

EMIRATES DEVELOPMENT BANK PJSC

**Auditors' report and consolidated financial
statements for the year ended 31 December 2025**

EMIRATES DEVELOPMENT BANK PJSC

**Reports and consolidated financial statements
for the year ended 31 December 2025**

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Independent auditors' report

To the Shareholder of Emirates Development Bank PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Emirates Development Bank PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2025, the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2025, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable requirements of Standards on Auditing the Financial Statements of the Entities that are Subject to the Control of the UAE Accountability Authority issued vide Federal Administrative Decision No. 157 of 2024 (UAE Accountability Authority Auditing Standards). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), as applicable to audits of the consolidated financial statements of public interest entities, together with the ethical and independence requirements of the UAE Accountability Authority that are relevant to audits of the financial statements of public interest entities in the United Arab Emirates. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Key Audit Matters

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

Expected credit loss (ECL) on loans and advances to customers and Islamic financing	
See Note 6, and 7 to the consolidated financial statements.	
The key audit matter	How the matter was addressed in our audit
<p>The estimation of expected credit losses ("ECL") on loans and advances to customers and Islamic financing involves significant judgement and estimates. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's estimation of ECL are:</p> <p>Model estimations:</p> <p>The Group exercises significant judgments and makes a number of assumptions to estimate ECL which involves determining Probability of Default ("PD"), Loss Given Default ("LGD"), and Exposure at Default ("EAD").</p>	<p>We performed the following audit procedures on appropriateness of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2025:</p> <ul style="list-style-type: none"> Evaluating the appropriateness of the accounting policies adopted by the Group, taking into account the requirements of the applicable IFRS Accounting Standards and our understanding of the Group's business. Obtaining an understanding of the ECL accounting estimate including, but not limited to the Group's control environment relating to the estimate; the process by which the estimate is developed; and the methods, assumptions and data used in its development. We evaluated the design, determined the implementation, and tested the operating effectiveness of the relevant controls. Involving our Information Technology ("IT") specialists to test the relevant general IT and application controls over key systems used in the ECL process.



Key Audit Matters (continued)

Expected credit loss (ECL) on loans and advances to customers and Islamic financing

See Note 6, and 7 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> <p>▲ Involving our Financial Risk Management ("FRM") specialists to assess, for a selection of models, the reasonableness and appropriateness of the methodologies and assumptions applied in key components of ECL models based on their industry knowledge and relevant experience. The procedures performed included, where applicable, challenging key assumptions and judgments relating to significant increase in credit risk ("SICR"), the definition of default, PD, LGD, the use of macro-economic variables, and the probability-weighted outcomes, to evaluate whether the recorded ECL amounts appropriately reflect underlying credit risk and the prevailing macroeconomic conditions. Further, our FRM specialists assisted us in testing the appropriateness of the ECL calculations by re-performing the calculation for a sample of loans and advances to customers and Islamic financing.</p> <p>● Re-performing key aspects of the Group's SICR determinations for selected samples of loans and advances to customers and Islamic financing by analysing the financial information, assumptions, and judgements applied by the Group, to determine whether a SICR event was appropriately identified, including the basis for movement between stages.</p>



Key Audit Matters (continued)

Expected credit loss (ECL) on loans and advances to customers and Islamic financing

See Note 6, and 7 to the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
	<ul style="list-style-type: none"> Performing independent credit assessments for a sample of non-retail customers by evaluating the quantitative and qualitative factors to assess the appropriateness of credit grades, including staging. This included analysing the customer's financial performance, sources of repayment, future cash flows, collateral values and other relevant risk factors. Assessing the adequacy of the disclosures made in the Group's consolidated financial statements against the requirements of relevant accounting standards.

Other Matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2024 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 25 March 2025.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards and their preparation in compliance with the applicable provisions of the laws and regulations and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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



Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (continued)

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 and UAE Accountability Authority Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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



**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
(continued)**

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 Accountability Authority Auditing Standards, we report that based on the procedures performed and information provided to us by management and those charged with governance, nothing has come to our attention that causes us to believe that the Bank has not complied, in all material aspects, with any of the provisions of the following laws applicable to its activities, regulations and circulars as applicable, which would have a material impact on the consolidated financial statements as at 31 December 2025:

- i) its Article of Association which would materially affect its activities or its financial position as at 31 December 2025; and
- ii) relevant provisions of the applicable laws, resolutions and circulars that have an impact on the Group's consolidated financial statements.

KPMG Lower Gulf Limited

Maher AlKatout
Registration No.: 5453
Abu Dhabi, United Arab Emirates

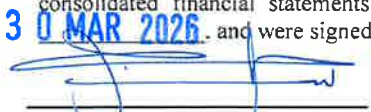
Date: **30 MAR 2026**

EMIRATES DEVELOPMENT BANK PJSC
Consolidated statement of financial position
as at 31 December 2025

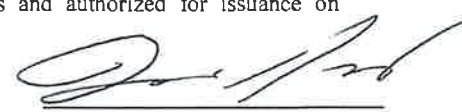
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	Notes	31 DECEMBER 2025 AED'000	31 DECEMBER 2024 AED'000
Assets			
Cash and balances with the UAE Central Bank	29	1,070,680	1,278,065
Balances and deposits with banks	5	5,186,190	5,403,168
Loans and advances to customers	6	6,142,615	5,139,606
Islamic financing	7	124,802	117,185
Investment securities	8	4,786,049	3,259,244
Investment in associate	9	20,847	-
Derivative financial instruments	31	55,428	11,699
Investment properties	10	521,585	503,702
Intangibles	12	8,553	20,804
Property and equipment	13	37,505	27,846
Other assets	11	198,326	219,569
Total assets		18,152,580	15,980,888
Liabilities			
Due to banks	33	437,300	-
Derivative financial instruments	31	17,158	90,587
Deposits and funds	14	4,567,268	3,114,152
Term borrowings	15	5,594,289	5,474,723
Other liabilities	16	642,763	862,281
Total liabilities		11,258,778	9,541,743
Equity			
Share capital	17	4,758,390	4,708,390
Statutory reserve	18	687,297	655,925
Retained earnings		1,149,148	895,369
Impairment reserve	34	92,893	64,632
Investment revaluation reserve		188,219	96,974
Revaluation surplus		17,855	17,855
Total equity		6,893,802	6,439,145
Total liabilities and equity		18,152,580	15,980,888

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial condition, financial performance, and cash flows of the Group as of, and for, the periods presented therein. These consolidated financial statements were approved by the Board of Directors and authorized for issuance on 30 MAR 2026 and were signed on its behalf by:


H.E. Dr. Sultan Ahmed Al Jaber
Chairman


Ahmed Mohamed Al Naqbi
Chief Executive Officer


David Trafford
Chief Financial Officer

The notes on pages 15 to 106 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

EDB Classification: Confidential تصنيف مصرف الإمارات للتنمية: سري
The accompanying notes form an integral part of these consolidated financial statements.

EMIRATES DEVELOPMENT BANK PJSC
Consolidated statement of profit or loss
for the year ended 31 December 2025

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	Notes	2025 AED'000	2024 AED'000
Income			
Interest income	20	800,019	827,105
Interest expense	21	(315,992)	(379,659)
Net interest income		484,027	447,446
Profit from Islamic financing		8,083	57,781
Net interest income and profit from Islamic financing		492,110	505,227
Investment income	22	21,109	32,423
Fees and commission income	23	59,252	45,341
Other income - <i>net</i>	24	16,228	24,632
Total operating income		588,699	607,623
Expenses			
Salaries and employee benefits		(203,179)	(164,849)
Depreciation and amortization	25	(17,525)	(12,463)
Operating and administrative expenses	26	(99,882)	(86,978)
Impairment reversal / (charge) - <i>net</i>	27	54,530	(9,022)
Profit before fair value changes on financial assets at fair value through profit or loss ("FVTPL")		322,643	334,311
Fair value gain on investment properties classified at FVTPL	10	17,883	22,153
Profit before tax for the year		340,526	356,464
Income tax expense	32	(26,809)	(31,246)
Net profit for the year		313,717	325,218

The notes on pages 15 to 106 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

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EMIRATES DEVELOPMENT BANK PJSC
Consolidated statement of other comprehensive income
for the year ended 31 December 2025

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	Notes	2025 AED'000	2024 AED'000
Net profit for the year		313,717	325,218
Other comprehensive income items			
<i>Items that will not be reclassified to profit or loss</i>			
Fair value gain on financial assets designated at FVTOCI – net of tax	8.2	88,149	54,048
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Fair value gain / (loss) on financial assets designated at FVTOCI	8.2	2,791	(12)
Other comprehensive income for the year, net of tax		90,940	54,036
Total other comprehensive income		404,657	379,254

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The independent auditors' report is set out on pages 3 to 9.

EMIRATES DEVELOPMENT BANK PJSC
Consolidated statement of changes in equity
for the year ended 31 December 2025

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	Share capital AED'000	Statutory reserve AED'000	Retained earnings AED'000	Impairment Reserve AED'000	Investment revaluation reserve AED'000	Revaluation surplus AED'000	Total equity AED'000
Balance at 1 January 2024	4,658,390	623,403	648,260	15,088	46,895	17,855	6,009,891
Net profit for the year	-	-	325,218	-	-	-	325,218
Fair value gain on financial assets designated at FVTOCI - <i>net of tax</i>	-	-	-	-	54,036	-	54,036
Total other comprehensive income for the year	-	-	325,218	-	54,036	-	379,254
Transfer to statutory reserve	-	32,522	(32,522)	-	-	-	-
Transfer to IFRS reserve	-	-	(49,544)	49,544	-	-	-
Fair value gain transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	-	-	3,957	-	(3,957)	-	-
Increase in share capital	50,000	-	-	-	-	-	50,000
Balance at 31 December 2024	4,708,390	655,925	895,369	64,632	96,974	17,855	6,439,145
Net profit for the year	-	-	313,717	-	-	-	313,717
Fair value gain on financial assets designated at FVTOCI - <i>net of tax</i>	-	-	-	-	90,940	-	90,940
Total comprehensive income for the year	-	-	313,717	-	90,940	-	404,657
Transfer to statutory reserve	-	31,372	(31,372)	-	-	-	-
Transfer to IFRS reserve	-	-	(28,261)	28,261	-	-	-
Fair value gain transferred within equity upon disposal of investments in equity instruments designated at FVTOCI	-	-	(305)	-	305	-	-
Increase in share capital	50,000	-	-	-	-	-	50,000
Balance at 31 December 2025	4,758,390	687,297	1,149,148	92,893	188,219	17,855	6,893,802

The notes on pages 15 to 106 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

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

تصنيف مصرف الإمارات للتدبير: سري

EDB Classification: Confidential

EMIRATES DEVELOPMENT BANK PJSC
Consolidated statement of cash flows
for the year ended 31 December 2025

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	Notes	2025 AED'000	2024 AED'000
Cash flows from operating activities			
Net profit for the year		313,717	325,218
<i>Adjustments for:</i>			
Depreciation and amortization	25	17,525	12,463
Fair value changes on derivative financial instruments designated at FVTPL	22	2,397	-
Fair value changes on investment properties	10	(17,883)	(22,153)
Fair value changes on bonds and sukuks designated at FVTPL	22	(2,747)	(4,701)
Dividend income	22	(20,141)	(23,255)
Amortisation of premium on investment securities	8	(15,839)	(2,361)
Amortisation of issuance cost on term borrowing		783	881
Provision for employees' end of service benefits		5,223	4,809
Income tax expense		26,809	31,246
(Reversal) / charges of provision for impairment on financial assets	27	(54,530)	9,022
Write-off of property and equipment	24	8,063	-
Write-off of intangibles	24	22,955	-
Operating cash flow before changes in working capital		286,332	331,169
<i>Working capital changes:</i>			
Deposits with banks maturing after three months		679,143	1,518,863
Loans and advances to customers		(962,795)	620,962
Islamic financing		(4,791)	1,563,378
Other assets		21,243	(65,212)
Due to banks		437,300	-
Deposits and funds		1,457,112	(2,243,493)
Other liabilities		(236,720)	563,989
Cash generated from operating activities		1,676,824	2,289,656
Employees' end of service benefits (paid)/reverse		(2,277)	463
Income tax paid		(30,613)	-
Net cash generated from operating activities		1,643,934	2,290,119
Cash flows from investing activities			
Purchase of property and equipment	13	(4,742)	(14,989)
Purchase of intangible assets	12	(16,434)	-
Investment properties additions	10	-	(1,522)
Investment in associate	9	(20,847)	-
Dividend received		20,141	25,275
Investment securities purchased	8	(6,630,454)	(1,795,448)
Investment securities sold	8	5,221,078	299,468
Net cash used in investing activities		(1,431,258)	(1,487,216)
Cash flows from financing activities			
Increase in share capital	17	50,000	50,000
Maturity of term borrowing	14	-	(2,754,750)
Proceeds from term borrowings	15	(771)	2,800,000
Repayment of lease liability		(7,005)	(4,313)
Net cash generated from financing activities		42,224	90,937
Net increase in cash and cash equivalents		254,900	893,840
Cash and cash equivalents at 1 January		2,651,457	1,757,617
Cash and cash equivalents at 31 December	29	2,906,357	2,651,457

The notes on pages 15 to 106 form an integral part of these consolidated financial statements.

The independent auditors' report is set out on pages 3 to 9.

EDB Classification: Confidential تصنيف مصرف الإمارات للتتمية: سري

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

1 Legal status and principal activities

Emirates Development Bank (“EDB” or “the Bank”), was incorporated as a shareholding company, fully owned by the Federal Government of United Arab Emirates as per the decree issued by the President, Sheikh Khalifa bin Zayed Al Nahyan, Federal Law No. 7 (the “EDB Law”) issued on 18 September 2011, by merging the operations and assets and liabilities of Emirates Industrial Bank (“EIB”) and Real Estate Bank (“REB”), both existing Federal banks that were established under separate laws (“the merged banks”). The EDB Law became effective from 30 September 2011.

The main objectives of the Bank are to enable UAE’s industrial development, accelerate the adoption of advanced technologies, empower the growth of SMEs in the UAE, encourage entrepreneurship and innovation.

The Bank together with its subsidiaries, Emirates Integrated Registries Company (EIRC) and Emirates Growth Fund Holding Limited (EGF Holding), (together referred to as the “Group”) is engaged in providing industrial loans, managing the integrated registries services, and facilitating access to equity financing for industrial SMEs, through a patient approach in UAE. The Federal Government is the Ultimate Parent Company and Controlling Party of the Group.

EGF Holding was incorporated on 05 April 2024 (a fully owned subsidiary of the Bank) in the jurisdiction of Abu Dhabi Global Market as a private company limited by shares as a special purpose vehicle to be incorporated under the applicable regulations and sub-ordinate rules of the Abu Dhabi Global Market.

The registered address of the Bank is P.O. Box 51515, Abu Dhabi, United Arab Emirates.

2 Basis of preparation

2.1 Statement of compliance

These consolidated financial statements have been prepared on a going concern basis, as management is satisfied that the Group has adequate resources to continue as a going concern for the foreseeable future, in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and the requirements of applicable laws in the UAE. IFRS Accounting Standards comprise accounting standards issued by the IASB as well as Interpretations issued by the International Financial Reporting Standard Interpretations Committee (“IFRS IC”).

The Bank is in compliance with the applicable requirements of Federal Decree Law No. 7 of 2011 and Federal Law No. 32 of 2021, as amended, on Commercial Companies Law.

2.2 Basis of measurement

These consolidated financial statements have been prepared under the historical cost convention, except for the investment properties, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments which are carried at fair value.

2.3 Functional and presentation currency

These consolidated financial statements are prepared and presented in United Arab Emirates Dirham (“AED”), which is the Group’s functional and presentation currency except for its subsidiary EGF Holding, which uses AED as its functional currency however reports in USD. Amounts have been rounded to nearest thousand (AED’000) except where otherwise indicated.

2 Basis of preparation (continued)

2.4 Use of estimates and judgments

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which the estimate is revised and in any future periods affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

3 Summary of material accounting policies

3.1 Basis of consolidation

Subsidiaries are investees that are controlled by the Group. The Group controls the investee if it meets the control criteria. Control is achieved when the Group:

- has power over the investee;
- has exposure to, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the elements of control. This includes circumstances in which protective rights held become substantive and lead to the Group having power over an investee. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

The consolidated financial statements comprise the financial statements of the Bank and its following subsidiaries:

Legal Name	Country of incorporation	Year of incorporation	Holding %
Emirates Integrated Registries Company – Sole Proprietorship L.L.C.	United Arab Emirates	2018	100%
Emirates Growth Fund Holding Limited	United Arab Emirates	2024	100%

Investment in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the entity but no control or joint control over those policies. Investment in associates is accounted under the equity method of accounting.

3 Summary of material accounting policies (continued)

3.1 Basis of consolidation (continued)

Investment in associates (continued)

Under the equity method, the investment in an associate is recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity accounted investees, until the date on which significant influence or joint control ceases.

The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the consolidated statement of other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity.

The financial statements of the associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and then recognises the loss in the consolidated statement profit or loss. The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture.

