BANK SADERAT IRAN

United Arab Emirates Branches

Financial Statements and
Independent Auditor’s Report
For the year ended December 31, 2024

Bank Saderat Iran
United Arab Emirates Branches

Financial Statements and Independent Auditor's Report
For the year ended December 31, 2024

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Independent Auditor's Report

To

The Regional Manager
Bank Saderat Iran – UAE Branches
United Arab Emirates

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **Bank Saderat Iran – UAE Branches (the Bank)**, which comprise the statement of financial position as of December 31, 2024, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Key audit matters (continued)

Key Audit Matters identified in our audit are summarised as follows:

#	Key audit matters	How our audit addressed the key audit matters
1	**Monitoring of Large Exposure Limits** As of December 31, 2024, the Bank's exposure to its Head Office, Overseas branches, and other overseas Iranian banks exceeded the regulatory ceiling of 30% of the Bank's capital base. Furthermore, the Bank's exposure to a specific single borrower or a group of connected borrowers also surpassed the prescribed regulatory threshold of 25% of its Tier 1 capital. These limits are defined under the Central Bank of the UAE (CBUAE) Circular No. 1/2023 on large exposures, which aims to control the concentration of credit risk and ensure sound risk management practices. This was considered a key audit matter due to the quantitative significance of the exposures, the risk of regulatory non-compliance, and the implications such breaches could have on the Bank's capital adequacy and financial stability.	• We reviewed the Bank's credit risk policies and large exposure monitoring framework to understand how management identifies, monitors, and addresses large exposure breaches. • We evaluated the Bank's internal reporting on exposures and assessed the appropriateness of the classification and measurement of balances exceeding the regulatory thresholds. • We examined management's mitigation efforts, including recovering outstanding dues and monitoring counterparty risk. • We reviewed the Central Bank of the UAE communication (CBUAE/BSD/2020/4769) dated October 27, 2020, which provides transitional relief for exposure breaches due to capital reductions after October 1, 2018. • We verified the existence and restrictions of the AED 103 million under-lien deposit held by the Head Office, which requires Central Bank of the UAE approval for release and is intended to mitigate the breach impact.

Key audit matters (continued)

Key Audit Matters identified in our audit are summarised as follows: (continued)

#	Key audit matters	How our audit addressed the key audit matters
2	**Estimation uncertainty concerning Expected Credit Losses (ECL) for loans and advances to customers.** The determination of Expected Credit Losses (ECL) on loans and advances under IFRS 9 requires significant management judgment and involves complex modeling techniques. These include assumptions regarding the probability of default (PD), loss-given default (LGD), exposure at default (EAD), and macroeconomic variables. The model also integrates forward-looking information and industry-specific economic conditions, including the effects of sanctions on the Bank's operating environment. A critical component in the ECL calculation is the valuation of collateral held against loans. Approximately 92% of mortgaged collaterals are located in the Islamic Republic of Iran, making their valuation inherently challenging due to market volatility, sanctions, and geopolitical uncertainties. This area was considered a key audit matter due to the subjective nature of key assumptions, the materiality of loan balances, the complexity of the models used, and the reliance on valuation inputs from external parties.	• We obtained an understanding of the Bank's internal controls over the credit risk assessment and ECL estimation process and tested their operating effectiveness. • We assessed the appropriateness of the models used for calculating ECL and evaluated key assumptions and macroeconomic scenarios for reasonableness, including the impact of sector-specific risks and economic uncertainty. • We examined management's detailed assessments for individually significant exposures, focusing on staging, default status, and recoverability. • We tested the reasonableness of collateral valuations by reviewing supporting documentation and comparing it with market benchmarks. For UAE-based properties, we directly discussed with external property valuers to assess the reliability of key valuation assumptions such as rental yields and market capitalization rates. • For properties in Iran, we reviewed valuation reports from valuers appointed by the Head Office. We noted that the Head Office assumes the risk related to fluctuations in property market values. • We reconciled the calculated ECL to the amounts recorded in the financial statements and evaluated the sufficiency and accuracy of related disclosures.

Key audit matters (continued)

Key Audit Matters identified in our audit are summarised as follows: (continued)

#	Key audit matters	How our audit addressed the key audit matters
3	**Reconciliation of balances between Head office and branches.** As of December 31, 2024, the Bank had unreconciled intercompany balances of AED 32.6 million (FY2023: AED 11.7 million) in its nostro accounts with the Head Office. These balances primarily relate to charges incurred by the Head Office on behalf of the Bank, which were settled in Iranian Rial (IRR) but remain unposted in the UAE books due to the unavailability of IRR conversion mechanisms within the UAE banking system. This matter was considered significant due to the magnitude of the outstanding balances, the lack of clarity on the timing of settlement, and the complexity involved in foreign currency conversion and cross-border transaction accounting.	• We obtained reconciliation schedules prepared by management and performed detailed testing on a sample basis to assess the reconciling items' validity, aging, and documentation. • We evaluated the underlying reasons for non-posting and assessed management's explanation regarding the inability to convert IRR to AED at fair rates under current regulatory and market constraints. • We considered the accounting treatment applied and whether the delay in recognition could lead to material misstatement or breach of financial reporting standards. • We reviewed written representations from management regarding the intention and timeline for resolution. We assessed whether the financial statement disclosures appropriately highlighted these outstanding intercompany items' nature, amount, and impact.

Emphasis of Matters

a) **Deferred Tax** - We refer to Note 10 to the financial statements; the Bank has recognized deferred tax assets of AED 1,364 million (2023: AED 1,422 million) related to unused tax credits and temporary differences associated with the net income of its Branch operations in UAE. This balance comprises AED 1,266 million Dubai Branch and AED 97 million from the Ajman Branch as of December 31, 2024. These amounts are primarily generated based on the disallowance of losses created as per the Bank's policy by the respective tax authorities. These deferred tax assets are recognized based on their prospect of recovery adjustment of due receivables collection, or related write-offs from the books of accounts. The realization of deferred tax assets depends on generating sufficient taxable profits as anticipated by the management.

Emphasis of Matters (continued)

b) **Expected Credit Losses and Valuation of Collateral:** We draw attention to Note 9.3 of the financial statements, where the management of the Bank has calculated the Expected Credit Losses related to its loans and advances under the model outlined in *IFRS 9 – Financial Instruments*. In assessing the adequacy of the loss allowance provisions, management has also considered Article 9 of the Credit Risk Management Regulation and accompanying Standards issued by the Central Bank of the UAE (CBUAE) in 2024. This includes consideration of the fair value of associated collaterals, which are primarily located in the Islamic Republic of Iran. Recent valuations conducted by the Bank indicate a higher collateral value. However, due to the prevailing political situation in Iran, management cannot ascertain the impact of potential delays in the recovery process of these collaterals. Despite this uncertainty, management believes these collaterals can be attached without any loss in the value of securities.

c) **Sanctions and Restrictions:** We draw attention to Note 36 of the financial statements, which outlines significant international sanctions and regulatory restrictions imposed on the Bank by various global authorities, including the United Nations Security Council, the United States Department of the Treasury's Office of Foreign Assets Control (OFAC), and the European Union. These sanctions include restrictions on cross-border payments, prohibitions on specialized financial services, and the Bank's ongoing disconnection from the SWIFT network.

   The Bank's operations are currently limited mainly to transactions with Iranian banks, employing a strategic approach to minimize fund transfers and borrowing-related activities involving Iranian banks and customers. Despite these constraints, management has determined that the Bank possesses adequate resources to sustain its operations and comply with the regulatory requirements stipulated by the Central Bank of the UAE. As a result, the financial statements have been prepared on a going-concern basis.

   However, it is essential to note that the Bank's ability to continue as a going concern is contingent upon evolving geopolitical conditions, regulatory developments, and potential future enforcement actions, all of which may significantly impact its operations and financial position.

d) **Dormant Accounts:** The customers' current and savings accounts include a balance of AED 25.5 million as of December 31, 2024 which are classified as dormant. In accordance with Circular No: 1 / 2020 regarding Dormant Account Regulations, issued by the Central Bank of the UAE (CBUAE) on January 15, 2020, all banks are required to transfer such balances to the "Unclaimed Balances Account – Dormant Accounts" maintained by the Central Bank of the UAE (CBUAE). However, the Bank has not completed this transfer during the year, and it is currently in process, pending confirmation from the Compliance and Internal Audit Department.

e) **Non performing assets:** In accordance with Article 12 of the Credit Risk Management Regulation and accompanying Standards issued by the Central Bank of the UAE (CBUAE) in 2024, regarding "Write-offs and Partial Write-offs of Non-Performing Assets," the Bank must ensure that write-offs are carried out promptly and reflect realistic repayment and recovery expectations. The regulation clearly states that Stage 3 exposures should not remain on the balance sheet for more than five years from the date they are classified as Stage 3. After this period, a full write-off of these exposures must be recorded in the accounts. As of the date of these financial statements, the Bank is actively planning and implementing measures to ensure compliance with this regulatory requirement.

Emphasis of Matters (continued)

f) **Valuation of properties**: We would like to highlight Note 9 of the financial statements, which details the valuation of properties and other collateral located in the Islamic Republic of Iran and held as security by the Bank. The Head Office of Bank Saderat Iran, situated in Iran, has engaged qualified valuers to assess these collaterals independently. The Bank has received confirmation from the Head Office in Iran regarding the fair value of the collaterals as of December 31, 2024. Additionally, the Head Office has accepted responsibility for any risks arising from fluctuations in the market value of these properties and assets.

Other Matter

As disclosed in Note 38 to the reissued financial statements, the Bank has reissued its financial statements to replace those previously issued on April 9, 2025, under reference number HAMT/MYD/2024/14713. This reissuance was undertaken following a reassessment of the Bank's Expected Credit Loss (ECL) model, to enhance compliance with the applicable requirements of IFRS 9 – Financial Instruments and ensure the model's continued appropriateness and reliability in measuring credit risk. As a result of this reassessment, the Bank has revised its ECL provisions to reflect: Stage 1 ECL Provision: AED 194,000/- and Stage 2 ECL Provision: AED 2,000/-.

These revised provisions have been duly incorporated into the Bank's accounting records and are reflected in the reissued financial statements as of the original reporting date. Furthermore, management has confirmed that no events have occurred between the date of the previously issued financial statements and the date of reissuance that would require further adjustment or disclosure under IAS 10 – Events after the Reporting Period. Our audit opinion on the reissued financial statements remains unmodified.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), UAE Federal Decree Law No. (32) of 2021 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the financial reporting process of the Bank.

Auditor's Responsibilities for the Audit of the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Further, as required by the UAE Federal Law No. (32) of 2021, we report that for the year ended December 31, 2024:

(i) We have obtained all the information and explanations we considered necessary for the purpose of the audit.

(ii) The financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. (32) of 2021.

(iii) The Bank has maintained proper books of accounts.

(iv) The Bank has not purchased or invested in any shares during the financial year ended December 31, 2024.

(v) The disclosures related to the material-related party transactions and the terms under which they were executed are mentioned in Note 26.

(vi) Based on the information that has been made available to us, except for the matters described in the Key Audit Matters and Emphasis of Matters section above, nothing has come to our attention which causes us to believe that the Bank has contravened, during the financial year ended December 31, 2024, any of the applicable provisions of the UAE Federal Decree Law No. (32) of 2021 or in respect of the Bank's Articles of Association which would materially affect its activities or its financial position as at December 31, 2024.

