ARAB BANK FOR INVESTMENT AND FOREIGN TRADE

(AL MASRAF)

CAPITAL ADEQUACY

PILLAR III DISCLOSURES

31st December 2017

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INTRODUCTION TO THE CENTRAL BANK OF UAE'S BASEL II GUIDELINES

In November 2009, The Central Bank of the United Arab Emirates ("CBUAE") issued guidelines for implementation of Basel II Capital Accord in the banks operating in the UAE.

The CBUAE Basel II framework is intended to strengthen the market discipline and risk management while enhancing the safety and soundness of the banking industry in UAE. Basel II is structured around three 'Pillars' viz.

(a) Pillar I - Minimum Capital Requirements

(b) Pillar II - The Supervisory Review Process and the Internal Capital Adequacy Assessment Process (ICAAP) and

(c) Pillar III - Market Discipline

Pillar I - Minimum capital requirements

Pillar I deals with the basis for the computation of the regulatory capital ratio. It defines various classes and the calculation of Risk Weighted Assets (RWAs) in respect of credit risk, market risk and operational risk, as well as deriving 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 UAE incorporated banks are currently required to maintain a minimum capital adequacy ratio of 12%.

Pillar II - The supervisory review and evaluation process

Pillar II allows banks and supervisors to take a view on whether the bank should hold additional capital to cover the three Pillar 1 risk types, or to cover other risks. It provides a framework for dealing with all the other risks a bank may face, such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk, which the accord combines under the title of residual risk. This risk and capital assessment is commonly referred to as Internal Capital Adequacy Assessment Process (ICAAP).

Pillar III - Market discipline

Pillar III focuses on Market Discipline and complement the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The CBUAE supports the enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process and hence the capital adequacy of the institution. It must be consistent with how the senior management, including the board, assess and manage the risks of the institution. This report should be read in conjunction with the risk disclosures in the Annual Report and audited consolidated financial statements.

The format issued by CBUAE in December 2017 had been followed for the purpose of Pillar III disclosures

I. DISCLOSURES UNDER BASEL II (as per Audited Financial Statements)

1. Consolidated Capital Structure

AED in Mn

Sr. No.	Particulars	Summary Note and References	Amount (AED)	
			31/12/2017	31/12/2016
A	**Tier 1 Capital**			
1	Paid up share capital/common stock	-	1,500.00	1,500.00
2	Eligible Reserves	-	1,466.23	1,393.60
a	Statutory reserve	-	545.41	509.10
b	Special reserve	-	540.82	504.51
c	General reserve	-	380.00	380.00
3	Retained Earnings / (-) Loss	-	583.48	365.79
4	Audited current year profits / (-) Current financial year loss (Excluding Dividend)	-	363.18	432.67
5	Minority interests in the equity of subsidiaries	-	-	-
6	Innovative capital instruments	-	-	-
7	Other capital instruments	-	-	-
8	Surplus capital from insurance companies	-	-	-
9	**Sub-total (1+2+3+4+5+6+7+8)**	-	**3,912.90**	**3,692.06**
10	Less: Deductions for regulatory calculation	-	-	-
11	Less: Deductions from Tier 1 capital	-	-	-
A	**Tier 1 Capital - Subtotal (7-8-9)**	-	**3,912.90**	**3,692.06**
B	**Tier 2 Capital**	-	**213.87**	**189.89**
	Less: Other deductions from Capital	-	-	-
C	**Tier 3 Capital**	-	-	-
D	**Total Eligible Capital After Deductions (A+B+C)**	-	**4,126.77**	**3,881.94**

2. Capital Adequacy

AED in Mn

	Particulars	31/12/2017		31/12/2016	
		Capital Charge	Capital Ratio (%)	Capital Charge	Capital Ratio (%)
Capital Requirements					
1	**Credit Risk (1a or 1b or 1c)**	**17,109.48**		**15,054.16**	
a	Standardized Approach	17,109.48		15,054.16	
b	Foundation IRB	-		-	
c	Advanced IRB	-		-	
2	**Market Risk (2a or 2b)**	**20.83**		**15.25**	
a	Standardized Approach	20.83		15.25	
b	Models Approach	-		-	
3	**Operational Risk (3a or 3b or 3c)**	**1,293.41**		**1,197.97**	
a	Basic Indicator Approach	1,293.41		1,197.97	
b	Standardized Approach/ASA	-		-	
c	Advanced Measurement Approach	-		-	
4	**Total Capital requirements (1+2+3)**	**18,423.72**		**16,267.38**	
Capital Ratio					
a.	Total for Top consolidated Group		**22.40%**		**23.86%**
b.	Tier 1 ratio only for top consolidated Group		**21.24%**		**22.70%**
c.	Total for each significant bank subsidiary		NA		NA

II. DISCLOSURES UNDER BASEL III

1. Information on Subsidiaries and Significant Investments

- Arab Bank for Investment and Foreign Trade PJSC (the "Bank") was incorporated in Abu Dhabi by Union Decree No. 50 of 1976. It is registered as a Public Joint Stock Company in accordance with Federal Law No (8) of 1984.
- It is owned by The Emirates Investment Authority (42.28%) and The Libyan Foreign Bank, Libya (42.28%) and The Banque Exterieure d'Algerie, Algeria (15.44%).
- The Bank is engaged in commercial and retail banking activities and carries out its operations in the United Arab Emirates through its ten branches and three tahsheel centers in UAE. The Bank also has one representative office in Libya.
- **The Bank does not have any subsidiaries or significant investments.**