The consolidated financial statements include the results of following investment in associates:

Name	Country of incorporation	Year of incorporation	Holding %
Tarmeem Healthcare Holding Ltd ("Tarmeem")	United Arab Emirates	2025	20%

3.2 New and revised IFRSs that are effective for the current year

The following new and revised IFRSs that are mandatorily effective for accounting periods that begins on or after 1 January 2025 have also been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates relating to Lack of Exchangeability.

3 Summary of material accounting policies (continued)

3.3 Standards and Interpretations in issue but not yet effective and not early adopted

The Group has not early adopted any new and revised standards that have been issued but are not yet effective. The Group is currently evaluating the impact of the new standards and amendments to the existing standards and expects to adopt them on the effective date.

New accounting standards or amendments	Effective date
Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7	1 January 2026
Contracts Referencing Nature-dependent Electricity – Amendments to IFRS 9 and IFRS 7	1 January 2026
Annual Improvements to IFRS Accounting Standards – Volume 11	1 January 2026
IFRS 18 Presentation and Disclosure in Financial Statements	1 January 2027
IFRS 19 Subsidiaries without Public Accountability: Disclosures	1 January 2027
Translation to a Hyperinflationary Presentation Currency – Amendments to IAS 21	1 January 2027
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28	The effective date for these amendments was deferred indefinitely. Early adoption continues to be permitted.

3.4 Financial assets and financial liabilities

3.4.1 Recognition

The Group initially recognises loans and advances to customers, Islamic financing, balances and deposits with banks and UAE Central Bank, investment securities, deposits and funds from governmental institutions, term borrowing and other financial assets and liabilities on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for other receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.2 Classification and initial measurement

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

On initial recognition, a financial asset is classified as measured at: amortised cost, FVTOCI or FVTPL.

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

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

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

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

By default, all other financial assets are measured subsequently at FVTPL.

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

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

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.2 Classification and initial measurement (continued)

Business model assessment

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

- The stated policies and objectives for the portfolio and the operation of those policies in practice;
- How the performance of the portfolio is evaluated and reported to the Group's management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets. The Group do not hold any financial assets that are held for trading.

Assessment of whether contractual cash flows are solely payments of principal and interest

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

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers contingent events that would change the amount and timing of cash flows, prepayment and extension terms, terms that limit the Group's claim to cash flows from specified assets and features that modify consideration of the time value of money.

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.2 Classification and initial measurement (continued)

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, adjusted for any loss allowance.

Debt instruments measured at FVTOCI

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

- Interest revenue using the effective interest method;
- Expected credit losses (ECL) and reversals; and
- Foreign exchange gains and losses.

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

Equity instruments designated at FVTOCI

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is designated as effective hedging instrument).

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.2 Classification and initial measurement (continued)

Equity instruments designated at FVTOCI (continued)

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

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is designated as effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI and accumulated in the investments revaluation reserve. The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss, unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI are measured at FVTPL.

Reclassifications

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

Islamic financing

Following terminologies in Islamic financing, classified under each of the financial instrument classification mentioned above, have been used in the preparation of these consolidated financial statements:

Estisnaa contracts represent financing for the construction of industrial civil works on a deferred payment basis. An *Estisnaa* contract is recognised when money is disbursed to the contractor for the construction of civil works for the borrower.

Other Estisnaa contracts are followed by *Ijarah* contract between the Bank and Emirates Real Estate Corporation, whereby Emirates Real Estate Corporation, based on an order from the Bank, undertakes to construct and subsequently lease the subject matter of the contract according to a specific price and method of payment.

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.2 Classification and initial measurement (continued)

Islamic financing (continued)

Ijarah contracts are finance lease contracts. The *Ijarah* contract term constitutes a major part of the economic life of the asset, and the significant risks and rewards incidental to ownership, are substantially transferred to the lessee. Title may or may not eventually be transferred to the lessee.

Wakala contracts represent agreement between the Group and customer whereby one party (Muwakkil) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions and expected return in consideration of performance incentive and/or a certain fee based on the *Wakala* agreement. The expected return payable to the Muwakkil is subject to actual return generated under the *Wakala* investment. In case the actual return is less than the expected return, the agent shall be obliged to guarantee any losses or shortfall arises due to its negligence or violation of any of the terms and conditions of the *Wakala* otherwise, losses are borne by Muwakkil. In case the actual return is more than the expected return, the Muwakkil shall be entitled to the expected return amount, and any excess amount shall be entitled by the Wakil as incentive.

Financial liabilities

The Group has classified and measured its financial liabilities at amortised cost.

3.4.3 Derecognition

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in an equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.4 Modification of financial assets and liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted for as follows:

- fees that are considered in determining the fair value of new assets and fees that represent reimbursement of eligible transaction costs is included in the initial measurement of the asset; and
- other fees are included in profit or loss as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximise recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Group plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

If the modification of a financial asset measured at amortised cost or FVTOCI does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss. For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortised over the remaining term of the modified financial asset.

If such a modification is carried out because of financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial liabilities

The Group derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability derecognised and consideration paid is recognised in profit or loss. Consideration paid includes non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortised cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognised as an adjustment to the carrying amount of the liability and amortised over the remaining term of the modified financial liability by re-computing the effective interest rate on the instrument.

3 Summary of material accounting policies (continued)

3.4 Financial assets and financial liabilities (continued)

3.4.5 Offsetting

Financial assets and liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it intends either to settle 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 under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.3.6 Fair value measurement

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 in the principal market of the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability which the Group has access to as at that date. The fair value of a liability reflects its non-performance risk.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs into the model. Further information on the carrying amounts of these assets and the sensitivity of those amounts to changes in unobservable inputs are provided in note 35.7.

The Group applies the following fair value adjustments to its base valuation procedures to better reflect the individual characteristics of trades that market participants would consider when trading in or setting specific prices for these instruments.

Credit value adjustment

The credit valuation adjustment (CVA) is an adjustment to the valuation of over the counter (OTC) derivative contracts to reflect the possibility that the counterparty may default and that the Group may not receive the full market value of the transactions.

These adjustments are calculated for both uncollateralized and collateralised derivatives across all asset classes. CVA is calculated using estimates of expected positive exposures, probability of default and recovery rates, at a counterparty level. Counterparties include (but are not limited to) financial institutions, corporates, sovereign and sovereign agencies and supranational. Expected exposure is generally estimated through the simulation of underlying risk factors through Monte Carlo simulation techniques.

Probability of default and recovery rate information is generally sourced from the CDS markets. Where this information is not available, or considered unreliable, alternative approaches are taken based on mapping the counterparty to a sector curve based on the rating, the region and the industry sector.

3 Summary of material accounting policies (continued)

3.3 Financial assets and financial liabilities (continued)

3.3.7 Impairment

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

- Financial assets that are debt instruments; and
- Loan commitments and financial guarantee contracts.

The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instruments.

No impairment loss is recognised on equity instruments.

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- Debt investment securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments on which credit risk has not increased significantly since their initial recognition.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that results from default events on financial instruments that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1".

Life-time ECL are the ECL that results from all possible default events over the expected life of the financial instruments. Financial instruments for which a life-time ECL is recognised but which are not credit-impaired are referred to as "Stage 2".

Impairment and ECL are used interchangeably throughout these consolidated financial statements.

Measurement of ECL

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

- *Financial assets that are not credit-impaired at the reporting date*: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- *Financial assets that are credit-impaired at the reporting date*: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- *Undrawn loan commitments*: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- *Financial guarantee contracts*: the expected payments to reimburse the holder less any amounts that the Group expects to recover.

For more details in relation to ECL measurement, please refer to note 35.2.4 (h).

3 Summary of material accounting policies (continued)

3.3 Financial assets and financial liabilities (continued)

3.3.7 Impairment (continued)

Restructured financial assets

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

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

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt financial assets carried at FVTOCI are credit impaired. Credit-impaired financial assets are referred to as "Stage 3". 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.

Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or past due event;
- Restructuring of a loan by the Group on terms that the Group would not consider otherwise;
- It became probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for ECL are presented in the consolidated statement of financial position as follows:

- *financial assets measured at amortized cost*: as a deduction from the gross amount of the assets;
- *loan commitments and financial guarantee contracts*: generally, as a provision; and
- *debt instruments measured at FVTOCI*: no loss allowance is recognized in the consolidated statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

3.3.8 Write-off

Loans and debt securities shall be written off (either partially or in full) when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Recoveries of amounts previously written off are included in 'Impairment charge' in the consolidated statement of profit or loss.

3 Summary of material accounting policies (continued)

3.3.9 Central Bank of the UAE (CBUAE) provision requirements

As per Credit Risk Management Standards (CRMS) issued by CBUAE and notice no. BUAЕ/BIS/2024/5131 dated 17 October 2024, if the general/collective provision cumulatively is higher than the impairment allowance computed under IFRS 9, the differential should be transferred to an "Impairment Reserve" as an appropriation from the retained earnings. The impairment reserve will not be available for payment of dividend.

3.4 Provision for staff end of service benefits

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 Decree Law No. 57, 2023 for Pension and Social Security. The provision for staff end of service benefits, a defined benefit scheme, is calculated as per the approved Group staff regulations.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to the date of the consolidated statement of financial position. Provision is also made for the end of service benefits due to employees in accordance with the UAE Labour Law and the Group's policy and internal regulations for their periods of service up to the date of the consolidated statement of financial position.

An actuarial valuation has not been performed on employees' end of service benefits as the net impact of the discount rate and future salary and benefit levels on the present value of the benefits obligation are not likely to be significant.

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

3.5 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, balances with the UAE Central Bank, money in call accounts, placements and balances with other banks with original maturities of less than three months.

3.6 Balances and deposits with banks

Balances and deposits with banks are financial assets which are mainly money market placements with fixed or determinable payments and fixed maturities that are not quoted in an active market. Money market placements are not entered into with the intention of immediate or short-term resale. Balances and deposits with banks are initially measured at cost, being the fair value of the consideration given. Following the initial recognition, these are stated at amortised cost, less impairment allowances.

3.7 Investment properties

Investment properties principally comprise of commercial lands and buildings held by the Group for long-term rental yields or for capital appreciation or both. Investment property is initially measured at cost and subsequently at fair value with any change therein recognised in profit or loss within other income. Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3 Summary of material accounting policies (continued)

3.7 Investment properties (continued)

The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair value of the Group's investment property has been arrived at on the basis of a valuation carried out at the end of reporting period by the independent valuers engaged by the Group. The valuation conforms to Royal Institution of Chartered Surveyors Valuation – Global Standards. The fair value was determined based on the market comparable approach that reflects recent transaction prices for similar properties and investment approach that is determined through the analysis of income flow and projected expenditures of the property.

Investment properties is derecognised upon disposal or when the investment properties is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gains or losses arising from the retirement or disposal of investment properties, calculated as the difference between the net disposal proceeds and the carrying amount are included in the consolidated statement of profit or loss in the period in which the property is derecognised.

The Group shall transfer a property to, or from, investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. If an owner-occupied property becomes an investment property that will be carried at fair value, the Bank shall apply IAS 16 for owned property up to the date of change in use. Any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value shall be treated in the same way as a revaluation in accordance with IAS 16.

Investment properties under development

Investment properties under development that are being constructed or developed for future use as investment property, are measured initially at cost, including including all direct costs attributable to the design and construction of the property including related staff costs. Upon completion of construction or development, such properties are transferred to completed investment properties. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of investment property under development is included in the consolidated statement of profit or loss in the period in which they arise.

3.8 Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Group at the spot exchange rates at the date of the transactions

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

3 Summary of material accounting policies (continued)

3.8 Foreign currency transactions (continued)

Foreign currency differences arising on translation are generally recognised in profit or loss. However, foreign currency differences arising from the translation of equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI is recognised as part of consolidated statement of other comprehensive income.

3.9 Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

3.10 Assets held for sale

Assets held for sale comprise of properties whose carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Such properties are initially measured and recognized at the lower of fair value less cost to sell and the carrying amount of the property. Any subsequent write-down of the acquired properties to fair value less cost to sell is recorded as an impairment loss and included in the consolidated statement of profit or loss. Any subsequent increase in the fair value less cost to sell, to the extent this does not exceed the cumulative impairment loss, is recognised in the consolidated statement of profit or loss.

3.11 Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed on straight-line basis so as to write down the cost of assets over its useful life. Lands granted from the Federal Government (shareholder) are not depreciated and are measured at nominal amount of AED 1.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment. If significant parts of an item of property or equipment have different useful lives then they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is recognised within other income in the consolidated statement of profit or loss.

3 Summary of material accounting policies (continued)

3.11 Property and equipment (continued)

Subsequent expenditure is capitalized only when it is probable that the future economic benefits of the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line method over their estimated useful lives and is recognized in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

The Group annually reviews the useful life estimates for all major asset categories and revises these to align them with reassessed expected useful lives, if required.

Asset class	Estimated useful life
Buildings	40 years
Furniture, fixtures and motor vehicles	4 years
Computer hardware	3 years
Right of use assets	for the period of the lease

3.12 Intangibles

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Group. Intangible assets acquired separately or in a business combination (other than goodwill) are measured on initial recognition at fair value and subsequently at cost less accumulated amortisation and impairment loss.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over useful economic life. Amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates and accounted for on a prospective basis. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of profit or loss.

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

Asset class	Estimated useful life
Computer software	5 years
Core banking license	5 years

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised within other income in the consolidated statement of profit or loss when the asset is derecognised.

3 Summary of material accounting policies (continued)

3.13 Impairment of non-financial assets

At the end of each reporting date, the Group reviews the carrying amounts of its assets in order to assess whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.14 Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

Group acting as a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use asset is initially measured at cost, comprising the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

3 Summary of material accounting policies (continued)

3.14 Leases (continued)

Group acting as a lessee (continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' on the consolidated statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group acting as a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative standalone prices. When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

3 Summary of material accounting policies (continued)

3.14 Leases (continued)

Group acting as a lessor (continued)

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract. The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group does not act as a lessor within its lease contracts, IFRS 16 does not have an impact on lessor accounting for the Group.

3.15 Deposits and funds

Deposits and funds from government related entities vested with and managed by the Group are accounted for within the financial liabilities of the Group (note 14).

3.16 Term borrowings

Term borrowings consist of debt securities and are the Group's sources of debt funding. The Group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Debt securities in issue are initially measured at fair value minus incremental direct transaction costs. Subsequently, they are measured at their amortised cost using the effective interest method.

3.17 Dividend distribution

Dividend distribution to the Bank's shareholder is recognised as a liability in the Group's consolidated financial statement in the period in which the dividends are approved by the shareholder.

3.18 Revenue and expense recognition

Interest income and expense

(i) Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. The calculation of the effective interest rate includes transaction costs and any discount or premium on the acquisition of the financial asset, as well fees and costs that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

3 Summary of material accounting policies (continued)

3.18 Revenue and expense recognition (continued)

Interest income and expense (continued)

(ii) Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance. The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

(iii) Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit impaired) or to the amortised cost of the liability.

The effective interest rate is revised as a result of periodic re estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

(iv) Presentation

Interest income calculated using the effective interest method presented in the consolidated statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense;
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk; and
- negative interest on financial liabilities measured at amortised cost.

Interest expense presented in the consolidated statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- negative interest on financial assets measured at amortised cost; and
- Interest expense on lease liabilities.

3 Summary of material accounting policies (continued)

3.18 Revenue and expense recognition (continued)

Income from Islamic financing activities

Ijara income is recognised on an effective profit rate basis over the lease term where the usufruct of the lease asset is being transferred to and used by the lessee, until such time a reasonable doubt exists with regard to its collectability.

Murabaha income is recognised based on a fixed deferred sale price stipulated in the Murabaha contract. Based on the Bank's internal accounting treatment, the profit element of the deferred sale price is being calculated on an effective profit rate basis over the period of the contract, until such time a reasonable doubt exists with regard to its collectability.

Wakala income is recognised on the effective profit rate basis over the period, adjusted by actual income when received. Losses are accounted for when incurred.

Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and for unlisted equity securities, when the shareholders approve it.

Fees and commission income and expense

The Group earns fee and commission income from a diverse range of financial services provided to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. The basis of accounting treatment of fees and commission depends on the purposes for which the fees are collected and accordingly the revenue is recognised in the Group's consolidated statement of profit or loss. Fee and commission income is accounted for as follows:

- income earned from the provision of services is recognised, as the services are rendered.
- income earned on the execution of a significant act is recognised, when the act is completed; and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recorded in "Interest income".

A contract with a customer that results in a recognised financial instrument in the Group's consolidated financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

Fee and commission expenses with regards to services are accounted for as the services are received.

Rental income

Rent arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is presented as part of 'Other income' in consolidated statement of profit or loss.

Fair value gain and loss on investment properties and financial assets at FVTPL

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in the consolidated statement of profit or loss to the extent they are not part of a designated hedging relationship.

Gains or losses arising from changes in the fair value of investment property are included in the consolidated statement of profit or loss in the period in which they arise.

3.19 Due to banks

Amounts due to banks are initially recognised at the fair value of the consideration received and are subsequently measured at amortised cost using the effective interest method.

3 Summary of material accounting policies (continued)

3.20 Financial guarantees and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions.

Liabilities arising from financial guarantees or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. The liability is subsequently carried at the higher of this amortised amount and the loss allowance determined in accordance with IFRS 9. Financial guarantees and commitments to provide a loan at a below-market interest rate are included within other liabilities.