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

H.A.T

P.O.Box: 32665
Dubai - U.A.E.
HLB HAMT CHARTERED ACCOUNTANTS

Dubai
May 12, 2025

Ref: HAMT/MYD/2024/14713-R

For HLB HAMT Chartered Accountants
Hisham Ali Mohamed Taher
Partner
[Reg. No. 5397]
[Firm Reg. No. LC0075-01]

Bank Saderat Iran
United Arab Emirates Branches

Statement of Financial Position as at December 31, 2024
(In Arab Emirates Dirhams)

	Note	2024 AED '000	2023 AED '000
Assets			
Cash and balances with the Central Bank of the UAE	5	**1,201,814**	741,142
Due from Head office and its branches abroad	6.1	**223,096**	238,223
Due from other banks	7.1	**958,060**	978,754
Loans and advances	9	**2,576,090**	2,594,527
Other assets	10	**1,400,315**	1,489,064
Property, plant and equipment	11	**15,700**	16,590
Right of use assets	12	**23,411**	26,201
Total Assets		**6,398,486**	6,084,501
Liabilities and Equity			
Liabilities			
Due to other banks	7.2	**1,297,420**	1,251,008
Customer deposits	13	**2,312,442**	2,466,019
Due to Head office and its branches abroad	6.2	**697,189**	319,987
Provision for employees' end of-service indemnity	14	**24,500**	22,282
Provision for taxation	15	**16,951**	16,975
Other liabilities	16	**74,172**	94,366
Total Liabilities		**4,422,674**	4,170,637
Equity			
Capital	1	**2,350,000**	2,350,000
Statutory reserve	17	**538,287**	532,092
Impairment reserve	18	**66,907**	66,334
Accumulated deficit		**(979,382)**	(1,034,562)
Net Equity		**1,975,812**	1,913,864
Total Liabilities and Equity		**6,398,486**	6,084,501

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

The financial statements on pages 9 to 79 were approved by the management on May 12, 2025 and signed on its behalf by:

Mr. Hojatollah Malek Mohammadi
Acting Regional Manager

Mr. Syed Naqi Abbas Jafri
Chief Financial Officer

Bank Saderat Iran
United Arab Emirates Branches

Statement of Comprehensive Income
For the year ended December 31, 2024
(In Arab Emirates Dirhams)

	Note	2024 AED '000	2023 AED '000
Interest income	19	**90,423**	115,342
Interest expense	20	**(90,563)**	(83,337)
Net interest (expense)/income		**(140)**	32,005
Net fees and commission income	21	**1,490**	1,320
Other income	22	**15,867**	7,230
General and administrative expenses	23	**(77,968)**	(79,961)
Depreciation	24	**(6,877)**	(6,421)
Net impairment reversal on loans and advances	25	**199,565**	105,480
Impairment losses on deferred tax asset	10.1	**(58,143)**	-
Profit/(loss) before tax		**73,794**	59,653
Taxation	15	**(11,846)**	(13,067)
Profit/(loss) after tax for the year		**61,948**	46,586
Other comprehensive income		**-**	-
Total comprehensive income/(loss) for the year		**61,948**	46,586

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

Bank Saderat Iran
United Arab Emirates Branches

Statement of Changes in Equity
For the year ended December 31, 2024
(In Arab Emirates Dirhams)

	Capital AED ’000	Statutory reserve AED ’000	Impairment reserve AED ’000	Accumulated deficit AED ’000	Total AED ’000
Balance as at December 31, 2022	**2,350,000**	**527,433**	**89,634**	**(1,099,789)**	**1,867,278**
Total comprehensive income/(loss) for the year	-	-	-	46,586	46,586
Impairment adjustment per CBUAE guideline	-	-	(23,300)	23,300	-
Transfer to statutory reserve	-	4,659	-	(4,659)	-
Balance as at December 31, 2023	**2,350,000**	**532,092**	**66,334**	**(1,034,562)**	**1,913,864**
Total comprehensive income/(loss) for the year	-	-	-	61,948	61,948
Impairment adjustment per CBUAE guideline (Note 18)	-	-	573	(573)	-
Transfer to statutory reserve	-	6,195	-	(6,195)	-
Balance as at December 31, 2024	**2,350,000**	**538,287**	**66,907**	**(979,382)**	**1,975,812**

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

Bank Saderat Iran
United Arab Emirates Branches

Statement of Cash Flows
For the year ended December 31, 2024
(In Arab Emirates Dirhams)

.	Note	2024 AED '000	2023 AED '000
Cash flows from operating activities			
Profit/(loss) before tax for the year		**73,794**	59,653
Adjustments for:			
Depreciation	24	**6,877**	6421
Net impairment reversal on loans and advances	25	**(199,565)**	(105,480)
Excess provision written back	22	**(10,881)**	
Impairment losses on deferred tax asset	10.1	**58,143**	-
Impairment losses on other assets	23	**-**	(959)
Provision for employees' end-of-service indemnity	14	**2,313**	1,627
		(69,319)	(38,738)
Changes in:			
Due from the Head office and branches abroad	6.1	**15,127**	76,915
Due from other banks	7.1	**20,694**	(126,197)
Export bills discounted for Iranian banks abroad	8	**-**	959
Loans and advances	9	**218,002**	163,430
Other assets	10	**30,606**	2,580
Customer deposits	13	**(153,577)**	(314,672)
Due to other banks	7.2	**46,412**	(54,868)
Other liabilities	16	**(17,410)**	4,860
Cash generated from operating activities before payment of employees' end of-service indemnity		**90,535**	(285,731)
Tax paid	15	**(989)**	(692)
Payment of employees' end-of-service indemnity	14	**(95)**	-
Net cash generated from/(used in) operating activities		**89,451**	(286,423)
Cash flows from investing activities			
Additions to property, plant and equipment	11	**(1,584)**	(1,001)
Net cash generated from/(used in) investing activities		**(1,584)**	(1,001)
Cash flows from financing activities			
Due to Head office and its branches abroad	6.2	**377,202**	15,902
Lease liabilities	16	**(4,397)**	(4,185)
Net cash generated from/(used in) financing activities		**372,805**	11,717
Net increase/(decrease) in cash and cash equivalents		**460,672**	(275,707)
Cash and cash equivalents at the beginning of the year		**707,298**	983,005
Cash and cash equivalents at the end of the year	28	**1,167,970**	707,298

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

1. Establishment and operations

Bank Saderat Iran (Head Office) is incorporated in the Islamic Republic of Iran. The registered and principal office is situated at Sepehr Tower, Somayeh Street, P.O. Box 15745 - 631, Tehran, Iran.

In the United Arab Emirates ("UAE"), the principal activity of the Bank is to provide commercial banking services and are conducted through its eight branches in the Emirates of Abu Dhabi, Al Ain, Dubai, Ajman and Sharjah (together the "Bank" or "Branch") under a license from the Central Bank of the UAE.

The share capital of the Bank is AED 2,350 million as of December 31, 2024.

The address of the Regional Office of the Bank is P.O. Box 4182, Dubai - United Arab Emirates.

The Bank has the following Branches operating in the United Arab Emirates;

Sl. No	Location	Emirate	License No.
1.	Al Maktoum Road Deira	Dubai	206725
2.	Murshid Bazar, Deira	Dubai	206597
3.	Sheikh Zayed Road	Dubai	544166
4.	Bur Dubai	Dubai	206454
5.	Abu Dhabi	Abu Dhabi	CN-1002012
6.	Al Ain	Abu Dhabi	CN-1005792
7.	Sharjah	Sharjah	12271
8.	Ajman	Ajman	1324

2. Adoption of new and revised International Financial Reporting Standards and Interpretations

2.1. Standards and interpretations effective in the current year

The Bank has adopted the following new and amended IFRS that are effective for the year ended December 31, 2024:

	Effective for annual periods beginning
Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Non-current Liabilities with Covenants	January 01, 2024
Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements	January 01, 2024
Amendments to IFRS 16: Lease Liability in a Sale and Leaseback	January 01, 2024

2. Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

2.2. New and revised IFRS in issue but not effective and not early adopted

The following standards, amendments thereto and interpretations have been issued prior to December 31, 2024:

	Effective for annual periods beginning
Lack of exchangeability - Amendments to IAS 21	January 01, 2025
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Indefinitely deferred

3. Basis of presentation of financial statements

3.1. Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB), as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and the applicable requirements of UAE Federal Decree Law No. (32) of 2021 and the requirements of applicable laws in the UAE.

The Bank is not a separate legal entity but meets the definition of a reporting entity under the Conceptual Framework for IFRS. The Bank is a Group of branches in UAE and is part of Bank Saderat Iran (Head Office), which is incorporated in Islamic Republic of Iran.

3.2. Basis of measurement

These financial statements have been prepared under the historical cost basis:
Historical cost is generally based on the fair value of the consideration given in exchange of goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

3.3. Basis of presentation

The Bank presents its statement of financial position in order of liquidity.

3.4. Functional and presentation currency

The financial statements are prepared, and the items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). The financial statements are presented in UAE Dirhams (AED), which is the Bank’s functional and presentation currency. The figures in these financial statements have been rounded to the nearest thousands, except as otherwise indicated.

3. Basis of presentation of financial statements (continued)

3.5. Foreign currencies

3.5.1. Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of outstanding amounts of such transactions and from the re-translation of monetary assets and liabilities denominated in foreign currencies at the end of each reporting period are recognized in the statement of comprehensive income.

At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

3.6. Going concern

The Bank management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, the management is not aware of any uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, financial statements continue to be prepared on an ongoing basis.

3.7. Cash and cash equivalents

Cash and cash equivalents consist of cash, balances with the Central Bank of the UAE and balances with other banks and financial institutions with an original maturity of three months or less at the date of placement, free of encumbrances, which are subject to insignificant risk on their fair value change. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

3.8. Due from banks

Amounts due from banks are stated at amortised cost, less provision for impairment, if any.

3.9. Customers' deposits and due to Head office

Customers' deposits and due to Head office are initially recognized at cost, being the fair value of the consideration received and subsequently measured at their amortized cost using the effective profit method. Amortized cost is calculated by taking into account any discount or premium on the settlement.

3. Basis of presentation of financial statements (continued)

3.10. Property, plant and equipment

Property, plant and equipment are carried at historical cost, less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are recognized in the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line method, at rates calculated to allocate the cost of assets less their estimated residual value over their expected useful lives as follows:

Building	20 years
Furniture, fixtures and fittings	1-4 years
Office equipment	1-4 years
Leasehold improvement	4 years
Vehicles	3 years

The residual values, useful lives and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefit from these assets, and adjusted prospectively, if appropriate. An asset’s carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than its estimated recoverable amount.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

3.11. Right of use assets

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities (Note 3.15.3). Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Premises 10 years

3.12. Impairment of non-financial assets

Assets that have an indefinite useful life, for example, goodwill or intangible assets not ready to use, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

3. Basis of presentation of financial statements (continued)

3.12 Impairment of non-financial assets (continued)

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell, and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels, for which there are mostly independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for a possible reversal on each reporting date.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Bank bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Bank's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of one to five years. For more extended periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Impairment losses are recognized in the income statement in expense categories consistent with the function of the impaired asset, except for assets previously revalued with the revaluation taken to other comprehensive income. For such assets, the impairment is recognized in other comprehensive income up to the amount of any previous revaluation.

3.13. Financial instruments

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

Financial assets *(continued)*

- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);
- all other debt instruments (e.g. instruments managed on a fair value basis or held for sale) and equity investments are subsequently measured at FVTPL. However, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset on an asset by asset basis:
- the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and
- the Bank may irrevocably designate a debt instrument that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

(i) Debt instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the asset's contractual cash flow characteristics and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and interest on the principal outstanding (SPPI).

For the purpose of the SPPI test, the principal is the fair value of the financial asset at initial recognition. That principal amount may change over the financial asset's life (e.g. if there are payments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs, as well as a margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic financing arrangement.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument; therefore, the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(i) Debt instruments at amortised cost or at FVTOCI *(continued)*

The Bank has more than one business model for managing its financial instruments, reflecting how the Bank manages its financial assets to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect a new business model's commencement.

The Bank reassesses its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period, the Bank has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financing instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

(ii) Financial assets at FVTPL

Financial assets at FVTPL are:

a) assets with contractual cash flows that are not SPPI; or/and
b) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
c) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option

A financial instrument with a reliably measurable fair value could be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(iii) Financial assets at FVTPL

Financial assets designated as FVTPL are recorded at fair value, and any unrealized gains or losses arising due to changes in fair value are included in investment income.

