

Kuwait Finance House B.S.C. (c)
[formerly known as Ahli United Bank B.S.C. (c)]
Pillar 3 Disclosures - Basel III
31 December 2025

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31 December 2025

INTRODUCTION TO THE CENTRAL BANK OF BAHRAIN'S BASEL III GUIDELINES

The Central Bank of Bahrain (the "CBB") Basel III Guidelines, based upon the Bank for International Settlements (BIS) Revised Framework – 'International Convergence of Capital Measurement and Capital Standards', became applicable from 1 January 2015. Basel III is structured around three 'Pillars': Pillar 1 - Minimum Capital Requirements, Pillar 2 – the Supervisory Review and Evaluation Process (SREP) and the Internal Capital Adequacy Assessment Process (ICAAP), and Pillar 3 - Market Discipline.

Group Structure

The public disclosures under this section have been prepared in accordance with the CBB rules concerning Public Disclosure Module ("PD Module"), section PD-1: Annual Disclosure Requirements. The disclosures under this section are applicable to Kuwait Finance House B.S.C. (c) ("KFH Bahrain" or "the Bank"), incorporated in the Kingdom of Bahrain. The Bank operates under an Islamic retail banking license issued by the CBB. The Bank and its subsidiaries (as detailed under note 2.2 to the audited consolidated financial statements) are collectively known as the "Group".

KFH Bahrain is a 100% owned subsidiary of Kuwait Finance House K.S.C.P. ("KFH Bahrain" or "Parent"). KFH Bahrain is a public shareholding company incorporated in the State of Kuwait on 23 March 1977 and operates under an Islamic banking licence issued by the Central Bank of Kuwait and its ordinary shares are listed in the Bursa Kuwait and Bahrain Bourse.

Pillar 1 – Minimum Capital Requirements

Pillar 1 deals with the basis for the computation of the regulatory capital adequacy ratio. It defines the calculation of Risk Weighted Assets (RWAs) for credit risk, market risk and operational risk, as well as the derivation of the regulatory capital base. The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs. All locally incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12.5%. This includes, mandatory Capital Conservation Buffer (CCB) of 2.5%.

KFH Bahrain had been designated as a Domestic Systemically Important Bank (DSIB) by the CBB. CBB has mandated in its rule book (DS-1.2.1) that DSIBs must hold additional Common Equity Tier 1 (CET 1) capital buffer of 1.5% of total RWA as calculated for the purpose of capital adequacy. Consequently, KFH Bahrain is required to maintain minimum total capital adequacy ratio of 14.0%.

The Group ensures that each subsidiary maintains sufficient capital levels for their respective legal and regulatory compliance purposes.

Credit risk

Basel III provides two approaches (Standardised approach and Internal Rating Based approach) to the calculation of credit risk regulatory capital. The Standardised approach, which the Bank has adopted, require banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardised risk weightings to such categories.

Market risk

The Bank has adopted the Standardised approach for determining the market risk capital requirement.

Operational risk

Under the Basic Indicator Approach (BIA), which the Bank has adopted for operational risk, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15 per cent to the average gross income for the preceding three financial years.

Pillar 2 – The Supervisory Review and Evaluation Process (SREP) and Internal Capital Adequacy Assessment Process

Pillar 2 involves the process of supervisory review of a financial institution's risk management framework and its capital adequacy.

Accordingly, this involves both the Bank and its regulators taking a view on whether additional capital should be held against risks not covered in Pillar 1. Part of the Pillar 2 process is the ICAAP, which is the Bank's self assessment of risks not captured by Pillar I and based on CBB's guidelines and ICAAP module under the CBB rulebook.

As part of the CBB's Pillar 2 guidelines, each bank is required to be individually reviewed and assessed by the CBB with the intention of setting individual minimum capital adequacy ratios.

Pillar 3 – Market Discipline

Pillar 3 is related to market discipline and requires the Bank to publish detailed qualitative and quantitative information of its risk management and capital adequacy policies and processes to complement the first two pillars and the associated supervisory review process. The disclosures in this report are in addition to the disclosures set out in the audited consolidated financial statements of the Group for the year ended 31 December 2025.

PILLAR 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES

For the purpose of computing regulatory minimum capital requirements, the Group follows the rules as laid out under the Capital Adequacy (CA) Module of the CBB Rulebook. Accordingly;

a) All subsidiaries as per note 2.2 to the audited consolidated financial statements are consolidated on a line by line basis in accordance with Financial Accounting Standards ("FAS") issued by the Accounting and Auditing Organisation of Islamic Financial Institutions ("AAOIFI"), as explained in note 2.1 to the audited consolidated financial statements for the year ended 31 December 2025. Non-controlling interest arising on consolidation is incorporated under respective tiers of capital as per the CBB rules.

b) Investments in associates and joint ventures as reported under note 10 to the audited consolidated financial statements for the year ended 31 December 2025 are treated as "Significant Investment in Financial and commercial Entities". These are risk weighted as per CBB Basel III guidelines;

c) Goodwill and intangibles are deducted from CET1 Capital; and

d) As part of CBB's COVID relief measures outlined in circular OG/226/2020 (dated 21 June 2020) and OG/28/2022 (dated 28 June 2022), additional Expected Credit Losses (ECL) Stages 1 and 2 for the year 2020, are added back to CET1 capital. Accordingly, Stage 1 and 2 ECL, net of any additional ECL for the year ending 31 December 2020, are included in Tier 2 capital, up to a maximum threshold of 1.25% of Credit Risk Weighted Assets. The relief was subject to a three-year phaseout and was completely phased out by December 2025.

TABLE - 1 CAPITAL STRUCTURE

A. NET AVAILABLE CAPITAL	US\$ '000		
	CET1	AT1	Tier2
NET AVAILABLE CAPITAL	4,964,071	402,422	240,319
TOTAL ELIGIBLE CAPITAL BASE (CET1 + AT1 + Tier2)			5,606,812
RISK WEIGHTED EXPOSURES			
Credit Risk Weighted Exposures			15,901,609
Market Risk Weighted Exposures			205,092
Operational Risk Weighted Exposures			1,770,733
TOTAL RISK WEIGHTED EXPOSURES			17,877,434
CET1 and Capital Conservation Buffer (CCB)			27.8%
Tier 1 - Capital Adequacy Ratio (CET1, AT1 and CCB)			30.0%
Total - Capital Adequacy Ratio			31.4%

By virtue of CBB's circular OG/226/2020 dated 21 June 2020 and OG/28/2022 (dated 28 June 2022), for the purposes of capital adequacy computations and for prudential reporting to the CBB, the Group has added back the modification loss, net of the financial assistance from Government and aggregate ECL provision charge for the year ended 31 December 2020 relating to exposures classified as Stage 1 and Stage 2 to the Common Equity Tier (CET1) Capital. Refer to Appendix I for details. The Bank amortised the modification loss in accordance with central bank regulations

B. CAPITAL ADEQUACY RATIO

As at 31 December 2025, the capital adequacy ratio of banking subsidiaries under Basel III, unless mandated otherwise were:

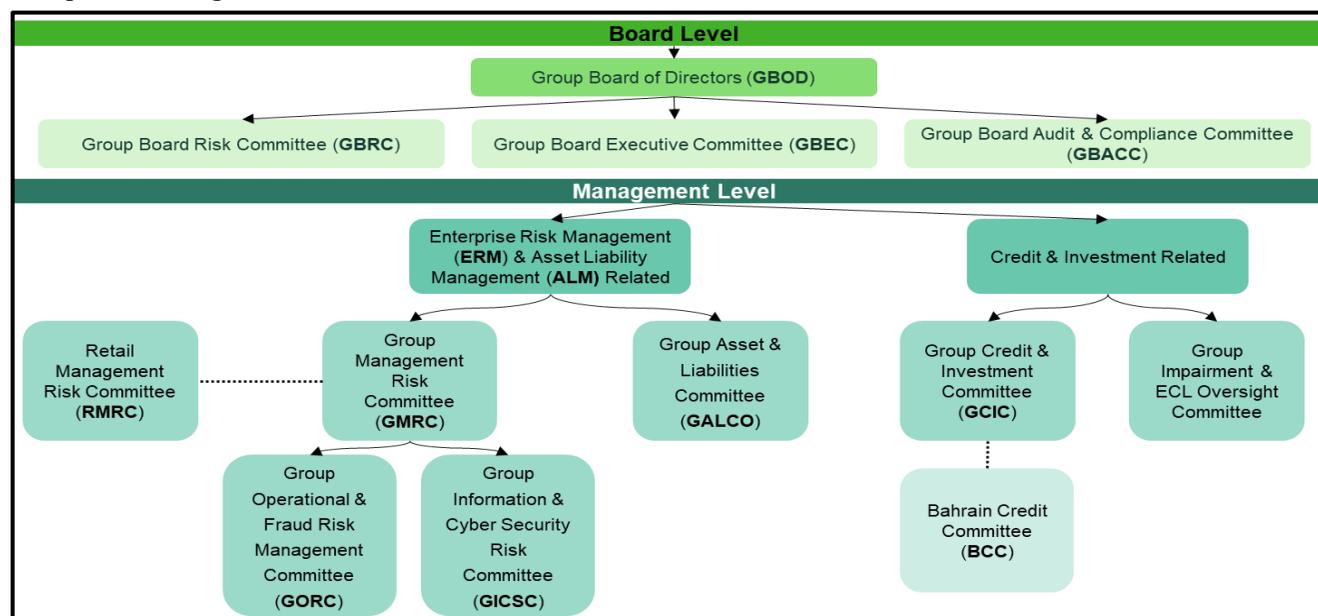
	Subsidiaries		
	Kuwait Finance House (U.K.) PLC (KFH UK)	Kuwait Finance House (Egypt) S.A.E. (KFHE)	Commercial Islamic Bank of Iraq P.S.C. (CIBIQ)
Tier 1 - Capital Adequacy Ratio	20.1%	15.2%	123.6%
Total - Capital Adequacy Ratio	20.1%	16.2%	123.7%

2. GROUP RISK MANAGEMENT GOVERNANCE STRUCTURE

Risk Management Governance

The Group Board of Directors (GBOD) seeks to optimise the Group's performance by enabling the various Group business units to realise the Group's business strategy and meet agreed business performance targets within the GBOD approved Group Risk Management Framework.

