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 exceed the 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. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. 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.

Definition of default

The Branch considers a financial asset to be in default when:

- it is established that due to financial or non-financial reasons the borrower is unlikely to pay its credit obligations to the Branch in full without recourse by the Branch to actions such as realizing security (if any is held); or
- the borrower is past due 90 days or more on any material credit obligation to the Branch.

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

- (i) qualitative - e.g. material breaches of covenant;
- (ii) quantitative - e.g. overdue status and non-payment on another obligation of the same customer / customer group to the banks;
- (iii) based on data developed internally and obtained from external sources;
- (iv) cross default;(i.e. the default of a material credit facility shall also trigger the default of the obligor);
- (v) any credit facility that has been restructured 3 times or more in a context of financial difficulty must be migrated to Stage 3 and classified as default.

Additionally, stage 3 is further bifurcated into sub-stages as defined below:

Stage	Category
3a	Not past due but unlikely to pay 91 to 180 DPD
3b	181 to 365 DPD
3c	365 + DPD

Inputs into the assessment of whether a financing exposure is in default and their significance may vary over time to reflect changes in circumstances. The Branch also considers relevant regulatory requirements, in the context of the alignment of those requirements with IFRS, in the estimation of ECL in respect of Stage 3 exposures

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 Branch 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 Branch 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 (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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. The Branch categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Branch continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Restructured and renegotiated loans

Loans with renegotiated terms are defined as loans that have been restructured due to a deterioration in the borrower's financial position, for which the Bank has made concessions by agreeing to terms and conditions that are more favorable for the borrower than the Bank had provided initially and that it would not otherwise consider. A loan continues to be presented as part of loans with renegotiated terms until maturity, early repayment or write-off. Management continuously monitors the progress on renegotiated loans (if any) to ensure compliance with the terms at all times.

Exposure to credit risk

The Bank measures its exposure to credit risk by reference to gross carrying amount of financial assets and expected credit losses.

As at 31 December 2025

AED in '000

	Stage 1	Stage 2	Stage 3	Total
Loans and advances				
Performing	339,813	-	-	339,813
Non-performing	-	-	-	-
Allowance for expected credit loss	(2,161)	-	-	(2,161)
Net carrying amount	337,652	-	-	337,652
Unfunded advances	170,097	1,858	-	171,955
Allowance for expected credit loss	(649)	(13)	-	(662)
Net carrying amount	169,448	1,845	-	171,293
Debt securities				
Measured at FVOCI	719,129	70,039	-	789,168
Allowance for expected credit loss	(204)	(8,570)	-	(8,774)
Net carrying amount	718,925	61,469	-	780,394

As at 31 December 2024

AED in '000

	Stage 1	Stage 2	Stage 3	Total
Loans and advances				
Performing	195,490	-	-	195,490
Non-performing	-	-	-	-
Allowance for expected credit loss	(1,722)	-	-	(1,722)
Net carrying amount	193,768	-	-	193,768
Unfunded advances	34,081	-	-	34,081
Allowance for expected credit loss	(78)	-	-	(78)
Net carrying amount	34,003	-	-	34,003
Debt securities				
Measured at FVOCI	781,111	28,873	-	809,984
Allowance for expected credit loss	(619)	(5,363)	-	(5,982)
Net carrying amount	780,492	23,510	-	804,002

Amounts due from other banks and amounts due from the Head Office and other branches are neither past due nor impaired

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries and countries.

The credit risk is primarily managed by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations and by changing the lending limits where appropriate. Some other specific control and mitigation measures are outlined below.

(a) Collateral

As part of the Bank's credit risk management policies and practices, it obtains security where deemed necessary for loans and advances. The principal collateral types include:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable; Charges over financial instruments such as debt securities and equities;
- Personal and corporate guarantees; and Cash held in margin accounts and liens.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimize the credit loss the Bank obtains additional collaterals from the counterparty as soon as impairment indicators are observed for the relevant loans and advances.

Collaterals held as security for financial assets other than loans and advances are determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's reporting schedule however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. To the extent possible, the Bank uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Analysis of collateral by type is presented in the following table:

	AED in '000	
	Dec-25	Dec-24
Cash Margin and Liens	18,607	10,728
Guarantee	33,996	30,992
Mortgage	60,635	-
Total	113,238	41,720

(b) Derivatives

At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements and entering into forward contracts with other banks, which forms as a back-to-back commitment to purchase and sell a contract, resulting in limited credit exposure to the Bank. Collateral margin is also maintained with counter parties in accordance with the International Swaps & Derivatives Association (ISDA) Master Agreement, in line with the minimum requirements of the derivative contracts. Due to change in MTM revaluation, margin call payments are called to pay to bridge the market value with the agreed transaction deal.