(iv) Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified, the classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in the business model that results in reclassifying the financial assets of the Bank. During the current period and previous accounting period, there was no change in the business model under which the Bank holds financial assets, and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

(v) Impairment

The Bank recognizes loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Loans and advances
- Off-balance sheet exposures subject to credit risk

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit-impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that results 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 results 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, ECLs are measured at an amount equal to the 12-month ECL.
- ECLs are 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 Bank under the contract. The Bank expects to receive the cash flows arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.
- for undrawn financial commitments, the ECL is the difference between the present value of the difference between contractual cash flows that are due to the Bank if the holder of the commitment draws down the finance and the cash flows that the Bank expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Bank expects to receive from the holder, the customer or any other party.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(v) Impairment *(continued)*

The Bank measures ECL on an individual basis or on a collective basis for portfolios of finances 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 EPR, regardless of whether it is measured on an individual basis or a collective basis.

(vi) 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:

- the significant financial difficulty of the customer or issuer;
- a breach of contracts such as a default or past due event;
- the financer of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financer would not otherwise consider;
- the financer of the customer has downgraded the ratings because of deterioration in the financial condition of the customer; 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 Bank assesses whether financing instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate financing instruments are credit impaired, the Bank considers factors such as delinquency, watchlist indication, restructuring flag, deterioration in credit ratings, and the customer's ability to raise funding.

A financial asset is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer'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 unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

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

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

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(viii) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the borrower is more than 90 days past due on its contractual payments;
- the borrower is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect the different characteristics of different types of assets.

When assessing if the borrower is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset; for example, in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which is either developed internally or obtained from external sources.

(ix) Measurement of expected credit loss (ECL)

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or Lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), defined as follows:

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD). For example, for a revolving commitment, the Bank includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.

- Loss Given Default (LGD) represents the Bank's expectation of the extent of loss on a defaulted exposure, LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(ix) Measurement of expected credit loss (ECL) *(continued)*

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortizing products and bullet repayment loans are based on the contractual repayments owed by the borrower over a 12month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking the current drawn balance and adding a "credit conversion factor" which allows for the expected draw down of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Bank's recent default data.
- The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post-default. These vary by product type.
- For secured products, this is primarily based on the collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at the product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are Influenced by collection strategies, including contracted debt sales and price.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD and LGD. These assumptions vary by product type.

The assumptions underlying the ECL calculation - such as how the maturity profile of the PDs and how collateral values change etc. - are monitored and reviewed on a quarterly basis.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(ix) Measurement of expected credit loss (ECL) *(continued)*

For unfunded exposures, ECL is measured as follows:

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

No impairment loss is recognised on equity investments.

(x) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between the initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened, and the customer is expected to be able to meet the revised terms.

The revised terms in most cases include an extension of the finance's maturity, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Bank has an established forbearance policy that applies to corporate and retail financing.

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank’s policy, a modification results in derecognition when it gives rise to substantially different terms.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(x) Modification and derecognition of financial assets *(continued)*

The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except on the rare occasions where the new finance is considered to be originated credit-impaired. This applies only in the case where the fair value of the new finance is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors the credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the customer is in the past due status under the new terms.

Where a modification does not lead to derecognition, the Bank calculates the modification gain/loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains all the risks and rewards of ownership substantially and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains all the risks and rewards of ownership of a transferred financial asset substantially, the Bank continues to recognise the financial asset and also recognises collateralised financing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

(xi) Presentation of allowance for ECL

Loss allowances for ECL are presented in the financial statements as follows:

- for financial assets measured at amortised cost (loans and advances, balances due from central banks and other banks, reverse-repo placements, investment securities carried at amortised cost and other financial assets): as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: as part of the revaluation reserve of investments designated at FVTOCI and recognised in other comprehensive income; and
- for loan commitments and financial guarantee contracts: as a provision.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(xii) Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the Bank. The Bank categorises finance or receivable for write-off after almost all possible avenues of payments have been exhausted.

However, where finances or receivables have been written off, the Bank continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

(xiii) Financial liabilities

(i) *Classification and subsequent measurement*

Financial liabilities are classified as either financial liabilities at 'FVTPL' or 'other financial liabilities'. The classification of financial liabilities at initial recognition depends on the purpose and management's intention for which the financial liabilities were incurred and their characteristics.

Financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at FVTPL) are deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at FVTPL are recognised immediately in profit or loss. If the transaction price differs from the fair value at initial recognition, the Bank will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day one profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day one profit or loss will be deferred by including it in the initial carrying amount of the liability).

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

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

  This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

(xi) Financial liabilities *(continued)*

(i) Classification and subsequent measurement (continued)

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and financial commitments.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

(ii) ***Derecognition***

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

The exchange between the Bank and its original financer of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability.

The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and changes in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred as recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

3. Basis of presentation of financial statements (continued)

3.13 Financial instruments (continued)

***(xi) Financial liabilities** (continued)*

(ii) ***Derecognition*** *(continued)*

Financial guarantee contracts

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

Financial guarantee contracts issued by a Bank entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

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

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position, and the remeasurement is presented in other revenue.
The Bank has not designated any financial guarantee contracts as at FVTPL.

Offsetting**:**

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

3.14. Taxation

The income tax expense represents the sum of the tax on current year income and current year deferred tax.

3.14.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Establishment's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Establishment supported by previous experience in respect of such activities.

3. Basis of presentation of financial statements (continued)

3.14 Taxation (continued)

3.14.2. Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Establishment is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3.14.3. Current tax and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. Basis of presentation of financial statements (continued)

3.14 Taxation (continued)

3.14.4. Value added tax

Output value-added tax related to sales is payable to tax authorities on the earlier of:

- collection of receivables from customers or
- delivery of goods or services to customers.

Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis – unless the Bank has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Where provision has been made for the ECL of receivables, the impairment loss is recorded for the debtor's gross amount, including VAT.

3.15. Leases

At the inception of a contract, the Bank assesses whether the contract is, or contains a lease. A contract is or contains a lease if the contracts convey the right to control the use of an identified asset for the Bank for a period in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assess whether:

- The contract involves the use of an identified asset -this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- The Bank has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and
- The Bank has the right to direct the use of the asset. The Bank has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Bank has the right to direct the use of the asset if either:
  - The Bank has the right to operate the asset; or
  - The Bank designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on a reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

However, where the contract is not separable into a lease and non-lease component then the Bank has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

3. Basis of presentation of financial statements (continued)

3.15 Leases (continued)

The Bank determines the lease term as the non – cancellable period of a lease, together with both:

a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and
b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

In assessing whether a lessee is reasonably certain to exercise an option to extend a lease, or not to exercise an option to terminate a lease, the Bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease. The Bank revises the lease term if there is a change in the non-cancellable period of a lease.

3.15.1. Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

The cost of right-to-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, plus an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located and lease payments made at or before the commencement date less any lease incentives received unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term.

The recognised right-to-use assets are subsequently depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. Also, the right-of-use assets are periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

3.15.2. Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of property, plant and equipment (those leases that have a lease term of 12 months or less and do not contain a purchase option). It also applies the lease of low-value assets exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

3. Basis of presentation of financial statements (continued)

3.15 Leases (continued)

3.15.3. Lease liability

The lease liability is initially recognised at the present value of the lease payments that are not paid on the commencement date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses its incremental borrowing rate.

After initial recognition, the lease liability is measured by:

a) increasing the carrying amount to reflect interest on the lease liability;
b) reducing the carrying amount to reflect the lease payments made; and
c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Where,

a) There is a change in the lease term as a result of reassessment of certainty to exercise an exercise option, or not to exercise a termination option as discussed above; or
b) there is a change in the assessment of an option to purchase the underlying asset, assessed considering the events and circumstances in the contact of a purchase option, the Bank remeasures the lease liability to reflect changes to lease payments by discounting the revised lease payments using a revised discount rate. The Bank determined the revised discount rate as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined.
c) There is a change in the amounts expected to be payable under a residual value guarantee; or
d) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including a change to reflect changes in market rental rates following a market rent review. The Bank remeasures the lease liabilities by discounting the revised lease payments using an unchanged discount rate unless the change in lease payments results from a change in floating interest rates. In such case, the Bank uses a revised discount rate that reflects a change in the interest rate.

The Bank recognises the amount of the re-measurements of lease liability as an adjustment to the right-of-use asset. Where the carrying amount of the right-of-use asset is reduced to zero, and there is a further deduction in the measurement of the lease liability, the Bank recognises any remaining amount of the re-measurement in profit or loss.

The Bank accounts for a lease modification as a separate lease if both:

a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
b) the consideration for the lease increase by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the context.

3. Basis of presentation of financial statements (continued)

3.15 Leases (continued)

3.15.3 Lease liability *(continued)*

For lease modifications that are not accounted for as a separate lease, the Bank, at the effective date of the lease modification:

a) allocates the consideration in the modified contract;
b) determines the lease term of the modified lease; and
c) remeasures the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term if that rate can be readily determined, or the lessee's incremental borrowing rate at the effective rate of the modification, if the interest rate implicit in the lease cannot be readily determined.

3.16. Provision for staff benefits:

3.16.1. Provision for end-of-service indemnity

Estimated amounts required to cover employees' end-of-service indemnity at the date of the statement of financial position are computed pursuant to the UAE Labour Law based on the employees' accumulated period of service and current remuneration at the date of the statement of financial position.

The management is of the opinion that no significant difference would have arisen had the liability been calculated on an actuarial basis as salary inflation and discount rates are likely to have approximately equal and opposite effects.

3.16.2. Pension

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No. (2), 2000, for Pension and Social Security. Such contributions are charged to profit or loss during the employees' period of service.

3.16.3. Provision for leave salary and air ticket benefits

A provision is made for estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by the employees up to the date of the statement of financial position. The provision relating to the annual leave and leave passage is classified and included in other payables.

3.17. Provisions

A provision is recognised in the statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. Basis of presentation of financial statements (continued)

3.18. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

3.19. Revenue recognition

3.19.1. Interest, Commissions and Fees

Net Interest Income – Interest from all interest-bearing assets and liabilities is recognized as net interest income using the effective interest method. The effective interest rate is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or expense over the relevant period using the estimated future cash flows.

The estimated future cash flows used in this calculation include those determined by the contractual terms of the asset or liability, all fees that are considered to be integral to the effective interest rate, direct and incremental transaction costs and all other premiums or discounts.
Once an impairment loss has been recognized on a loan, although the accrual of interest in accordance with the contractual terms of the instrument is discontinued, interest income is recognized based on the rate of interest that was used to discount future cash flows for the purpose of measuring the impairment loss. This would be the original effective interest rate.

Commissions and Fee Income – The recognition of fee revenue (including commissions) is determined by the purpose of the fees and the basis of accounting for any associated financial instruments. If there is an associated financial instrument, fees that are an integral part of the effective interest rate of that financial instrument are included within the effective yield calculation.

However, if the financial instrument is carried at fair value through profit or loss, any associated fees are recognized in profit or loss when the instrument is initially recognized, provided there are no significant unobservable inputs used in determining its fair value.

Fees earned from services that are provided over a specified service period are recognized over that service period. Fees earned for the completion of a specific service or significant event are recognized when the service has been completed or the event has occurred. Loan commitment fees related to commitments that are accounted off-balance sheet are recognized in commissions and fee income over the life of the commitment if it is unlikely that the Bank will enter into a specific lending arrangement. If it is probable that the Bank will enter into a specific lending arrangement, the loan commitment fee is deferred until the origination of a loan and recognized as an adjustment to the loan's effective interest rate.
The following fee income is predominantly earned from services that are provided over a period of time: account servicing fees, cash management fees, sales commission and placement fees.

Expenses that are directly related and incremental to the generation of fee income are presented net in Commissions and Fee Income.

4. Significant judgments and estimation uncertainty

The preparation of the financial statements in compliance with IFRS requires the management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur, which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Judgments:

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

4.1.1. Going concern assumption

Management has assessed the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

4.1.2. Contingencies

The Bank may be involved in litigations arising in the ordinary course of business, due to the nature of its operations. Provision for contingency liabilities arising from litigations is based on the probability of the outflow of economic resources and the reliability of estimating such outflow. Such matters are subject to many uncertainties and the outcome of individual matters is not predictable with assurance.