Group Risk Management Governance Structure



The above Group committees are set up as part of the Group's Risk Management Governance structure. The Terms of Reference for these committees are approved by the GBOD. The Group Board Risk Committee has oversight over the Group's risk management framework and activities.

Group Risk Management Framework

The overall authority for risk management in the Group is vested in the Group Board of Directors, which has established a Group Board Risk Committee ("GBRC") to assist the GBOD in fulfilling its oversight and governance responsibilities related to present and emerging risks, risk strategies and risk appetite associated with KFH Bahrain's financing, investment and other business activities. The GBRC reviews, oversees and monitors adherence of KFH Bahrain to the risk appetite and framework and acts as a general forum for discussions of any risks faced by the Bank potentially resulting in financial or reputational losses.

The Deputy Group CEO – Risk & Compliance reports directly to the GBRC and administratively to the Group CEO. The Group Risk Management Division comprises of seven departments including:

- i) Group Enterprise Risk Management Department,
- ii) Group Wholesale Banking Credit Risk Management Department (responsible for independent pre-approval analysis of credit proposals),
- iii) Group Investment, Market and Liquidity Risk Management Department,
- iv) Group Operational & Fraud Risk Management and Business Continuity Management (BCM) Department,
- v) Retail Credit Risk Management,
- vi) Group Wholesale Banking Remedial Management Department, and
- vii) Group Information & Cyber Security and Technology Risk Management Department.

Approval authorities are delegated to different functionaries in the hierarchy (based on the four-eyes principle of Business approval with Risk Management recommendation) as well as various committees depending on the amount and type / nature of risk.

The Internal Audit Department is responsible for the independent review of risk management and the Group's risk control environment. The Group Board Audit & Compliance Committee (GBACC) considers the adequacy and effectiveness of the Group risk control framework and receives quarterly updates on control, regulatory and compliance related issues. The responsibility for ensuring and adhering to the rules and principles of Shari'a lies with the Bank's management, while the Shari'a Supervisory Board (SSB) responsibility is limited to form an independent Shari'a opinion based on what has been presented and reviewed of the Bank's operations and in preparing their annual report to the Shareholders. The Shari'a Supervisory Board comprises of 4 members.

3. CREDIT RISK MANAGEMENT

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a financial obligation under a contract. It arises principally from financing, trade finance and treasury activities. Credit risk also arises where assets are held in the form of debt securities, the value of which may fall.

The Group has policies and procedures in place to monitor and manage these risks and the Group Risk Management function provides high-level centralised oversight and management of credit risk. The specific responsibilities of Group Risk Management are to:

- Set credit risk management policy and risk appetite for credit risk exposure to specific market sectors;
- Control exposures to sovereign entities, banks and other financial institutions and set risk ratings for individual exposures. Credit and settlement risk limits to counterparties in these sectors are reviewed by Group Risk Management, to optimise the use of credit availability and avoid risk concentration;
- Monitor cross-border exposures, through the centralised setting of country limits with sub-limits by maturity and type of business;
- Monitor large credit exposures, ensuring that concentrations of exposure by counterparty, sector or geography remain within internal and regulatory limits in relation to the Group's capital base;
- Maintain the Group's Internal Risk Rating Framework;
- Manage watchlisted and criticised asset portfolios and recommend appropriate level of Expected Credit Loss ("ECL") and write-offs;
- Maintain the Expected Credit Loss models across the Group entities;
- Review ECL as part of the Group Impairment & ECL Oversight Committee;
- Report to the GMRC, GBRC and the GBOD on all relevant aspects of the Group's credit risk portfolio. Regular reports include detailed analysis of:
 - risk concentrations and limit adherence;
 - asset quality of the financing portfolio;
 - specific higher-risk portfolio segments, e.g. real estate;
 - individual large impaired accounts, and details of impairment allowances; and
 - country limits, cross-border exposures.
- Specialised management and control of Wholesale Banking non-performing assets;
- Manage and direct credit risk management systems initiatives; and
- Interface, for credit-related issues, with external parties including the Central Bank of Bahrain (CBB), rating agencies, investment analysts, etc.

All credit proposals are subjected to a thorough comprehensive risk assessment, which examines the customer's financial condition and trading performance, nature of the business, quality of management and market position. In addition, KFHB Bahrain's internal risk rating model scores these quantitative and qualitative factors. The credit approval decision is then made and terms and conditions are set. Exposure limits are based on the aggregate exposure to the counterparty and any connected entities across the Bank. All corporate credit exposures are reviewed at least annually.

3. CREDIT RISK MANAGEMENT (continued)**Counterparty Exposure Class**

The CBB's Capital Adequacy framework for the Standardised Approach for Credit Risk sets the following counterparty exposure classes and the risk weightings to be applied to determine risk weighted assets:

<u>Exposure Class</u>	<u>Risk Weighting Criteria</u>
Sovereign Portfolio	Exposures to governments of GCC member states and their central banks including International Organizations and Multilateral Development Banks (MDBs) are zero % risk weighted. Other sovereign exposures denominated in the relevant domestic currency are also zero % risk weighted. All other sovereign exposures are risk weighted based on their External Credit Assessment Institutions (ECAI) ratings.
Public Sector Entity (PSE) Portfolio	Bahraini PSEs and domestic currency claims on other sovereign PSEs (which are assigned a zero % risk weighting by their own national regulator) are assigned a zero % risk weighting. All other PSEs are risk weighted based on their ECAI ratings.
Banks Portfolio	Exposures to banks are risk weighted based on their ECAI ratings, with a preferential risk weighting given to short term exposures (i.e. with an original tenor of 3 months or less).
Investment Firms Portfolio	Exposures to category one and category two investment firms which are licensed by the CBB are treated in the same way as exposures to banks but without the preferential short term risk weighting. Exposures to other investment firms are treated in the same way as exposures to corporates for risk weighting purposes.
Corporate Portfolio	Exposures to corporates are risk weighted based on their ECAI ratings. Unrated corporates are risk weighted at 100% and exposures to Connected Counterparties and Large Exposures to the extent of non-exempt exceeding the limits prescribed in the CBB Rulebook are risk weighted at 800%.
Regulatory Retail Portfolio	Eligible regulatory retail exposures are risk weighted at 75% except for past due receivables.
Residential Real Estate (RRE) Portfolio	Exposures fully secured by first mortgages on owner occupied RRE are risk weighted between 35%-75% based on applicable regulatory guidance. Residential mortgage exposures granted under the Social Housing Schemes of the Kingdom of Bahrain are risk weighted at 25%.
Commercial Real Estate Portfolio	Exposures secured by mortgages on commercial real estate are subject to a minimum 100% risk weighting, except where the obligor has an ECAI rating below BB- in which case the risk weighting corresponding to the rating applies.
Equities and Funds Investment Portfolio	Investments in listed equities carry a 100%-250% risk weighting. Unlisted equities are 150%-250% risk weighted. Investments in funds are risk weighted according to the type of underlying assets using the look through approach.
Past Due Receivables	The unsecured portion of any exposure (other than residential mortgage financing which are risk weighted at 100%) that is past due for 90 days or more: - 150% risk weighted when expected credit loss (Stage 3) is less than 20% of the outstanding amount; and - 100% risk weighted when expected credit loss (Stage 3) is greater than 20%.
Holdings of Real Estate	Premises occupied by the Bank are weighted at 100%. Investments in Real Estates (e.g. by way of investments in the common equity of subsidiaries or associates or joint ventures or other arrangements such as trusts, funds or REITs including companies) must be risk-weighted at either 200% 300% or 400% as per the rulebook guidelines.
Other Assets	All other assets not classified above are risk weighted at 100%.

3. CREDIT RISK MANAGEMENT (continued)

External Rating Agencies

The Group uses the following ECAI's: Moody's, Standard & Poors and Fitch.

Basel III Reporting of Credit Risk Exposures

As a result of the methodologies applied in credit risk exposures presented under Basel III reporting, which differs in many ways from the exposures reported in the consolidated financial statements.

1. As per the CBB Basel III framework, off balance sheet exposures are converted, by applying a Credit Conversion Factor (CCF), into direct credit exposure equivalents.
2. Under the Basel III capital adequacy framework, eligible collateral is applied after applying prescribed haircuts, to reduce the exposure.

Credit Risk Mitigation

The Group's first priority when disbursing a financing is to establish the borrower's capacity to repay and not rely principally on security / collateral obtained. Where the customer's financial standing is strong, facilities may be granted on an unsecured basis, but when necessary collateral is an essential credit risk mitigation.