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

	AED in '000	
	Dec-25	Dec-24
<i>Credit risk exposures relating to assets reflected on and off statement of financial position are as follows:</i>		
Cash and balances with the UAE Central Bank	569,784	631,343
Due from banks, net	79,228	18,030
Due from head office and its branches abroad	-	-
Loans and advances	339,813	195,490
Investment securities	789,168	809,984
Other assets	14,238	12,986
Derivative financial assets	11,011	19,877
Unfunded advances	171,955	34,081
	1,975,197	1,721,791

The above table represents a worst case scenario of credit risk exposure to the Bank, without taking account of any collateral held or other credit enhancements attached. For assets reflected on the statement of financial position, the exposures set out above are based on net amounts. Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

Reposessed assets

The Bank policy is to determine whether a reposessed asset is used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their reposessed value or the carrying value of the original secured asset. Assets that are determined to be sold are immediately transferred to assets held for sale at their fair value at the repossession date in line with the Bank's policy.

Investment securities

Investment securities mainly comprise of debt securities issued by various governments and local / foreign reputable organizations.

The table below presents an analysis of investment securities by rating agency designation, based on Moody's ratings or equivalent:

	AED in '000	
	Dec-25	Dec-24
AAA to A-	598,302	661,998
BBB to B-	183,806	107,010
Below B-	-	34,237
Unrated	7,060	6,739
	789,168	809,984

Concentration of risks of financial assets with credit risk exposure

The following tables summarises the bank's main credit exposure at their carrying amounts as categorised by the industry sectors of its counterparties.

	Dec-25							
	Financial institutions	Sovereign & Central Bank	Construction & real estate	Public sector	Energy	Wholesale trade	Other industries	Total
Balances with the Central Bank of UAE	-	568,506	-	-	-	-	1,278	569,784
Due from other banks	79,228	-	-	-	-	-	-	79,228
Due from head office and its branches abroad	-	-	-	-	-	-	-	-
Loans and advances								
- Corporate loans	31,220	68,469	39,762	-	-	95,489	104,873	339,813
Investment securities	126,720	545,545	-	22,021	23,805	-	71,077	789,168
Derivative Financial Assets	11,011	-	-	-	-	-	-	11,011
Other assets	4,930	2,215	1,080	139	218	417	5,239	14,239
Unfunded Advances	-	-	-	-	-	171,955	-	171,955
	253,109	1,184,735	40,842	22,160	24,023	267,861	182,467	1,975,198
	Dec-24							
	Financial institutions	Sovereign & Central Bank	Construction & real estate	Public sector	Energy	Wholesale trade	Other industries	Total
Balances with the Central Bank of UAE	-	630,333	-	-	-	-	1,010	631,343
Due from other banks	18,030	-	-	-	-	-	-	18,030
Due from head office and its branches abroad	-	-	-	-	-	-	-	-
Loans and advances								
- Corporate loans	81,303	18,365	8,997	-	-	86,825	-	195,490
Investment securities	182,227	552,800	-	3,336	36,442	-	35,179	809,984
Derivative Financial Assets	19,877	-	-	-	-	-	-	19,877
Other assets	6,080	2,350	210	13	300	299	3,734	12,986
Unfunded Advances	-	-	-	-	-	34,081	-	34,081
	307,517	1,203,848	9,206	3,348	36,742	121,206	39,924	1,721,791

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorised by geographical region as of the year-end.

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

	Dec-25				
	UAE	USA & Europe	Other Asian countries	Others	Total
Balances with the UAE Central Bank	569,784	-	-	-	569,784
Due from other banks	-	-	79,228	-	79,228
Lending to Fis	-	-	-	-	-
Due from head office and its branches abroad	-	-	-	-	-
Loans and advances:	-	-	-	-	-
- Corporate loans	183,687	-	156,126	-	339,813
Investment securities	490,628	26,224	252,952	19,364	789,168
Derivative Financial Assets	11,011	-	-	-	11,011
Other assets	6,896	106	7,124	112	14,238
Unfunded advances	171,955	-	-	-	171,955
	1,433,961	26,330	495,430	19,476	1,975,197
	Dec-24				
	UAE	USA & Europe	Other Asian countries	Others	Total
Balances with the UAE Central Bank	631,343	-	-	-	631,343
Due from other banks	-	-	18,030	-	18,030
Lending to Fis	-	-	-	-	-
Due from head office and its branches abroad	-	-	-	-	-
Loans and advances:	-	-	-	-	-
- Corporate loans	114,187	-	81,303	-	195,490
Investment securities	515,130	24,271	252,082	18,500	809,984
Derivative Financial Assets	19,877	-	-	-	19,877
Other assets	6,452	3,305	3,115	114	12,986
Unfunded advances	34,081	-	-	-	34,081
	1,321,070	27,576	354,531	18,614	1,721,791