4.1.3. Classification of properties

In the process of classifying properties, management has made various judgements. Judgement is needed to determine whether a property qualifies as an investment property, property, plant and equipment, or property held for trading or development property. The Bank develops criteria so that it can exercise that judgement consistently in accordance with the definitions of investment property, property plant and equipment, and property held for trading and development property. In making this judgement management considered the detailed criteria and related guidance for the classification of properties as set out in IAS 40, IAS 16, and IAS 2, and in particular, the intended usage of property as determined by the management.

4. Significant judgments and estimation uncertainty (continued)

4.1 Judgments (continued)

4.1.4. Impairment of non-financial assets

The Bank assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount.

The fair value less costs of disposal calculation are based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. The value in-use calculation is based on a DCF model and requires estimation of the expected future cash flows from the asset (or of the cash-generating unit) in the forecasted period and to determine a suitable discount rate in order to calculate the present value of those cash flows. The discount rate reflects current market assessments of the time value of money and the risks specific to the asset.

Acquired goodwill and intangible assets that have an indefinite useful life are tested annually for impairment or more often if there is any indication of impairment.

4.1.5. Discount rate used for the initial measurement of lease liability

The Bank, as a lessee, measures the lease liability at the present value of the unpaid lease payments at the commencement date. The lease payments are discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the Bank uses its incremental borrowing rate.

The incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Bank determines its incremental borrowing rate with reference to its current and historical cost of borrowing adjusted for the term and security against such borrowing.

4.1.6. Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL Is further detailed in Note 4e, which also sets out key sensitivities of the EGL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring EGL, such as:

Assessment of significant increase in credit risk

The Bank monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

4. Significant judgments and estimation uncertainty (continued)

4.1 Judgments (continued)

4.1.6. Measurement of the expected credit loss allowance *(continued)*

In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that form the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Bank's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration on certain industries, as well as internally generated information on customer payment behaviour.

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Bank considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected;
- to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower;
- significant changes in the value of the collateral supporting the obligation or in the quality of third party guarantees or credit enhancements;
- significant changes in the actual or expected performance and behaviour of the borrower, including changes
  i. in the payment status of borrowers in the Bank and changes in the operating results of the borrower; and
  ii. macroeconomic information (such as oil prices or GDP) is incorporated as part of the internal rating model.

4. Significant judgments and estimation uncertainty (continued)

4.1 Judgments (continued)

4.1.6. Measurement of the expected credit loss allowance (continued)

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

ECLs are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Establishing group of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that Bank of assets. Re-segmentation of portfolios and movement between portfolios is more common when there Is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month .or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

Models and assumptions used

The Bank uses various models and assumptions in measuring the ECL of financial assets. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

- *Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario*

When measuring ECL the Bank uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

4. Significant judgments and estimation uncertainty (continued)

4.1 Judgments (continued)

4.1.6 Measurement of the expected credit loss allowance (continued)

- *Probability of default*

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- *Loss given default*

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

4.2. Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the date of statement of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

4.2.1. Useful life of property, plant and equipment

Property, plant and equipment are depreciated over their estimated useful lives, which is based on expected usage of the asset and expected physical wear and tear, which depends on operational factors. The management has not considered any residual value as it is deemed immaterial.

4.2.2. Taxes

The Bank recognises liability for the anticipated taxes levied in the jurisdiction of its activity based on estimate of whether additional taxes will be due. Whether the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Any changes in the estimate and assumptions may have an impact on the carrying values of the deferred taxes

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5. Cash and balances with the Central Bank of UAE

	2024 AED '000	2023 AED '000
Cash on hand	**42,500**	37,942
Balances with the Central Bank of the UAE:		
Overnight deposit facility	**1,090,000**	646,214
Foreign Currency Account	**225**	-
Reserve accounts	**69,089**	56,986
	1,201,814	741,142

6. Due from/to Head office and its branches abroad

	2024 AED '000	2023 AED '000
6.1. Due from Head office and its branches abroad		
Head office	**222,868**	236,526
Branches abroad	**228**	1,697
	223,096	238,223
6.2. Due to Head office and its branches abroad		
Head office*	**521,501**	133,508
Branches abroad	**175,688**	186,479
	697,189	319,987

*This includes placement of an under-lien deposit amounting to AED 103 million (2023: AED 103 million) on a six-monthly roll over basis.

7. Due from/to other banks

	2024 AED '000	2023 AED '000
7.1. *Due from Banks:*		
Due from Banks abroad:		
Nostro accounts	**4,476**	4,534
Call deposits	**649**	652
Term loans	**952,935**	973,568
	958,060	978,754

Due from other banks represents amounts owing from Iranian Banks.

	2024 AED '000	2023 AED '000
7.2. *Due to Banks:*		
Due to Banks abroad:		
Current accounts	**803,237**	805,792
Term loans	**494,183**	445,216
	1,297,420	1,251,008

Due to other banks representing amounts due to Iranian banks.

8. Export bills discounted for Iranian banks abroad

	2024	2023
	AED ’000	AED ’000
Gross amount of loans and advances*	**3,865**	3,865
Less: Loss allowance	**(3,865)**	(3,865)
	-	-

*This balance is due from Iranian banks abroad, representing amounts due on the export bills they issued and discounted by the Bank for its customers.

9. Loans and advances

	2024	2023
	AED ’000	AED ’000
Overdrafts	**7,242,905**	7,232,965
Bills/cheques discounted	**299,042**	300,788
Term loans	**1,682,076**	1,772,547
Customer liabilities paid*	**516,211**	611,098
Loans against trust receipts	**364,743**	409,142
Gross amount of loans and advances**	**10,104,977**	10,326,540
Less: Loss allowance (Note 9.3)	**(3,295,616)**	(3,419,025)
Interest in suspense (Note 9.4)	**(4,233,271)**	(4,312,988)
Net amount of loans and advances	**2,576,090**	2,594,527

* This amount relates to the payment against documents for customer liabilities.

** The Head Office of Bank Saderat Iran, located in Iran, has appointed qualified valuers to conduct an independent valuation of these collaterals. The fair value of collaterals as at December 31, 2024, of properties and other collaterals amounts to AED 6,333 million (2023: AED 6,442 million). Furthermore, the Head Office has assumed responsibility for the risk arising from fluctuations in the market value of these properties and assets.

9.1. *By economic sector*

	2024	2023
	AED ’000	AED ’000
Wholesale and retail trade	**8,065,177**	8,226,021
Construction	**352,770**	369,449
Mining and quarrying	**169,894**	190,665
Services	**825,794**	829,003
Personal loans	**40,326**	43,853
Manufacturing	**596,701**	613,223
Transport and communication	**6,841**	6,853
Financial institutions	**47,474**	47,473
	10,104,977	10,326,540

9.2. *Geographical area*

	2024	2023
	AED ’000	AED ’000
Within UAE	**9,853,689**	10,035,845
Islamic Republic of Iran	**251,288**	290,695
	10,104,977	10,326,540

9. Loans and advances (continued)

9.3. Movements in allowance of loans and advance

	2024	2023
	AED '000	AED '000
Opening balance	**3,419,025**	3,635,798
Allowance made during the year (Note 25)	**75,059**	18,311
Amounts released/recovered during the year (Note 25)	**(238,158)**	(91,259)
Amounts written off/recovered during the year	**39,690**	(143,825)
	3,295,616	3,419,025

9.4. Movements in allowance of interest in suspense

	2024	2023
	AED '000	AED '000
Opening balance	**4,312,988**	4,342,389
Interest suspended during the year	**21,097**	31,034
Amounts released/recovered during the year (Note 25)	**(36,466)**	(32,532)
Amounts written off during the year	**(64,348)**	(27,903)
	4,233,271	4,312,988

10. Other assets

	2024	2023
	AED '000	AED '000
Interest receivable	**27,005**	26,476
Prepaid expenses	**2,513**	1,805
Deferred tax assets (Note 10.1)	**1,363,951**	1,422,094
VAT receivable	**228**	148
Others	**12,191**	44,114
	1,405,888	1,494,637
Less: Loss allowance against other assets	**(5,573)**	(5,573)
	1,400,315	1,489,064

10.1 Movements

	2024	2023
	AED '000	AED '000
Opening balance	**1,422,094**	1,422,094
Impairment losses during the year	**(58,143)**	-
	1,363,951	1,422,094

11. Property, plant and equipment

	Land	Building*	Furniture, fixtures and fittings	Office equipment	Leasehold improvement	Vehicles	Total
	AED ’000	AED ’000	AED ’000	AED ’000	AED ’000	AED ’000	AED ’000
Cost							
As at December 31, 2022	9,871	71,395	3,615	31,375	3,860	1,328	121,444
Additions	-	5	287	709	-	-	1,001
Disposal	-	-	-	(41)	-	-	(41)
As at December 31, 2023	9,871	71,400	3,902	32,043	3,860	1,328	122,404
Additions	-	-	154	651	-	779	1,584
Disposal	-	-	-	(108)	-	-	(108)
As at December 31, 2024	**9,871**	**71,400**	**4,056**	**32,586**	**3,860**	**2,107**	**123,880**
Accumulated depreciation							
As at December 31, 2022	-	(64,661)	(3,251)	(31,044)	(3,255)	(1,328)	(103,539)
Depreciation for the year (Note 24)	-	(1,932)	(53)	(331)	-	-	(2,316)
Disposal	-	-	-	41	-	-	41
As at December 31, 2023	-	(66,593)	(3,304)	(31,334)	(3,255)	(1,328)	(105,814)
Depreciation for the year (Note 24)	-	(1,932)	(91)	(322)	-	(129)	(2,474)
Disposal	-	-	-	108	-	-	108
As at December 31, 2024	**-**	**(68,525)**	**(3,395)**	**(31,548)**	**(3,255)**	**(1,457)**	**(108,180)**
Carrying amount:							
As at December 31, 2024	**9,871**	**2,875**	**661**	**1,038**	**605**	**650**	**15,700**
As at December 31, 2023	9,871	4,807	598	709	605	-	16,590

*This includes office buildings in Ajman and Sharjah costing to AED 3,282,755/- and AED 27,786,359/-.

12. Right of use assets

	2024 AED '000	2023 AED '000
Premises:		
Opening balance	**26,201**	28,078
Addition during the year	**1,613**	2,228
Less: depreciation for the year (Note 24)	**(4,403)**	(4,105)
	23,411	26,201

The Bank has lease contracts for premises for the branch offices in Dubai, Abu Dhabi and Al Ain. Management has assumed a lease period of ten years for the premises, even though the contract period ranges between 2-3 years and the average effective interest rate is 6.4% for the year ended December 31, 2024. All lease payments are on a fixed repayment basis, and no arrangements have entered into for the additional contingent rental payments.

13. Customer deposits

	2024 AED '000	2023 AED '000
Current accounts	**197,050**	165,025
Saving accounts	**109,862**	117,484
Deposit accounts	**1,991,626**	2,166,187
Margin accounts	**13,904**	17,323
	2,312,442	2,466,019

Margin accounts and deposits held under lien as security for loans and advances and Off-balance sheet commitments as at December 31, 2024 amounted to AED 195 million (2023: AED 163 million).

14. Provision for employees' end of-service indemnity

	2024 AED '000	2023 AED '000
Opening balance	**22,282**	20,655
Charges for the year	**2,313**	1,627
Payment made during the year	**(95)**	-
	24,500	22,282

15. Provision for taxation

	2024 AED '000	2023 AED '000
Taxation	**16,951**	16,975

Movement in current tax liability:

	2024 AED '000	2023 AED '000
Opening balance	**16,975**	4,600
Tax provisions	**11,846**	13,067
Excess provision written back (Note 22)	**(10,881)**	-
Amounts paid during the year	**(989)**	(692)
	16,951	16,975

15. Provision for taxation (continued)

Reconciliation between tax expense and accounting profit

The following is the reconciliation of current tax expenses calculated on accounting profits at the applicable tax rate with the current tax expense for the year.

