

Bank Alfalah Limited - UAE Branch

BASEL – PILLAR 3 DISCLOSURES

FOR THE PERIOD ENDED 31th DECEMBER 2024



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

1. Introduction to Bank

Alfalalah 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/BSA/N/2022/1887.

This document presents the Pillar 3 disclosures of Alfalah Bank Limited – UAE Branch ("the Bank") as at 31st December, 2024. The purpose of Pillar 3 disclosures is to allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

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%

The capital ratios for Bank Alfalah Limited - UAE Branch as of 31st December, 2024 are given below. All of these are well above the CBUAE minimum.

Common Equity Tier 1 Ratio	28.0%
Capital Adequacy Ratio	28.4%

4. Overview of Risk Management and RWA

4.1 KM1: Key Metrics

AED in '000

		Dec-24	Sep-24	Jun-24	Mar-24	Dec-23
Available capital (amounts)						
1	Common Equity Tier 1 (CET1)	161,726	159,175	138,155	152,015	137,934
1a	Fully loaded ECL accounting model	161,726	159,175	138,155	152,015	137,934
2	Tier 1	161,726	159,175	138,155	152,015	137,934
2a	Fully loaded ECL accounting model Tier 1	161,726	159,175	138,155	152,015	137,934
3	Total capital	164,419	160,350	141,008	152,344	140,325
3a	Fully loaded ECL accounting model total capital	164,419	160,350	141,008	152,344	140,325
Risk-weighted assets (amounts)						
4	Total risk-weighted assets (RWA)	578,439	533,221	383,504	430,799	443,397
Risk-based capital ratios as a percentage of RWA						
5	Common Equity Tier 1 ratio (%)	28.0%	29.9%	36.0%	35.3%	31.1%
5a	Fully loaded ECL accounting model CET1 (%)	28.0%	29.9%	36.0%	35.3%	31.1%
6	Tier 1 ratio (%)	28.0%	29.9%	36.0%	35.3%	31.1%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	28.0%	29.9%	36.0%	35.3%	31.1%
7	Total capital ratio (%)	28.4%	30.1%	36.8%	35.4%	31.6%
7a	Fully loaded ECL accounting model total capital ratio (%)	28.4%	30.1%	36.8%	35.4%	31.6%
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 (%)	17.9%	19.6%	26.3%	24.9%	21.1%
Leverage Ratio						
13	Total leverage ratio measure	1,725,136	1,464,204	1,464,204	1,249,126	1,286,372
14	Leverage ratio (%) (row 2/row 13)	9.4%	10.3%	9.4%	12.2%	10.7%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	9.4%	10.3%	9.4%	12.2%	10.7%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.4%	10.3%	9.4%	12.2%	10.7%
Liquidity Coverage Ratio						
15	Total HQLA					
16	Total net cash outflow					
17	LCR ratio (%)					
Net Stable Funding Ratio						
18	Total available stable funding					
19	Total required stable funding					
20	NSFR ratio (%)					
ELAR						
21	Total HQLA	1,093,539	905,137	1,043,317	709,049	810,120
22	Total liabilities	1,538,773	1,300,248	1,292,307	1,114,704	1,129,429
23	Eligible Liquid Assets Ratio (ELAR) (%)	71.1%	69.6%	80.7%	63.6%	71.7%
ASRR						
24	Total available stable funding	1,382,410	1,096,074	1,076,779	953,448	972,131
25	Total Advances	195,626	37,817	57,865	19,041	57,675
26	Advances to Stable Resources Ratio (%)	14.2%	3.5%	5.4%	2.0%	5.9%

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 ensures that every senior leader is a responsible stakeholder in developing a strong risk culture.

Furthermore, the Bank ensures that each employee comprehensively understands their responsibilities concerning the risks they undertake at every stage of their regular business activities. To support this, the Bank has established a robust risk management framework that incorporates a structured risk management system consisting of various subcommittees. This framework includes clearly defined reporting lines to ensure the independent operation of risk management functions.