* USA & Europe includes the sovereign exposure related to USA and Kazakhstan.

10.5 CR4: Standardized Approach - Credit Risk Exposure And Credit Risk Mitigation (CRM) Effects

AED in '000

	Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1 Sovereigns and their central banks	1,176,008	-	1,176,008	-	180,436	15%
2 Public Sector Entities	-	-	-	-	-	0%
3 Multilateral development banks	19,471	-	19,471	-	9,736	50%
4 Banks	465,062	-	465,062	-	231,260	50%
5 Securities firms	-	-	-	-	-	0%
6 Corporates	226,807	559,060	223,856	76,147	234,456	78%
7 Regulatory retail portfolios	-	-	-	-	-	0%
8 Secured by residential property	40,233	30,845	40,233	-	40,233	100%
9 Secured by commercial real estate	-	-	-	-	-	0%
10 Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11 Past-due loans	-	-	-	-	-	0%
12 Higher-risk categories	-	-	-	-	-	0%
13 Other assets	27,354	-	27,354	-	29,749	109%
14 Total	1,954,935	589,905	1,951,984	76,147	725,869	36%

9.6 CR5: Standardized Approach - Exposures By Asset Classes And Risk Weights

AED in '000

Asset Classes	Risk weight	Risk weight								Total credit exposures amount (post CCF and post-CRM)
		0%	20%	35%	50%	85%	100%	150%	Others	
1 Sovereigns and their central banks		1,005,573	25,950	-	15,841	-	51,282	77,362	-	1,176,008
2 Public Sector Entities		-	-	-	-	-	-	-	-	-
3 Multilateral development banks		-	-	-	19,471	-	-	-	-	19,471
4 Banks		-	231,154	-	106,070	-	119,525	8,313	-	465,062
5 Securities firms		-	-	-	-	-	-	-	-	-
6 Corporates		-	57,584	-	29,244	32,379	180,796	-	-	300,003
7 Regulatory retail portfolios		-	-	-	-	-	-	-	-	-
8 Secured by residential property		-	-	-	-	-	40,233	-	-	40,233
9 Secured by commercial real estate		-	-	-	-	-	-	-	-	-
10 Equity Investment in Funds (EIF)		-	-	-	-	-	-	-	-	-
11 Past-due loans		-	-	-	-	-	-	-	-	-
12 Higher-risk categories		-	-	-	-	-	-	-	-	-
13 Other assets		1,278	-	-	-	-	18,730	7,346	-	27,354
14 Total		1,006,851	314,688	-	170,626	32,379	410,566	93,021	-	2,028,131

10. Market Risk

10.1 MRA: General qualitative disclosure requirements related to market risk

Market risk is the risk that the fair value of a financial instrument will fluctuate due to movements in market prices. It results from changes in interest rates, exchange rates and equity prices as well as from changes in the correlations between them. To manage and control market risk, a comprehensive Board approved Market & Liquidity Risk Management Policy, is in place. The policy outlines a well-defined risk control structure, responsibilities of relevant stakeholders with respect to market risk management and methods to measure and control market risk at a portfolio level. These controls include limits on exposure to individual market risk variables as well as limits on concentrations of tenors. This structure is reviewed, adjusted and approved periodically.

Under the BoD approved policy, the Bank's Asset and Liability Committee (ALCO) and Investment Committee (IC) are primarily responsible for the oversight of market risk, supported by Market & Liquidity Risk Department of Risk Management Division (RMD). Furthermore, the Bank carries out risk assessment via diversified tools including PVBP (price value per Basis Point) and Duration on a regular basis. The Bank also ascertains the impact of market risk on relevant portfolios through stress testing and the Internal Capital Adequacy Assessment processes.