3.21 Derivative financial instruments

Classification

The Group enters into derivative financial instruments such as interest rate cap and interest rate swap, obtained in capital markets. Derivative financial instruments, that do not qualify for hedge accounting are classified as "FVTPL – financial assets held for trading"

Initial and subsequent measurement

In the normal course of business, the fair value of a derivative on initial recognition is the transaction price. Subsequent to initial recognition, derivative financial instruments are stated at fair values. Fair values are generally obtained by reference to quoted market prices in active markets, or by using valuation techniques when an active market does not exist.

The positive mark to market values (unrealised gains) of derivative financial instruments is included in other assets. The negative mark to market values (unrealised losses) of derivative financial instruments is included in other liabilities.

Gains and losses on subsequent measurement

The gains or losses from derivative financial instruments classified as FVTPL are taken to the consolidated statement of profit or loss.

3.22 Income taxes

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively:

Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

3 Summary of material accounting policies (continued)

3.22 Income taxes (continued)

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

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

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale, and the Group has not rebutted this presumption.

Deferred tax assets and liabilities are offset only if certain criteria are met.

3.23 Hedge accounting

The Group designates certain derivatives as hedging instruments in respect of interest rate risk in fair value hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

3 Summary of material accounting policies (continued)

3.23 Hedge accounting (continued)

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship by way of rebalancing the hedge on a case-by-case basis, so that it meets the qualifying criteria again.

Fair value hedges

The fair value change on qualifying hedging instruments is recognised in consolidated statement of profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in consolidated statement of profit or loss.

Where hedging gains or losses are recognised in consolidated statement of profit or loss, they are recognised in the same line as the hedged item. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable).

This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk at the date of discontinuation is amortised to the consolidated statement profit or loss as part of the recalculated effective interest rate over the period to maturity or derecognition. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the consolidated statement profit or loss.

Hedge effectiveness testing

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Group adopts for assessing hedge effectiveness depends on its risk management strategy.

The Group assesses economic relationship and effectiveness on its designated hedges by matching critical terms of hedged item and hedging instrument as part of its qualitative assessment.

The critical terms matching method replicates the hedge item and hence is not used for those hedge relationships where the hedging derivative includes features that are not present in the hedged item. In such cases, the hedge effectiveness assessment is performed using other quantitative methods and may result in ineffectiveness. Some of the sources of ineffectiveness include the following:

- mismatches between the contractual terms of the hedged item and hedging instrument, including basis differences;
- significant changes in credit risk of the hedging instruments;
- the effects of the forthcoming reforms of Interest rate benchmark because these might take effect at a different time and have a different impact on hedged items and hedging instruments.

The ineffectiveness arising from quantitative assessments is recognised in the consolidated statement of profit or loss.

4 Critical accounting estimates and judgments

The preparation of the consolidated financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of financial assets and liabilities and the disclosure of contingent liabilities. These judgments, estimates and assumptions also affect the revenue, expenses and provisions as well as fair value changes.

These judgments, estimates and assumptions may affect the reported amounts in subsequent financial years. Estimates and judgments are currently evaluated and are based on historical experience and other factors. In order to reduce the element of subjectivity, the Group has laid down clear criteria to enable estimation of future cash flows. As estimates are based on judgments, actual results may differ, resulting in future changes in such provisions.

Following are the estimates and judgements which are applicable:

Impairment charge on financial assets

a) Significant increase in credit risk

As explained in note 35.2.6, ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

b) Establishing groups of assets with similar credit risk characteristics

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Classification and measurement of investment securities

The classification and measurement of the financial assets depend on the management's business model for managing its financial assets and on the contractual cash flow characteristics of the financial assets assessed. Management is satisfied that the Group's investment in securities is appropriately classified and measured. Financial assets that are measured at amortised cost are those assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest. Financial assets that are measured at FVTOCI are investments in equity instruments that are not held to benefit from changes in their fair value and are not held for trading. The management believes that designating these instruments as at FVTOCI provides a more meaningful presentation of its medium to long-term interest in its investments than holding the investments at fair value through profit and loss.

For more details on the valuation of investment securities, refer note 35.8.

4 Critical accounting estimates and judgments (continued)

Fair valuation of investment securities

Where the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in assumptions about these factors could affect the reported fair value of the investment securities.

Valuation techniques used to calculate fair values are discussed in note 35.8.1.

Fair valuation of investment properties

The fair values of investment properties are based on the highest and best use of the properties, which is their current use. The fair valuation of the investment properties is carried out by independent valuers based on the comparable method of valuation, the investment valuation method and the residual valuation method, refer to note 10 and note 35.8.1 for more details.

Discounting of lease payments

The lease payments are discounted using the Group's incremental borrowing rate. Management has applied judgments and estimates to determine the incremental borrowing rate at the commencement of lease by using its average cost of borrowing as a reference yield.

5 Balances and deposits with banks

	2025	2024
	AED'000	AED'000
Money market placements	5,146,759	5,319,917
Current and call accounts	39,997	83,697
	<hr/>	<hr/>
	5,186,756	5,403,614
<i>Less: allowance for impairment</i>	(566)	(446)
	<hr/>	<hr/>
	5,186,190	5,403,168
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6 Loans and advances to customers

	2025	2024
	AED'000	AED'000
Government entities	1,692,125	2,224,530
Industrial finance	4,432,824	2,952,479
Financial institutions	-	101,136
Mortgage retail loans	119,642	129,550
	<hr/>	<hr/>
Gross loans and advances to customers	6,244,591	5,407,695
<i>Less: allowance for impairment</i>	(101,976)	(268,089)
	<hr/>	<hr/>
	6,142,615	5,139,606
	<hr/>	<hr/>

During 2024, the Bank sold a significant portion of its housing loans portfolio having book value of AED 1,245 million to a local commercial bank and derecognised the asset effective from 19 June 2024.

Loans to financial institutions originally represent placements with two financial institutions, which are impaired and for which the Group holds no related collateral. The provision accumulated on these loans amounted to AED nil (2024: AED 101 million).

During the year, loan to industrial finance and financial institutions amounting to AED 125.9 million (2024: 10.3 million) were written off.

The total non-performing loans amounted to AED 89 million (2024: AED 259 million). The specific provisions held against those loans amounted to AED 77 million (2024: AED 237 million).

Movement in allowance for impairment of loans:

	2025	2024
	AED'000	AED'000
Balance at 1 January	268,089	260,562
Loss allowance – Stage 1 and 2	(6,349)	(5,214)
Loss allowance – Stage 3	21,436	23,025
Write off	(125,899)	(10,284)
Recoveries against non-performing loans	(55,301)	-
	<hr/>	<hr/>
Balance at 31 December	101,976	268,089
	<hr/>	<hr/>

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6 Loans and advances to customers (continued)

By industrial economic sector:

	2025 AED'000	2024 AED'000
Manufacturing	2,706,504	1,592,643
Real estate	1,692,125	2,224,530
Healthcare	605,017	280,541
Transport	257,181	253,481
Contracting	254,170	89,801
Services	200,739	47,402
Other corporate loans	141,945	150,216
Mortgage retail loans	119,642	129,550
Food security	96,074	176,709
Renewables	60,280	-
Advance technology	51,560	294,733
Construction	34,156	66,389
Trading	25,198	564
Financial institution	-	101,136
	<hr/>	<hr/>
	6,244,591	5,407,695
Less: allowance for impairment	(101,976)	(268,089)
	<hr/>	<hr/>
	6,142,615	5,139,606
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7 Islamic financing

	2025 AED'000	2024 AED'000
Ijarah	123,089	136,671
Estisnaa	8,400	10,773
Wakala Murabaha finance	20,746	-
	<hr/>	<hr/>
Gross Islamic financing	152,235	147,444
Less: allowance for impairment	(27,433)	(30,259)
	<hr/>	<hr/>
	124,802	117,185
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7 Islamic financing (continued)

Islamic home finance takes the form of Ijarah contracts. These are granted to UAE nationals for the purpose of purchasing or construction of their home.

During 2024, the Bank has sold a significant portion of its Islamic financing portfolio having book value of AED 1,466 million to a local commercial bank and derecognised the asset effective from 19 June 2024.

	2025	2024
	AED'000	AED'000
Gross investment in Ijarah	70,544	89,309
Less: deferred Ijarah profits	(29,992)	(38,340)
	40,552	50,969

At 31 December, the future minimum Ijarah payments were payable as follows:

	31 December 2025	
	Minimum Ijarah	Present value of
	payments	minimum Ijarah
	AED'000	payments
		AED'000
Up to 3 months	3,693	1,056
3 to 12 months	2,715	898
Over 1 year to 3 years	7,240	2,623
Over 3 to 5 years	7,240	2,971
5 years or more	49,656	33,004
	70,544	40,552
		31 December 2024
	Minimum Ijarah	Present value of
	payments	minimum Ijarah
	AED'000	payments
		AED'000
Up to 3 months	1,142	361
3 to 12 months	3,437	1,079
Over 1 year to 3 years	9,160	3,156
Over 3 to 5 years	9,156	3,548
5 years or more	66,414	42,825
	89,309	50,969

The total gross non-performing Islamic financing amounted to AED 35.1 million (2024: AED 34.8 million). The specific provisions held against that finance amounted to AED 23.4 million (2024: AED 22.7 million).

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7 Islamic financing (continued)

	2025 AED'000	2024 AED'000
Movement in allowance for impairment:		
Balance at 1 January	30,259	49,498
Loss allowance – Stage 1 and 2	(3,604)	(18,438)
Loss allowance – Stage 3	778	(801)
	<hr/>	<hr/>
Balance at 31 December	27,433	30,259
	<hr/>	<hr/>
	2025 AED'000	2024 AED'000
By economic sector:		
Real estate	131,489	147,444
Manufacturing	20,746	-
	<hr/>	<hr/>
Gross Islamic financing	152,235	147,444
<i>Less:</i> allowance for impairment	(27,433)	(30,259)
	<hr/>	<hr/>
	124,802	117,185
	<hr/>	<hr/>

8 Investment securities

	2025 AED'000	2024 AED'000
Investment securities at FVTPL (<i>Note 8.1</i>)	88,719	142,023
Investment securities at FVTOCI (<i>Note 8.2</i>)		
- Investment securities designated as at FVOCI - equity investments	454,148	340,313
- Investment securities measured at FVOCI - debt instruments	1,653,992	37,343
Investment securities measured at amortised cost (<i>Note 8.3</i>)	2,593,158	2,742,687
	<hr/>	<hr/>
Gross Investments	4,790,017	3,262,366
<i>Less:</i> allowance for impairment on amortised cost securities	(3,968)	(3,122)
	<hr/>	<hr/>
	4,786,049	3,259,244
	<hr/>	<hr/>

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8 Investment securities (continued)

8.1 Investment securities at FVTPL

The financial assets at fair value through profit or loss are comprised of:

	2025 AED'000	2024 AED'000
Perpetual sukuk instruments	88,719	142,023

Movement in financial assets at fair value through profit or loss (FVTPL):

	2025 AED'000	2024 AED'000
Balance as at 1 January	142,023	138,242
Securities matured	(55,095)	-
Changes in fair value (Note 22)	1,791	3,781
Balance as at 31 December	88,719	142,023

8.2 Investment securities at FVTOCI

The Investment securities at fair value through other comprehensive income (FVTOCI) comprised of:

	2025 AED'000	2024 AED'000
Investment securities designated as at FVOCI - equity investments		
- Quoted equity shares	345,184	243,553
- Un-quoted equity shares	108,964	96,760
Investment securities measured at FVOCI - debt instruments-Sukuks	1,653,992	37,343
	2,108,140	377,656

Movement in financial investments at fair value through other comprehensive income (FVTOCI):

	2025 AED'000	2024 AED'000
Balance as at 1 January	377,656	285,630
Securities purchased	1,652,868	37,355
Securities matured	(34,866)	(4,408)
Changes in fair value	112,482	59,079
Balance as at 31 December	2,108,140	377,656

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8 Investment securities (continued)

8.2 Investment securities at FVTOCI (continued)

Movement in quoted equity shares at fair value through other comprehensive income (FVTOCI):

	2025	2024
	AED'000	AED'000
Balance as at 1 January	243,553	188,322
Changes in fair value	101,631	55,231
Balance as at 31 December	345,184	243,553

Movement in unquoted equity shares at fair value through other comprehensive income (FVTOCI):

	2025	2024
	AED'000	AED'000
Balance as at 1 January	96,760	97,308
Securities purchased	16,937	-
Securities sold	-	(4,408)
Changes in fair value	(4,733)	3,860
Balance as at 31 December	108,964	96,760

Movement in sukuks at fair value through other comprehensive income (FVTOCI):

	2025	2024
	AED'000	AED'000
Balance as at 1 January	37,343	-
Securities purchased	1,626,776	37,355
Securities matured	(25,711)	-
Changes in fair value	15,584	(12)
Balance as at 31 December	1,653,992	37,343

Investments measured at FVTOCI consist of US Dollar denominated bonds that carry coupon rates between 1.26% to 9.75% p.a. with maturities between 16 January 2026 to 10 November 2035 (2024: coupon rates between 2.85% to 3.75% p.a. with maturities between 23 June 2025 to 15 February 2026).

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8 Investment securities (continued)

8.3 Investment securities measured at amortised cost

The Investment securities measured at amortised cost comprised of:

	2025	2024
	AED'000	AED'000
Bonds and sukuk	1,343,164	1,320,219
Treasury bills issued by the UAE Central Bank	1,249,994	1,422,468
Gross Investments	2,593,158	2,742,687
Less: allowance for impairment	(3,968)	(3,122)
	2,589,190	2,739,565

Movement in Bonds and Sukuks measured at amortised cost:

	2025	2024
	AED'000	AED'000
Balance as at 1 January	1,317,097	1,274,395
Securities purchased	34,741	335,625
Securities matured	(15,798)	(295,060)
Net amortisation of premium and discount	4,002	3,281
Allowance for impairment	(846)	(1,144)
Balance as at 31 December	1,339,196	1,317,097

Investments measured at amortised cost consist of US Dollar denominated bonds that carry coupon rates between 1.38% to 7.00% p.a. with maturities between 26 January 2026 to 01 August 2035 (2024: coupon rates between 1.38% to 7.00% p.a. with maturities between 23 June 2025 to 13 September 2033).

Movement in Treasury Bills issued by the UAE Central Bank measured at amortised cost:

	2025	2024
	AED'000	AED'000
Balance as at 1 January	1,422,468	-
Securities purchased	4,952,000	1,422,468
Securities matured	(5,124,474)	-
Balance as at 31 December	1,249,994	1,422,468

Investment securities measured at amortised cost also consists of the market treasury bills issued by the Central Bank of the United Arab Emirates (CBUAE), having carrying value of AED 1,250 million, with yield ranges between 3.82% to 4.7% p.a. and having maturities ranging between 07 January 2026 to 16 September 2026 (2024: yield ranges between 4.475% to 5.650% p.a. and having maturities ranging between 08 January 2025 to 15 October 2025).

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9 Investment in associates

	2025 AED'000	2024 AED'000
Investment in associates	20,847	-

During the year, Emirates Growth Fund Limited referred to as "EGF" (a subsidiary of Emirates Growth Holding Company referred to as "EGF Holding"), acquired a 20% equity interest in Tarmeem Healthcare Holding Ltd ("Tarmeem"), a company incorporated in the UAE, to participate in equity funding aimed at supporting business expansion and financing.

The Group determined that it has significant influence over the investee by virtue of its 20% shareholding and representation on the Board of Directors. Accordingly, the investment has been accounted for using the equity method in accordance with IAS 28 Investments in Associates and Joint Ventures.

The investment was acquired on 09 September 2025 for a total consideration of AED 20 million. The associate is not material to the Group, and its results for the year have no material impact on the consolidated financial statements.

10 Investment properties

Investment properties comprise of the following:

	Land AED'000	Buildings AED'000	Properties under development AED'000	Total AED'000
At 1 January 2024	95,795	297,832	86,400	480,027
Additions	-	-	1,522	1,522
Changes in fair values	24,595	11,280	(13,722)	22,153
At 31 December 2024	120,390	309,112	74,200	503,702
Changes in fair value	12,655	(1,172)	6,400	17,883
At 31 December 2025	133,045	307,940	80,600	521,585

The above investment properties are located in various Emirates within the UAE as follows:

	Abu Dhabi AED'000	Dubai AED'000	Ajman AED'000	Total AED'000
Land	35,850	94,060	3,135	133,045
Buildings	185,860	122,080	-	307,940
Properties under development	-	80,600	-	80,600
At 31 December 2025	221,710	296,740	3,135	521,585
Land	32,300	85,040	3,050	120,390
Buildings	192,320	116,792	-	309,112
Properties under development	-	74,200	-	74,200
At 31 December 2024	224,620	276,032	3,050	503,702

The fair value of investment properties as at 31 December 2025 and 2024 have been determined based on valuations performed by an independent industry specialist.