Reconciliation of tax expense	2024 AED '000	2023 AED '000
Profit/(loss) before tax	**73,794**	59,653
Adjustments for tax purposes	**58,200**	5,682
Tax base	**131,994**	65,335
Current tax:		
Corporate tax at the applicable rate of 9%	**11,846**	-
Emirates tax at the applicable rate of 20%	**-**	13,067
Taxation for the year	**11,846**	13,067

16. Other liabilities

	2024 AED '000	2023 AED '000
Interest payable	**34,969**	42,118
Lease liabilities	**22,157**	24,941
Others	**17,046**	27,307
	74,172	94,366

17. Statutory reserve

In accordance with Decretal Federal Law No. (14) of 2018, a minimum of 10% of profit should be transferred to a non-distributable legal and statutory reserve until such time as this reserve equals 50% of the Bank's issued capital. This reserve is not available for distribution.

18. Impairment reserve under the Central Bank of the UAE ("CBUAE") guidance

Per the new Credit Risk Management Standards (CRMS) issued by CBUAE, Credit Risk Management Regulation and accompanying Standards, Banks must ensure that the total provision corresponding to all Stage 1 and Stage 2 exposures is not less than 1.50% of the Credit Risk weighted assets as computed under the CBUAE capital regulations. Where the collective provisions held are lower, the shortfall may be held in a dedicated non-distributable balance sheet reserve called the 'impairment reserve-general'. The amount held in the impairment reserve-general must be deducted from the capital base (Tier 1 capital for Banks) when computing the regulatory capital.

Non-distributable impairment reserve - General	**AED'000**
Minimum provision for Stage 1 and 2 as per CBUAE requirements	67,103
Less: Stage 1 and 2 impairment provision taken against income	(196)
Shortfall in Stage 1 and 2 provision to meet minimum CBUAE requirements	**66,907**
Balance of impairment reserve - general as at January 01, 2024	66,334
Add: Non-distributable reserve during the year (Impairment reserve-general)	573
Balance of impairment reserve - general as at December 31, 2024	**66,907**

19. Interest income

	2024 AED '000	2023 AED '000
Interest income on:		
Loans and advances to customers	**12,997**	47,763
Money market and interbank transactions	**77,416**	67,571
Others	**10**	8
	90,423	115,342

20. Interest expense

	2024 AED '000	2023 AED '000
Interest expense on:		
Customer deposits	**72,879**	71,042
Deposits from financial institutions	**17,684**	12,295
	90,563	83,337

21. Net fees and commission income

	2024 AED '000	2023 AED '000
Fees and commission income	**1,508**	1,341
Fees and commission expense	**(18)**	(21)
	1,490	1,320

22. Other income

	2024 AED '000	2023 AED '000
Rental income	**2,043**	4,461
Bank charges	**9**	8
Excess provision written back (Note 15)	**10,881**	-
Miscellaneous	**2,934**	2,761
	15,867	7,230

23. General and administrative expenses

	2024 AED '000	2023 AED '000
Short term leases (Note 27)	**353**	408
Foreign exchange loss	**3,622**	1,503
Impairment losses on other assets	**-**	959
Staff cost and related expenses*	**49,838**	51,980
Head office charges (Note 26)	**9,371**	9,322
Other expenses	**14,784**	15,789
	77,968	79,961

*It includes AED 5.2 million (2023: AED 4.2 million) overtime pay incentive paid to employees.

24. Depreciation

	2024 AED '000	2023 AED '000
Depreciation of property, plant and equipment (Note 11)	**2,474**	2,316
Depreciation of right of use assets (Note 12)	**4,403**	4,105
	6,877	6,421

25. Net impairment reversal on loans and advances

	2024 AED '000	2023 AED '000
Reversal of excess provisions (Note 9.3 & 9.4)	**274,624**	123,791
Impairment losses (Note 9.3)	**(75,059)**	(18,311)
	199,565	105,480

26. Related party transactions

The Bank enters into transactions with parties that fall within the definition of a related party as contained in International Accounting Standard 24. Related parties comprise entities under common ownership and/or common management and control and key management personnel. The Head office and the management decide on the terms and conditions of the transactions and services received/rendered from/to related parties and other charges. Banking transactions are entered with related parties on terms and conditions approved by the management and the Head office of the Bank.

	2024 AED '000	2023 AED '000
Loans and advances	**324,648**	510,679
Due to Head office and its branches abroad	**697,189**	319,987
Customer deposits	**583**	223
Due from head office and its branches abroad	**223,096**	238,223
Other liabilities	**451**	451
Head office charges (Note 23)	**9,371**	9,322
Key managerial person salaries and benefits	**2,824**	2,982

27. Lease payments not recognized as a liability

The Bank has elected not to recognise a lease liability for short-term leases (leases of the expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	2024	2023
	AED '000	AED '000
Short-term leases (Note 23)	**353**	408

28. Cash and cash equivalents for cash flow purpose

	2024	2023
	AED '000	AED '000
Cash in hand	**42,500**	37,942
Balances with the Central Bank of UAE	**1,090,000**	645,989
Foreign currency account with the Central Bank of UAE	**225**	225
Due from banks	**5,125**	5,186
Due from Head office and its branches	**30,120**	17,956
	1,167,970	707,298

29. Contingent liabilities and commitments

Credit-related commitments

The contractual amounts of the letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the customer satisfying the terms of the contract. The contractual amounts represent the credit risk, assuming that the amounts are fully advanced, and that any collateral or other security is of no value. However, the total contractual amount of commitments does not necessarily represent future cash requirements since many of such commitments will expire or terminate without being funded.

The loan commitments represent the contractual commitments to make the loan. These generally have fixed expiry dates or other termination clauses and require payment of a fee. Since commitments may expire without being drawn down, the total contract amounts do not necessarily represent future cash requirements.

The Bank has the following credit-related commitments:

Contingent liabilities

	2024	2023
	AED '000	AED '000
Letter of guarantee	**41,410**	43,549

30. Maturity analysis of assets and liabilities

Maturities of assets and liabilities recorded in the statement of financial position based on the remaining contractual maturity period at the reporting date, not taking account of the effective maturities as indicated by the deposit retention history of the Bank and the availability of liquid funds, as at the year-end are as follows:

December 31, 2024	**Less than 3 months** *AED '000*	**3 months to 1 year** *AED '000*	**1 year up to 5 years** *AED '000*	**Over 5 years** *AED '000*	**Total** *AED '000*
Assets:					
Cash and bank balances with Central Bank of the UAE	1,201,814	-	-	-	**1,201,814**
Due from Head office and its branches abroad	223,096	-	-	-	**223,096**
Due from other banks	958,060	-	-	-	**958,060**
Loans and advances	610,988	8,081	1,957,021	-	**2,576,090**
Other assets	-	-	1,400,315	-	**1,400,315**
Property, plant and equipment	-	-	-	15,700	**15,700**
Right of use assets	-	-	-	23,411	**23,411**
Total Assets	**2,993,958**	**8,081**	**3,357,336**	**39,111**	**6,398,486**
Liabilities:					
Due to other banks	1,014,714	282,706	-	-	**1,297,420**
Customer deposits	819,731	1,485,689	7,022	-	**2,312,442**
Due to Head office and its branches abroad	628,088	69,101	-	-	**697,189**
Other liabilities	8,364	18,045	154	89,060	**115,623**
Total Liabilities	**2,470,897**	**1,855,541**	**7,176**	**89,060**	**4,422,674**
Net gap	**523,061**	**(1,847,460)**	**3,350,160**	**(49,949)**	**1,975,812**
Represented by:					
Assigned capital					**2,350,000**
Statutory reserve					**538,287**
Impairment reserve					**66,907**
Accumulated deficit					**(979,382)**
Net Equity					**1,975,812**

30. Maturity analysis of assets and liabilities (continued)

December 31, 2023

	Less than 3 months AED '000	3 months to 1 year AED '000	1 year up to 5 years AED '000	Over 5 years AED '000	Total AED '000
Assets:					
Cash and bank balances with Central Bank of the UAE	741,142	-	-	-	741,142
Due from Head office and its branches abroad	238,223	-	-	-	238,223
Due from other banks	978,754	-	-	-	978,754
Loans and advances	620,954	7,685	1,965,888	-	2,594,527
Other assets	-	-	1,489,064	-	1,489,064
Property, plant and equipment	-	-	-	16,590	16,590
Right of use assets	-	-	-	26,201	26,201
Total Assets	2,579,073	7,685	3,454,952	42,791	6,084,501
Liabilities:					
Due to other banks	884,448	366,560	-	-	1,251,008
Customer deposits	826,120	1,630,518	9,381	-	2,466,019
Due to Head office and its branches abroad	250,875	69,112	-	-	319,987
Other liabilities	18,855	61,726	334	52,708	133,623
Total Liabilities	1,980,298	2,127,916	9,715	52,708	4,170,637
Net gap	598,775	(2,120,231)	3,445,237	(9,917)	1,913,864
Represented by:					
Assigned capital					2,350,000
Statutory reserve					532,092
Impairment reserve					66,334
Accumulated deficit					(1,034,562)
Net Equity					1,913,864

31. Fair values of financial instruments

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

The fair values of financial assets and liabilities of the Bank are not materially different from their carrying values as at the year-end. This is based on management's assumption that the carrying amounts of financial assets and financial liabilities that are liquid or have a short-term maturity (less than a year) approximate to their fair value.

32. Classification of financial assets and liabilities

	December 31, 2024				
	At FVTPL	AT FVTOCI	Amortised cost	Allowance for impairment (ECL)	Carrying amount
	AED '000	AED '000	AED '000	AED '000	AED '000
Financial assets:					
Cash and bank balances with Central Bank of the UAE	-	-	1,201,814	-	1,201,814
Due from Head office and its branches abroad	-	-	223,096	-	223,096
Due from other banks	-	-	958,060	-	958,060
Export bills discounted for Iranian banks abroad	-	-	3,865	(3,865)	-
Loans and advances	-	-	5,871,706	(3,295,616)	2,576,090
Other assets	-	-	39,196	(5,573)	33,623
Total financial assets	**-**	**-**	**8,297,737**	**(3,305,054)**	**4,992,683**
Financial liabilities:					
Due to other banks	-	-	1,297,420	-	1,297,420
Customer deposits	-	-	2,312,442	-	2,312,442
Due to Head office and its branches abroad	-	-	697,189	-	697,189
Other liabilities	-	-	74,172	-	74,172
Total financial liabilities	**-**	**-**	**4,381,223**	**-**	**4,381,223**

32. Classification of financial assets and liabilities (continued)

1.

	December 31, 2023				
	At FVTPL	AT FVTOCI	Amortised cost	Allowance for impairment (ECL)	Carrying amount
	AED '000	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Financial assets:					
Cash and bank balances with Central Bank of the UAE	-	-	741,142	-	741,142
Due from Head office and its branches abroad	-	-	238,223	-	238,223
Due from other banks	-	-	978,754	-	978,754
Export bills discounted for Iranian banks abroad	-	-	3,865	(3,865)	-
Loans and advances	-	-	6,013,552	(3,419,025)	2,594,527
Other assets	-	-	70,590	(5,573)	65,017
Total financial assets	-	-	8,046,126	(3,428,463)	4,617,663
Financial liabilities:					
Due to other banks	-	-	1,251,008	-	1,251,008
Customer deposits	-	-	2,466,019	-	2,466,019
Due to Head office and its branches abroad	-	-	319,987	-	319,987
Other liabilities	-	-	94,366	-	94,366
Total financial liabilities	-	-	4,131,380	-	4,131,380

33. Financial risk management

The Bank has set up a strong risk management infrastructure supported by the adoption of best practices in the field of risk management to manage and monitor the following major risks arising out of their day-to-day operations:

i. Credit risk
ii. Liquidity risk
iii. Market risk (including interest rate risk, foreign currency risk and price risk)
iv. Operational risk

The Regional Manager has overall responsibility for the oversight of the risk management framework for the Bank. There are established detailed policies and procedures in this regard along with high-powered senior management committees to ensure adherence to the approved policies and close monitoring of different risks within the operations of the Bank.