Acceptable forms of collateral are defined within the Group Risk Management framework and conservative valuation parameters are also pre-set and regularly reviewed to reflect any changes in market conditions. Security structures and legal covenants are also subject to regular review to ensure that they continue to fulfil their intended purpose and remain in line with the CBB's prescribed minimum requirements set out in their Capital Adequacy regulations.

The principal collateral types are as follows:

- in the personal sector – cash, mortgages over residential properties and assignments over salary income;
- in the commercial sector – cash, charges over business assets such as premises, inventories, receivables, debt securities and bank guarantees;
- in the commercial real estate sector – charges over the properties being financed; and
- in the financial sector – charges over financial instruments, such as debt securities and equities.

Valuation of Collateral

The type and amount of collateral taken is based upon the credit risk assessment of the obligor. The market or fair value of collateral held is closely monitored and when necessary, top-up requests are made or liquidation is initiated as per the terms of the underlying credit agreements.

Gross Credit Risk Exposures subject to Credit Risk Mitigations (CRM)

The following table details the Group's gross credit risk exposures before the application of eligible Basel III CRM techniques. The CBB's Basel III guidelines detail which types of collateral and which issuers of guarantees are eligible for preferential risk weighting. The guidelines also specify the minimum collateral management processes and collateral documentation requirements necessary to achieve eligibility.

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TABLE - 2 GROSS CREDIT RISK EXPOSURES

	<i>US\$ '000</i>		Total Exposure	
	Total		Self financed %	Jointly financed %
	<i>As at 31 December 2025</i>	<i>Average monthly balance</i>		
Balances with central banks	998,239	911,266	3.2%	0.4%
Due from central banks and sukuk	1,056,365	1,082,028	0.4%	3.6%
Due from banks	2,539,392	2,110,664	9.4%	0.0%
Financing receivables and ijarah assets	11,624,056	10,243,269	0.4%	42.9%
Non-trading investments	10,098,227	9,738,264	34.5%	3.0%
Profit receivable and other assets	579,285	615,741	2.2%	0.0%
TOTAL FUNDED EXPOSURES	26,895,564	24,701,232	50.1%	49.9%
Contingent liabilities	2,405,790	2,174,290	91.9%	0.0%
Undrawn financing commitments	212,034	140,702	8.1%	0.0%
TOTAL UNFUNDED EXPOSURES	2,617,824	2,314,992	100.0%	0.0%
TOTAL GROSS CREDIT RISK EXPOSURE	29,513,388	27,016,224	54.6%	45.4%

The gross credit exposures reported represents items from the consolidated balance sheet carrying credit risk.

TABLE 3 - RISK WEIGHTED EXPOSURES AND CAPITAL REQUIREMENT

A) Overall - Risk Weighted Exposures And Capital Requirement

	US\$ '000				US\$ '000				Gross Exposure (%)	
	<i>Self Financed (A)</i>				<i>Jointly Financed (B)</i>				<i>Self</i>	<i>Jointly</i>
	<i>Gross exposure</i>	<i>Secured by eligible CRM</i>	<i>Risk weighted exposures after CRM</i>	<i>Capital requirement (a)</i>	<i>Gross exposure</i>	<i>Secured by eligible CRM</i>	<i>Risk weighted exposures after CRM</i>	<i>Capital requirement (b)</i>		
Claims on sovereigns and MDBs	5,355,105	-	883,398	123,676	2,258,659	-	87,145	12,200	16.6%	7.0%
Claims on public sector entities	1,415,761	-	916,935	128,371	1,075,553	-	52,385	7,334	4.4%	3.3%
Claims on banks	4,187,193	-	1,816,344	254,288	92,007	-	12,033	1,685	13.0%	0.3%
Claims on corporates	5,120,885	33,604	4,048,294	566,761	7,886,728	485,003	2,204,204	308,589	15.9%	24.5%
Regulatory retail exposures	4,586	211	3,282	459	928,498	95,701	185,228	25,932	0.0%	2.9%
Residential mortgage exposures	12,711	-	4,907	687	1,434,895	-	213,621	29,907	0.0%	4.4%
Equity	61,587	-	116,197	16,268	11,934	-	5,127	718	0.2%	0.0%
Investments in funds	14,321	-	20,035	2,805	28,945	-	13,025	1,824	0.0%	0.1%
Other exposures	2,403,767	-	5,319,273	744,699	1,113	-	176	25	7.4%	0.0%
TOTAL	18,575,916	33,815	13,128,665	1,838,014	13,718,332	580,704	2,772,944	388,211	57.5%	42.5%

	Total (A) + (B)	
	<i>Risk weighted exposures after CRM</i>	<i>Capital requirement</i>
TOTAL CREDIT RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH) - (a+b)	15,901,609	2,226,225
TOTAL MARKET RISK CAPITAL REQUIREMENT (STANDARDISED APPROACH)	205,092	28,713
TOTAL OPERATIONAL RISK CAPITAL REQUIREMENT (BASIC INDICATOR APPROACH) *	1,770,733	247,903
Total	17,877,434	2,502,841

*Indicator for operational risk exposure is gross income, adjusted for exceptional items, as per BIA. This approach uses average of adjusted gross income for previous three financial years (US\$ 944,391 thousands) for operational risk computation.

The gross exposure in the above table represents the on and off balance sheet credit exposures before Credit Risk Mitigations (CRM), determined in accordance with the CBB Pillar 3 guidelines. The off balance sheet exposures are computed using the relevant credit conversion factors.

Under the CBB Basel III Guidelines, banks may choose between two options when calculating credit risk mitigation capital relief. The simple approach which substitutes the risk weighting of the collateral for the risk weighting of the counterparty or the comprehensive approach whereby the exposure amount is adjusted by the actual value ascribed to the collateral. The Group has selected to use the comprehensive method where collateral is in the form of cash or bonds or equities. The Group uses a range of risk mitigation tools including collateral, guarantees, credit derivatives, netting agreements and financial covenants to reduce credit risk.

TABLE 3 - RISK WEIGHTED EXPOSURES AND CAPITAL REQUIREMENT (continued)

B) Capital Requirements By Type of Islamic Financing Contract

	<i>US\$ '000</i>
	<i>Capital Requirement</i>
Type of Islamic Financing Contracts	
Murabaha and Tawarruq	357,158
Ijarah	24,389
Others	12,266
Total	393,813

TABLE - 4 GEOGRAPHIC DISTRIBUTION OF GROSS CREDIT EXPOSURES

	<i>US\$'000</i>						
	Total						
	<i>GCC countries</i>	<i>United Kingdom</i>	<i>Europe (excluding United Kingdom)</i>	<i>Arab Republic of Egypt</i>	<i>Asia (excluding GCC countries)</i>	<i>Rest of the World</i>	<i>Total</i>
Balances with central banks	178,291	349,415	-	407,627	62,907	-	998,240
Due from central banks and sukuk	726,393	-	-	329,972	-	-	1,056,365
Due from banks	892,065	265,216	313,634	139,033	47,862	881,582	2,539,392
Financing receivables and ijarah assets	6,672,341	1,662,374	234,046	2,395,876	473,589	185,830	11,624,056
Non-trading investments	6,911,763	55,622	731,242	536,753	873,177	989,670	10,098,227
Profit receivable and other assets	201,800	228,112	61,228	50,511	21,619	16,014	579,284
Total funded exposures	15,582,653	2,560,739	1,340,150	3,859,772	1,479,154	2,073,096	26,895,564
Contingent liabilities	908,051	6,556	496,828	487,123	394,571	112,661	2,405,790
Undrawn financing commitments	118,644	45,070	-	47,917	-	403	212,034
Total unfunded exposures	1,026,695	51,626	496,828	535,040	394,571	113,064	2,617,824
TOTAL	16,609,348	2,612,365	1,836,978	4,394,812	1,873,725	2,186,160	29,513,388
	56.3%	8.9%	6.2%	14.9%	6.3%	7.4%	100.0%
Self financed % - Funded	29.7%	3.4%	4.1%	2.8%	3.6%	6.5%	50.1%
Jointly financed % - Funded	28.3%	6.1%	0.9%	11.6%	1.8%	1.2%	49.9%

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TABLE - 5 SECTORAL CLASSIFICATION OF GROSS CREDIT EXPOSURES

	<i>US\$ '000</i>				<i>Funded</i>		<i>Unfunded</i>
	<i>Funded</i>	<i>Unfunded</i>	<i>Total</i>	<i>% Total</i>	<i>%Self Financed</i>	<i>%Jointly Financed</i>	<i>%Self Financed</i>
Balances with central banks	2,054,604	-	2,054,604	7.0%	4.0%	3.7%	0.0%
Banks and other financial institutions	4,982,310	172,253	5,154,563	17.5%	13.6%	4.9%	6.6%
Consumer/personal	1,162,765	19,431	1,182,196	4.0%	0.1%	4.3%	0.7%
Residential mortgage	1,161,391	5,992	1,167,383	4.0%	0.1%	4.2%	0.2%
Trading and manufacturing	4,466,291	813,557	5,279,848	17.9%	5.0%	11.6%	31.1%
Real estate	2,385,423	7,066	2,392,489	8.1%	1.4%	7.4%	0.3%
Services	2,776,767	908,600	3,685,367	12.5%	3.5%	6.9%	34.7%
Government/public sector	7,141,263	79,269	7,220,532	24.5%	22.2%	4.4%	3.0%
Others	764,750	611,656	1,376,406	4.7%	0.2%	2.5%	23.4%
TOTAL	26,895,564	2,617,824	29,513,388	100.0%	50.1%	49.9%	100.0%
Jointly financed %	91.1%	8.9%	100.0%				