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10 Investment properties (continued)

The valuation, conforms with the Royal Institution of Chartered Surveyors Appraisal and Valuation Standards (“RICS”) and the relevant statements of the International Valuations Standards, was arrived at by using recognised valuation methods comprising the comparable method of valuation, the investment valuation method and the residual valuation method.

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property.

Income from investment properties, net:

	2025	2024
	AED'000	AED'000
Rental income	20,511	12,353
Service charges and other costs	(5,990)	(9,092)
	14,521	3,261

Rental income from investment properties are disclosed as other income as per note 24.

11 Other assets

	2025	2024
	AED'000	AED'000
Interest and dividend receivable	129,969	174,861
Prepayments and other assets	68,357	44,708
	198,326	219,569

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12 Intangibles

	Software and license AED'000	Work in progress AED'000	Total AED'000
Cost			
At 1 January 2024	41,028	5,078	46,106
Additions	3,404	14,580	17,984
Transfers	-	(8,238)	(8,238)
At 31 December 2024	44,432	11,420	55,852
Additions	24,480	19,164	43,644
Transfers	(199)	(27,011)	(27,210)
Write off	(33,470)	(198)	(33,668)
At 31 December 2025	35,243	3,375	38,618
Accumulated depreciation			
At 1 January 2024	30,967	-	30,967
Charge for the year	4,081	-	4,081
At 31 December 2024	35,048	-	35,048
Charge for the year	5,730	-	5,730
Write off	(10,713)	-	(10,713)
At 31 December 2025	30,065	-	30,065
Net book value			
At 31 December 2025	5,178	3,375	8,553
At 31 December 2024	9,384	11,420	20,804

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13 Property and equipment

	Land and buildings AED'000	Furniture and fixtures AED'000	Computers AED'000	Motor vehicles AED'000	Right of use assets AED'000	Work in progress AED'000	Total AED'000
Cost							
At 1 January 2024	32,526	12,466	14,086	430	20,092	-	79,600
Additions	1,973	1,447	1,861	-	92	92	5,465
Deletion	-	-	(130)	-	-	-	(130)
At 31 December 2024	34,499	13,913	15,817	430	20,184	92	84,935
Additions	-	48	2,762	-	24,775	2,510	30,095
Transfers	-	-	(6)	-	-	(572)	(578)
Write off	(15,458)	-	-	-	-	(1,887)	(17,345)
At 31 December 2025	19,041	13,961	18,573	430	44,959	143	97,107
Accumulated depreciation							
At 1 January 2024	15,934	12,343	13,107	430	7,023	-	48,837
Charge for the year	3,160	210	1,040	-	3,972	-	8,382
Deletion	-	-	(130)	-	-	-	(130)
At 31 December 2024	19,094	12,553	14,017	430	10,995	-	57,089
Charge for the year	3,239	341	1,446	-	6,769	-	11,795
Write off	(9,281)	-	(1)	-	-	-	(9,282)
At 31 December 2025	13,052	12,894	15,462	430	17,764	-	59,602
Net book value							
At 31 December 2025	5,989	1,067	3,111	-	27,195	143	37,505
At 31 December 2024	15,405	1,360	1,800	-	9,189	92	27,846

13 Property and equipment (continued)

The Group's building in Dubai is constructed on a land granted by the Government of Dubai in the year 2000 for no consideration. The book value of this land is booked at nominal amount of AED 1. The Group carried a valuation by an external valuer on its Dubai building including the land as of 31 December 2025. The property is designated partly as investment property and partly as property and equipment. The fair value of the portion of the building classified as property and equipment amounted to AED 13.2 million (2024: AED 12.7 million).

Valuations of the Group's buildings and lands constructed thereon are based on the investment valuation method and are classified as level 3 under the fair value hierarchy.

In 2001, the government of Ras Al Khaimah granted the Group a plot of land in Ras Al Khaimah for no consideration, subject to constructing a branch. The book value of this land is booked at nominal amount of AED 1. The fair value determined by the external valuer as at 31 December 2025 amounted to AED 3.8 million (2024: AED 3.8 million).

Property and equipment included fully depreciated and still in use items with cost amounting to AED 60.5 million as of 31 December 2025 (2024: AED 53.3 million).

14 Deposits and funds

	2025 AED'000	2024 AED'000
<i>Time deposits from governmental institutions</i>		
Term deposits	2,202,018	1,838,648
<i>Funds from governmental institutions</i>		
Call account	538,339	750,046
Current account	499,772	333,530
<i>Corporate deposits</i>		
Time deposits	998,565	51,961
Other deposits	328,574	139,967
	4,567,268	3,114,152

As at 31 December 2025, time deposits range from a term of 30 to 365 days, with interest rate range of 3.70% to 4.15% p.a. (2024: term of 29 to 360 days, with interest rate range of 4.05% to 5.30% p.a.).

Sheikh Zayed Housing Program

Pursuant to the Federal Law No. (10) of 2009 relating to the Sheikh Zayed Housing Program (the "Program") and with its regulations issued by UAE Cabinet Resolution No. (9) of 2011, the Bank and the Program signed an agreement for the provision of banking, financial and investment management services on 8 March 2015.

14 Deposits and funds (continued)

Sheikh Zayed Housing Program (continued)

This agreement lays out specific services that are to be provided by the Bank to the Program, the terms and conditions of the services are to be provided under, key performance indicators that will be used to assess the Bank's performance, the Bank's and Program's rights and responsibilities and details of the fees that are to be charged by the Bank to the Program in exchange.

The services to be provided include receiving funds pertaining to the Program and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally, the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Group with the UAE Central Bank. The Program earns interest on the funds invested with the Group as per the agreement signed.

The substantial risk and rewards associated with the Program's funds rest with the Group. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Group. The Program loans, however, do not carry any risk to the Bank and therefore are not included in the Group's consolidated statement of financial position.

Ministry of Finance - Sheikh Mohammed bin Rashid Innovation Fund

The Mohammed Bin Rashid Innovation Fund (the "MBRIF") is a government initiative created by the United Arab Emirates Prime Minister, His Highness Sheikh Mohammed bin Rashid Al Maktoum, as a fund to finance and foster innovation. The Ministry of Finance ("MoF") was appointed to be responsible for its implementation. EDB was subsequently appointed by the MoF to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the MBRIF, MoF, and the Bank).

The scope of the Bank's responsibilities includes review and comment on the MBRIF's policy, guidelines, and terms and conditions, host and collaborate the development of the MBRIF's operating Manual, support in the sourcing and contracting of the Decision and Advisory Committee experts, support in the contracting of strategic partners, promoting and marketing the MBRIF, manage and oversee the operations team performance, manage the MBRIF account, manage the annual report, host and maintain the MBRIF's website, and oversee the operations team's performance.

The MBRIF's annual expenses budget is to be prepared by the Bank and submitted to the MoF, which will in turn pay the Bank on a monthly basis as per the annually agreed expenses budget.

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15 Term borrowings

	2025 AED'000	2024 AED'000
USD senior bonds*	2,754,750	2,754,750
Less: Issuance cost	(1,128)	(1,139)
	<u>2,753,622</u>	<u>2,753,611</u>
Borrowing from a related party** (Note 28)	2,800,000	2,800,000
Fair value through profit or loss**	40,667	(78,888)
	<u>5,594,289</u>	<u>5,474,723</u>

Movement in term borrowings is as follows:

	2025 AED'000	2024 AED'000
Balance as at 1 January	5,474,723	5,507,480
Amortisation of issuance cost	11	881
New borrowing from a related party	-	2,800,000
Repayments of USD senior bond	-	(2,754,750)
Changes in fair value	119,555	(78,888)
	<u>5,594,289</u>	<u>5,474,723</u>

*In February 2019, the Bank established a Euro Medium Term Note Programme for USD 3,000 million (the "Programme"). As part of the Programme, the first issuance amounted to USD 750 million (AED 2,755 million) carried a coupon rate of 3.516% per annum payable semi-annually and was listed in Nasdaq Dubai on 6 March 2019. The Notes have been matured during March 2024.

The second issuance under the Programme amounted to USD 750 million bond (AED 2,755 million) and was listed in Nasdaq Dubai on 15 June 2021. The bond is due in June 2026 and carries a coupon rate of 1.639% per annum, payable semi-annually. The Group did not have any defaults of principal or interest or other breaches with respect to its term borrowings during the years ended 31 December 2025 and 31 December 2024.

**In January 2024, the Bank obtained a borrowing from Ministry of Finance (MoF) for a period of 5 years of AED 2,800 million. The borrowing will mature in January 2029 and carry a fixed coupon rate of 4.627% per annum for first 6 months and 4.37% per annum for remaining period payable semi-annually with principal payment at maturity.

The Group hedges borrowings from MoF amounting to AED 2,800 million for interest rate risks using interest rate swaps and designates these swaps as fair value hedges. The positive fair value of these swaps as at 31 December 2025 was AED 40.7 million and negative fair value change of hedged item was AED 40.7 million resulted in net gain or loss of nil (2024: net gain or (loss) of AED nil) recognised in the consolidated statement of profit or loss.

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16 Other liabilities

	2025 AED'000	2024 AED'000
Home finance portfolio settlement liability	176,017	493,071
Unsettled trade liability	92,150	37,646
Accrual for staff costs and others	80,472	69,541
Interest payable against term borrowings	61,827	61,827
Accrued expenses	55,392	68,103
Corporate tax payable (Note 32)	36,776	31,830
Others	34,341	25,585
Interest payable against deposits and funds	30,597	19,069
Lease liability	26,501	8,731
Impairment allowance on credit guarantees	21,006	15,489
Customer settlement account	18,848	25,873
Deferred rent income	4,528	2,574
Accrual for directors' remuneration	3,100	950
Customer deposits towards reserving residence	1,208	1,992
	<u>642,763</u>	<u>862,281</u>

17 Share capital

As per the EDB Law, the authorized share capital is 10 billion shares at AED 1 each with share capital of AED 4.8 billion. As of 31 December 2025, the issued share capital comprises of 5 billion ordinary shares of AED 1 each (2024: 5 billion ordinary shares of AED 1 each). As at 31 December 2025, the shares are not yet fully paid up. During the year, additional capital was injected by the Federal Government amounting to AED 50 million (2024: AED 50 million).

18 Statutory reserve

The statutory reserve is created based on Article 241 of Federal Law No. 32 of 2021 on Commercial Companies Law, wherein 10% of the Bank's profit for the year shall be transferred to the statutory reserve until it reaches 50% of the nominal value of the paid-up share capital.

19 Commitments and contingent liabilities

	2025 AED'000	2024 AED'000
Unwithdrawn credit commitments - revocable	1,756,614	1,335,906
Guarantees and letter of credits	1,253,313	581,507

19 Commitments and contingent liabilities (continued)

Revocable unwithdrawn credit commitments represent contractual commitments to provide loans and credit facilities which can be cancelled by the Bank unconditionally without any contractual obligations. These commitments have fixed expiration dates or other conditions for cancellation and may require payment of a fee. Due to the possibility of an expiration of these commitments without being withdrawn, the total contractual values of these do not necessarily represent future financial obligation.

In credit guarantees, the Bank commits to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. In 2023, the Bank entered into an agreement with local banks (“lenders”) to provide credit guarantees to the lender’s SME customers. As at 31 December 2025, related credit guarantees amounted to AED 244.8 million (2024: AED 268.2 million). The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

The Group has issued financial guarantees in favor of other lending banks who have granted loans to the customers of Mohammad Bin Rashid Innovation Fund (the “MBRIF”). The Group also have a reciprocal arrangement with Ministry of Finance to claim the guarantee amount in case of any default by the customer. As at 31 December 2025, MBRIF related guarantees amounted to AED 14.9 million (2024: AED 9 million)

There are no other contingencies and commitments as at year-end.

20 Interest income

	2025 AED'000	2024 AED'000
Loans and advances to customers	319,685	321,261
Balances and deposits with banks	231,207	331,287
Investment securities	187,946	98,246
Cash and balances with the UAE Central Bank	61,181	76,311
	<u>800,019</u>	<u>827,105</u>

21 Interest expense

	2025 AED'000	2024 AED'000
Term borrowings	168,293	184,519
Deposits and funds - government institutions	86,818	143,041
Due to banks and corporate deposits	46,516	19,897
Others	14,365	32,202
	<u>315,992</u>	<u>379,659</u>

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22 Investment income

	2025 AED'000	2024 AED'000
Dividend income	20,141	23,255
Client derivative income	618	4,467
Fair value gain on bonds and sukuks (Note 8)	2,747	4,701
Credit value adjustment (Note 31)	(2,397)	-
	<u>21,109</u>	<u>32,423</u>

23 Fees and commission income

	2025 AED'000	2024 AED'000
Fee from GRE programs	19,191	19,191
Fee from registry services	15,501	9,582
Fee from loan processing	15,559	11,706
Fee from guarantees	7,047	5,145
Fee from trade finance	2,004	277
Gross fees and commission income	<u>59,302</u>	<u>45,901</u>
Fees and commission expense	(50)	(560)
Fees and commission income, net	<u>59,252</u>	<u>45,341</u>

24 Other income - net

	2025 AED'000	2024 AED'000
Rental income on investment properties (Note 10)	20,511	12,353
Service charges and other costs (Note 10)	(5,990)	(9,092)
Loss on write-off of property and equipment	(8,063)	-
Loss on write-off of intangibles	(22,955)	-
Gain on reversal of accrued expenses	31,000	-
Other income *	1,725	21,371
	<u>16,228</u>	<u>24,632</u>

* Group recognised AED 4 million (2024: 24 million) as premium on sale of conventional and Islamic home finance portfolio executed in June 2024.

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25 Depreciation and amortization

	2025 AED'000	2024 AED'000
Depreciation on property and equipment	11,795	8,382
Amortization on intangibles	5,730	4,081
	<u>17,525</u>	<u>12,463</u>

26 Operating and administrative expenses

	2025 AED'000	2024 AED'000
Administration expenses	33,577	30,019
Publicity and advertisement	21,122	22,572
Information technology expenses	19,512	15,795
Professional fees	18,837	11,155
Communication expenses	3,513	3,395
Premises expenses	2,491	2,384
Audit fees	830	1,658
	<u>99,882</u>	<u>86,978</u>

27 Impairment reversal/ (charge) - net

	2025 AED'000	2024 AED'000
Allowance for impairment losses/ (reversal of) on:		
- Loans and advances to customers	15,087	17,811
- Islamic financing	(2,826)	(19,238)
- Credit guarantees	5,519	9,441
- Balances and deposits with banks	120	(136)
- Investment securities at amortised cost	846	1,144
Recovery against non-performing loans	(55,301)	-
Recoveries – others	(17,975)	-
	<u>(54,530)</u>	<u>9,022</u>

28 Related party transactions and balances

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions.

Related parties comprise key higher management personnel, and their related companies and the institutions and authorities of the federal government. In the normal course of business, the Group had various transactions with its related parties. Transactions are entered into with related parties on terms and conditions approved by the Group's management.

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28 Related party transactions and balances (continued)

The Group has applied partial exemption allowed under IAS 24 to Government owned entities and has disclosed the nature and amount of each individually significant transaction and for other transactions that are collectively, but not individually, significant, a qualitative or quantitative indication of its extent. The Group carries out various transactions in the normal course of business with its shareholder, directors and officers and investee companies. These are conducted at terms agreed by the Directors and management not on arm length basis. Significant balances and transactions with related parties during the year were as follows:

	2025					2024				
	Major Shareholder (AED'000)	Key Management (AED'000)	Others (AED'000)	Total (AED'000)	Major Shareholder (AED'000)	Key Management (AED'000)	Others (AED'000)	Total (AED'000)		
<i>a) Related parties' balances</i>										
Cash and balances with the UAE Central Bank	-	-	1,070,680	1,070,680	-	-	1,278,065	1,278,065		
Treasury bills issued by the UAE Central Bank	-	-	1,249,994	1,249,994	-	-	1,422,468	1,422,468		
Loans and advances – gross	-	-	1,692,125	1,692,125	-	-	2,224,530	2,224,530		
Other assets	-	-	15,230	15,230	-	-	8,348	8,348		
Deposits	(652,018)	-	(1,550,000)	(2,202,018)	(538,648)	-	(1,300,000)	(1,838,648)		
Funds	(1,824)	-	(1,036,287)	(1,038,111)	(1,852)	-	(1,081,724)	(1,083,576)		
Borrowing	(2,840,667)	-	-	(2,840,667)	(2,721,112)	-	-	(2,721,112)		
Other liabilities	(59,820)	(3,100)	(19,903)	(82,823)	(59,820)	(950)	(18,476)	(79,246)		
<i>b) Related parties' transactions</i>										
Interest income	-	-	227,381	227,381	-	-	234,712	234,712		
Interest expense	(145,635)	-	(66,484)	(212,119)	(200,074)	-	(67,342)	(267,416)		
Fee income	-	-	19,191	19,191	-	-	19,191	19,191		
Directors' remunerations	-	(3,570)	-	(3,570)	-	(1,950)	-	(1,950)		
Key management compensation	-	(18,425)	-	(18,425)	-	(11,280)	-	(11,280)		
Share capital received	(50,000)	-	-	(50,000)	(50,000)	-	-	(50,000)		
Off balance sheet exposure	14,882	-	-	14,882	9,007	-	-	9,007		

As at 31 December 2025, the ECL allowance held against related parties balances amounted to AED 0.3 million (2024: AED Nil).