The Bank's risk governance also includes setting the risk appetite statement, defining risk limits, overseeing risk management functions, capital planning, risk policies, risk infrastructure, and Management Information Systems (MIS). Additionally, it involves continuous analysis to monitor the Bank's overall 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 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-24	Sep-24	
1 Credit risk (excluding counterparty credit risk)	478,734	470,768	50,267
2 Of which: standardised approach (SA)	478,734	470,768	50,267
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)	1,922	1,157	202
7 Of which: standardised approach for counterparty credit risk	1,922	1,157	202
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	8,394	91	881
21 Of which: standardised approach (SA)	8,394	91	881
22 Of which: internal models approach (IMA)			
23 Operational risk			
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)			
	578,439	533,221	60,736

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

	Total	Items subject to:			
		Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1 Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	1,682,919	1,683,098	-	-	-
2 Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(37,482)	(37,482)	-	-	-
3 Total net amount under regulatory scope of consolidation	1,645,437	1,645,616	-	-	-
4 Off-balance sheet amounts*	34,970	15,094	-	19,877	-
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	1,680,407	1,660,710	-	19,877	-

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	52,725	
3	Accumulated other comprehensive income (and other reserves)	10,606	
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	163,331	
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)	263	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	1,251	
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	91	
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	1,605	
25	Common Equity Tier 1 capital (CET1)	161,726	
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC2 (i)

	Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
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)	161,726
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	2,693
45	Tier 2 capital before regulatory adjustments	2,693
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)	2,693
52	Total regulatory capital (TC = T1 + T2)	164,419
53	Total risk-weighted assets	578,439

	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)	28.0%	
55 Tier 1 (as a percentage of risk-weighted assets)	28.0%	
56 Total capital (as a percentage of risk-weighted assets)	28.4%	
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.	17.9%	
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	631,332	631,343	
Items in the course of collection from other banks	-		
Trading portfolio assets	-		
Financial assets designated at fair value	-		
Derivative financial instruments	19,877	19,877	
Loans and advances to banks	98,691	99,333	
Loans and advances to customers	113,104	114,187	
Reverse repurchase agreements and other similar secured lending	-		
Available for sale financial investments (Includes FVOCI)	814,740	814,740	
Current and deferred tax assets	1,251	1,251	
Prepayments, accrued income and other assets	13,878	13,877	
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	264	264	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	264	264	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	9,439	9,439	
Total assets	1,702,576	1,704,310	
Liabilities			
Deposits from banks	24,489	24,489	
Items in the course of collection due to other banks			
Customer accounts	1,434,790	1,434,790	
Repurchase agreements and other similar secured borrowing	37,482	37,482	
Trading portfolio liabilities	-		
Financial liabilities designated at fair value	-		
Derivative financial instruments	-		
Debt securities in issue	-		
Accruals, deferred income and other liabilities	40,852	40,852	
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	754	754	
Total liabilities	1,538,367	1,538,367	
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	52,723	52,723	
Accumulated other comprehensive income	11,486	13,221	
Total shareholders' equity	164,209	165,944	

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, 2024, 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

6. Leverage Ratio

7.1 LR2: Leverage Ratio Common Disclosure Template

		AED in '000	
		Dec-24	Sep-24
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,704,332	1,461,361
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)	(1,605)	(2,292)
7	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)	1,702,727	1,430,965
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)	5,151	5,240
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	2,166	514
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)	7,316	3,770
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	297,126	474,067
20	(Adjustments for conversion to credit equivalent amounts)	(282,033)	(394,987)
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)	15,093	29,469
Capital and total exposures			
23	Tier 1 capital	161,726	159,175
24	Total exposures (sum of rows 7, 13, 18 and 22)	1,725,136	1,543,903
Leverage ratio			
25	Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)	9.4%	10.3%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.4%	10.3%
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, 2024

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	631,343	-	-	-	-	631,343
Due from Banks, net	18,030	-	-	-	-	18,030
Due from head office and its branches abroad	-	-	-	-	-	-
Loans and advances	48,806	146,683	-	-	-	195,490
Investment securities	87,976	327,923	299,101	94,984	10,737	820,721
Other assets	335	8,450	3,989	1,103	-	13,878
Property and equipment	-	-	-	-	3,857	3,857
Right of use assets	-	-	-	-	5,846	5,846
Total Assets	786,491	483,057	303,090	96,086	20,440	1,689,165
Liabilities						
Due to banks	37,482	-	-	-	-	37,482
Due to Head office and its branches abroad	-	-	-	-	24,489	24,489
Deposits and other accounts	217,693	50,577	-	-	1,166,519	1,434,790
Other liabilities	-	-	-	-	36,227	36,227
Lease liabilities	-	1,614	3,765	-	-	5,379
Total liabilities	255,175	52,191	3,765	-	1,227,235	1,538,367
Net liquidity gap	531,316	430,866	299,326	96,086	(1,206,795)	150,798

In the above table, all current account and saving account balances have been classified as maturity in up to 3 months column. However, in normal course of events all of them are not withdrawn within three months.