TABLE - 6 RESIDUAL CONTRACTUAL MATURITY OF GROSS CREDIT EXPOSURES

	US\$ '000							Total
	Total							
	Up to one month	One month to three months	Over three months to one year	Over one year to five years	Over five to ten years	Over ten to twenty years	Over twenty years	
Balances with central banks	998,239	-	-	-	-	-	-	998,239
Due from central banks and sukuk	718,684	75,451	262,230	-	-	-	-	1,056,365
Due from banks	2,272,082	101,785	-	165,525	-	-	-	2,539,392
Financing receivables and ijarah assets	1,058,089	927,986	2,591,215	4,668,475	1,861,485	432,649	84,157	11,624,056
Non-trading investments	198,223	46,586	362,189	4,622,058	3,564,555	406,100	898,516	10,098,227
Profit receivable and other assets	332,961	32,927	61,734	143,305	4,807	18	3,533	579,285
Total funded exposures	5,578,278	1,184,735	3,277,368	9,599,363	5,430,847	838,767	986,206	26,895,564
Contingent liabilities	719,421	385,310	1,084,219	213,174	3,666	-	-	2,405,790
Undrawn financing	336	6,941	110,832	93,925	-	-	-	212,034
Total unfunded exposures	719,757	392,251	1,195,051	307,099	3,666	-	-	2,617,824
TOTAL	6,298,035	1,576,986	4,472,419	9,906,462	5,434,513	838,767	986,206	29,513,388
Self financed % - Funded	13.9%	0.7%	1.5%	16.6%	12.5%	1.5%	3.4%	50.1%
Jointly financed % - Funded	6.9%	3.7%	10.6%	19.1%	7.7%	1.6%	0.3%	49.9%
Self financed % - Unfunded	1.4%	7.0%	55.2%	34.0%	2.4%	0.0%	0.0%	100.0%

Allowances for expected credit loss

Refer note 2.4 (ii) of the consolidated financial statements of the Group for the year ended 31 December 2025 for further details around ECL model.

The Group Impairment & ECL Oversight Committee regularly evaluates the adequacy of the established allowances for impaired financing.

TABLE - 7 SECTORAL BREAKDOWN OF IMPAIRED FINANCING RECEIVABLES AND IMPAIRMENT ALLOWANCES

	US\$ '000				
	<i>Impaired financing receivables (Stage 3) as at 31 December 2025</i>	<i>ECL allowances (Stage 3) as at 31 December 2025</i>	<i>Net ECL charge (stage 3) for the year ended 31 December 2025</i>	<i>Write-offs during the year ended 31 December 2025</i>	<i>ECL allowances (Stage 1 & Stage 2) as at 31 December 2025</i>
Consumer/personal	35,297	34,709	26,017	28,332	22,947
Trading and manufacturing	53,111	50,164	27,253	19,538	93,296
Real estate	102,429	94,889	15,403	-	66,869
Residential mortgage	78,173	27,544	6,532	422	2,047
Banks and other financial institutions	840	840	-	-	4,145
Services	32,262	32,052	14,416	5,065	69,516
Government/public sector	-	-	-	-	2,183
Others	578	512	823	2,049	45,085
TOTAL	302,690	240,710	90,444	55,406	306,088

TABLE - 8 GEOGRAPHICAL DISTRIBUTION OF IMPAIRMENT ALLOWANCES FOR FINANCING RECEIVABLES

	US\$ '000						
	<i>GCC countries</i>	<i>United Kingdom</i>	<i>Europe (excluding United Kingdom)</i>	<i>Arab Republic of Egypt</i>	<i>Asia (excluding GCC countries)</i>	<i>Rest of the World</i>	<i>Total</i>
ECL allowances (Stage 1 & 2)	180,618	1,380	7,120	114,153	1,440	1,377	306,088
ECL allowances (Stage 3)	183,649	19,833	-	36,672	122	434	240,710
TOTAL	364,267	21,213	7,120	150,825	1,562	1,811	546,798

TABLE - 9 ECL ALLOWANCE MOVEMENTS FOR FINANCING RECEIVABLES AND IJARAH ASSETS

Refer note 8 (g) of the consolidated financial statements of the Group for the year ended 31 December 2025 for ECL allowance movements for financing receivables and ijarah assets.

Impaired Credit Facilities

As per CBB guidelines, credit facilities are placed on non-accrual status and profit income suspended when either principal or profit is overdue by 90 days or more whereupon unpaid and accrued profit is reversed from income. Profit on non-accrual facilities is included in income only when received. Credit facilities classified as past due are assessed for ECL in accordance with FAS 30 guidelines. Financial instruments where there is objective evidence of impairment are considered to be credit impaired and the allowance for credit losses captures the life time expected credit losses.

For definition of default, refer to note 2.5(g) to the audited consolidated financial statements for the year ended 31 December 2025.

Refer to notes 8(a) to 8(i) and note 33(c) to the audited consolidated financial statements for the year ended 31 December 2025 for the distribution of the financing receivables portfolio.

Ratings 1 - 4 comprise of credit facilities demonstrating financial condition, risk factors and capacity to repay that are excellent to good and retail obligor where cash collateral (or equivalent such as pledged investment funds) has been provided.

Ratings 5 - 7 represents satisfactory risk and includes credit facilities that require closer monitoring, and retail accounts which are maintained within generally applicable product parameters.

Ratings 8 - 10 represents substandard doubtful through to loss.

TABLE - 10 IMPAIRED FINANCING RECEIVABLES - AGE ANALYSIS**i) By Geographical Region**

	<i>US\$ '000</i>			<i>Total</i>
	<i>Three months one year</i>	<i>Over one year to three years</i>	<i>Over three years</i>	
GCC countries	38,570	96,046	56,983	191,599
United Kingdom	52,509	21,201	-	73,710
Arab Republic of Egypt	20,787	15,162	816	36,765
Asia (excluding GCC countries)	159	-	23	182
Rest of the World	-	434	-	434
TOTAL	112,025	132,843	57,822	302,690
	37.0%	43.9%	19.1%	100%

ii) By Industry Sector

	<i>US\$ '000</i>			<i>Total</i>
	<i>Three months one year</i>	<i>Over one year to three years</i>	<i>Over three years</i>	
Consumer/personal	22,609	6,567	6,120	35,296
Trading and manufacturing	26,841	25,434	836	53,111
Real estate	3,839	48,415	50,175	102,429
Residential mortgage	54,297	23,270	607	78,174
Banks and other financial institutions	-	840	-	840
Services	4,249	27,953	59	32,261
Others	190	364	25	579
TOTAL	112,025	132,843	57,822	302,690
	37.0%	43.9%	19.1%	100%

TABLE - 11 RESTRUCTURED CREDIT FACILITIES*US\$ '000*

Balance of any restructured credit facilities as at period end	732,652
Financing receivables restructured during the period	302,382

The above restructurings did not have any significant impact on the present or future earnings and were primarily extensions of the financing tenor.

TABLE - 12 BREAKUP OF GROSS EXPOSURE COVERED BY COLLATERAL

Portfolios	<i>US\$'000</i>	
	covered by eligible collateral (after appropriate haircuts)	Guarantees
Murabaha and Tawarruq	551,318	-
Ijarah	177,975	-
Others	6,142	-
Total	735,434	-

TABLE - 13 COUNTERPARTY CREDIT RISK IN DERIVATIVE TRANSACTIONS

The Group uses the Current Exposure Method (CEM) to calculate the exposure for counterparty credit risk for derivative instruments as per CBB Basel III guidelines. The table below represent net credit equivalent exposure after giving effect to master netting agreements.

i) Breakdown of the credit exposure

	<i>US\$ '000</i>	
	<i>Notional amount</i>	<i>Credit Equivalent Exposure</i>
a) Derivatives utilised for customer-focused activities		
Foreign Exchange Contracts (WAAD)	5,518,431	38,782
Profit Rate Swaps (PRS)	1,620,159	76,900
Others	7,671	8
	7,146,261	115,691
b) Banking (Derivatives held as fair value hedges)		
Profit Rate Swaps (PRS)	10,272,808	255,902
	10,272,808	255,929
	17,419,069	371,620
ii) Amounts of cash collateral		16,100

TABLE - 14 RELATED PARTY TRANSACTIONS

Refer note 26 to the audited consolidated financial statements of the Group for the year ended 31 December 2025. Related party transactions are entered with related parties in ordinary course of business at arm's length. Further, as of 31 December 2025, exposures in excess of limits prescribed by Credit Risk Management Module amounted to US\$ 585.9 million, of which US\$ 32.0 million is risk-weighted at 800%. (Over the CBB's exemption limit).

4. MARKET RISK

Market risk is the risk that movements in market risk factors, including foreign exchange rates, profit rates, credit spreads and equity prices will reduce the Group's income or the value of its portfolios.

Market Risk Management, Measurement and Control Responsibilities

The BOD approves the overall market risk appetite and delegates responsibility for providing oversight on the Bank's market risk exposures and the sub allocation of BOD limits to the Group Asset and Liability Committee (GALCO). Group Risk Management is responsible for the market risk control framework and for monitoring compliance with the GALCO limit framework.