29 Cash and cash equivalents

For the purpose of the cash flows statement, cash and cash equivalents comprise:

	2025 AED'000	2024 AED'000
Cash and balances with the UAE Central Bank*	1,070,680	1,278,065
Balances and deposits with banks (Note 5)	5,186,190	5,403,168
	<u>6,256,870</u>	<u>6,681,233</u>
Less: balances with original maturities over three months	<u>(3,350,513)</u>	<u>(4,029,776)</u>
	<u>2,906,357</u>	<u>2,651,457</u>

* This includes overnight placements with UAE Central Bank amounting to AED 1,023 million (2024: AED 1,232 million) at a rate of 3.65% (2024: 4.40%).

The cash and cash equivalents include balances and deposits with banks that are rated A+ to BB+ (2024: AA- to BBB+), based on rating agency ratings.

30 Segment information

The Group along with its subsidiary operates within the United Arab Emirates. The external facing operating segments are Industrial Finance, GRE Programs Treasury & Investments and Property Management. Subsidiaries, legacy loan portfolio and non-customer facing business units are aggregated under "Group" segment.

Through the introduction of funds transfer pricing, there will be increased relevance and importance of segmental basis reporting for capital and resource allocation decisions. The tables provided in note 30 have used simplifying assumptions that will be reviewed in the coming year, which may result in some restatement.

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's Chief Operating Decision Maker) in order to allocate resources to the segment and to assess its performance.

The measurement basis for segment profit or loss and segment assets remains unchanged due to the reorganization. Comparative information for previous years has been restated to reflect the new reportable segments.

The following business units offer different products and services and are managed separately because they require different strategies.

Industrial Finance

The Industrial Finance unit supports the UAE's development agenda by promoting GDP growth, economic diversification, and job creation through financing corporates and SMEs majority owned by UAE residents and/or nationals. The Group provides asset-backed, pre- and post-sales, trade, expansion, and project financing to SMEs and large corporates, funded through asset-backed structures and institutional sources, including deposits mobilized via its Cash Management and EDB 360 channels.

30 Segment information (continued)

Investments and treasury

The role of Investments and Treasury is to invest funds the Group has set aside for deployment into liquid assets. The department seeks to achieve portfolio diversification by maintaining high quality assets portfolio focused on achieving strong and sustainable returns. Through treasury liabilities products, the Group also aims to obtain long-term, risk-free, stable deposits with market participants in order to partially fund its assets and develop sustainable long-term relationships. Risk Management solutions are also offered to some clients via this business unit within Board approved limits.

GRE programs

Sheikh Zayed Housing Program

The Bank under an agreement as referred in note 14, provides certain services which include receiving funds pertaining to the Program and providing these funds to beneficiaries in the form of housing loans, as per the terms agreed by the Program and beneficiary, then administering the loans as per agreement. Additionally, the Bank is to make progress disbursements for housing projects and other financial aid to UAE nationals as well as manage the recovery services of the loans. In exchange of such services, the Bank charge service fee to the Program.

The Ministry of Finance transfers the funds allocated to the Program to the current account of the Group with the UAE Central Bank. The Program earns interest on the funds invested with the Group as per the agreement signed.

The substantial risk and rewards associated with the Program's funds rest with the Group. Therefore, the funds of the Program under the management of the Bank are disclosed as part of the assets (call account and placements) of the Group. The Program loans, however, do not carry any risk to the Bank and therefore are not included in the Group's consolidated statement of financial position.

Ministry of Finance - Sheikh Mohammed bin Rashid Innovation Fund "The MBRIF"

The Bank has been appointed by the Ministry of Finance (MoF) to act as the administrative host and operator. Thus, there is a trilateral agreement between the three parties (the MBRIF, MoF, and the Bank). Under the agreement, the Bank is also entitled to a management fee in exchange of services provided to Fund. The scope of the Bank's responsibilities has already been outlined in note 14 to these consolidated financial statements.

Property management

The Group also own and manage certain residential and commercial properties from which rental income is generated.

Home finance

Following the launch of EDB's new strategy in early 2021, the Bank has focused on delivering banking solutions and services to Industrial Financing clients. In line with this strategic direction, EDB Management obtained Board approval in 2024 to divest a majority of its Housing Finance assets to a counterparty at agreed market terms. Subsequent to the sale, the Home Finance business has ceased originating new assets and is being managed as a legacy portfolio. Accordingly, it no longer meets the criteria for disclosure as a reportable segment.

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30 Segment information (continued)

Group

The Group operating segment houses group funding used to support the funding requirements of operating segments and its subsidiaries, along with legacy non-performing assets and costs from non-client facing departments.

Geographic segments

The Group's operations are wholly based within the United Arab Emirates. The Group does not maintain any business activities, branches, or representative offices outside the UAE.

The following is an analysis of the Group's revenue and results by operating segments:

<i>For the year ended 31 December 2025</i>	Industrial finance	GRE programs	Property management	Investments & treasury	Group	Total
Net interest income / profit from islamic financing	59,196	45,587	(18,951)	7,617	398,661	492,110
Non-interest income / (loss)	24,344	19,190	14,521	21,109	17,425	96,589
Reportable segment operating income / (loss)	83,540	64,777	(4,430)	28,726	416,086	588,699
Operating expenses	(55,545)	-	-	(10,070)	(254,971)	(320,586)
Impairment charge	(24,471)	106	-	(967)	79,862	54,530
Profit/ (loss) before fair value changes	3,524	64,883	(4,430)	17,689	240,977	322,643
Fair value changes	-	-	17,883	-	-	17,883
Net profit / (loss) before tax for the year	3,524	64,883	13,453	17,689	240,977	340,526
Income tax	(296)	(5,457)	(1,131)	(1,488)	(18,437)	(26,809)
Net profit / (loss) after tax	3,228	59,426	12,322	16,201	222,540	313,717
<i>As at 31 December 2025</i>						
Total assets	4,925,902	1,708,132	522,623	9,589,474	1,406,449	18,152,580
Total liabilities	1,350,314	3,261,398	4,528	547,042	6,095,496	11,258,778

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30 Segment information (continued)

<i>For the year ended 31 December 2024</i>	Industrial finance	GRE programs	Property management	Investments & treasury	Group	Total
Net interest income / profit from islamic financing	44,233	26,262	(26,108)	(8,627)	469,467	505,227
Non-interest income	16,673	19,190	3,262	32,423	30,848	102,396
Reportable segment operating income /(loss)	60,906	45,452	(22,846)	23,796	500,315	607,623
Operating expenses	(45,617)	(240)	(250)	(8,316)	(209,867)	(264,290)
Impairment charge	(21,649)	-	-	(1,008)	13,635	(9,022)
Profit/ (loss) before fair value changes	(6,360)	45,212	(23,096)	14,472	304,083	334,311
Fair value changes	-	-	22,153	-	-	22,153
Net profit / (loss) before tax for the year	(6,360)	45,212	(943)	14,472	304,083	356,464
Income tax	558	(3,963)	83	(1,269)	(26,655)	(31,246)
Net profit / (loss) after tax	(5,802)	41,249	(860)	13,203	277,428	325,218
<i>As at 31 December 2024</i>						
Total assets	2,883,496	2,235,295	501,511	8,740,402	1,620,184	15,980,888
Total liabilities	109,403	3,024,064	2,574	128,233	6,277,469	9,541,743

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31 Derivative financial instruments

The table below shows the positive (assets) and negative (liabilities) fair values of derivative financial instruments.

	Positive fair value AED'000	Negative fair value AED'000	Notional Value AED'000
31 December 2025			
Derivatives designated as fair value hedges			
Interest rate swaps	40,667	-	2,800,000
Derivatives not designated for hedges			
Interest rate swaps	17,158	(17,158)	1,621,962
Credit value adjustment	(2,397)	-	-
	<u>55,428</u>	<u>(17,158)</u>	<u>4,421,962</u>
	<u><u>55,428</u></u>	<u><u>(17,158)</u></u>	<u><u>4,421,962</u></u>
	Positive fair value AED'000	Negative fair value AED'000	Notional Value AED'000
31 December 2024			
Derivatives designated as fair value hedges			
Interest rate swaps	-	(78,888)	2,800,000
Derivatives not designated for hedges			
Interest rate swaps	11,622	(11,622)	1,099,357
Interest rate caps	77	(77)	52,169
	<u>11,699</u>	<u>(90,587)</u>	<u>3,951,526</u>
	<u><u>11,699</u></u>	<u><u>(90,587)</u></u>	<u><u>3,951,526</u></u>

The Group has offered their customers an opportunity of risk mitigating solutions to help manage their interest rate exposure related to their borrowing with the Group. These solutions include hedging interest rate fluctuations through financial derivatives such as interest rate swaps and interest rate cap with a back to back counter arrangement with other financial intuitions and banks.

The notional amounts indicate the volume of transactions and are neither indicative of the market risk nor credit risk.

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32 Income tax expenses

On December 9, 2022, the United Arab Emirates (UAE) Ministry of Finance (MoF) released Federal Decree Law No 47 of 2022 on the Taxation of Corporations and Businesses, Corporate Tax Law (CT Law) to enact a new CT regime in the UAE. The new CT regime has become effective for accounting periods beginning on or after June 1, 2023. Below is the summary of total income tax expense recognised in consolidated income statement:

	2025 AED'000	2024 AED'000
Current tax on income for the year	26,809	31,246
Income tax recognised in the consolidated statement of profit or loss	26,809	31,246
Non-reclassifying item		
<i>Current tax</i>		
Fair value gain on financial assets at FVTOCI	8,748	5,043
Income tax recognised in the consolidated statement of other comprehensive income	8,748	5,043
Reconciliation of tax expense		
Profit before tax	340,526	356,464
Income tax at 9% statutory rate	30,647	32,082
<i>Effects of</i>		
Non-deductible expenses	19	57
Rate differential – UAE AED 375k threshold taxed at 0%	(34)	(68)
Exempt income	(1,358)	(1,366)
Unrecognised deferred tax asset	-	523
Share of profit from subsidiary	(1,910)	-
Other	(555)	18
Net tax charge	26,809	31,246

The tax rate applicable in the UAE is 9% (2024: 9%) for taxable profits exceeding AED 375,000. It is not currently foreseen that the Group's UAE operations will be subject to the application of the Global Minimum Tax rate of 15% in FY2025. The application is dependent on the implementation of Base Erosion Profit Shifting (BEPS 2) - Pillar Two rules by the countries where the Group operates and the enactment of Pillar Two rules by the UAE MoF.

The income tax charge of the Group for the year ended 31 December 2025 is AED 26.8 million (2024: AED 31.2 million), representing Effective Tax Rate ("ETR") of 7.9% (2024: 8.8%).

The current tax liability has been presented as part of other liabilities in the consolidated statement of financial position in these consolidated financial statements.

33 Due to banks

	2025	2024
	AED'000	AED'000
Due to banks	437,300	-

As at 31 December 2025, due to banks include deposits from financial institutions range from a term of 33 to 179 days, with interest rate range of 3.75% to 4.13% p.a. (2024: *nil*).

34 Impairment reserve

As per Credit Risk Management Standards ('CRMS') issued by CBUAE, Banks must ensure that the total provision corresponding to all Stage 1 and Stage 2 exposures is not less than 1.5% 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'. The amount held in the impairment reserve must be deducted from the capital base (Tier 1 capital for Banks) when computing the regulatory capital.

	2025	2024
	AED'000	AED'000
Non-Distributable impairment reserve – General		
General provision based on CBUAE requirements	133,130	113,439
Less: Minimum provision for Stage 1 and 2 as per IFRS 9	(40,237)	(48,807)
	92,893	64,632
Shortfall in CBUAE general provision requirement	92,893	64,632
Balance of impairment reserve - general provision over IFRS 9 as at 1 January	64,632	15,088
Add: Non-distributable reserve during the year	28,261	49,544
Balance of impairment reserve - general as at 31 December	92,893	64,632

During the year, the Group has reclassified CRMS general provision requirement of AED 64.6 million by restating the shortfall in the Stage 1 and Stage 2 provision as compared to CRMS from profit or loss account to a non-distributable reserve under equity. This has translated into revision in net profit after tax for the year ended 31 December 2024 and corresponding impact in loans and advances.

The calculation process, the methodology and results as per Article 9 (Standards) of the Credit Risk Management Regulation and accompanying Standards (CRMS), Circular No. 3/2024 dated 25/7/2024 are reviewed by the Chief Risk Officer ("CRO") and presented to Board Audit, Risk and Compliance Committee (BARCC).

35 Risk management

35.1 Overview

The Group recognizes the importance of effective risk management in achieving its strategic goals and maintaining its stability and resilience. The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business.

The Risk Management function is responsible for identifying, analysing, measuring, and managing risk to ensure that it remains within its risk appetite; and generates sustainable risk-adjusted returns as mandated by the shareholders.

Below are the material risks the Group is exposed to:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The management regularly reviews the risk management policies and systems to reflect changes in markets, products and emerging best practices.

Risk management framework

The Board of Directors (the "Board") through the Board Audit, Risk and Compliance Committee ("BARCC") and Board Credit & Investment Committee ("BCIC") has overall responsibility for establishment and oversight of the risk management and credit risk management framework respectively.

They are also assisted by various management committees including the Management Committee ("MANCOM"), Management Risk Committee ("MRC"), Management Credit & Investment Committee ("MCIC"), Management Assets and Liabilities Committee ("ALCO"), and Management Compliance Committee ("MCC") among others. These committees assist the Board in management of risk including review of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the MRC assists the Board/BARCC in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes including recommending the overall Risk Appetite.

The MRC has overall responsibility for oversight of risk management framework and risk appetite. The MRC is also responsible for the approval of risk management policies and procedures and to ensure adherence to the approved policies and close monitoring of different risks within the Bank.

The Risk Management function is independent of business groups and is led by a Chief Risk Officer ("CRO") with responsibility for deploying an enterprise-wide risk management and oversight of all material risks. This function is primarily responsible for defining the framework for management of all material risks.

35 Risk management (continued)

35.1 Overview (continued)

The Internal Audit function acts as the third line of defense function, independent from both the business units (“first line of defense”) and risk management team (“second line of defense”). Internal Audit provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures and the effectiveness of the risk management processes.

Capital management

The capital management approach is designed to ensure that regulatory requirements are met at all times and that the operating activities are capitalized in line with the risk appetite, target ratios and in accordance with regulatory requirements.

The capital management approach further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the annual Internal Capital Adequacy Assessment Process ICAAP.

Risk appetite and stress testing

The key to the long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and strategy.

The risk appetite framework has both quantitative and qualitative measures and is approved by the Board. These measures are integral to risk-based performance monitoring and align with the Bank’s strategic objectives. The risk appetite is disseminated down to business groups in alignment with business strategies for these groups.

Stress testing is a key management tool used to evaluate the sensitivity of current and forward risk profiles to shocks of varying nature and severity. Stress testing is governed by the stress testing policy which sets out the approaches for stress testing and associated roles and responsibilities. The primary governance committee overseeing risk appetite and stress testing is the MRC.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the Bank's risks, how the Bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the Bank's aggregated Capital and the monitoring of the capital adequacy under a variety of stressed scenarios to assess and report the impact upon the capital buffer (measured as available capital less required risk capital) and recommending actions.

Risks that are explicitly assessed through ICAAP are credit risk, market risk, operational risk, concentration risk, liquidity risk, strategy risk, reputational risk and interest rate risk in the banking book, among others. Preserving the capital position remains a priority from both a regulatory and management viewpoint.

35 Risk management (continued)

35.2 Credit risk

Credit risk is the risk of suffering financial loss as a result of any of the customers failing or unwilling to fulfil their contractual obligations. Credit risk arises mainly from loans and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debts instruments, derivatives as well as settlement balances with market counterparties.

As credit risk is the most important risk faced by the Bank, considerable resources, expertise and controls are devoted to managing this risk. Credit risk management and controls are centralized under the credit risk function with regular governance and monitoring exercised by the Management Credit & Investment Committee (MCIC) and oversight by Board Credit & Investment Committee (“BCIC”).

Specifically, BCIC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BARCC and BCIC monitors key elements of the Bank’s credit risk profile relative to the Bank’s risk appetite. The Board Committees are supported by MRC and BCIC through detailed review and monitoring of credit portfolio, including exposure concentrations.

Credit risk function is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives. The credit policy provides the development of a systematic and consistent approach to identifying and managing borrowers and counter party risks.

Credit exposures

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 the concept of Expected Loss which requires the following measures:

- Probability of Default (PD)
- Loss Given Default (LGD)
- Exposure at Default (EAD)

As per IFRS 9, Expected Credit Loss (ECL) is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults. PD, LGD and EAD models are developed through external consultants and are revised/ reviewed and validated on regular basis.

Obligor Risk Rating (ORR)

The Bank uses specific obligor risk rating (ORR) models tailored to various industry segments/ counterparty. ORR is arrived using quantitative/ financial and qualitative/ non-financial factors that are indicative of risk of default. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade. The ORR grades are calibrated such that risk of default increases exponentially at each higher risk grade.