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	965,905	
1.2	UAE Federal Government Bonds and Sukuks	39,662	
Sub Total (1.1 to 1.2)		1,005,567	1,005,567
1.3	UAE local governments publicly traded debt securities	52,670	
1.4	UAE Public sector publicly traded debt securities	3,335	
Sub total (1.3 to 1.4)		56,005	56,005
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	31,967	31,967
1.6	Total	1,093,539	1,093,539
2	Total liabilities		1,538,773
3	Eligible Liquid Assets Ratio (ELAR)		71.1%

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)	114,730
1.2	Lending to non-banking financial institutions	-
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-
1.4	Interbank Placements	80,896
1.5	Total Advances	195,626
2 Calculation of Net Stable Ressources		
2.1	Total capital + general provisions	165,929
Deduct:		
2.1.1	Goodwill and other intangible assets	-
2.1.2	Fixed Assets	9,702
2.1.3	Funds allocated to branches abroad	-
2.1.5	Unquoted Investments	-
2.1.6	Investment in subsidiaries, associates and affiliates	-
2.1.7	Total deduction	9,702
2.2	Net Free Capital Funds	156,227
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	1,226,183
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
2.3.7	Total other stable resources	1,226,183
2.4	Total Stable Resources (2.2+2.3.7)	1,382,410
3	ADVANCES TO STABLE RESOURCES RATIO (1.5/ 2.4*100)	14.15

9. Credit Risk

9.1 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, 2024, 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.

9.2 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	-	195,490	1,722	-	1,722	193,768
2	Debt securities	-	809,984	5,982	-	5,982	804,002
3	Off-balance sheet exposures	-	34,081	78	-	78	34,003
4	Total	-	1,039,555	7,782	-	7,782	1,031,773

9.3 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)	-

9.4 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

The Bank measures ECL considering the risk of default over the maximum contractual period over which the entity is exposed to credit risk. However, for financial instruments such as overdraft facilities that include both a loan and an undrawn commitment component, the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. For such financial instruments the Bank measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period.

However, the Bank does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are canceled only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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
- 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.

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,

- 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 loss allowance 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);
- loss given default (LGD); and
- exposure at default (EAD)

These parameters will be derived from the Branch's internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

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 realising 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; and
- (iii) based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financing exposure is in default and their significance may vary over time to reflect changes in circumstances.

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 derecognised 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.

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 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

As at 31 December 2023

AED in '000

	Stage 1	Stage 2	Stage 3	Total
Loans and advances				
Performing	56,953	-	-	56,953
Non-performing	-	-	-	-
Allowance for expected credit loss	(329)	-	-	(329)
Net carrying amount	56,624	-	-	56,624
Unfunded advances	35,674	-	-	35,674
Allowance for expected credit loss	(139)	-	-	(139)
Net carrying amount	35,535	-	-	35,535
Debt securities				
Measured at FVOCI	629,386	21,198	-	650,584
Allowance for expected credit loss	(504)	(2,353)	-	(2,857)
Net carrying amount	628,882	18,845	-	647,727

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 minimise 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	
	2024	2023
Guarantee	30,992	33,919
Cash Margin and Liens	10,728	5,781
Total	41,720	39,700

(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:

<i>Credit risk exposures relating to assets reflected on and off statement of financial position are as follows:</i>	AED in '000	
	2024	2023
Cash and balances with the UAE Central Bank	631,343	404,615
Due from banks, net	18,030	97,789
Due from head office and its branches abroad	-	20,201
Loans and advances	195,490	56,624
Investment securities	809,984	651,435
Other assets	12,986	11,111
Unfunded advances	34,081	35,535
	1,701,914	1,277,310

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	
	2024	2023
AAA to A-	661,897	502,718
BBB to B-	106,623	119,581
Below B-	28,873	18,845
Unrated	12,591	10,291
	809,984	651,435

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.

	Financial institutions	Sovereign & Central Bank	Construction & real estate	Public sector	Wholesale trade	Other industries	Energy	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	-	35,179	36,442	809,984
Derivative Financial Assets	19,877	-	-	-	-	-	-	19,877
Other assets	6,080	2,350	210	13	300	3,733	300	12,986
Unfunded Advances	-	-	-	-	34,081	-	-	34,081
	307,517	1,203,848	9,206	3,348	121,206	39,922	36,742	1,721,791

	Financial institutions	Sovereign & Central Bank	Construction & real estate	Public sector	Wholesale trade	Other industries	Energy	Total
Balances with the Central Bank of UAE	-	402,873	-	-	-	1,742	-	404,615
Due from other banks	97,789	-	-	-	-	-	-	97,789
Due from head office and its branches abroad	20,201	-	-	-	-	-	-	20,201
Loans and advances								-
- Corporate loans	-	18,069	-	-	38,555	-	-	56,624
Investment securities	172,849	437,269	-	3,320	-	8,616	29,381	651,435
Derivative Financial Assets	25,450	-	-	-	-	-	-	25,450
Other assets	10,534	-	-	-	577	-	-	11,111
Unfunded Advances	-	-	-	-	35,535	-	-	35,535
	326,823	858,211	-	3,320	74,667	10,358	29,381	1,302,760