The Group separates market risk exposures into either customer-focused activities (Trading) or hedging activities (Non-Trading). Trading portfolios include those positions arising from market-making, proprietary position-taking and other marked-to-market positions. Non-trading portfolios include positions that arise from the foreign exchange/profit rate management of the Group's retail and commercial banking assets and liabilities, and financial assets designated at amortised cost and fair value through other comprehensive income.

Each Group operating entity has an independent market risk function which is responsible for measuring market risk exposures in accordance with the Group Market Risk Policy and the Profit Rate Risk in the Banking Book Policy, and monitoring these exposures against prescribed limits.

Market risk reports covering Trading Book risk exposures and profit and loss are published daily to the Bank's senior management. A risk presentation covering both Trading and Banking Book is also compiled monthly and discussed at the GALCO.

The measurement techniques used to measure and control market risk include:

- Value at Risk (VaR);
- Stress tests; and
- Sensitivities and position size related metrics.

Daily Value at Risk (VaR)

The Group VaR is an estimate of the potential loss which might arise from unfavourable market movements:

VaR Type	Sample Size	Holding Period	Confidence Interval	Frequency of Calculation
1 Day VaR	260 days	1 day	99%	Daily
10 Day VaR	260 days	10 day	99%	Daily

Daily losses exceeding the VaR figure are likely to occur, on average, once in every 100 business days depending on the confidence interval employed in the VaR calculation (per the above). The Group routinely validates the accuracy of its VaR models by backtesting the actual daily profit and loss results. The actual number of excesses over a given period can be used to gauge how well the models are performing.

4. MARKET RISK (continued)

Although a useful guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a 1-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1-day holding period may be insufficient to liquidate or hedge all positions
- the use of a confidence level, by definition, does not take into account losses that might occur beyond the applied level of confidence; and
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

The VaR for the Group was as follows:

	<i>US\$ '000</i>		
	<i>Average</i>	<i>Minimum</i>	<i>Maximum</i>
For the year 2025	477	180	1,616

TABLE - 15 CAPITAL REQUIREMENT FOR COMPONENTS OF MARKET RISK

	<i>US\$ '000</i>			
	<i>Risk weighted exposures after CRM</i>	<i>Capital requirement</i>	<i>Maximum value</i>	<i>Minimum value</i>
Profit rate risk	137,687	19,276	19,276	14,622
Equity position risk	20,563	2,879	2,879	2,260
Foreign exchange risk	46,714	6,540	44,797	6,540
Others	124	17	24	1
	205,088	28,713	66,977	23,424

TABLE - 16 EQUITY POSITION RISK IN BANKING BOOK

The following table summarizes the amount of total and average gross exposure of equity investments and funds as of 31 December 2025:

	<i>US\$ '000</i>					
	Total gross exposures	Average gross exposure ⁽¹⁾	Listed	Unlisted	Risk weighted assets	Capital requirements
Equity instruments *	59,811	65,283	23,917	35,894	99,008	13,861
Funds	47,189	47,972	2,891	44,298	27,885	3,904
	107,001	113,255	26,808	80,193	126,893	17,765

* Excluding the investment in associates and joint ventures which are not subject to equity position risk

Average balances are computed based on quarter end balances.

4. MARKET RISK (continued)

Profit Rate Risk

Profit rate risk is the risk that the earnings or capital of the Group, or its ability to meet business objectives, will be adversely affected by movements in profit rates. Accepting this risk is a normal part of banking practice and can be an important source of profitability and shareholder value. Changes in profit rates can affect a bank's earnings by changing its net profit income and the level of other profit sensitive income and operating expenses. Changes in profit rates also affect the underlying value of the Group's assets, liabilities and off-balance sheet instruments because the present value of future cash flows and / or the cash flows themselves change when profit rates change. The Bank employs a risk management process that maintains profit rate risk within prudent levels.

The BOD recognises that it has responsibility for understanding the nature and the level of profit rate risk taken by the Bank, and has defined a risk framework pertaining to the management of non-trading profit rate risk and has identified lines of authority and responsibility for managing profit rate risk exposures.

The BOD has delegated the responsibility for the management of profit rate risk to GALCO which is responsible for setting and monitoring the profit rate risk strategy of the Group, for the implementation of the profit rate risk framework and ensuring that the management process is in place to maintain profit rate risk within prudent levels.

GALCO reviews the profit rate risk framework annually and submits recommendations for changes to the Board Risk Committee and BOD as applicable.

The responsibility for the implementation of the Group's profit rate risk policies resides with the Group Treasurer. An independent review and measurement of all profit exposure present in the banking book is undertaken by the Group Market & Counterparty Credit Risk Management team and reported to GALCO on a monthly basis.

Profit rate re-pricing reports are based on each product's contractual re-pricing characteristics overlaid where appropriate by behavioural adjustments. Behavioural adjustments are derived by an analysis of customer behaviour over time augmented by input from the business units.

The behavioural adjustments are applied mainly for those liabilities with no fixed maturity dates such as current and savings accounts. These adjustments are based on empirical experience, and current account balances are spread over a maximum period of 5 years, while savings accounts are spread over a maximum period of 7 years.

Reports detailing the profit rate risk exposure of the Group are reviewed by GALCO and the BOD on a regular basis.

Refer note 35 to the audited consolidated financial statements for the year ended 31 December 2025 for the re-pricing profiles of the Group's assets and liabilities.

Rate of Return Risk

The Bank actively manages its rate of return risk to ensure compliance with the Board's risk appetite and to safeguard the interests of all stakeholders. This risk arises from mismatches in the repricing of assets and liabilities or changes in market conditions that could affect the Bank's profitability. The Bank's approach involves closely monitoring the rate of return gap across various timeframes and assessing the sensitivity of earnings to profit rate movements.

The management of rate of return risk is overseen by the Group Asset and Liability Committee (GALCO), which sets policies, monitors exposures, and implements strategies to mitigate potential risks. GALCO reviews key metrics such as the rate of return sensitivity, duration gaps, and yield curve shifts to ensure the Bank remains resilient to fluctuations in market rates.

To further mitigate rate of return risk, the Bank employs robust modeling techniques, including scenario analysis and stress testing, to understand the potential impact of adverse rate movements. Hedging strategies and adjustments to the composition of rate-sensitive assets and liabilities are employed as needed to align with the Bank's risk tolerance.

This proactive and structured approach enables the Bank to maintain a stable rate of return for depositors and investment account holders while safeguarding profitability.

4. MARKET RISK (continued)**Displaced Commercial Risk (DCR)**

DCR refers to the market pressure to pay returns to Quasi-Equity Account Holders (QEAHs) that exceeds the rate that has been earned on the assets financed by the QEAHs, when the return on assets is under performing as compared with competitor's rates.

Each of the Group's subsidiaries follows an appropriate framework for managing displaced commercial risk, where applicable. The Group is exposed to displaced commercial risk in the event profit rates for QEAHs are lower than the market rates and the Group has mitigated this risk by adopting the approach to waive the applicable wakala / mudarib fees and their rights to part or entire mudarib share of profit to meet the market expectation

TABLE - 17 PROFIT RATE RISK SENSITIVITY ANALYSIS

The Group's profit rate risk sensitivity is analysed in note 35(ii) to the audited consolidated financial statements for the year ended 31 December 2025.

The impact of a +/- 200bps profit rate shock on assets and liabilities which, are carried at fair value and the consequent impact on equity as of 31 December 2025 is as per the following table.

	<i>US\$ '000</i>		
	<i>Assets</i>	<i>Liabilities</i>	<i>Equity</i>
at 200 bps - increase (+)	299,857	(300,602)	(745)
at 200 bps - decrease (-)	(299,857)	300,602	745

Equity Risk

Equity risk is the risk of changes in the fair value of an equity instrument. The Group is exposed to equity risk on non-trading equity positions that are primarily focused on the GCC stock markets. The BOD has set limits on the amount and type of investments that may be made by the Bank. This is monitored on an ongoing basis by the Group Management Risk Committee with pre approved loss thresholds. The Bank's equity risk appetite is minimal.

Valuation and accounting policies:

a) Equity investments held for strategic reasons - investments in associates

Associated companies are companies in which the Group exerts significant influence but does not control, normally represented by an interest of between 20% and 50% in the voting capital. Investments in associated companies are accounted for using the equity method.

b) Other equity investments

Investments in equity instruments are classified as FVTIS, unless the Group designates an equity investment as FVTOCI on initial recognition. At initial recognition, the Group can make irrevocable election on an instrument by instrument basis to designate an equity instrument as FVTOCI. Upon derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to consolidated statement of income.

The fair value of equity instruments that are quoted in an active market is determined by reference to market prices at the close of business on the balance sheet date. For equity investments that are not quoted in an active market, a reasonable estimate of the fair value is determined using net present valuation techniques.

For accounting policies on equity instruments, please refer to note 2.5(c) (iv) of the audited consolidated financial statements for the year ended 31 December 2025.

TABLE - 18 GAIN / (LOSS) ON EQUITY INSTRUMENTS

	<i>US\$ '000</i>
Net gain/(loss) recognised in TierI Capital (CET1)	
Net unrealised gain/(loss) recognised in the balance sheet	(5,015)

5. LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk and funding management of the Group have been explained in note 36 of audited consolidated financial statements for the year ended 31 December 2025.

The Bank employs a comprehensive approach to managing its liquidity profile, ensuring alignment with the Board's risk appetite and regulatory requirements. This is achieved through detailed analysis of liquidity gaps across multiple time buckets, supported by robust monitoring of key liquidity indicators. To mitigate liquidity risk, the Bank has established a diversified funding framework that reduces dependency on individual counterparties and minimizes concentration risk.