35 Risk management (continued)

35.2 Credit risk (Continued)

35.2.1 Credit Risk Management Framework

The credit risk management framework includes:

- Formulating credit policies in consultation with business units, covering credit assessment, risk grading and reporting, collateral requirements, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing credit delegation structure for the approval and renewal of credit facilities. Credit limits are allocated to credit functions and credit committees at the management and board levels.
- Reviewing and assessing all credit exposures prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the obligors risk rating system to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks.
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, ORR band, market liquidity and country (for investments).
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with risk management strategy and market trends.

In addition, the Bank manages the credit exposure by obtaining collateral where appropriate and limiting the duration of exposure.

35.2.2 Collateral and other credit enhancements

Collateral risk

The Group obtains collateral and other credit enhancements in ordinary course of business from counterparties. Collateral is used to mitigate credit risk, as the secondary source of repayment in case the counterparty cannot meet its contractual repayment obligations. Credit policy and procedures set out the acceptable types of collateral, as well as a process by which additional instruments and/or asset types can be considered for approval.

On an overall basis, during the year there was no material deterioration in the quality of collateral held by the Group. In addition, there were no changes in collateral policies of the Group.

The Group has considered pre-haircut value of the collaterals including cash/ fixed deposits, sovereign and federal guarantees, commercial real estate and residential real estate.

35 Risk management (continued)

35.2 Credit risk (Continued)

35.2.2.1 Collateral and other credit enhancements (continued)

The Group holds collateral and other credit enhancements against its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	2025 AED'000	2024 AED'000	Principal type of collateral held
Loans and advances / Islamic financing to retail customers	141,761	166,975	Residential property
Loans and advances to corporate customers	764,263	415,367	Cash/fixed deposits, sovereign , federal guarantees, commercial and residential real estate
Total	906,024	582,342	

Table below shows the stage wise collateral break-up for the loans and advances to customers portfolio:

Stage	2025 AED'000	2024 AED'000
Stage 1	654,480	316,501
Stage 2	129,220	92,397
Stage 3	120,225	173,245
	903,925	582,143

Group held credit risk mitigants with an estimated value of AED 249 million (2024: AED 266 million) against watch list and credit impaired receivables from loans and advances to customers and Islamic financing. The Group accepts sovereign guarantees and guarantees from well-reputed local or international banks, well-established local or multinational large corporate and high net-worth private individuals. Collateral generally is not held against placements with banks and other financial institutions, and no such collateral was held at 31 December 2025 or 31 December 2024.

The table below stratifies gross credit exposures from mortgage loans and advances to customers and Islamic facilities to retail customers by ranges of loan-to-value (LTV) ratio.

LTV ratio	2025 AED'000	2024 AED'000	2025 AED'000	2024 AED'000
	CONVENTIONAL		ISLAMIC	
Less than 50%	2,890	3,050	469	430
51 - 70%	438	1,047	1,627	2,003
71 - 90%	6,642	6,686	19,521	20,503
91 - 100%	109,672	118,767	109,872	124,508
At 31 December	119,642	129,550	131,489	147,444

35. Risk management (continued)

35.2 Credit risk (continued)

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

The gross exposure to credit risk for on balance sheet items is their carrying value. For financial guarantees recorded off balance sheet, the gross exposure to credit risk is the maximum amount that the Group would have to pay if the guarantees were to be called upon.

	2025	2024
	AED'000	AED'000
Cash and balances with the UAE Central Bank	1,070,680	1,278,065
Balances and deposits with banks	5,186,756	5,403,614
Loans and advances	6,244,591	5,407,695
Islamic financing	152,235	147,444
Investment securities - debt securities	4,335,869	2,922,053
Derivative financial instruments	55,428	11,699
Other assets	129,969	174,861
	<hr/>	<hr/>
At 31 December	17,175,528	15,345,431
	<hr/>	<hr/>
Off-balance sheet – credit guarantees and letter of credits	1,261,664	587,106
	<hr/>	<hr/>

The above table represents the maximum exposure of credit risk for financial instruments and off balance sheet financial instruments as at 31 December 2025 and 31 December 2024, without taking into account any collateral held or other credit enhancements attached.

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.4 Concentration of credit risk

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. Concentration indicates the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.

An analysis of concentration of credit risk at the reporting date by sectors is shown below.

	Public sector AED'000	Financial sector AED'000	Private / retail sector AED'000	Total AED'000
31 December 2025				
Cash and balances with the UAE Central Bank	1,070,680	-	-	1,070,680
Balances and deposits with banks	-	5,186,756	-	5,186,756
Loans and advances to customers	1,692,125	-	4,552,466	6,244,591
Islamic financing	-	-	152,235	152,235
Investment securities - debt instruments	3,790,769	404,068	141,032	4,335,869
Derivative financial instruments	-	-	55,428	55,428
Other assets	27,941	53,601	48,427	129,969
	<u>6,581,515</u>	<u>5,644,425</u>	<u>4,949,588</u>	<u>17,175,528</u>
Off-balance sheet – credit guarantees and letter of credits	-	-	1,261,664	1,261,664
	<u>-</u>	<u>-</u>	<u>1,261,664</u>	<u>1,261,664</u>
	Public sector AED'000	Financial sector AED'000	Private / retail sector AED'000	Total AED'000
31 December 2024				
Cash and balances with the UAE Central Bank	1,278,065	-	-	1,278,065
Balances and deposits with banks	-	5,403,614	-	5,403,614
Loans and advances to customers	2,224,530	101,136	3,082,029	5,407,695
Islamic financing	-	-	147,444	147,444
Investment securities - debt instruments	2,516,629	325,642	79,782	2,922,053
Derivative financial instruments	-	-	11,699	11,699
Other assets	13,732	108,841	52,288	174,861
	<u>6,032,956</u>	<u>5,939,233</u>	<u>3,373,242</u>	<u>15,345,431</u>
Off-balance sheet – credit guarantees and letter of credits	-	-	587,106	587,106
	<u>-</u>	<u>-</u>	<u>587,106</u>	<u>587,106</u>

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.4 Concentration of credit risk (continued)

The Group monitors concentrations of credit risk by geographic location. An analysis of concentration of credit risk at the reporting date by geographical location is shown below.

	UAE AED'000	GCC AED'000	Total AED'000
31 December 2025			
Cash and balances with the UAE Central bank	1,070,680	-	1,070,680
Balances and deposits with banks	4,009,798	1,176,958	5,186,756
Loans and advances to customers	6,244,591	-	6,244,591
Islamic financing	152,235	-	152,235
Investment securities - debt instruments	2,872,748	1,463,121	4,335,869
Derivative financial instruments	55,428	-	55,428
Other assets	107,740	22,229	129,969
	<u>14,513,220</u>	<u>2,662,308</u>	<u>17,175,528</u>
Off-balance sheet – credit guarantees and letter of credits	<u>1,261,664</u>	-	<u>1,261,664</u>
	UAE AED'000	GCC AED'000	Total AED'000
31 December 2024			
Cash and balances with the UAE Central bank	1,278,065	-	1,278,065
Balances and deposits with banks	3,738,156	1,665,458	5,403,614
Loans and advances to customers	5,407,695	-	5,407,695
Islamic financing	147,444	-	147,444
Investment securities - debt instruments	2,322,591	599,462	2,922,053
Derivative financial instruments	11,699	-	11,699
Other assets	168,709	6,152	174,861
	<u>13,074,359</u>	<u>2,271,072</u>	<u>15,345,431</u>
Off-balance sheet – credit guarantees and letter of credits	<u>587,106</u>	-	<u>587,106</u>

35.2.5 Credit quality

The Group has management committees to oversee the risk management process. The Board Audit, Risk and Compliance Committee and Board Credit & Investment Committee, under delegation from the Board of Directors, defines policies, processes, and systems to manage and monitor credit, market and operational risks. The Group maintains a obligor risk rating system in order to categorize exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The system is used to determine where impairment provisions may be required against specific credit exposures.

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Credit quality per stage for financial assets

As at 31 December 2025	Gross outstanding			Total AED'000	Expected credit loss (ECL)			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000		Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Cash and balances with the UAE Central Bank	1,070,680	-	-	1,070,680	-	-	-	-
Balance and deposits with banks	5,186,756	-	-	5,186,756	(566)	-	(566)	(566)
Loans and advances to customers	5,983,707	171,724	89,160	6,244,591	(15,446)	(9,334)	(77,196)	(101,976)
Islamic financing	95,144	22,013	35,078	152,235	(617)	(3,377)	(23,439)	(27,433)
Investment securities – debt	4,335,869	-	-	4,335,869	(3,968)	-	-	(3,968)
Derivative financial instruments	-	55,428	-	55,428	-	-	-	-
Other assets	97,304	32,054	611	129,969	-	-	-	-
	<u>16,769,460</u>	<u>281,219</u>	<u>124,849</u>	<u>17,175,528</u>	<u>(20,597)</u>	<u>(12,711)</u>	<u>(100,635)</u>	<u>(133,943)</u>
Contingent liabilities and commitments (unfunded)	<u>1,233,746</u>	<u>10,752</u>	<u>17,166</u>	<u>1,261,664</u>	<u>(5,902)</u>	<u>(1,025)</u>	<u>(14,079)</u>	<u>(21,006)</u>
As at 31 December 2024								
Cash and balances with the UAE Central Bank	1,278,065	-	-	1,278,065	-	-	-	-
Balance and deposits with banks	5,403,614	-	-	5,403,614	(446)	-	-	(446)
Loans and advances to customers	4,972,981	176,110	258,604	5,407,695	(11,767)	(19,361)	(236,961)	(268,089)
Islamic financing	73,474	39,137	34,833	147,444	(503)	(7,096)	(22,660)	(30,259)
Investment securities – debt	2,922,053	-	-	2,922,053	(3,122)	-	-	(3,122)
Derivative financial instruments	143,247	11,699	2,178	174,861	-	-	-	-
Other assets	-	29,436	-	29,436	-	-	-	-
	<u>14,793,434</u>	<u>256,382</u>	<u>295,615</u>	<u>15,345,431</u>	<u>(15,838)</u>	<u>(26,457)</u>	<u>(259,621)</u>	<u>(301,916)</u>
Contingent liabilities and commitments (unfunded)	<u>565,801</u>	<u>11,655</u>	<u>9,650</u>	<u>587,106</u>	<u>(6,276)</u>	<u>(236)</u>	<u>(8,977)</u>	<u>(15,489)</u>

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Balances and deposits with banks

As at 31 December 2025, the Group's money market placements and balances in current and call accounts with banks, with gross amounts amounting to AED 5,187 million (2024: AED 5,404 million) are deposited only in banks that are directly, or comparably with the peer institutions, rated as investment grade (i.e. ranges from 'BBB+' to 'A') by a global external rating agency. Accordingly, placements in these banks are considered to be low credit risk investments and are classified as Stage 1. These are carried at amortised cost less allowance for impairment. As on the reporting date, the credit exposure to these balance are immaterial.

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	5,403,614	-	-	5,403,614
New financial assets originated	5,186,756	-	-	5,186,756
De-recognition of financial assets	(5,403,614)	-	-	(5,403,614)
Balance as at 31 December	5,186,756	-	-	5,186,756

	2024			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	6,083,977	-	-	6,083,977
New financial assets originated	5,403,614	-	-	5,403,614
De-recognition of financial assets	(6,083,977)	-	-	(6,083,977)
Balance as at 31 December	5,403,614	-	-	5,403,614

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Loans and advances to customers

The following table sets out information about loans and advances to customers. These are carried at amortised cost.

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Current	5,983,707	-	-	5,983,707
Watch list	-	171,724	-	171,724
Doubtful	-	-	215,059	215,059
Loss	-	-	(125,899)	(125,899)
	<u>5,983,707</u>	<u>171,724</u>	<u>89,160</u>	<u>6,244,591</u>
<i>Less: allowance for impairment</i>	<u>(15,446)</u>	<u>(9,334)</u>	<u>(77,196)</u>	<u>(101,976)</u>
Carrying amount	<u>5,968,261</u>	<u>162,390</u>	<u>11,964</u>	<u>6,142,615</u>
	2024			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Current	4,972,981	-	-	4,972,981
Watch list	-	176,110	-	176,110
Doubtful	-	-	268,888	268,888
Loss	-	-	(10,284)	(10,284)
	<u>4,972,981</u>	<u>176,110</u>	<u>258,604</u>	<u>5,407,695</u>
<i>Less: allowance for impairment</i>	<u>(11,767)</u>	<u>(19,361)</u>	<u>(236,961)</u>	<u>(268,089)</u>
Carrying amount	<u>4,961,214</u>	<u>156,749</u>	<u>21,643</u>	<u>5,139,606</u>

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Loans and advances to customers (continued)

Following table sets out information about the movement in gross exposures by stages of loans and advances to customers

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	4,972,981	176,110	258,604	5,407,695
Transfer to Stage 1	12,184	(12,184)	-	-
Transfer to Stage 2	(24,734)	37,192	(12,458)	-
Transfer to Stage 3	(4,025)	(22,260)	26,285	-
New financial assets originated	2,353,615	36,082	714	2,390,411
De-recognition of financial assets	(998,632)	(23,222)	(60,444)	(1,082,298)
Write off	-	-	(125,899)	(125,899)
Other movements within the same stage	(327,681)	(19,994)	2,357	(345,318)
Balance as at 31 December	5,983,708	171,724	89,159	6,244,591

	2024			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	5,639,929	126,530	272,482	6,038,941
Transfer to Stage 1	12,069	(12,069)	-	-
Transfer to Stage 2	(120,972)	129,090	(8,118)	-
Transfer to Stage 3	(5,301)	(16,839)	22,140	-
New financial assets originated	1,962,150	19,798	-	1,981,948
De-recognition of financial assets	(1,992,406)	(67,816)	(7,603)	(2,067,825)
Write off	-	-	(10,284)	(10,284)
Other movements within the same stage	(522,488)	(2,584)	(10,013)	(535,085)
Balance as at 31 December	4,972,981	176,110	258,604	5,407,695

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Islamic financing

The following table sets out information about Islamic financing. These are carried at amortised cost.

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Current	95,144	-	-	95,144
Watch list	-	22,013	-	22,013
Doubtful	-	-	35,078	35,078
	<u>95,144</u>	<u>22,013</u>	<u>35,078</u>	<u>152,235</u>
Less: allowance for impairment	(617)	(3,377)	(23,439)	(27,433)
Carrying amount	<u>94,527</u>	<u>18,636</u>	<u>11,639</u>	<u>124,802</u>
	2024			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Current	73,474	-	-	73,474
Watch list	-	39,137	-	39,137
Doubtful	-	-	34,833	34,833
	<u>73,474</u>	<u>39,137</u>	<u>34,833</u>	<u>147,444</u>
Less: allowance for impairment	(503)	(7,096)	(22,660)	(30,259)
Carrying amount	<u>72,971</u>	<u>32,041</u>	<u>12,173</u>	<u>117,185</u>

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Islamic financing (continued)

Following table sets out information about the movement in gross exposures by stages of Islamic financing.

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	73,474	39,137	34,833	147,444
Transfer to Stage 1	14,440	(14,440)	-	-
Transfer to Stage 2	(4,281)	6,382	(2,101)	-
Transfer to Stage 3	(322)	(7,716)	8,038	-
New financial assets originated	30,111	4,156	1,341	35,608
De-recognition of financial assets	(17,329)	(4,174)	(7,256)	(28,759)
Other movements within the same stage	(949)	(1,332)	223	(2,058)
	<u>95,144</u>	<u>22,013</u>	<u>35,078</u>	<u>152,235</u>
Balance as at 31 December				

	2024			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	1,602,454	69,120	39,247	1,710,821
Transfer to Stage 1	9,402	(7,910)	(1,492)	-
Transfer to Stage 2	(17,171)	20,603	(3,432)	-
Transfer to Stage 3	(6,462)	(8,788)	15,250	-
New financial assets originated	28,650	5,074	745	34,469
De-recognition of financial assets	(1,511,573)	(38,681)	(10,968)	(1,561,222)
Other movements within the same stage	(31,826)	(281)	(4,517)	(36,624)
	<u>73,474</u>	<u>39,137</u>	<u>34,833</u>	<u>147,444</u>
Balance as at 31 December				

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Investment securities

The following table sets out information about debt investment securities carried at amortised cost:

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Low risk	2,593,158	-	-	2,593,158
Less: allowance for impairment	(3,968)	-	-	(3,968)
Carrying amount	<u>2,589,190</u>	<u>-</u>	<u>-</u>	<u>2,589,190</u>
	2024			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Low risk	2,742,687	-	-	2,742,687
Less: allowance for impairment	(3,122)	-	-	(3,122)
Carrying amount	<u>2,739,565</u>	<u>-</u>	<u>-</u>	<u>2,739,565</u>

During the year, no transfers to other stages occurred in the gross exposures of debt securities carried at amortised cost. Movement within the same stage (Stage 1) is disclosed in note 8. The external ratings for trading securities and non-trading investment securities are disclosed below:

	Investments at fair value through profit or loss		Non-trading investment Securities	
	2025 AED'000	2024 AED'000	2025 AED'000	2024 AED'000
AAA	-	-	-	-
AA to A	63,966	64,479	2,696,272	1,746,757
BBB to B	24,753	77,544	1,332,433	810,219
Unrated*	-	-	672,593	563,367
Total	<u>88,719</u>	<u>142,023</u>	<u>4,701,298</u>	<u>3,120,343</u>
Less: expected credit loss	-	-	(3,968)	(3,122)
Net total	<u>88,719</u>	<u>142,023</u>	<u>4,697,330</u>	<u>3,117,221</u>

*Unrated investments primarily consist of investments in private equities and investments in equities which don't carry credit risk. Investments at fair value through profit or loss are neither past due nor impaired.