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:

	UAE	OECD	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	515,131	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
	1,286,990	27,576	354,530	18,614	1,687,710

	UAE	OECD	Other Asian countries	Others	Total
Balances with the UAE Central Bank	404,615	-	-	-	404,615
Due from other banks	50	66,523	31,217	-	97,789
Lending to Fis	-	-	-	-	-
Due from head office and its branches abroad	-	-	20,201	-	20,201
Loans and advances:					
- Corporate loans	56,624	-	-	-	56,624
Investment securities	353,824	90,952	188,950	17,709	651,435
Derivative Financial Assets	25,450	-	-	-	25,450
Other assets	113	1,839	546	8,613	11,111
	840,676	159,314	240,913	26,322	1,267,225

OECD represents Organization for Economic Corporation and Development. This includes United States, Canada, Australia, Japan, United Kingdom, Turkey and other European countries.

9.5 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	1,198,011	-	1,198,011	-	74,254	6%
2 Public Sector Entities	3,348	-	3,348	-	670	20%
3 Multilateral development banks	18,603	-	18,603	-	9,302	50%
4 Banks	316,420	-	278,834	-	236,448	85%
5 Securities firms	-	-	-	-	-	0%
6 Corporates	148,519	275,747	146,806	9,192	121,108	78%
7 Regulatory retail portfolios	-	-	-	-	-	0%
8 Secured by residential property	8,829	21,379	8,829	-	8,829	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	25,460	-	25,460	-	28,123	110%
14 Total	1,719,190	297,126	1,679,891	9,192	478,734	28%

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

AED in '000

Asset Classes	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		1,108,279	21,692	-	25,649	-	12,990	29,401	-	1,198,011
2 Public Sector Entities		-	3,348	-	-	-	-	-	-	3,348
3 Multilateral development banks		-	-	-	18,603	-	-	-	-	18,603
4 Banks		-	26,131	-	137,225	-	21,215	94,263	-	278,834
5 Securities firms		-	-	-	-	-	-	-	-	-
6 Corporates		-	-	-	61,105	28,916	65,977	-	-	155,998
7 Regulatory retail portfolios		-	-	-	-	-	-	-	-	-
8 Secured by residential property		-	-	-	-	-	8,829	-	-	8,829
9 Secured by commercial real estate		-	-	-	-	-	-	-	-	-
10 Equity Investment in Funds (EIF)		-	-	-	-	-	-	-	-	-
11 Past-due loans		-	-	-	-	-	-	-	-	-
12 Higher-risk categories		-	-	-	-	-	-	-	-	-
13 Other assets		1,010	-	-	-	-	17,104	7,346	-	25,460
14 Total		1,109,289	51,171	-	242,582	28,916	126,115	131,010	-	1,689,083

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)	8,076
2 Equity risk (General and Specific)	-
3 Foreign exchange risk	318
4 Commodity risk	-
Options	
5 Simplified approach	-
6 Delta-plus method	-
7 Scenario approach	
8 Securitisation	-
9 Total	8,394

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) (IRRBBA1)

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

	ΔEVE		ΔNII	
Period	T	T-1	T	T-1
Parallel up	(23,920)	(8,895)	(6,793)	(5,164)
Parallel down	21,730	8,688	6,793	5,164
Steepener	(1,255)	3,347		
Flattener	(4,090)	(5,272)		
Short rate up	(13,169)	(8,503)		
Short rate down	12,789	8,283		
Maximum	(23,920)	(8,895)		
Period	Dec-2024		Dec-2023	
Tier 1 Capital	161,726		137,934	

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 2024 is AED 9.4 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** 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

			AED in '000	
S.NO	Remuneration Amount	Senior Management	Other Material Risk-takers	
1	Number of employees	1	-	
2	Total fixed remuneration (3 + 5 + 7)	1,220	-	
3	Of which: cash-based	954	-	
4	Of which: deferred		-	
5	Of which: shares or other share-linked instruments		-	
6	Of which: deferred		-	
7	Of which: other forms	266	-	
8	Of which: deferred	-	-	
9	Number of employees	1	-	
10	Total variable remuneration (11 + 13 + 15)	302	-	
11	Of which: cash-based	166	-	
12	Of which: deferred	20	-	
13	Of which: shares or other share-linked instruments		-	
14	Of which: deferred		-	
15	Of which: other forms*	136	-	
16	Of which: deferred	-	-	
17	Total Remuneration (2+10)	1,513	-	

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