In addition to diversifying funding sources, the Bank maintains a significant buffer of high-quality liquid assets (HQLA) to ensure it can meet short-term obligations during periods of stress. The Bank also conducts regular stress testing under various scenarios to assess the resilience of its liquidity position and implements contingency funding plans to address potential shortfalls.

Further measures include close monitoring of cash flow mismatches, proactive management of short-term liabilities, and maintaining adequate liquidity reserves to support operational needs and customer requirements.

As of 31 December 2025, the Bank maintained a liquidity coverage ratio of 381.4%, reflecting its strong liquidity position and commitment to prudent risk management practices.

Maturity Analysis of Assets and Liabilities

A maturity analysis of cash flows payable by the Group under financial liabilities by remaining contractual maturities at the balance sheet date is shown in note 36 to the audited consolidated financial statements for the year ended 31 December 2025.

The management of the Group's liquidity and funding is the responsibility of the Group Asset and Liability Committee (GALCO) under the chairmanship of the Group Chief Executive Officer supported by the Group Treasurer, and is responsible for ensuring that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that wholesale market access is coordinated and controlled.

The Group maintains a stable funding base comprising core retail and corporate customer deposits and institutional balances, augmented by wholesale funding and portfolios of highly liquid assets, which are diversified by currency and maturity, in order to enable the Group to respond quickly to any unforeseen liquidity requirements.

6. OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. This definition includes legal and Shari'a non-compliance risk, but excludes strategic and reputational risk. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets.

The BOD acknowledges that it has ultimate responsibility for operational risk. Oversight rests with the Group Board Risk Committee, whilst day to day monitoring is carried out by the Group Operational & Fraud Risk Management Committee.

The Operational Risk Management framework has been in place for a number of years and is ingrained in the Group's culture and processes. The Group has developed a comprehensive Operational Risk & Control Self-Assessment (RCSA) process.

The BOD takes the lead in promoting and encouraging a culture of risk awareness and prevention across all areas of the Group. The Group follows a Group Operational Risk Management Policy approved by the BOD. The policy, supported by the Group Operational Risk Management procedure, aims to ensure that operational risk measures are incorporated into all major aspects of the overall management framework.

The Group Operational & Fraud Risk Management Committee (the "GORC") is responsible for maintaining an operational risk management framework across the organization. The GORC receives regular reporting on all key operational risk measures. Promptness in resolution of material operational risks identified through Operational Risk Self & Control Assessments and audits are considered as one of the key criteria for performance reviews.

The Group Audit & Compliance Committee assists the BOD in ensuring compliance with all regulatory requirements and consistency with best market practices.

The Group Operational Risk Management Policy, supported by the Group Operational Risk Management procedure requires reporting of all Operational Risk Incidents / Loss Events within a specified period of the occurrence of the event which is followed by an analysis of the root cause and its remediation.

The Group Operational Risk Management Policy requires that internal controls are reviewed and enhanced on an ongoing basis in order to mitigate the residual risks identified through the Operational Risk & Control Self Assessments, analysis of operational loss and near miss events and, internal and external audits. In addition, regular reviews of operating procedures also aim to enhance internal controls. The Group's Human Resources Policy requires that employees are trained regularly so that they are, among others, aware of operational risks and the mitigating controls. The policies require the establishment of appropriate infrastructure and processes for ensuring continuity of business which must be comprehensively and frequently tested for different contingencies. KFH Bahrain maintain the Business Continuity ISO 22301 certification and ensure alignment with the requirements standards.

7. INFORMATION TECHNOLOGY RISK

The BOD approves the Group Information Security Policy. The policy provides a consistent and strong cybersecurity approach across the Group. Group Information Security Office (GISO) runs several cybersecurity programs covering all cyber risk areas including threat and vulnerability management, risk assessments, cybersecurity awareness, penetration testing, and incident management. GISO also executes several projects to continuously enhance the security control systems and processes, and to make the Group resilient to cyber risks. KFH Bahrain maintained its ISO 27001, SWIFT Customer Security Program (CSP) and PCI DSS certifications were relevant across the Group.

Group Information & Cyber Security Risk Committee (GICSC) oversees the cybersecurity program through quarterly review of cybersecurity metrics. GISO also provides cybersecurity status reports to the BOD every quarter.

Information and Cybersecurity in the KFH Bahrain is governed by the Bank Board approved Group Information Security Policy. The policy provides a strong and comprehensive cybersecurity directive across the KFH Bahrain. Information Security continuously executes several cybersecurity programs that include cybersecurity risk management, attack surface management, cyber defense, security culture and awareness, and compliance. Information Security regularly assess the security posture, threat landscape, and emerging threats, to enhance security controls in line with the emerging risks, and to maintain the Group resilient to cyber risks. Group Information and Cyber Security Committee oversees the Information and Cybersecurity activities and provides guidance and direction to the execution of its programs. Information Security also present status reports to Management Risk Committee and Board Risk Committee.

All computer system developments and operations are centrally controlled and common standard business systems are deployed across the Group wherever possible. Information security is defined through a common 'Group Information Security Framework' and is executed through various information security processes and controls that support the framework. The Group follows an enterprise wide approach to business continuity to ensure that all identified critical operations, services and systems are recovered in time in the event of a disruption.

The Group Business Continuity Management Policy is updated annually and the Disaster Recovery and Business Continuity capabilities are each tested at least once a year and critical systems data are continuously replicated at the disaster recovery site.

The Group has also adopted a Flexible Business Management approach to business continuity and disaster recovery with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure or resources, with scalability for any duration of time.

Information Technology risks are managed and governed through technology risk policies. Technology risks are periodically assessed in accordance with the technology risk management framework. The Group Business Continuity Management Policy provides direction on business and technology resilience. Disaster Recovery and Business Continuity capabilities are tested at least once a year. Business critical systems and their data are replicated at the disaster recovery site in near real time. The Group has also adopted a Flexible Business Management approach with the aim of continuing to conduct business as usual to the extent possible on a remote basis even under diverse scenarios of unavailability of premises, infrastructure, or resources, with scalability for any duration of time.

8. STRATEGIC RISK

The BOD supported by the Strategy and Sustainability Unit and the Group Finance to manages strategic risk on an ongoing basis. The BOD receives regular performance reports with details of strategic / regulatory issues as they arise.

9. LEGAL, COMPLIANCE, SHARI'A, REGULATORY AND REPUTATIONAL RISKS

Protecting the Legal, Compliance, Regulatory and Reputational Risks of the Group is of paramount importance. All management and staff are expected to apply highest standards of business conduct and professional ethics at all times.

The Group has a dedicated Legal Department whose role is to identify and provide analysis and advice on legal risk.

The department is governed by the Group Legal Policy approved by the BOD, which facilitates the management and control of operational risks from pending legal actions, by performing the following tasks:

- Advising on applicable legislation and regulation;
- Reviewing and / or drafting standard and non- standard contracts and related documentation (including amendments to existing contracts) applicable to the Group;
- Periodically reviewing the standard contractual documentation of the Bank;
- Advising on matters involving legal risk and drafting formal communication relating to legal claims involving the Group; and
- Managing and providing legal advice in respect of any actual or threatened litigation against the Bank, or brought (or proposed to be brought) by the Group against any other party.

There are no material litigations / claims against the Group as at 31 December 2025.

The Group continuously strives to improve the level of Compliance in all its activities. The Group has an independent Compliance function that reports to the Group Board Audit and Compliance Committee of the Board. The Compliance function acts as a focal point for appropriate coordination and dissemination of regulatory correspondence and rulebook updates, and strives to adopt best practice in Compliance, Governance and Control. Also, the Compliance Department, has the responsibility through its monitoring programs, to regularly assesses the adequacy and effectiveness of the measures and procedures put in place and the actions taken to address any deficiencies in the Bank's compliance with its obligations; and advises and assists the responsible business areas and personnel for carrying out appropriate regulated activities.

Implementing appropriate systems, processes and controls for Combating Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF) activities form an important activity of the Financial Crime Compliance Unit within the Compliance function. The Group has deployed a risk based automated transaction monitoring system and implemented relevant procedures and controls to facilitate appropriate monitoring and detection mechanism. The Group also has appropriate AML/CFT/CPF and Compliance policies and monitoring programs. These policies are reviewed and updated annually and approved by the Group Board of Directors. The Group's anti-money laundering and combating terrorist financing and countering proliferation financing measures are regularly audited by the internal auditors who report to the Group Board Audit & Compliance Committee of the Board. Additionally, the Bank's AML/CFT/CPF measures are reviewed by independent external auditors every year and their agreed upon procedures report is submitted to the Central Bank of Bahrain (CBB). The CBB performs periodic inspections of the Bank's compliance with the applicable AML/CFT/CPF regulations.

The BOD approved policies, including Group Reputation Risk Management policy, Group Communications Policy, Group Personal Account Dealing Policy, Group Compliance Policy, Group Anti Money Laundering / Combating Terrorist Financing policy, Group Banking Integrity and Whistle Blowing Policy and Group Code of Business Conduct policy and such other policies prescribe the required standards of ethical behaviour and personal conduct for all staff (including the Bank's Directors), and the BOD exercises an oversight of these risks through various management functions, including Legal, Risk Management, Compliance, Human Resources and Internal Audit Department.