The Credit Committee, Assets and Liabilities Committee (ALCO) and Investment Committee work under the mandate of the Regional Manager to set up risk limits and manage the overall risk. These Committees approve risk management policies of the Bank developed by the Risk Management Department.

The Risk Management function is independent of the business. It is responsible to develop credit, market and operational risk policies. Risk Managers are delegated authority within the risk management framework to approve credit risk transactions. Risk Management Department also monitors market and operational risk. The Credit Risk Unit within Risk Management Department is responsible to develop and validate financial risk models for risk rating.

Audit and Compliance is an independent department which is responsible to review the risk policies, risk exposures and the risk managing and monitoring frame work.

Treasury

The Treasury is responsible for managing the assets and liabilities of the Bank and its overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

Internal audit

Risk management processes throughout the Bank are audited periodically by the Internal Audit function that examines both the adequacy of the procedures and the compliance by the Bank of these procedures. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Regional Manager.

Risk measurement and reporting systems

Monitoring and controlling risks is primarily performed based on limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that it is willing to accept, with additional emphasis on selected industries. In addition, the Bank monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyse, control and identify early risks. This information is presented and explained to the Regional Manager, the Risk Committee and the Head of each business division. The report includes aggregate credit exposure, hold limit exceptions, liquidity ratios and risk profile changes. On a monthly basis detailed reporting of industry, customer and geographic risks take place. Senior management assesses the appropriateness of the allowance for credit losses on a quarterly basis.

33. Financial risk management (continued)

Risk measurement and reporting systems *(continued)*

The Regional Manager receives a comprehensive credit risk report once a quarter which is designed to provide all the necessary information to assess and conclude on the credit-related risks of the Bank.

For all levels throughout the Bank, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A daily briefing is given to the Regional Manager and all other relevant members of management of the Bank on the utilisation of market limits, proprietary investments and liquidity, plus any other risk developments.

Risk mitigation

As part of its overall risk management, the Bank uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, equity risks, credit risks, and exposures arising from forecast transactions.

The Bank actively uses collateral to reduce its credit risks.

Excessive risk concentration

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

In order to avoid excessive concentrations of risk, the policies and procedures of the Bank include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

i. Credit risk management

The Regional Manager has delegated responsibility for the management of credit risk to its Credit Committee and the Credit Risk Management Department. Their responsibilities include:

a. Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

b. Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit Credit Officers. Larger facilities require approval by Head office Credit Facilities Committee, Head of Credit Facilities or Regional Credit Facilities Committee.

c. Reviewing and assessing credit risk: Credit Facility Department and Risk Management Department assess all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

d. Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances to customers), and by issuer, credit rating band, market liquidity and country (for investment securities).

33. Financial risk management (continued)

Excessive risk concentration *(continued)*

i. **Credit risk management** (continued)

e. Developing and maintaining the Bank's risk grading in order to categories exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by Credit Facility Department, Branches and Risk Management Department.

f. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the Regional Credit Facility Committee on the credit quality of local portfolios and appropriate corrective action is taken.

g. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Branches in the management of credit risk.

Policies relating to credit are reviewed and approved by the Regional Credit Facility Committee. All credit lines are approved centrally for the Bank in accordance with the credit policy set out in the Credit Policy Manual. In addition, whenever possible, loans are secured by acceptable forms of collateral in order to mitigate credit risk.

The Bank further limits risk through diversification of assets by geography and industry sectors.

All credit facilities are administered and monitored by the Credit Facility Department. Periodic reviews are conducted by the Credit Officer and also by Credit Facility Department.

Cross border exposure and financial institutions exposure limits for money market and treasury activities are approved as per guidelines established by the Regional Credit Facility Committee and are monitored by the Risk Management Department.

Commercial/Institutional lending

All credit applications for commercial and institutional lending are subject to the Bank's regional credit policies and to regulatory requirements, as applicable from time to time.

All credit lines or facilities extended by the Bank are made subject to prior approval pursuant to a delegated signature authority system under the ultimate authority of the Credit Facility Committee or the Regional Manager.

The management of the Bank has established country limits for cross border risk. Individual country limits are defined based on a detailed credit policy defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Bank's regional credit risk management and periodically by the Credit Facility Committee.

33. Financial risk management (continued)

Retail lending

Each retail credit application is considered for approval according to a product program, which is devised in accordance with guidelines set out in the product policy approved by the Regional Credit Facility Committee. All approval authorities are delegated to the Credit Facility Committee by the Regional Manager. Different authority levels are specified for approving product programs and exceptions thereto, and individual loans/credits under product programs. Each product program contains detailed credit criteria (such as salary multiples, bank statement, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements.

Maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements and provisions held in the books.

	Notes	Gross maximum exposure	
		2024	2023
		AED '000	AED '000
Balance with Central Bank of the UAE	5	**1,159,314**	703,200
Due from Head office and its branches abroad	6.1	**223,096**	238,223
Due from other banks	7.1	**958,060**	978,754
Loans and advances	9	**10,104,977**	10,326,540
Other assets	10	**39,196**	70,590
		12,484,643	12,317,307
Contingency liabilities	29	**41,410**	43,549
		12,526,053	12,360,856

Concentration of risk by geographical region and by industry sector:

	Gross maximum exposure	
	2024	2023
	AED '000	AED '000
Geographic regions		
Middle east	**11,100,547**	10,865,151
Iran	**1,395,200**	1,479,862
OECD countries	**30,306**	15,843
	12,526,053	12,360,856

33. Financial risk management (continued)

Maximum exposure to credit risk Without taking account of any collateral and other credit enhancements *(continued)*

	Gross maximum exposure	
	2024	2023
	AED '000	AED '000
Industry sector		
Wholesale and retail trade	**8,065,177**	8,226,021
Construction	**352,770**	369,449
Mining and quarrying	**169,894**	190,665
Services	**825,794**	829,003
Personal loans	**40,326**	43,853
Manufacturing	**596,701**	613,223
Transport and communication	**6,841**	6,853
Financial institutions	**47,474**	47,473
	10,104,977	10,326,540

Model risk management

The Bank uses a number of quantitative models in many of its financial and business activities from underwriting a credit facility to reporting expected credit losses under the IFRS 9.

To manage the model risks, the Bank has developed and implemented Business Model Framework which contains Bank wide development, implementation and validation policies and practices. According to the framework, all internally or externally developed risk quantification models that directly affect the financial reporting on expected credit losses require validation periodically (internally or externally). BSI IFRS 9 Committee is responsible for overseeing all model related development, implementation of framework and performance of the models.

The Framework establishes a systematic approach to manage the development, implementation, approval, validation and ongoing use of models. It sets out an effective governance and management structure with clearly defined roles and responsibilities, policies and controls for managing model risk. The Framework is reviewed on a regular basis to ensure it meets regulatory standards and international practices. Any major change to the Framework is approved by the Regional Credit Committee and Risk Policy Committee upon recommendation of BSI IFRS 9 Committee.

33. Financial risk management (continued)

Maximum exposure to credit risk - Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets (excluding cash in hand) below also represents the Bank's maximum exposure to credit risk on these assets.

As at December 31, 2024	**Stage 1**	**Stage 2**	**Stage 3**	
	12-month	**Lifetime**	**Lifetime**	**Total**
	AED ’000	**AED ’000**	**AED ’000**	**AED ’000**
Financial instruments carried at amortised costs				
Cash and balances with Central Bank of UAE	1,201,814	-	-	1,201,814
Due from Head office and its branches abroad	197,220	25,876	-	223,096
Due from other banks	958,060	-	-	958,060
Export bills discounted for Iranian banks abroad	-	-	-	-
Loans and advances	616,711	1,708	9,486,558	10,104,977
Other assets	1,447	32,176	5,573	39,196
Gross financial instruments carried at amortised costs	**2,975,252**	**59,760**	**9,492,131**	**12,527,143**
As at December 31, 2023				
Financial instruments carried at amortised costs				
Cash and balances with Central Bank of UAE	741,142	-	-	741,142
Due from Head office and its branches abroad	226,868	11,355	-	238,223
Due from other banks	978,754	-	-	978,754
Export bills discounted for Iranian banks abroad	-	-	-	-
Loans and advances	604,747	2,875	9,718,918	10,326,540
Other assets	41,065	23,952	5,573	70,590
Gross financial instruments carried at amortised costs	**2,592,576**	**38,182**	**9,724,491**	**12,355,249**

33. Financial risk management (continued)

Maximum exposure to credit risk - Financial instruments subject to impairment *(continued)*

The movement of gross exposure is as follows:

As at December 31, 2024	**Stage 1 12-month ECL AED '000**	**Stage 2 Lifetime ECL AED '000**	**Stage 3 Lifetime ECL AED '000**	**Total AED '000**
Financial instruments carried at amortised costs				
Balance as at December 31, 2021	2,717,378	35,667	11,650,307	14,403,352
Other movements within the same stage	(558,240)	-	(1,019,643)	(1,577,883)
Balance as at December 31, 2022	2,159,138	35,667	10,630,664	12,825,469
Other movements within the same stage	433,438	2,515	(906,173)	(470,220)
Balance as at December 31, 2023	2,592,576	38,182	9,724,491	12,355,249
Other movements within the same stage	382,676	21,578	(232,360)	171,894
Balance as at December 31, 2024	**2,975,252**	**59,760**	**9,492,131**	**12,527,143**

33. Financial risk management (continued)

Maximum exposure to credit risk - Financial instruments subject to impairment *(continued)*

It is the policy of the Bank to maintain accurate and latest risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk.

Ageing analysis of stage 2 investing and financing assets per class of financial assets is as under:

As at December 31, 2024	**1 month**	**1 month to 3 months**	**More than 3 months**	**Total**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Due from Head office and its branches abroad	-	-	25,876	25,876
Loans and advances	-	-	1,708	1,708
Other assets	-	-	32,176	32,176
	-	**-**	**59,760**	**59,760**

As at December 31, 2023	1 month	1 month to 3 months	More than 3 months	Total
	AED '000	AED '000	AED '000	AED '000
Due from Head office and its branches abroad	-	-	11,355	11,355
Loans and advances	-	-	2,875	2,875
Other assets	-	-	23,952	23,952
	-	**-**	**38,182**	**38,182**

33. Financial risk management (continued)

Collateral and other credit enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The credit manual contains guidelines regarding the acceptability of types of collateral and valuation parameters. The main types of collateral obtained are cash, securities, charges over real estate properties, inventory, trade receivables and guarantees - both corporate and personal.

The Regional Credit Committee monitors the market value of collateral, if needed in accordance with the underlying agreement. The estimates of fair values are generally not updated except when a loan is individually assessed or impaired. Collaterals are usually not held against amounts advanced to banks.

It is the policy of the Bank to dispose off repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Credit review procedures and loan classification

The Internal Audit Department of the Bank undertakes an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of the UAE ("CBUAE") and internal policies in order to assist in the early identification of accrual and potential performance problems.

If a credit is overdue for 90 days or more, interest is suspended and is not credited to income. Specific allowance for impairment of classified assets is made based on probable recoverability of outstanding and risk ratings of the assets.

Internal risk rating

The Bank uses specific internal credit risk rating models tailored to various industry segments / counterparty. Borrower and loan specific information collected at the time of application (such as financial condition, level of collaterals, condition of the market and business segment of customer, reputation of the customer and its owners, management and conduct of accounts) is fed into this rating model. This is supplemented with external data input into the model.