For Bank Alfalah Dubai, the largest component of market risk arises from interest rate risk within the banking book, due to mismatches in the repricing of both on- and off-balance sheet assets and liabilities. Currently, the Bank does not hold any trading book positions in debt instruments and has a minimal foreign currency gap and net open position, which are covered under the Market Risk capital charge.

10.2 MR1: Market risk under the standardize approach (SA)

	AED in '000
	RWA
1 General Interest rate risk (General and Specific)	-
2 Equity risk (General and Specific)	-
3 Foreign exchange risk	40
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	
8 Securitisation	-
9 Total	40

11. Interest rate risk in the banking book

Interest Rate Risk in the Banking Book (IRRBB) refers to the current and prospective impact of adverse interest rate changes on a bank's financial condition, affecting both earnings and economic value. This risk arises from a mismatch in the repricing profile of assets, liabilities and off-balance sheet items in the banking book.

IRRBB arises due to the following key factors:

Re-pricing Risk: Repricing risk is the risk of changes in interest rates affecting the value of assets, liabilities, or cash flows due to mismatched maturities or repricing dates.

Basis Risk: Risk arising from relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.

Yield curve Risk: Risks arising from changes in slope and shape of yield curve i.e. flattening, steepening and parallel yield curve shifts.

High levels of interest rate risk in the banking book can severely impact an institution's earnings and capital. Therefore, effective risk management is crucial to keeping these risks at manageable levels, ensuring the stability and financial health of the institution. The bank assesses Interest Rate Risk in the Banking Book (IRRBB) using two key metrics : Net Interest Income (NII) sensitivity, which measures the potential impact of interest rate changes on projected net interest income over a one-year horizon, and Economic Value of Equity (EVE), which estimates the change in the present value of the Bank's assets and liabilities due to interest rate fluctuations. These metrics are regularly measured and monitored.

At Dubai branch, interest rate risk is managed through a comprehensive framework supported by both the Head Office Treasury and local Treasury teams. The Head Office Treasury holds primary responsibility for managing interest rate risk across the bank, including the Dubai branch within board approved risk appetite and under the guidance of the Asset and Liability Committee (ALCO). ALCO, present at both head office and branch levels, ensures consistent oversight and strategic direction. Furthermore, our independent risk management function continuously monitors IRRBB through stress testing in line with CBUAE regulation and against approved limits set by the Head Office ALCO. This rigorous structure ensures effective risk mitigation and compliance, safeguarding our financial stability.

Measurement of Interest Rate Risk in Banking Book

The Bank uses the following tools for measuring and monitoring interest rate risk in the banking book. The analysis is performed at least on a monthly basis. The analysis helps in estimating and managing the impact of interest rate volatility on the Bank's earnings and on the economic value of equity within the regulatory threshold.

1. Impact on Capital (Economic Value of Equity): Changes in the term structure of interest rates have an impact on the present value of future cash flows of the bank i.e. the underlying value/present value of the bank's assets, liabilities and off-balance sheet items. The Bank has adopted the IRRBB guidelines and six shock scenarios are considered to determine the impact. Six shocks scenarios are as follows:

Parallel shock up (+200bps)
 Parallel shock down (-200bps)
 Steepening of curve / shock (short rates down and long rate up)
 Flattening of curve/ shock (short rates up and long rates down)
 Short rates shock up
 Short rates shock down

2. Impact on Net Interest Income (NII): Changes in interest rates also have an impact on the bank's earnings as its net interest income (NII) will change depending on interest-rate sensitive income and expenses. The Bank has adopted the IRRBB guidelines and two shock scenarios are considered to determine the impact. The shocks scenarios are as follows:

- a. Parallel shock up (+200bps)
- b. Parallel shock down (-200bps)

Repricing maturity assigned to non-maturity deposits (NMD) (IRRBA1)

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

Early Warning Indicator For IRRBB

As per CB UAE Guidelines, Banks that have IRRBB exposures exceeding 20% of their Total Capital are identified as "outliers/material" and are required to vigilantly review the underlying interest rate risk of their Banking Book positions. BAFL UAE computes its IRRBB as a percentage of its Total Eligible Capital and has established a robust internal buffer/threshold to proactively monitor and control these exposures, ensuring strict adherence to regulatory limits

11.1 IRRBB1: Quantitative information on IRRBB

AED in '000

Period	ΔEVE		ΔNII	
	T	T-1	T	T-1
Parallel up	(29,955)	(23,920)	(8,266)	(6,793)
Parallel down	26,997	21,730	8,266	6,793
Steeper	(3,457)	(1,255)		
Flattener	(3,212)	(4,090)		
Short rate up	(14,702)	(13,169)		
Short rate down	14,259	12,789		
Maximum	(29,955)	(23,920)		
Period	Dec-2025		Dec-2024	
Tier 1 Capital	187,175		161,726	