9. LEGAL, COMPLIANCE, SHARI'A, REGULATORY AND REPUTATIONAL RISKS (continued)

Shari'a Compliance

In line with the Bank's plan to convert its operations in compliance with the rules and principles of Shari'a, after complying with all the requirements and guidelines by the respective central banks of Bahrain, UK and Egypt and their respective Shari'a Supervisory Boards, the Group has converted its Bahrain, UK and Egypt based conventional business according to the rules and principles of Shari'a and commenced its operations under the licence of an Islamic retail bank in Bahrain effective 10 December 2023 and in UK and Egypt from 22 August 2024 and 1 September 2024 respectively. From these dates, all activities in Bahrain, UK and Egypt are conducted in accordance with the rules and principles of Shari'a. Further, CIBIQ conversion to an Islamic bank was completed and it is a fully Sharia compliant bank as of 1 January 2025.

Internal and External Shari'a audits are conducted regularly, and any violations, if found, are reported at the end of the financial period.

Late Payment Donations recovered from customers are treated and disbursed under the guidance, supervision, and approval of the Shari'a Supervisory Board.

Legal cases resulting from normal course of business are handled by the Bank's in-house legal team and external legal consultants are consulted on such matters, as and when required.

10. ENVIRONMENTAL RISK

The Group recognises the importance of environmental and social issues within its risk framework, and has established a Social and Environmental Management System (SEMS) which details the policy, procedures and workflow that will be followed by the Bank and its subsidiaries / affiliates in respect of environmental risk.

The Group continually endeavours to implement effective social and environmental management practices in all its activities, products and services with a focus on the applicable national laws on environmental, health, safety and social issues.

The Group has adopted the Equator Principles (EP), a globally recognized benchmark for managing social and environmental risks in project finance. EP is an arrangement by financial institutions worldwide to adhere to the environmental, health and safety standards while financing projects.

As such the Group will finance projects only when they are expected to be designed, built, operated and maintained in a manner consistent with the applicable national laws.

KFH is committed to take leadership role and use of its products, services and relationships to support and contribute to individual needs and society's goal.

TABLE - 19 QUANTITATIVE INDICATORS OF FINANCIAL PERFORMANCE AND POSITION

The following table summarises the basic quantitative indicators of financial performance for the period:

	2025	2024	2023	2022	2021
Return on average equity	14.7%	15.4%	15.3%	12.3%	14.7%
Return on average assets	2.8%	2.6%	1.8%	1.4%	1.6%
Cost to income ratio	26.1%	27.9%	26.2%	25.8%	29.5%

11. DISCLOSURES RELATED TO QUASI EQUITY ACCOUNT HOLDERS (QEAH)

Quasi Equity Account Holders' fund are commingled to form one general pool. This pooled fund is deployed into profit generating banking assets. The Bank allocate certain portfolios of profit generating assets towards QEAH pool and only profits earned on pool of assets funded from QEAH are used for distribution towards the QEAH after allocation of relevant expenses and wakala and mudarib fees.

The funds are invested and managed in accordance with Shari'a principles and according to the terms of acceptance of the QEAH, 100% of the funds are invested.

The Risk weighted assets of the bank include the assets funded by QEAH which are subject to the 30% alpha factor on the respective risk weights.

TABLE - 20 QUASI-EQUITY ACCOUNT HOLDERS BY TYPE

The following table summarises the breakdown of quasi-equity account holders accounts as of 31 December 2025:

	Amount	US\$'000 Profit Distributed
Banks	2,803,730	110,694
Individuals and non-banks	10,599,565	691,623
Total	13,403,295	802,317

Bank's jointly financed assets to total quasi-equity investment account holders as of 31 December 25 is 66%

TABLE - 21 RETURN ON AVERAGE QUASI- EQUITY ASSETS

	US\$'000	%
Average profit paid on average quasi-equity holders	802,317	6.3%
Average profit earned on average quasi-equity assets	1,208,286	9.5%

The ratio of average profit distributed to average profit earned for quasi-equity account holders is 67%.

TABLE - 22 PERCENTAGE OF GROSS ISLAMIC FINANCING CONTRACTS FINANCED BY QUASI-EQUITY

				<i>US\$'000</i>
<u>Gross Financing Assets</u>	Self financed (A)	Jointly financed (B)	Total (A)+(B)	% of jointly financed to total
<u>A) Murabaha and Tawarruq</u>				
Corporate	-	8,729,909	8,729,909	100.0%
Retail	-	1,713,043	1,713,043	100.0%
Total - Murabaha and Tawarruq (A)	-	10,442,951	10,442,952	100.0%
<u>B) Ijarah Muntahia Bittamleek</u>				
Corporate	-	963,242	963,242	100.0%
Retail	-	609,808	609,808	100.0%
Total - Ijarah Muntahia Bittamleek (B)	-	1,573,050	1,573,050	100.0%
<u>(C) Others</u>				
Corporate	147,425	-	147,425	0.0%
Retail	7,426	-	7,426	0.0%
Total - Others (C)	154,851	-	154,851	0.0%
Gross Total (A)+(B)+(C)	154,852	12,016,001	12,170,854	98.7%

TABLE - 23 PROFIT PAID TO QUASI-EQUITY HOLDERS

Account type	<i>US\$'000</i>		
	Gross return on equity of Quasi- Equity Holders	Mudarib / Wakala fees	Profit paid to Quasi-Equity Holders
	A	B	(A-B)
Mudaraba	9,993	9,236	757
Wakala	902,255	100,695	801,560
	912,248	109,931	802,317

Profits earned from the pool of assets funded by the equity of quasi-equity account holders, after administrative expenses of US\$ 123.4 million incurred in connection with the management of the funds, are allocated between the owners' equity and equity of investment account holders.

The average mudarib and wakala fees charged by Bank during the twelve month period ended 31 December 2025 was 12% .

TABLE - 24 QUASI-EQUITY PERCENTAGE TO PROFIT RATE OF RETURN

The following table summarises the average distributed rate of return or profit rate on mudaraba investment accounts for the year ended 31 December 2025:

Quasi-Equity (Mudaraba based) Accounts	Up to 3-month	3-6 month	6-12 month	12-36 month
Average profit distributed	2.68%	2.50%	2.35%	2.20%

TABLE - 25 EQUITY OF INVESTMENT ACCOUNT HOLDERS TYPE OF ASSETS

The following table summarises the types of assets in which the funds are invested and the actual allocation among various types of assets for the period ended 31 December 2025:

	<i>US\$'000</i>		
	As of 1 January 2025	Movement	As of 31 December 2025
Cash and balances with banks and Central Bank	850,907	216,137	1,067,044
Financing contracts	7,527,450	3,998,969	11,526,419
Investment securities	3,434,216	(2,624,384)	809,832
Total	11,812,573	1,590,722	13,403,295

There are no limits imposed on the amount that can be invested by quasi-equity funds in any one asset. However, the Bank monitors its quasi-equity deployment classifications so that to ensure that quasi-equity funds are not invested in the Bank's long term Investment Portfolio (including Private Equity and Real Estate). The Bank also does not allocate quasi-equity funds to the equity investments in the trading book.

Kuwait Finance House B.S.C. (c)
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Regulatory Capital & Leverage Ratio Disclosures - Basel III

31 December 2025

APPENDIX I - REGULATORY CAPITAL DISCLOSURES**PD 1 : Capital Composition Disclosure Template**

	<i>US\$ '000</i>	
<i>Basel III Common disclosure template</i>	<i>PIRI as on 31 Dec 2025</i>	<i>Reference</i>
<u>Common Equity Tier 1 capital: instruments and Reserves</u>		
Directly issued qualifying common share capital plus related stock surplus	2,786,983	A1
Retained earnings	734,253	B1+B2+B3+B4
Accumulated other comprehensive income (and other reserves)	1,608,581	C1+C2+C3+C4+ C5 +C6 +C7
Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	11,303	D
Common Equity Tier 1 capital before regulatory adjustments	5,141,120	
<u>Common Equity Tier 1 capital: regulatory adjustments</u>		
Prudential valuation adjustments		
Goodwill (net of related tax liability)	90,682	E
Other intangibles other than mortgage-servicing rights (net of related tax liability)	86,367	F1+F2
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	G1-G2
Cash-flow hedge reserve	-	C7
Shortfall of provisions to expected losses		
Securitization gain on sale (as set out in paragraph 562 of Basel II framework)		
Not applicable		
Defined-benefit pension fund net assets		
Investments in own shares (if not already netted off paid-in capital on reported balance sheet)		
Reciprocal cross-holdings in common equity	-	K
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)		
Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-	H1 + H2
Total regulatory adjustments to Common equity Tier 1	177,049	
Common Equity Tier 1 capital (CET1)	4,964,071	
<u>Additional Tier 1 capital: instruments</u>		
Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	400,000	I
Additional Tier 1 instruments (and CET1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group AT1)	2,422	J
Additional Tier 1 capital before regulatory adjustments	402,422	
Total regulatory adjustments to Additional Tier 1 capital	-	
Additional Tier 1 capital (AT1)	402,422	
Tier 1 capital (T1 = CET1 + AT1)	5,366,493	
<u>Tier 2 capital: instruments and provisions</u>		
Tier 2 instruments (and CET1 and AT1 instruments not included above) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	6,459	L
Expected Credit Losses & Reserves	233,860	M1+M2
Tier 2 capital before regulatory adjustments	240,319	
Total regulatory adjustments to Tier 2 capital	-	
Tier 2 capital (T2)	240,319	
Total capital (TC = T1 + T2)	5,606,812	
Total risk weighted assets	17,877,433	