These risk ratings have been mapped into ECL Stages which are defined below:

Stage	**Grade**
Stage 1	Aa+, Ab+, Ac+, Ba+, Bb+, Bc+, Ca+, Cb+, Cc+
Stage 2	Aa, Ab, Ac, Ba, Bb, Bc, Ca, Cb, Cc
Stage 3	Aa-, Ab-, Ac-, Ba-, Bb-, Bc-, Ca-, Cb-, Cc-

The grades above are defined as a combination of component of grades derived from various ranges allocated to following groups:

Stage	**Grade**
Stage 1	Aa+, Ab+, Ac+, Ba+, Bb+, Bc+, Ca+, Cb+, Cc+
Stage 2	Aa, Ab, Ac, Ba, Bb, Bc, Ca, Cb, Cc
Stage 3	Aa-, Ab-, Ac-, Ba-, Bb-, Bc-, Ca-, Cb-, Cc-

33. Financial risk management (continued)

Internal risk rating *(continued)*

Group	Component of grade	Range
Capacity risk	A	65-100
	B	30-64
	C	0-29
Performance risk	a	65-100
	b	30-64
	c	0-29
Credit risk	-	0-29
	+	65-250
	<->	30-64

Expected credit loss measurement

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

33. Financial risk management (continued)

Expected credit losses

The following table summarizes impairment allowance as at December 31, 2024 and December 31, 2023 per class of assets and stage:

	December 31, 2024 ECL staging			
	Stage 1 12-month ECL AED '000	**Stage 2 Lifetime ECL AED '000**	**Stage 3 Lifetime ECL AED '000**	**Total AED '000**
Loans and advances	194	2	3,295,420	3,295,616
Export bills discounted for Iranian banks abroad	-	-	3,865	3,865
Other assets	-	-	5,573	5,573
Total allowance for impairment	**194**	**2**	**3,304,858**	**3,305,054**

	December 31, 2023 ECL staging			
	Stage 1 12-month ECL AED '000	Stage 2 Lifetime ECL AED '000	Stage 3 Lifetime ECL AED '000	Total AED '000
Loans and advances	769	-	3,418,256	3,419,025
Export bills discounted for Iranian banks abroad	-	-	3,865	3,865
Other assets	-	-	5,573	5,573
Total allowance for impairment	**769**	**-**	**3,427,694**	**3,428,463**

33. Financial risk management (continued)

Expected credit losses *(continued)*

The movement of impairment allowance is as follows:

As at December 31, 2024	**Stage 1 12-month ECL AED '000**	**Stage 2 Lifetime ECL AED '000**	**Stage 3 Lifetime ECL AED '000**	**Total AED '000**
Financial instruments carried at amortised costs				
Balance as at December 31, 2022	**630**	**2**	**3,643,645**	**3,644,277**
Transfer from Stage 2 to Stage 3	-	(2)	2	-
Other movements during the year	139	-	(214,994)	(214,855)
Net amounts written-off	-	-	(959)	(959)
Balance as at December 31, 2023	**769**	**-**	**3,427,694**	**3,428,463**
Transfer from Stage 1 to Stage 3	(769)	-	769	-
Other movements during the year	194	2	(123,605)	(123,409)
Balance as at December 31, 2024	**194**	**2**	**3,304,858**	**3,305,054**

33. Financial risk management (continued)

Impairment of financial assets

IFRS 9 replaces the IAS 39 'incurred loss' impairment approach with an 'expected credit loss' approach. IFRS 9 requires from the Banks to estimate Expected Credit Loss using the following three factors:

- Forward Looking PD
- Loss Given Default (LGD)
- Exposure at Default (EAD)

Final ECL was a mathematical product of Exposure at Default, Probability of Default & Loss Given Default. The expected credit loss model requires the Bank to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

IFRS 9 Impairment model uses a three-stage approach based on the extent of credit deterioration since origination:

- **Stage 1- (Performing Assets)**

Loans that are performing normally, with no significant credit deterioration. Expected Credit Loss (CEL) is measured over the next 12 months for all stage 1 financial assets that have not experienced a significant increase in credit risk (SICR) since their origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months.

For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach, which estimates a collective allowance to recognize losses that have been incurred but not reported on performing loans.

- **Stage 2 - (Under Performing Assets)**

Loans that have seen a significant increase in credit risk but have not yet defaulted. The expected credit loss is calculated over the lifetime of the loan, and exposure will be considered in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months ECL in Stage 1.

- **Stage 3 - (Non-Performing Assets)**

Financial assets that have objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime expected credit losses.

33. Financial risk management (continued)

Stage Assessment

Staging assessment of the Bank Portfolio performed at the end of each reporting period. At the end of each reporting period, a list of the respective stage allocations for the loan book should be provided to the credit committee of the Bank for their review and financial assets to be allocated into the respective stage based on their respective risks of default and ECL is calculated accordingly:

- *Stage 1 – exposures which have not had a SICR (12 months ECL).*
- *Stage 2 – exposures which have had a SICR but not considered credit-impaired (Lifetime ECL).*
- *Stage 3 – exposures considered to be credit-impaired, including originated credit-impaired financial assets (Lifetime ECL).*

A Risk Transition Matrix assesses the likelihood that a borrower will transition between different stages of credit quality over time. DPD (Days Past Due) bucketing categorizes exposures based on the length of time the borrower has been overdue in making payments. These exposures are considered in default when:

- *The borrower is 90 days past due (DPD 90+).*
- *The borrower is insolvent (unable to pay debts).*
- *The borrower is deceased.*
- *There's a breach of covenant (violation of the terms of the loan agreement).*

These events indicate a significant deterioration in credit quality, so the exposure is transferred to Stage 3 (defaulted exposures).

Significant increase in credit risk

The Bank considers a financial asset to have experienced a significant increase in credit risk when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date.

Quantitative criteria

If the borrower experiences a significant increase ln probability of default which can be triggered by the following quantitative factors:

- Past Due
- Net Worth Erosion
- Fraudulent Activity
- Distressed Restructure
- Financial Covenants Breach
- Significant Operations Disruption
- Operating Performance
- Operating Efficiency
- Debt Service

33. Financial risk management (continued)

Significant increase in credit risk *(continued)*

Quantitative criteria (continued)

- Liquidity Assessment
- Capital structure

Qualitative criteria:

If the borrower experiences a significant increase in probability of default which can be triggered by the following qualitative factors:

- Management
- Industry Outlook
- Financial Conduct
- Income Stability
- Lifecycle Stage
- Auditor Information

The Bank has not used the low credit exemption for any financial instruments in the year ended December 31, 2024.

Backstop:

If the borrower is more than 60 days past due on its contractual payments, a backstop is applied and the financial asset is considered to have experienced a significant increase in credit risk.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. In particular, when assessing expected credit losses, the analysis of macroeconomic and financial factors, expected risks and dynamics are taken into account i.e., the PD is predicted by using past event, current conditions and future outcomes. The Bank has performed historical analysis and identified the key economic variables such as GDP growth, unemployment, inflation, oil prices etc., impacting credit risk and expected credit losses for each portfolio. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as systematic adjustment using expert credit judgment on the basis of information available from credible sources.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Bank's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

33. Financial risk management (continued)

Off balance sheet

The Bank applies the same risk management policies for off balance sheet risks as it does for its on balance sheet risks. In the case of commitments to lend, customers and counterparties will be subject to the same credit management policies as for loans and advances. Collateral may be sought depending on the strength of the counterparty and the nature of the transaction.

ii. Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities at a given point in time.

Management of liquidity risk

The approach of the Bank towards managing the liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. without incurring unacceptable losses or risking damage to the reputation of the Bank.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of loans and advances to banks and other inter-bank facilities. to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of business units and branches are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

Assets Liability Committee (ALCO)

ALCO has a broad range of authority delegated by the Regional Manager to manage the asset and liability structure and funding strategy of the Bank. ALCO meets on a quarterly basis or more often as circumstances dictate to review liquidity ratios, asset and liability structure, interest rates and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and general domestic and international economic and financial market conditions. ALCO formulates liquidity risk management guidelines for the operation of the Bank on the basis of such review.

Exposure to liquidity risk

The key measure used by the Head of Risk, Head of Accounts and the Head of Dealing Department for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents less any deposits from banks, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the compliance by the Bank with the liquidity limit established by the regional management. The other indicators closely monitored on regular basis are Advances to Deposit Ratio, Uses to stable resources ratio. For all the measures, benchmarks are set and same are reviewed by ALCO on a regular basis.

33. Financial risk management (continued)

Mitigating liquidity risk

The Treasury and Marketing of the Bank is responsible for mitigating liquidity risk by implementing liquidity strategies such as diversification of types of investors/depositors Including wholesale customers and trading companies. Further, the Bank enters into exposure with other Iranian Banks under refinancing facilities which are backed by the Central Bank of Iran. The Bank closely monitors the global view in respect of sanctions levied by the UN and has developed strategies and business continuity plans that should ensure that the business and liquidity of the Bank are not at risk. The Treasury regularly monitors the liquidity status of the Bank.

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the financial liabilities of the Bank at the year-end based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the deposit retention history.

33. Financial risk management (continued)

Analysis of financial liabilities by remaining contractual maturities *(continued)*

Financial liabilities	**On demand AED ’000**	**Less than 3 months AED ’000**	**3 to 12 months AED ’000**	**1 to 5 years AED ’000**	**Over 5 years AED ’000**	**Total AED ’000**
Balance as at December 31, 2024						
Due to other banks	803,237	211,477	282,706	-	-	1,297,420
Customer deposits	329,679	490,053	1,492,710	-	-	2,312,442
Due to Head office and its branches abroad	428,378	199,710	69,101	-	-	697,189
Other liabilities	17,046	16,770	18,045	154	22,157	74,172
Total undiscounted financial liabilities	**1,578,340**	**918,010**	**1,862,562**	**154**	**22,157**	**4,381,223**

	On demand AED ’000	**Less than 3 months AED ’000**	**3 to 12 months AED ’000**	**1 to 5 years AED ’000**	**Over 5 years AED ’000**	**Total AED ’000**
Balance as at December 31, 2023						
Due to other banks	801,059	79,084	370,865	-	-	1,251,008
Customer deposits	317,830	509,821	1,629,326	9,042	-	2,466,019
Due to Head office and its branches abroad	57,465	192,389	70,133	-	-	319,987
Other liabilities	27,307	18,855	22,929	334	24,941	94,366
Total undiscounted financial liabilities	**1,203,661**	**800,149**	**2,093,253**	**9,376**	**24,941**	**4,131,380**

33. Financial risk management (continued)

iii. Market risk management

Market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and equity prices.

Market risk is managed within the risk limits approved by the Regional Committee. The overall risk limits are divided into sub-limits by reference to different risk factors, including interest rate, foreign exchange rate, commodity price and equity price. Considering the different nature of the products involved, limits are set by using a combination of risk measurement techniques, including position limits and sensitivity limits.

The Bank uses different methodologies to estimate the potential losses that could occur on risk positions taken due to movements in interest rates, foreign exchange rates, commodity prices and equity prices over a specified time horizon and to a given level of confidence.

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments, The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts and the currency of assets and liabilities.

Most of the interest-bearing assets and liabilities of the Bank carry a fixed rate. Management believes that there is no significant interest rate risk for the Bank.

The effective interest rate on loans and advances 7% per annum (2023: 7.35% per annum), on customer deposits 4.22% per annum (2023: 2.95% per annum) and on bank borrowings 0.67% per annum (2023: 0.74% per annum).

If interest rates had been 50 basis points lower throughout the year and all other variables were held constant, the Bank's loss for the year ended December 31, 2024, would have decreased by approximately AED 20.14 million (2023: AED 14.04 million).

Foreign currency risk

Foreign currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. The Regional Manager has set limits on positions by currencies, which are monitored daily, and hedging strategies are also used to ensure that positions are maintained within the limits.

The assets of the Bank are typically funded in the same currency as that of the business transacted in order to minimize foreign exchange exposure. However, the Bank does maintain a long US Dollar position within limits approved by the Assets and Liabilities Committee (ALCO). The Bank manages exposure to the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Regional Manager sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. At the end of the year, the Bank had the following significant net exposure denominated in foreign currencies:

33. Financial risk management (continued)

Foreign currency risk *(continued)*

	Net overall long/(short) position	
	2024	2023
	AED '000	AED '000
USD	**825,472**	858,696
Euro	**184**	1,522
Pound sterling	**3,784**	3,835
Other currencies	**(7,934)**	(7,477)
	821,506	856,576

The analysis below calculates the effect of a 10 percent possible downward movement in a particular foreign currency rate against UAE Dirham, with all other variables held constant on the profit and loss (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in statement of profit or loss and other comprehensive income, while a positive amount reflects a potential net increase.