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.5 Credit quality (continued)

Contingent liabilities (continued)

	2025				2024			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Low risk	1,233,746	-	-	1,233,746	565,801	-	-	565,801
Watchlist	-	10,752	-	10,752	-	11,655	-	11,655
Loss	-	-	17,166	17,166	-	-	9,650	9,650
	<u>1,233,746</u>	<u>10,752</u>	<u>17,166</u>	<u>1,261,664</u>	<u>565,801</u>	<u>11,655</u>	<u>9,650</u>	<u>587,106</u>
<i>Less: allowance for impairment</i>	<u>(5,902)</u>	<u>(1,025)</u>	<u>(14,079)</u>	<u>(21,006)</u>	<u>(6,276)</u>	<u>(236)</u>	<u>(8,977)</u>	<u>(15,489)</u>
Carrying amount	<u>1,227,844</u>	<u>9,727</u>	<u>3,087</u>	<u>1,240,658</u>	<u>559,525</u>	<u>11,419</u>	<u>673</u>	<u>571,617</u>

Following table sets out information about the movement in gross exposures by stages of contingent liabilities

	2025			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January	565,801	11,655	9,650	587,106
Transfer to Stage 2	(10,000)	10,000	-	-
Transfer to Stage 3	-	(8,692)	8,692	-
New financial assets originated	887,581	295	-	887,876
De-recognition of financial assets	(132,185)	(657)	(750)	(133,592)
Other movements within the same stage	(77,451)	(1,849)	(426)	(79,726)
Balance as at 31 December	<u>1,233,746</u>	<u>10,752</u>	<u>17,166</u>	<u>1,261,664</u>

	2024			
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
Balance as at 1 January	258,882	5,750	3,400	268,032
Transfer to Stage 2	(755)	755	-	-
Transfer to Stage 3	-	(5,250)	5,250	-
New financial assets originated	365,186	10,900	1,000	377,086
De-recognition of financial assets	(34,050)	-	-	(34,050)
Other movements within the same stage	(23,462)	(500)	-	(23,962)
Balance as at 31 December	<u>565,801</u>	<u>11,655</u>	<u>9,650</u>	<u>587,106</u>

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.6 Inputs, assumptions and techniques used for estimating impairment

a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis including internal obligor credit risk rating system, external risk ratings, where available, delinquency status of accounts, credit judgement and, where possible, relevant historical experience and forward-looking information. The Group may also determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure. The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

b) Obligor Risk Rating (ORR)

The Group uses specific obligor risk rating (ORR) models tailored to various industry segments/counterparty. ORR is arrived using quantitative/ financial and qualitative/ non-financial factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Exposures are subject to on-going monitoring, which may result in an exposure being moved to a different credit risk grade.

c) Generating the term structure of Probability of Default (PD)

The Group employs statistical models to analyse the data collected and generate estimates of PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors, across various geographies in which the Group has exposures.

d) Renegotiated financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to the current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value. Where possible, the Group seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Facilities which are restructured due to credit reasons in past 12 months are classified under Stage 2. A borrower would need to demonstrate consistently good payment history over a period of time before the exposure is upgraded to Stage 1.

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

e) Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held);
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation ;or
- the borrower is past due more than 90 days on any material credit obligation to the Group.

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

- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Group;
- qualitative - e.g. borrowers' cooperation and the clarity and availability of the information requested; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Group for regulatory capital purposes.

f) Curing

Assets can move back to Stage 1 from Stage 2 when they no longer meet the significant increase in credit risk criteria and have completed a probation period of 12 months, defined by the Group. An account shall move from Stage 3 to Stage 2 when objective evidence of impairment fails to exist, post which it shall follow the curing period of 12 months before it can be transferred to Stage 1. The policy also ensures that none of the assets can move back directly to Stage 1 from Stage 3.

g) Incorporation of forward-looking information

The assessment of significant increase in credit risk (SICR) and the calculation of ECL both incorporate forward-looking information. The Group employs statistical models to identify portfolio relevant-macroeconomic variables and then incorporate forward-looking information of the shortlisted macroeconomic variables on historical default rates. Expert judgement is applied in the process where the economic relationship between variables is weak, or the forecast is deemed imprudent. The forecasts of these macro-economic variables are updated on regular basis to obtain the best possible estimate of the movement of the economy over the next five years. After five years, to project the economic variables out for the full remaining lifetime of instrument, a rolling average approach has been used.

Incorporating forward-looking information of macroeconomic factors are reflected on the ECL calculations applicable to the Stage 1 and Stage 2 exposures to align credit provisions with the economic outlook. The methodologies and assumptions involved are reviewed periodically, including the forecasts of the shortlisted macro-economic variables, which are regularly updated.

The Bank formulates three economic scenarios: a base case, which is the median scenario assigned a 40% probability of occurring, and two less likely scenarios, one upside and one downside, each assigned a 30% probability of occurring.

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

h) Incorporation of forward-looking information (continued)

For the industrial finance portfolio, the Bank has applied the following UAE macroeconomic variables:

- Real GDP (% change pa)
- Lending interest rate
- Current-account balance (% of GDP)

For the retail portfolio, the Bank has applied the following UAE macroeconomic variables:

- Domestic credit growth
- Abu Dhabi stock price index (ADX)
- Dubai real estate Index

The scenario probability weightings applied in measuring ECL are as follows:

	2025			2024		
	Upside	Central	Downside	Upside	Central	Downside
Scenario probability weighting	30%	40%	30%	30%	40%	30%

i) Measurement of Expected Credit Loss (“ECL”)

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

- A financial instrument that is not credit-impaired on initial recognition is classified in ‘Stage 1’ and has its credit risk continuously monitored by the Group.
- If a Significant Increase in Credit Risk (‘SICR’) since initial recognition is identified, then the financial instrument is moved to ‘Stage 2’ but is not yet deemed to be credit-impaired. Identification of SICR is measured based on information as described above.
- If the financial instrument is credit-impaired, the financial instrument is then moved to ‘Stage 3’.

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD constitutes a key input in measuring ECL. Probability of default 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.

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.

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.6 Inputs, assumptions and techniques used for estimating impairment (continued)

h) Measurement of ECL (continued)

EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- credit risk grading;
- product type; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

i) Credit risk monitoring

For IFRS 9 ECL computation, credit exposures are monitored and reported as per IFRS 9 requirements. Stage migrations, any exceptions to SICR criteria, other credit and impairment related matters are reviewed and approved by an appropriate management committee.

Risks of the Group's credit portfolio are continuously assessed and monitored on the basis of exceptions, management information reports and returns generated by the business and credit units. Credit risk is also monitored on an ongoing basis with formal monthly and quarterly reporting to ensure that senior management is aware of shifts in the credit quality of the portfolio along with changing external factors.

j) Collateral management

Collaterals and guarantees are effectively used as mitigating tools by the Group. The quality of collateral is continuously monitored and assessed and the Bank seeks to ensure enforceability of the collateral. Major categories of collaterals include cash/ fixed deposits, inventories, shares, guarantees (corporate, bank and personal guarantees), immovable properties, receivables and vehicles.

Collaterals are revalued regularly as per the bank's credit policy. In addition, ad hoc valuations are also carried out depending on the nature of collateral and general economic condition. This enables the Bank to assess the fair market value of the collateral and ensure that risks are appropriately covered. Security structures and legal covenants are also subject to regular review.

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.7 Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments.

Balances and deposits with banks

	2025			Total ECL AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	446	-	-	446
New financial assets originated	566	-	-	566
De-recognition of financial assets	(446)	-	-	(446)
	<u>566</u>	<u>-</u>	<u>-</u>	<u>566</u>
Balance as at 31 December	566	-	-	566
	<u>566</u>	<u>-</u>	<u>-</u>	<u>566</u>
	2024			Total ECL AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	582	-	-	582
New financial assets originated	446	-	-	446
De-recognition of financial assets	(582)	-	-	(582)
	<u>446</u>	<u>-</u>	<u>-</u>	<u>446</u>
Balance as at 31 December	446	-	-	446
	<u>446</u>	<u>-</u>	<u>-</u>	<u>446</u>

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.7 Loss allowance (continued)

Loans and advances to customers

	2025			Total ECL AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	11,767	19,361	236,961	268,089
Transfers to Stage 1	115	(115)	-	-
Transfers to Stage 2	(2,563)	3,633	(1,070)	-
Transfers to Stage 3	(2,683)	(18,052)	20,735	-
Other movements within the same stage	2,105	4,162	5,532	11,799
New financial assets originated	8,476	1,098	714	10,288
De-recognition of financial assets	(1,771)	(753)	(59,777)	(62,301)
Write off	-	-	(125,899)	(125,899)
Balance as at 31 December	15,446	9,334	77,196	101,976

	2024			Total ECL AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	29,899	21,530	224,221	275,650
Transfers to Stage 1	154	(154)	-	-
Transfers to Stage 2	(11,160)	12,794	(1,634)	-
Transfers to Stage 3	(3,061)	(11,691)	14,752	-
Other movements within the same stage	(1,137)	5,320	12,268	16,451
New financial assets originated	5,758	525	-	6,283
De-recognition of financial assets	(8,686)	(8,963)	(2,362)	(20,011)
Write off	-	-	(10,284)	(10,284)
Balance as at 31 December	11,767	19,361	236,961	268,089

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35 Risk management (continued)

35.2 Credit risk (continued)

35.2.7 Loss allowance (continued)

Islamic financing

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	503	7,096	22,660	30,259
Transfers to Stage 1	71	(71)	-	-
Transfers to Stage 2	(838)	1,254	(416)	-
Transfers to Stage 3	(165)	(4,395)	4,560	-
Other movements within the same stage	926	207	1,828	2,961
New financial assets originated	220	375	1,341	1,936
De-recognition of financial assets	(100)	(1,089)	(6,534)	(7,723)
Balance as at 31 December	617	3,377	23,439	27,433

	2024			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	10,420	15,617	23,461	49,498
Transfers to Stage 1	72	(59)	(13)	-
Transfers to Stage 2	(3,040)	3,769	(729)	-
Transfers to Stage 3	(2,786)	(3,379)	6,165	-
Other movements within the same stage	5,499	(2,629)	(476)	2,394
New financial assets originated	191	526	760	1,477
De-recognition of financial assets	(9,853)	(6,749)	(6,508)	(23,110)
Balance as at 31 December	503	7,096	22,660	30,259

35 Risk management (continued)

35.2 Credit risk (continued)

35.2.8 Loss allowance (continued)

Investment securities (Debt instruments)

	2025			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	3,122	-	-	3,122
Other movements within the same stage	921	-	-	921
New financial assets originated	82	-	-	82
De-recognition of financial assets	(157)	-	-	(157)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December	3,968	-	-	3,968
	<hr/>	<hr/>	<hr/>	<hr/>
	2024			Total AED'000
	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	
Balance as at 1 January	1,978	-	-	1,978
Other movements within the same stage	323	-	-	323
New financial assets originated	1,216	-	-	1,216
De-recognition of financial assets	(395)	-	-	(395)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December	3,122	-	-	3,122
	<hr/>	<hr/>	<hr/>	<hr/>

35 Risk management (continued)

35.3 Market risk (continued)

Price risk

The Group faces equity securities price risk due to its investments, which are recorded at fair value through other comprehensive income in the consolidated financial statements. To mitigate this risk, the Group employs a diversification strategy, ensuring its investment portfolio is spread across various securities. This approach helps reduce exposure to fluctuations in individual stock prices. Portfolio diversification is conducted in line with limits established by management, ensuring a balanced risk profile. By adhering to these guidelines, the Group aims to manage potential losses while maintaining stable investment performance in changing market conditions.

The table below summarizes the impact of a 10% increase / decrease of the prices of this portfolio, on the Group's results and equity for the year ended 31 December 2025 and 2024. The analysis is based on the assumptions that all other variables will remain constant and where applicable, the Group's investments moved according to the historical correlation of the relevant index.

Market indices		Impact on equity of the Group	
		2025 AED'000	2024 AED'000
Dubai financial market	+/-	4,327	3,337
Abu Dhabi exchange	+/-	26,394	17,766
Bahrain stock exchange	+/-	3,798	3,252
Unquoted equities	+/-	10,896	9,676

Cash flow and fair value interest rate risk

Cash flow interest rate risk refers to the potential variability in future cash flows of a financial instrument due to changes in market interest rates. Fair value interest rate risk, on the other hand, pertains to fluctuations in the value of a financial instrument resulting from interest rate movements. To manage these risks effectively, the Group's management continuously monitors market interest rates, ensuring timely adjustments and informed decision-making to mitigate potential financial impacts.

Interest sensitivity of assets and liabilities

The Group is exposed to a range of risks that stem from fluctuations in market interest rates, which can have an impact on its financial position and cash flows. Interest rate risk is evaluated by assessing the effect of potential changes in interest rates on the Group's financial instruments. This risk arises from the presence of interest-bearing financial instruments within the Group's portfolio. Essentially, the possibility exists that fluctuations in market interest rates could negatively influence the value of these instruments and, consequently, the associated income streams.

In managing interest rate risk, the Group takes a proactive approach by monitoring the interest rate gaps within its portfolio and aligning the re-pricing profiles of its assets and liabilities. This ensures that potential mismatches between the interest rate sensitivity of the Group's assets and liabilities are minimized, thus helping to mitigate the adverse effects that interest rate changes might have. By carefully matching the timing of re-pricing across both sides of the balance sheet, the Group is able to reduce the exposure to interest rate fluctuations.

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35 Risk management (continued)

35.3 Market risk (continued)

Cash flow and fair value interest rate risk (continued)

A significant portion of the Group's assets and liabilities are subject to re-pricing within a short time frame, specifically within three months. This means that the Group faces relatively limited exposure to interest rate risk in this context. Short-term re-pricing offers some stability, as the value of the Group's financial instruments is more likely to adjust quickly to any interest rate changes, reducing the risk associated with prolonged periods of interest rate misalignment.

To assess the impact of interest rate changes on the value of its financial instruments, the Group employs the concept of the effective interest rate. The effective interest rate is the rate that, when used in a present value calculation of future contractual cash flows, equates to the carrying amount of the financial instrument. This rate is crucial in determining how changes in interest rates will affect the Group's cash flows and the value of its financial instruments.

For fixed-rate instruments that are carried at amortized cost, the effective interest rate is typically the original rate set when the instrument was issued. This rate remains constant over the life of the instrument unless there is a significant change in the terms of the agreement. On the other hand, for floating-rate instruments or instruments that are carried at fair value, the effective interest rate reflects the current market rate. Floating-rate instruments are more sensitive to interest rate changes since their rates adjust periodically in response to market movements, which can impact both the value of the instrument and the future cash flows.

The following table sets out the Group's financial assets and financial liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to 3 months	3 to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Non- interest bearing	Total
At 31 December 2025	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	1,070,680	-	-	-	-	1,070,680
Balances and deposits with banks	3,045,927	2,140,263	-	-	-	5,186,190
Loans and advances to customers	623,107	831,119	1,741,524	2,946,865	-	6,142,615
Islamic Finance	915	2,756	7,841	113,290	-	124,802
Investment securities	1,015,719	1,810,231	312,827	1,193,124	454,148	4,786,049
Derivative financial instruments	(1,083)	(24,313)	23,239	57,585	-	55,428
Other assets	129,969	-	-	-	-	129,969
Total Assets	5,885,234	4,760,056	2,085,431	4,310,864	454,148	17,495,733
Liabilities						
Due to banks	253,650	183,650	-	-	-	437,300
Deposits and funds	3,390,823	1,176,445	-	-	-	4,567,268
Term borrowings	-	2,753,623	-	2,840,666	-	5,594,289
Derivative financial instruments	(739)	(3,007)	(9,624)	30,528	-	17,158
Other liabilities	384,991	66,929	-	15,453	-	467,373
Total Liabilities	4,028,725	4,177,640	(9,624)	2,886,647	-	11,083,388
Net gap	1,856,509	582,416	2,095,055	1,424,217	454,148	6,412,345

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35 Risk management (continued)

35.3 Market risk (continued)

Cash flow and fair value interest rate risk (continued)

	Up to 3 months	3 to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Non-interest bearing	Total
At 31 December 2024	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	1,278,065	-	-	-	-	1,278,065
Balances and deposits with banks	4,077,780	1,325,388	-	-	-	5,403,168
Loans and advances to customers	450,615	699,922	1,465,962	2,523,107	-	5,139,606
Islamic Finance	682	2,052	6,028	108,423	-	117,185
Investment securities	305,381	1,211,698	645,051	756,802	340,312	3,259,244
Derivative financial instruments	(118)	(20)	3,228	8,609	-	11,699
Other assets	174,861	-	-	-	-	174,861
Total Assets	6,287,266	3,239,040	2,120,269	3,396,941	340,312	15,383,828
Liabilities						
Deposits and funds	2,264,152	850,000	-	-	-	3,114,152
Term borrowings	-	-	2,753,611	2,721,112	-	5,474,723
Derivative financial instruments	(118)	(20)	3,228	87,497	-	90,587
Other liabilities	507,076	210,808	-	12,582	-	730,466
Total Liabilities	2,771,110	1,060,788	2,756,839	2,821,191	-	9,409,928
Net gap	3,516,156	2,178,252	(636,570)	575,750	340,312	5,973,900

Interest Rate Risk arises due to mismatch between rate sensitive assets and rate sensitive liabilities which may adversely impact the earnings/economic value of equity of the Bank with the change in interest rates in the market. For measurement and monitoring of interest rate risk, the Group uses risk management tools such as Traditional Gap Analysis and Earning at Risk. The short-term impact of interest rate movements on Net Interest Income (NII) is worked out through the 'Earnings at Risk' approach by taking into consideration parallel shift in yield curve. The long-term impact of interest rate movements is measured and monitored through change in Market Value of Equity.