12. Operational Risk

12.1 OR1: General qualitative information on a bank's operational risk framework

Basel defines operational risk as the potential loss due to deficiencies or failures in internal processes, personnel, systems, or external events. Our bank adheres to this definition in alignment with Basel Committee and CBUAE requirements. Operational risks may emerge from fraud involving employees, customers, or third parties, natural calamities, technological disruptions, process inefficiencies, or unethical business conduct. Recognizing that operational risk is inherent in all business activities, we integrate risk management practices into our daily operations to mitigate potential threats effectively.

Operational Risk Framework

The Operational Risk Management Framework, policy and standards of the Bank are duly approved by the Central Management Committee and the Board, covering the processes, structure and functions of operational risk management and provides guidelines to identify, assess, monitor, control and report operational risk in a consistent and transparent manner across the Bank. The framework is aligned with regulatory requirements and industry best practices, ensuring a proactive approach to risk management. Key components include:

Risk Identification: Systematic assessment of potential operational risks across all business activities.

Risk Assessment & Measurement: Quantification of risk exposures using Key Risk Indicators (KRIs), scenario analysis, and historical loss data.

Risk Mitigation & Control: Implementation of internal controls, process improvements, and fraud prevention mechanisms.

Monitoring & Reporting: Regular risk reporting to senior management and the Board, ensuring timely action and compliance.

Embedding a sustainable risk culture remains our core objective, which includes effective management of operational issues and emerging risks via deployment of required resources, tools and continuous supervision. The new Operational Risk Framework, Policy and Standards, duly approved by the Board, have been rolled out along with new system platforms (Operational Risk System) for recording and tracking of risk events, including non-financial risks. We aim to implement a new process based Risk and Control Self-Assessment method in order to effectively manage operational risks and continually monitor the effectiveness of defined controls through self-assessment reviews, especially for the processes and activities that may significantly impact the Bank's risk appetite.

Operational Risk Capital Requirement

In accordance with Basel III guidelines, we calculate our operational risk capital requirement using the Basic Indicator Approach (BIA), which is based on a percentage of the bank's gross income. This ensures adequate capital allocation to absorb potential operational losses. The total capital requirement for operational risk as of 31 December 2025 is AED 11.6 million.

13. Remuneration Policy

13.1 REMA: Remuneration policy

With the intention of making Directors and Senior Management more accountable for their governance and performance, particularly in relation to the determination and payment of compensation, and to develop a fair, transparent, and sound compensation policy that aligns with risks and responsibilities, BAFL has implemented a very structured remuneration policy.

The BAFL's management is responsible for developing, enhancing, and modifying HR policies; however, any changes require approval from the Board of Directors (BOD) based on the recommendation of the Board Human Resources Remuneration & Nominations Committee (BHR&NC). The Human Capital Group (HCG) will communicate any updates or amendments to all Bank employees.

The primary objective of the BHR&NC is to ensure that the BAFL's human resource compensation strategies align with its strategic goals. Additionally, the Committee reviews and refines policies related to recruitment, training, remuneration, performance evaluation, promotion, and separation to support the BOD's business objectives. The Committee operates under terms of reference approved by the BOD, ensuring that all decisions regarding employees are made within the parameters authorized by the Board.

Overview of the Rewards Policy

This policy establishes guidelines for providing competitive financial benefits, including salaries, to attract and retain a skilled workforce. It aligns with the Bank's strategic objectives while allowing flexibility to adapt to market changes.

The policy applies to three categories of employees: UAE Nationals, locally hired expatriates, and Expats. However, functional entitlements are granted to all employees based on their specific responsibilities.

The Bank's Rewards framework is based on the following principles:

- Individual variable compensation is closely tied to the Group's performance against strategic objectives, as outlined in the performance scorecard, as well as individual performance.
- Compensation structures vary based on management levels and roles, ensuring a balanced mix of fixed and
- Incentive programs for sales and collections are designed to align with the Bank's objectives and require approval from Finance, Risk, Compliance, and Human Resources.

Remuneration Policy Review

Based on the recommendation of the Human Resources Remuneration & Nomination Committee, the Remuneration Policy will be reviewed every two years or as needed in response to significant changes in business strategy, internal or external conditions, or regulatory requirements. Any revisions must be approved by the Board of Directors (BOD).