	2024	2023
	AED '000	AED '000
Euro	**18**	152
Pound sterling	**378**	384
Other currencies	**(793)**	(748)
	(397)	(212)

As the UAE Dirham is currently pegged to the US Dollar, balances in US Dollar are not considered to represent any currency risk. Accordingly, the above table does not include the impact of changes in the foreign exchange rate of the US Dollar.

Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

iv. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. The Bank aims to manage this risk in line with best practices and in the preparation for the implementation of Basel Ill.

The Bank manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risks, and review the risks Inherent in business processes, activities and products through internal consultation. The business processes of the Bank are developed to prevent money laundering or financing terrorist activities. The anti-money laundering policies of the Bank are regularly reviewed to ensure full compliance with local regulatory requirements and international best practices. As part of operational risk management strategy, the Bank has complied with the notices and circulars issued by the Central Bank of the UAE ("CBUAE") in relation to the UN sanctions and stopped dealing with all parties detailed in the sanctions list.

33. Financial risk management (continued)

Operational risk *(continued)*

The Bank regularly monitors operational risk losses and reports the same to the senior management. As part of the internal control environment, the Bank maintains adequate documentation of control procedures for its business processes. The Bank also emphasises the need for appropriate segregation of duties and independent authorisation in all business activities.

The Business Continuity Plan is in place to support business operations in the event of disasters. Adequate backup facilities are maintained and periodic drills are conducted. In addition, the Bank also arrange insurance cover to reduce potential losses in respect of operational risk.

34. Capital management

The Branch's regulator, the Central Bank of the UAE ("CBUAE"), sets and monitors regulatory capital requirements. The Branch's objectives when managing capital are as follows:

(1) Safeguarding the Branch's ability to continue as a going concern and increase return for stakeholders; and

(2) Comply with regulatory capital set by the Central Bank of the UAE ("CBUAE").

Regulatory capital

The Central Bank of the UAE ("CBUAE") sets and monitors capital requirements for banks and branches of foreign-owned banks operating in the United Arab Emirates.

Basel III capital ratio

The Bank calculates its Capital Adequacy Ratio in line with the Basel III guidelines issued by the Central Bank of the UAE.

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- *To comply with the capital requirements set by the Central Bank of the UAE ("CBUAE");*
- *To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and*
- *To maintain a strong capital base to support the development of its business.*

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes share capital, reserves, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy calculation purposes.
- Tier 2 capital, which includes collective impairment allowance and fair value reserves relating to unrealised gains/losses on investments classified as available for sale.

Various limits are applied to elements of the capital base:

- CET1 must be at least 7.0% of risk weighted assets (RWA);
- Tier 1 Capital must be at least 8.5% of risk weighted assets;
- Total Capital, calculated as the sum of Tier 1 and Tier 2 Capital, must be at least 10.5% of RWAs.

34. Capital management (continued)

The additional capital buffers (Capital Conservation Buffer (CCB) and Countercyclical Capital Buffer (CCyB) - maximum up to 2.5% for each buffer) were introduced under Basel III regulations are over and above the minimum CET1 requirement of 7%.

The Bank has complied with all externally imposed capital requirements throughout the year.
The assets of the Bank are risk weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, and commodity risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

The Bank follows the standardised approach for credit/market and basic indicator for operational risk, as permitted by the Central Bank of the UAE ("CBUAE") and as per Pillar 1 of Basel III.

The regulatory capital position of the Bank at the year-end under Basel Ill is as follows:

	2024	2023
Capital Base	**AED '000**	AED '000
Assigned capital	**2,350,000**	2,350,000
Statutory reserve	**538,287**	532,092
Accumulated deficit	**(979,382)**	(1,034,562)
CET 1 Capital before regulatory deduction	**1,908,905**	1,847,530
Less: Regulatory deductions (DTA)	**(1,363,926)**	(1,422,094)
Total Tier 1 Capital	**544,979**	425,436
Tier 2 Capital		
General provisions	**45,261**	46,453
Total Tier 2 Capital	**45,261**	46,453
Total Eligible Capital	**590,240**	471,889

Capital Adequacy Ratio (CAR) under Basel III in accordance with regulations of the Central Bank of the U.A.E. is as follows:

	2024 **AED '000**	2023 AED '000
Total capital base	**590,240**	471,889
Risk-weighted assets		
Credit risk	**3,620,885**	3,716,238
Operational risk	**25,347**	-
Market risk	**10,238**	10,258
Total risk weighted assets (RWA)	**3,656,470**	3,726,496
Tier 1 capital ratio	**14.90%**	11.42%
Tier 2 capital ratio	**1.24%**	1.24%
Capital adequacy ratio	**16.14%**	12.66%

34. Capital management (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Credit Facility Department, and is subject to review by ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account is also taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the longer term strategic objectives of the Bank. The policies of the Bank in respect of capital management and allocation are reviewed regularly.

35. Assets and liabilities re-pricing profile

Assets and liabilities re-pricing profile has been determined on the basis of the final maturity period or interest re-pricing periods, at the reporting date, whichever is earlier.

		Less than 3 months	3 months to 1 year	Over 1 year	Non-interest	Total
December 31, 2024		*AED '000*	*AED '000*	*AED '000*	*AED '000*	*AED '000*
Cash and balances with Central Bank of the U.A.E		1,201,814	-	-	-	**1,201,814**
Due from Head office and its branches abroad		223,096	-	-	-	**223,096**
Due from other banks		958,060	-	-	-	**958,060**
Loans and advances		668,989	8,081	1,899,020	-	**2,576,090**
Other assets		-	-	1,400,315	-	**1,400,315**
Fixed assets		-	-	-	39,111	**39,111**
Total assets	**(A)**	**3,051,959**	**8,081**	**3,299,335**	**39,111**	**6,398,486**
Liabilities						
Due to other banks		1,014,714	282,706	-	-	**1,297,420**
Customer deposits		819,732	1,485,689	7,021	-	**2,312,442**
Due to Head office and its branches abroad		628,088	69,101	-	-	**697,189**
Other liabilities		8,364	18,045	154	89,060	**115,623**
Total liabilities	**(B)**	**2,470,898**	**1,855,541**	**7,175**	**89,060**	**4,422,674**
Interest rate sensitivity gap	**(A-B)**	**581,061**	**(1,847,460)**	**3,292,160**	**(49,949)**	**1,975,812**
Represented by:						
Assigned capital						**2,350,000**
Statutory reserve						**538,287**
Impairment reserve						**66,907**
Accumulated deficit						**(979,382)**
Total equity						**1,975,812**

35. Assets and liabilities re-pricing profile (continued)

December 31, 2023		**Less than 3 months** AED '000	**3 months to 1 year** AED '000	**Over 1 year** AED '000	**Non-interest** AED '000	**Total** AED '000
Cash and balances with Central Bank of the U.A.E		-	-	-	741,142	741,142
Due from Head office and its branches abroad		182,290	-	-	55,933	238,223
Due from other banks		973,568	-	-	5,186	978,754
Loans and advances		620,954	7,685	1,965,888	-	2,594,527
Other assets		-	-	-	1,489,064	1,489,064
Fixed assets		-	-	-	42,791	42,791
Total assets	**(A)**	1,776,812	7,685	1,965,888	2,334,116	6,084,501
Liabilities						
Due to other banks		78,656	366,560	-	805,792	1,251,008
Customer deposits		498,292	1,629,326	9,042	329,359	2,466,019
Due to Head office and its branches abroad		192,011	69,112	-	58,864	319,987
Other liabilities		18,855	61,726	334	52,708	133,623
Total liabilities	**(B)**	787,814	2,126,724	9,376	1,246,723	4,170,637
Interest rate sensitivity gap	**(A-B)**	988,998	(2,119,039)	1,956,512	1,087,393	1,913,864
Represented by:						
Assigned capital						2,350,000
Statutory reserve						532,092
Impairment reserve						66,334
Accumulated deficit						(1,034,562)
Total equity						1,913,864

36. Sanctions and Regulatory Restrictions – Assessment of Going Concern Assumption

The Bank operates under a complex regulatory environment influenced by various international sanctions and restrictions imposed by global authorities, including the United Nations Security Council, the United States Department of the Treasury's Office of Foreign Assets Control (OFAC), and the European Union.

In Resolution No. 1803, dated March 3, 2008, the United Nations Security Council called on member states to exercise vigilance over financial institutions domiciled in Iran, including Bank Saderat Iran and its overseas branches. The Bank has fully complied with Central Bank of UAE notices issued in this regard.

The Bank has also been subject to long-standing restrictions imposed by the United States Department of the Treasury through OFAC. Bank Saderat Iran was designated under Executive Order 13224 and remains listed on OFAC's Specially Designated Nationals (SDN) List. In its press release dated February 14, 2024, OFAC reaffirmed these sanctions, specifically highlighting continued restrictions on the Bank due to its alleged involvement in financing terrorist organizations. These measures prohibit U.S. persons from transacting with the Bank and impose secondary sanctions risks on non-U.S. entities engaging in significant dealings with the Bank.

Further, on January 29, 2024, the European Union, through Council Implementing Regulation (EU) 2024/329, renewed its restrictive measures on Bank Saderat Iran, citing its continued association with entities engaged in destabilizing regional activities. These restrictions include asset freezes, cross-border payment limitations, and prohibition of specialized financial services access.

As a result of these sanctions, Bank Saderat Iran remains disconnected from the SWIFT network following the European Union Council Decision 2012/152/CFSP, which took effect on March 17, 2012. Despite the inability to access SWIFT and other global financial platforms, the Bank has adapted by utilizing alternative communication and settlement mechanisms with correspondent banks that are not subject to similar restrictions. The Bank maintains operational liquidity and processes local and regional transactions through established internal systems and partnerships with Iranian financial institutions operating under permitted frameworks.

Management has undertaken a detailed assessment of the impact of these restrictions on the Bank's ability to continue as a going concern. Based on this assessment, management is of the view that:

- The Bank has adequate resources to continue its operations for the foreseeable future;
- The sanctions have not resulted in any material curtailment of the Bank's core operating activities within the UAE;
- The Bank has not defaulted on its financial obligations and continues to meet regulatory capital and liquidity requirements set by the Central Bank of the UAE.

Accordingly, the financial statements have been prepared on a going-concern basis. However, management notes that the continuation of operations is subject to evolving geopolitical conditions and regulatory developments.

36. Sanctions and Regulatory Restrictions – Assessment of Going Concern Assumption (continued)

These financial statements do not reflect any adjustments that may arise from future sanctions or enforcement actions that could affect the Bank's operations, financial position, or ability to continue as a going concern.

Management closely monitors international developments and will take appropriate measures to ensure compliance and operational resilience.

37. Comparative figures

Specific comparative figures have been reclassified/regrouped, wherever necessary, as to conform to the presentation adopted in these financial statements.

In the opinion of the management all the assets as shown in the financial statements are existing and realisable at the amount shown against them and there are no liabilities against the Bank, contingent or otherwise, not included in the above financial statements.

38. **Reissuance of Financial Statements**

Background

These financial statements supersede the previously issued financial statements dated April 9, 2025 (Reference No. HAMT/MYD/2024/14713). The reissuance was necessitated by reassessing the Bank's Expected Credit Loss (ECL) model under IFRS 9 – Financial Instruments.

Reason for Reissuance

As part of its commitment to maintaining high-quality financial reporting, the Bank conducted a comprehensive internal review of its ECL model. The review identified the need for refinements to improve the model's precision and to ensure its continued alignment with IFRS 9. The updated model provides a more robust and supportable estimation of credit losses.

Impact of Reassessment

The recalibrated model resulted in the following revised ECL provisions being recognized in the reissued financial statements:

Stage 1 ECL Provision: AED 194,000

Stage 2 ECL Provision: AED 2,000

These adjustments have been recorded in the Bank's accounting records and fully reflected in the reissued financial statements as of the original reporting date.

Subsequent Events Assessment

Under IAS 10 – Events after the Reporting Period, management assessed events occurring between the date of the previously issued financial statements and the date of this reissuance. No events that would necessitate further adjustment or additional disclosure in the financial statements were identified.