35 Risk management (continued)

35.3 Market risk (continued)

Cash flow and fair value interest rate risk (continued)

The Group assumes a fluctuation in EIBOR rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date, with all other variables held constant:

	2025 AED'000	2024 AED'000
Effect of a +/- 25 bps change in EIBOR gain or loss	+/- 4,838	+/- 11,790

The interest rate sensitivities set out above employ simplified scenarios. They are based on AED 12,962 million (2024: AED 11,001 million) interest bearing assets and AED 10,276 million (2024: AED 6,082 million) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Group's functional currency is the UAE Dirham. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure.

As at 31 December 2025, the Group had net long exposures denominated in US Dollars amounting to AED 4,368 million (2024: net long exposure of AED 2,972 million). As AED is pegged against US Dollar, the Group's risk exposure to this currency is limited.

Management of market risks

The Assets and Liabilities Management Committee ("ALCO") holds overall responsibility for market risk, establishing limits for various risk types both individually and at the portfolio level. Management is tasked with formulating detailed risk management policies, which are subject to ALCO's review and approval. Additionally, management oversees the daily implementation and monitoring of these policies to ensure effective risk control.

35.4 Liquidity risk

Liquidity risk refers to the possibility that the Group may be unable to meet its financial obligations as they become due or replace withdrawn funds. This could result in the inability to fulfill lending commitments. To mitigate this risk, the Group actively monitors its liquidity position through a structured process managed by its leadership. By continuously assessing cash flows, funding requirements, and available resources, the Group ensures it can meet its obligations on time. Effective liquidity management helps maintain financial stability and operational continuity, reducing the potential impact of unexpected cash shortages or market disruptions.

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35 Risk management (continued)

35.4 Liquidity risk (continued)

The Bank has a formal contingency funding plan (“CFP”), which is updated, reviewed and approved by the Board on an annual basis. The CFP provides a list of liquidity generation tools which would be used to counter liquidity stress at different stages of the contingency.

The Bank holds a portfolio of HQLA aligned with the established liquidity risk tolerance of the bank, which means at a minimum it is sufficient to meet Basel III liquidity requirements and internal ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by Stress tests.

The following table analyses the Group’s financial assets and financial liabilities into relevant maturity groupings based on the remaining period at the date of the consolidated statement of financial position to the contracted maturity date:

	Up to 3 months	3 to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Unspecified maturity	Total
At 31 December 2025	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	1,023,000	-	-	-	47,680	1,070,680
Balances and deposits with banks	3,005,929	2,140,263	-	-	39,998	5,186,190
Loans and advances to customers	3,260,924	585,755	958,746	1,337,190	-	6,142,615
Islamic finance	46,009	78,793	-	-	-	124,802
Investment securities	1,015,719	1,810,231	312,827	1,193,123	454,149	4,786,049
Derivative financial instruments	(260,896)	256,715	306,849	(247,240)	-	55,428
Other assets	129,969	-	-	-	-	129,969
Total assets	8,220,654	4,871,757	1,578,422	2,283,073	541,827	17,495,733
Liabilities						
Due to banks	253,650	183,650	-	-	-	437,300
Deposits and funds	2,824,336	1,137,014	39,432	-	566,486	4,567,268
Term borrowings	2,840,667	2,753,622	-	-	-	5,594,289
Derivative financial instruments	44,613	199,047	75,995	(302,497)	-	17,158
Other liabilities	384,991	66,929	-	15,453	-	467,373
Total liabilities	6,348,257	4,340,262	115,427	(287,044)	566,486	11,083,388
Net gap	1,872,397	531,495	1,462,995	2,570,117	(24,659)	6,412,345

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35 Risk management (continued)

35.4 Liquidity risk (continued)

	Up to 3 months	3 to 12 months	Over 1 year to 3 years	Over 3 years to 5 years	Unspecified maturity	Total
At 31 December 2024	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	1,232,000	-	-	-	46,065	1,278,065
Balances and deposits with banks	3,994,083	1,325,388	-	-	83,697	5,403,168
Loans and advances to customers	803,447	2,010,261	1,009,970	1,315,928	-	5,139,606
Islamic finance	42,053	75,132	-	-	-	117,185
Investment securities	305,381	1,211,698	645,051	756,801	340,313	3,259,244
Derivative financial instruments	5,571	(3,619)	260,698	(250,951)	-	11,699
Other assets	174,861	-	-	-	-	174,861
Total assets	6,557,396	4,618,860	1,915,719	1,821,778	470,075	15,383,828
Liabilities						
Deposits and funds	1,927,522	850,000	-	-	336,630	3,114,152
Term borrowings	-	2,721,112	2,753,611	-	-	5,474,723
Derivative financial instruments	659,309	(75,382)	(11,582)	(481,758)	-	90,587
Other liabilities	507,076	210,809	-	12,582	-	730,467
Total liabilities	3,093,907	3,706,539	2,742,029	(469,176)	336,630	9,409,929
Net gap	3,463,489	912,321	(826,310)	2,290,954	133,445	5,973,899

Maturity of assets and liabilities is determined on the basis of the remaining period from the date of the consolidated statement of financial position to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability but can also increase the risk of losses.

The ability to replace maturing interest-bearing liabilities at a reasonable cost, along with the maturity profile of assets and liabilities, plays a crucial role in assessing the Group's liquidity. Additionally, these factors influence the Group's exposure to fluctuations in interest rates and exchange rates. Effective management of these elements ensures financial stability and minimizes risks associated with liquidity and market volatility.

35 Risk management (continued)

35.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

Business Continuity Management (BCM) enables the Bank to proactively enhance operational resilience, enrich various capabilities and manage response to unplanned incidents or events; continue to conduct critical business operations and return to normal operations in a timely manner.

Effective management of operational risk and business continuity is a fundamental element of the Bank's overall risk management program. The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Management is responsible for the development and implementation of controls to address operational risk. This responsibility is supported by the development of overall standards for the management of operational risk.

Key components of the operational risk management framework mainly covers: governance, policies, guidelines & processes, operational risk incident management, risk & control self-assessment, key risk indicators, training and awareness.

Key components of the business continuity management framework mainly covers: governance, policies, business impact analysis, business continuity plan, drills and testing and emergency response.

Senior management of the bank has the responsibility to oversee the implementation and ensure that strategies, policies and processes are effectively implemented at all levels.

The Bank follows the Three Lines of Defense model for the management of operational risk and business continuity whereby:

- First line (business line management) own the risks and are responsible for the implementation of the operational risk and business continuity frameworks.
- Second line (risk management) is responsible for developing the related operational risk and business continuity policies, frameworks and the associated tools to support first line in fulfilling their responsibilities.
- Third line (internal audit) provide independent assurance to the Board.

35.6 Capital risk management

The Group's objectives when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee.

The Bank seeks to optimise returns on capital and it has always been the objective to maintain a strong capital base to support business development and to meet the capital requirements at all times.

As per Basel III requirement, capital should comprise of the following:

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35 Risk management (continued)

35.6 Capital risk management (continued)

Tier 1 capital - Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instruments issued by banks which are eligible for inclusion in AT 1 and are not included in CET 1.

Tier 2 capital - Tier 2 capital includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets).

Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets and cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit specified by the Central Bank regulations for Basel III.

Capital allocation

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 activities, it is not the sole basis used for decision making. Account is also taken of synergies with other activities, the availability of management and other resources, and the fit of the activity with the Bank's longer-term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors and Board level committees as part of Internal Capital Adequacy assessment program ("ICAAP")

The Bank's regulatory capital positions as 31 December 2025 and 2024 is as follows:

	2025 AED'000	2024 AED'000
Tier 1 capital		
Share capital	4,758,390	4,708,390
Statutory reserve	655,924	655,925
Fair value reserve	92,733	43,638
Retained earnings	1,185,227	905,846
Deductions (Tarmeem Healthcare Holding Ltd)	(20,847)	-
Eligible Tier 1 capital (a)	6,671,427	6,313,799
Tier 2 capital		
Eligible general provisions	127,655	102,944
Eligible Tier 2 capital (b)	127,655	102,944
Total capital base (a+b)	6,799,082	6,416,743
Risk weighted assets		
Credit risk	10,212,370	8,235,482
Market risk	546,097	193,068
Operational risk	1,113,903	922,806
Total risk weighted assets	11,872,370	9,351,356
CET 1 ratio	56.19%	67.45%
Tier 1 ratio	56.19%	67.45%
Capital adequacy ratio	57.25%	68.55%

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35 Risk management (continued)

35.7 Fair value measurement

The fair values and carrying amounts of financial assets and financial liabilities in the consolidated statement of financial position are as follows:

	2025			2024			Total AED'000
	Amortised cost AED'000	FV/TOCI AED'000	FVTPL AED'000	Amortised cost AED'000	FV/TOCI AED'000	FVTPL AED'000	
Cash and balances with the UAE Central Bank	1,070,680	-	-	1,278,065	-	-	1,278,065
Balances and deposits with banks	5,186,190	-	-	5,403,168	-	-	5,403,168
Loans and advances to customers	6,142,615	-	-	5,139,606	-	-	5,139,606
Islamic financing	124,802	-	-	117,185	-	-	117,185
Investment securities	2,589,190	2,108,140	88,719	2,739,565	377,656	142,023	3,259,244
Derivative financial instruments	-	-	55,428	-	-	11,699	11,699
Other assets	129,969	-	-	174,861	-	-	174,861
Total financial assets	15,243,446	2,108,140	144,147	14,852,450	377,656	153,722	15,383,828
Due to banks	437,300	-	-	-	-	-	-
Derivative financial instruments	-	-	17,158	-	-	90,587	90,587
Deposits and funds	4,567,268	-	-	3,114,152	-	-	3,114,152
Term borrowings	5,594,289	-	-	5,474,723	-	-	5,474,723
Other liabilities	642,763	-	-	862,281	-	-	862,281
Total financial liabilities	11,241,620	-	17,158	9,451,156	-	90,587	9,541,743

35 Risk management (continued)

35.8 Fair value hierarchy

All financial assets and liabilities are measured at amortised cost except for financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss, which are measured at fair value by reference to published price quotations in an active market.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1 – Inputs that are quoted market prices (unadjusted) in active markets for identical instrument.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3 - Inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs that are not observable and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group measures the fair values of its quoted financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss using the quoted market price (unadjusted) in active market for an identical instrument (Level 1). For the unquoted securities, the Group measures its fair value based on Level 3, using a market comparison technique which is mainly based on market multiples derived from financial information of companies comparable to the investee and the expected EBITDA of the investee, among others. The estimate is adjusted for the effect of non-marketability of the equity securities.

The fair values of balance with the UAE Central Bank, balances and deposits with banks, deposits from government authorities and corporate customers, which are predominantly short term in tenure and issued at market rates, are considered to reasonably approximate their carrying amount. The Group estimates that the fair value of its conventional housing portfolio and Ijarah and Estisnaa portfolios not to be materially different from its carrying amount since all these balances carry floating market rates of interest and are re-priced on semiannual basis.

As at 31 December 2025, the fair values of the financial investments measured at amortised cost, which are comprising of bonds, sukuk and treasury bills, amounted to AED 2.7 billion (2024: AED 1.2 billion). As at 31 December 2025, the fair values of the term borrowings amounted to AED 5.3 billion (2024: AED 5.3 billion).

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35 Risk management (continued)

35.8 Fair value hierarchy (continued)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2025				
Financial assets at FVTPL	88,719	-	-	88,719
Financial assets at FVTOCI	1,999,176	-	108,964	2,108,140
Derivative financial instruments (assets)	-	55,428	-	55,428
	<u>2,087,895</u>	<u>55,428</u>	<u>108,964</u>	<u>2,252,287</u>
Derivative financial instruments (liabilities)	-	17,158	-	17,158
Term borrowings	-	40,667	-	40,667
	<u>-</u>	<u>57,825</u>	<u>-</u>	<u>57,825</u>
At 31 December 2024				
Financial assets at FVTPL	142,023	-	-	142,023
Financial assets at FVTOCI	280,896	-	96,760	377,656
Derivative financial instruments (assets)	-	11,699	-	11,699
	<u>422,919</u>	<u>11,699</u>	<u>96,760</u>	<u>531,378</u>
Derivative financial instruments (liabilities)	-	90,587	-	90,587
Term borrowings	-	(78,888)	-	(78,888)
	<u>-</u>	<u>11,699</u>	<u>-</u>	<u>11,699</u>

During the year, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

35 Risk management (continued)

35.8 Fair value hierarchy (continued)

35.8.1 Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Unquoted equities	Market comparison technique	<p>EBITDA / Forecasted EBITDA</p> <p>Marketability discounts (ranges from 25% to 15% for 2025 and 2024)</p> <p>Performance discounts (ranges from 25% for 2025 and 2024)</p> <p>Financial multiples of comparable entities:</p> <ul style="list-style-type: none"> - EV/EBITDA (ranges from 4x to 33.4x) - EV/Revenue (ranges from 0.5x to 7.3x) - P/BV (ranges from 0.5x to 3.1x) 	<p>The estimated fair value would increase (decrease):</p> <ul style="list-style-type: none"> - if the EBITDA margin were higher (lower) - if the marketability discounts were lower (higher) - if the performance discounts were lower (higher) - if the financial multiples of comparable entities were higher (lower) <p>Generally, a change in the annual revenue growth rate is accompanied by a directionally similar change in EBITDA margin.</p>
	NAV approach	<p>This is based on the assumption that the value of the business equates to the sum of its underlying assets, and that no rational investor will pay more for the business than the cost of procuring assets of similar economic utility.</p>	<p>Marketability discounts (ranges from 25% to 15% for both years)</p> <p>Net assets</p>

35 Risk management (continued)

35.8 Fair value hierarchy (continued)

35.8.1 Valuation techniques and significant unobservable inputs (continued)

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Investment properties	Comparable evidence approach Fair value of the subject property was calculated by adopting comparable market transaction information where available, current asking prices and compares the subject property's characteristics with those comparable properties which have recently been marketed in similar transactions in the market.	Comparable sales price of office and land plots (ranges from AED 78 to 3,953 per sq./ft.) and apartment building (ranges from AED 1,066 to 1,673 per sq/ft) (2024: Comparable sales price of office and land plots (ranges from AED 78 to 2,433 per sq./ft.) and apartment building (ranges from AED 871 to 1,338 per sq/ft).	The estimated fair value would increase (decrease) if the comparable sales prices were higher (lower).
	Investment approach The market value of the Property has been determined through analysis of the income flow achievable for the investment property and takes into account the projected annual expenditure	Capitalisation rate 2025: 7.75% to 8% (2024: 7.75% to 8%) Rental income (ranges from AED 87 to 125 per sq./ft. for 2025 AED 90 to AED 150 2024)	An increase in the capitalisation rate used would result in a decrease in fair value, and vice versa. An increase in the market rent used would result in an increase in fair value, and vice versa. Generally, a change in the assumption used for rental income should be accompanied by a change in the assumption for capitalisation rates in the same direction as increase in rental income increases the expectations of the seller to earn from the investment property. Therefore, the effects of these changes partially offset each other.

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35 Risk management (continued)

35.8 Fair Value Hierarchy (continued)

35.8.2 Reconciliation of level 3 fair values

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

	2025 AED'000	2024 AED'000
Investment properties		
Balance as at 1 January	503,702	480,027
Title deed cost	-	1,522
Net fair value change during the year	17,883	22,153
	<hr/>	<hr/>
Balance as at 31 December	521,585	503,702
	<hr/>	<hr/>
Financial assets at FVOCI		
Balance as at 1 January	96,760	97,308
Securities purchased	26,092	-
Securities sold	(9,155)	(4,408)
Net fair value change during the year	(4,733)	3,860
	<hr/>	<hr/>
Balance as at 31 December	108,964	96,760
	<hr/>	<hr/>

36 Subsequent events

With respect to the recent situation in the region, as per management's assessment, the potential financial reporting effects of the conflict have been assessed as non-adjusting in nature in the consolidated financial statements for the year ended 31 December 2025. The Group continues to closely monitor the impact of these developments on its business and has implemented appropriate contingency measures.

37 Comparative information

Certain comparative amounts have been reclassified wherever necessary to conform to the current presentation.