Rewards Framework

Compensation Structure

Our compensation framework maintains a balanced mix of fixed and variable pay to ensure competitiveness and performance alignment.

Fixed Pay

Gross Salary: A fixed monthly cash payment, consisting of Basic Salary and Allowances, structured in a 60:40 ratio (Basic 60%: Allowances 40%) for all grades. Allowances may vary based on regional market conditions and labor laws.

Salary Ranges: Defined in accordance with economic conditions and industry benchmarks to ensure competitive remuneration. These ranges are reviewed periodically and adhered to during hiring and salary increments.

Salary Increments: Annual salary increases are provided to account for cost-of-living adjustments, recognize performance, and maintain internal equity. Management follows a transparent and structured increment grid based on individual performance ratings and compensation percentiles.

Charge/Functional Allowances: These allowances are granted based on functional roles and are included in the monthly salary for as long as the employee holds the specified role.

Variable Pay

Variable pay is performance-driven and aligns employee interests with those of stakeholders. Performance is assessed using the Balanced Scorecard (BSC), which includes Financial, Customer, Process, and People metrics.

Variable remuneration for the Group may be structured using a combination of cash and non-monetary instruments. It is discretionary and subject to approval by the Board Human Resources Remuneration & Nominations Committee (BHR&NC) each year. The framework ensures a strong link between variable compensation and performance indicators outlined in the Balanced Scorecard.

Material Risk Taker and Senior Managers

At all levels of the company, employees are eligible for recognition programs or awards, including those for Material Risk Takers and Senior Managers. Employees reporting to the Group CEO on a permanent basis (excluding administrative staff) are classified as Senior Managers.

Based on the decision-making hierarchy in the Bank, the **Country Manager UAE ,Head Transaction Banking and Group Head – Global Markets & Treasury** is currently classified as a Material Risk Taker.

Policy on vesting and deferral of variable remuneration

A certain portion of variable compensation of the MRTs are subject to mandatory deferrals for a defined period, thus creating alignment between the employees' and stakeholders' interests, and reinforcing that compensation is appropriately linked to longer-term sustainable performance. Deferred remuneration, especially with risk adjustments, is a useful tool for improving risk-taking incentives because the amount ultimately received by employees can be made to depend on risk outcomes.

The deferral amount shall be withheld for a period of three years whereas remaining portion of the variable compensation shall be paid upfront to the MRTs. The deferred remuneration shall vest proportionately over the deferral period following the year of variable remuneration award.

The deferred portion of the variable remuneration shall be paid to the MRTs proportionally through yearly instalments, during the deferred period, in case no malus triggers are applicable. In case of malus, and where accountability has been determined in accordance with the conduct and accountability framework of the Bank, the entire or certain portion of the deferred remuneration shall be withheld and not paid to the CEO, key executives and MRTs/MRCs on becoming due, and will be recorded back as income in the books of accounts of the Bank.

Implementing the remuneration measures, and their alignment with current and future risks and performance

This is done through the following steps:

- 1 Introduction of risk-adjusted balanced scorecards for performance evaluation of MRTs
- 2 Inclusion of another value driver in balanced scorecard categories, i.e., risk adjusting factors.
- 3 Identification of relevant Key Performance Indicators against each category.
- 4 Identification of risk adjustments (ex-ante risk adjustments).
- 5 Assignment of weightages.
- 6 Periodic review and update of risk-adjusted balanced scorecard.
- 7 Ratings mechanism; and
- 8 Application of overrides.

13.2 REM1: Remuneration awarded during the financial year

S.NO	Remuneration Amount	AED in '000	
		Senior Management	Other Material Risk-takers
1	Number of employees	3	-
2	Total fixed remuneration (3 + 5 + 7)	1,965	-
3	Of which: cash-based	1,965	-
4	Fixed Of which: deferred		-
5	Remuneration Of which: shares or other share-linked instruments		-
6	Of which: deferred		-
7	Of which: other forms		-
8	Of which: deferred		-
9	Number of employees	3	-
10	Total variable remuneration (11 + 13 + 15)	294	-
11	Of which: cash-based	32	-
12	Variable Of which: deferred		-
13	Remuneration Of which: shares or other share-linked instruments		-
14	Of which: deferred		-
15	Of which: other forms*	263	-
16	Of which: deferred	15	-
17	Total Remuneration (2+10)	2,259	-

* The amount of End Of Service Benefit (EOSB) paid to former country manage.