Capital ratios

Common Equity Tier 1 (as a percentage of risk weighted assets)	27.8%
Tier 1 (as a percentage of risk weighted assets)	30.0%
Total capital (as a percentage of risk weighted assets)	31.4%

Institution specific buffer requirement (minimum CET1 requirement plus capital conservation buffer plus countercyclical buffer requirements plus D-SIB buffer requirement expressed as a percentage of risk weighted assets)	10.5%
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of which: Capital Conservation Buffer requirement 2.5%

of which: bank specific countercyclical buffer requirement (N/A) NA

of which: D-SIB buffer requirement 1.5%

National minima (if different from Basel III)

CBB Common Equity Tier 1 minimum ratio (including buffers)	10.5%
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CBB Tier 1 minimum ratio (including buffers)	12.0%
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CBB total capital minimum ratio (including buffers)	14.0%
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Amounts below the thresholds for deduction (before risk weighting)

Non-significant investments in the capital of other financial entities	21,163
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Significant investments in the common stock of financial entities	23,850
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Applicable caps on the inclusion of Expected Credit Losses in Tier 2

Expected Credit Losses (Stages 1 and 2) eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	321,464	N
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Cap on inclusion of Expected Credit Losses in Tier 2 under standardized approach	198,770	M2
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PD 2 : Reconciliation Of Regulatory Capital**i) Step 1: Disclosure of Balance Sheet under Regulatory scope of Consolidation**

There are no differences between the regulatory and accounting consolidation, with both following the consolidation approach as per the IFRS 10 without excluding any entities. As mandated by the Central Bank of Bahrain ("CBB"), financial assets have been grossed up with impairment allowances for expected credit losses (ECL) - Stages 1 and 2, as presented below:

	<i>US\$ '000</i>
Balance sheet as per published financial statements	29,007,902
ECL - Stages 1 and 2	321,464
Balance sheet as in Regulatory Return	29,329,366

ii) Step 2: Expansion of the Balance Sheet under Regulatory scope of Consolidation

	<i>US\$ '000</i>	
	<i>Balance as per published financial statements</i>	<i>Consolidated PIRI data</i>
		<i>Reference</i>
Assets		
Cash and balances with central banks	1,064,208	1,064,208
Financial assets at fair value through Profit & Loss		11,624
Due from central banks and sukuk	1,056,365	1,056,365
Due from banks	2,539,392	2,539,487
Financing receivables and Ijarah assets	11,624,056	11,930,144
Non-trading investments	10,205,228	10,208,760
<i>of which significant investment exceeding regulatory threshold</i>		-
<i>of which reciprocal cross-holdings in common equity</i>		-
<i>of which investment NOT exceeding regulatory threshold</i>		10,208,760
Investment properties	675,537	675,537
Profit receivable and other assets	861,286	861,411
<i>of which deferred tax assets</i>		-
Investments in associates	685,401	685,401
<i>of which significant investment exceeding regulatory threshold</i>		-
<i>of which significant investment NOT exceeding regulatory threshold</i>		685,401
Goodwill and other intangible assets	109,098	109,098
<i>of which Goodwill</i>		90,682
<i>of which other intangibles (excluding MSRs)</i>		18,416
Premises and equipments	187,331	187,331
<i>of which software</i>		67,951
TOTAL ASSETS	29,007,902	29,329,366
Liabilities		
Due to banks	1,053,695	1,053,695
Customers' accounts	2,138,365	-
<i>of which Customer current accounts</i>	1,871,582	1,871,582
<i>of which Funding Liabilities (eg. reverse commodity murabaha, etc.)</i>	266,783	-
Funding Liabilities (eg. reverse commodity murabaha, etc.)	-	6,190,323
<i>of which other Customers' accounts</i>	-	266,783
<i>of which Term financing against sukuk</i>	4,685,246	4,685,246
<i>of which Sukuk payable and term financing</i>	1,238,294	1,238,294
Profit payable and other liabilities	861,829	861,829
<i>of which deferred tax liabilities</i>	-	1,965
TOTAL LIABILITIES	9,977,429	9,977,429
Quasi-Equity	13,403,295	13,403,295
TOTAL QUASI-EQUITY	13,403,295	13,403,295

Equity			
Paid-in share capital	2,786,983	2,786,983	
<i>of which form part of Common Equity Tier 1</i>		2,786,983	
Ordinary Share Capital		2,786,983	A1
Perpetual Tier 1 Capital Securities - AUB Bahrain	400,000	400,000	I
Reserves	2,377,924	2,377,924	
<i>of which form part of Common Equity Tier 1</i>			
Retained earnings/(losses) (excluding profit for the year)		734,253	B1
Proposed Dividend Payable		-	B2
Net profit for the current period		730,585	C1
Share premium		758,170	C2
Legal reserve		958,630	C3
Others		(38,048)	C4
FX translation adjustment		(950,462)	C5
Cumulative fair value changes on FVOCI investments		149,706	C6
Fair value changes of cash flow hedges		-	C7
<i>of which form part of Tier 2</i>			
Fixed assets revaluation reserves		35,090	M1
CBB modification loss (part of CET1)		-	B3
Non - controlling interest	62,271	62,271	
<i>of which amount eligible for Common Equity Tier 1</i>		11,303	D
<i>of which amount eligible for Additional Tier 1</i>		2,422	J
<i>of which amount eligible for Tier 2</i>		6,459	L
<i>of which amount ineligible</i>		42,087	
Impairment Allowance for Expected Credit Losses - Stages 1 and 2		321,464	N
<i>of which amount eligible for Tier 2 (maximum 1.25% of RWA)</i>		198,770	M2
<i>of which amount included in CET1 as per CBB</i>		-	B4
<i>of which amount ineligible</i>		122,694	
TOTAL OWNER EQUITY	5,627,178	5,948,642	
TOTAL LIABILITIES, QUASI-EQUITY AND OWNER EQUITY	29,007,902	29,329,366	

PD 3 : Main features of regulatory capital instruments

1	Issuer	Kuwait Finance House B.S.C. (c) [Formerly Known as Ahli United Bank B.S.C. (c)]	Kuwait Finance House B.S.C. (c) [formerly, Ahli United Bank B.S.C. (c)]
2	Unique identifier	N/A	ISIN: XS3046587898 / Additional Tier 1 Capital Certificates
3	Governing law(s) of the instrument	Laws of Bahrain	English Law and will remain subject at all times to the rules and regulations of the Central Bank of Bahrain.
4	Transitional CBB rules	Not applicable	Not applicable
5	Post-transitional CBB rules	Common Equity Tier 1	Additional Tier 1
6	Eligible at solo/group/group & solo	Solo and Group	Solo and Group
7	Instrument type	Common Equity Shares	Capital Certificates structured on the basis of a Sukuk-al-Mudaraba
8	Amount recognized in regulatory capital	\$2787.0 mn	\$400.0 mn
9	Par value of instrument (USD)	\$0.25	\$1000 subject to minimum of \$200,000
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	31-May-2000	22-Apr-2025
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No Maturity	The Certificates are perpetual securities and accordingly do not have a fixed or final redemption date.
14	Issuer call subject to prior supervisory approval	NA	Yes
15	Optional call date, contingent call dates and redemption amount	NA	Call Option : on the First Call Date and on any date thereafter up to and including the First Reset Date, or any Periodic Distribution Date thereafter, by giving not less than 10 nor more than 15 days' prior notice to the Trustee and the Delegate Date (Redemption at Par) Upon the occurrence of a Tax Event or a Capital Event, whole, but not in part, of the Certificates may be redeemed (Redemption at Par)
16	Subsequent call dates, if applicable	NA	On the First Call Date and on any date thereafter up to and including the First Reset Date, or any Periodic Distribution Date thereafter
17	Fixed or floating dividend/coupon	NA	Fixed
18	Coupon rate and any related index	NA	6.709%
19	Existence of a dividend stopper	NA	Yes
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	NA	Noncumulative
23	Convertible or non-convertible	NA	Non-convertible
24	If convertible, conversion trigger (s)	NA	NA
25	If convertible, fully or partially	NA	NA
26	If convertible, conversion rate	NA	NA
27	If convertible, mandatory or optional conversion	NA	NA
28	If convertible, specify instrument type convertible into	NA	NA
29	If convertible, specify issuer of instrument it converts into	NA	NA
30	Write-down feature	NA	Yes
31	If write-down, write-down trigger(s)	NA	Notification by regulator of Non viability without (a) write-down ; or (b) a public sector injection of capital (or equivalent support)
32	If write-down, full or partial	NA	Fully / Partially
33	If write-down, permanent or temporary	NA	Permanent
34	If temporary write-down, description of write-up mechanism	NA	NA
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1 Capital Bonds	All depositors and creditors
36	Non-compliant transitioned features	NA	No
37	If yes, specify non-compliant features	NA	NA

31 December 2025

Leverage Ratio

The leverage ratio serves as a supplementary measure to the risk-based capital requirements. The leverage ratio is computed on a consolidated basis and being Bahraini bank licensees designated as DSIB must meet a 3.75% leverage ratio minimum requirement at all times.

Leverage Ratio components

	<i>US\$ '000</i>
Tier1 Capital [A]	5,366,493
Total Exposure [B]	32,013,518
Leverage Ratio ([A] / [B])	16.8%