2. Consolidated Capital Structure

AED in Mn

Details		Summary Note and References	31/12/2017	31/12/2016
Capital Base		-	**3,974.14**	**3,888.50**
1	**Common Equity Tier 1 (CET1) Capital**		**3,762.90**	**3,700.32**
1.1	Share Capital	-	1,500.00	1,500.00
1.2	Share premium account	-	-	-
1.3	Eligible Reserves	-	1,466.24	1,393.60
1.4	Retained Earnings / (-) Loss	-	796.66	806.72
1.5	Eligible amount of minority interest	-	-	-
1.6	Capital shortfall if any	-	-	-
	CET1 capital Before the regulatory adjustments and threshold deduction	-	**3,762.90**	**3,700.32**
1.7	Less: Regulatory deductions	-	-	-
1.8	Less: Threshold deductions	-	-	-
	Total CET1 capital after the regulatory adjustments and threshold deduction	-	**3,762.90**	**3,700.32**
	Total CET1 capital after transitional arrangement for deductions (CET1)	-	**3,762.90**	**3,700.32**
2	**Additional Tier 1 (AT1) Capital**		-	-
2.1	Eligible AT1 capital (After grandfathering)	-	-	-
2.2	Other AT1 Capital e.g. (Share premium, minority interest)	-	-	-
	Total AT1 capital	-	-	-
	Total AT1 capital after transitional arrangements (AT1)	-	-	-
3	**Tier 2 (T2) Capital**		**211.24**	**188.18**
3.1	Tier 2 Instruments e.g. subordinated loan (After grandfathering and/or amortization)	-	-	-
3.2	Other Tier 2 capital (including General Provisions, etc.) 1	-	211.24	188.18
	Total T2 Capital	-	**211.24**	188.18
	Total T2 capital after transitional arrangements (T2)	-	**211.24**	**188.18**

3. Capital Adequacy

A. Qualitative Disclosures

Approach to assess adequacy of capital to support current and future activities:

- Central Bank issued final guidelines regarding the Capital Supply Standards along with regulation vide notice 28/ 2018 dated 17 January 2018, which are effective from 31 December 2017.
- As per Central bank regulation for Basel III, the capital requirements in the year 2017 is 11.75% inclusive of capital conservation buffer. This will increase to maximum of 13% inclusive of capital conservation buffer by year 2019.
- The bank must comply with following minimum requirement:
  - CET1 must be at least 7% of risk weighted assets (RWA);
  - Tier 1 capital must be at least 8.5% of risk weighted assets (RWA);
  - Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA);
- Additionally capital conservation buffer is to be maintained at 1.25% in year 2017, this will increase to 2.5% by year 2019.

(i) Capital Management

- The Bank's regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.
- The Bank's objectives when managing capital are:
  - Safeguarding the Bank's ability to continue as a going concern and increase the returns for the Shareholders; and
  - Complying with regulatory capital requirements set by the Central Bank of the UAE.
- During 2017, the Bank's strategy, which was unchanged from 2016, was to:
  - Maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel Accord guidelines; and
  - Allocate capital to various businesses in an efficient manner
- 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 and the Central Bank of United Arab Emirates

(ii) Risk Management Framework

- The risk management framework lays emphasis on the Bank's risk philosophy, proper organizational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism.
- The Bank has most of the required policies and procedures that define the operational aspects of the Bank's key activities.
- In addition, Business Units also use approved process notes, procedure documents etc. to establish formal processing. We have acquired a process flow application (GIEOM) which provides online, the Policies, Standard Operating Procedures (SOPs) and Training.

a. Risk Management Principles

The following are some of the key risk management principles of the Bank:

- Risks to be undertaken within the appetite set by the Board.
- Every risk to be approved within Risk Management Framework.
- Risk strategies to be aligned with business strategies where risk diversification to be a key driver.
- Continuous risk management improvement reflected as a roadmap for all risk related gaps.
- Risk measurement and monitoring to be focused in every risk policy implementation.
- Risk and reward relationship to be at forefront.
- A risk culture where every employee becomes owner of risk management related to their area.

b. Risk Management Department

The Bank has an independent Risk Management Structure headed by Chief Risk Officer who functionally reports to Board Risk Committee.

c. Risk Reporting Framework

- As part of the reporting framework, Risk Management Department submits various risk reports pertaining to all the areas of the Bank to the Risk Forum, Management Committees (Credit Committee/ALCO) as well as to the Board Risk Committee (BRC).
- Summary of the BRC recommendations and observations are furnished by BRC to the Board.

d. Material Risk Identification Process

- The Bank considers only material risks for ICAAP. Immaterial risks are being identified and documented, but excluded if justified.
- Risk Identification Process comprises the following key methodologies that provide a basis for prioritizing key risks.
- **Consolidation and Quantification of Material Risks**

  Business Units/ Risk Management Department review various risks which are then aggregated into Risk Registers capturing the key risk and other relevant details.

  Material risks are also consolidated from sources such as internal audit reports, Central Bank reviews, external audits etc. Such inputs, if any, will be incorporated and the final consolidated Risk Register for the period is prepared.
- **Risk Monitoring Methodology**

  Along with various risk identification methodologies, the Bank also has various monitoring methodologies for managing key risks.

  The monitoring framework is given below.

  - **Key Risk Indicators**

    (i) Another tool that is currently being implemented is the Key Risk Indicator (KRI) framework.

    (ii) The Bank's Risk team has currently defined the broad framework and has implemented the KRI Framework for a few of the Business Units.

- **Comprehensive Risk Reporting**

  (i) Bank's Business Units and Finance Department prepare comprehensive MIS reports that also provide inputs into changing risk profiles which serve as additional tools for risk identification and risk management.

- **Internal audit function in relation to risk management**

  (i) The Bank's Internal Audit Department, which is assisted by experienced auditors, is now moving towards risk based audits for branches and other functional areas the Head office.

  (ii) Their observations and suggestions are presented to Chief Executive Officer and summarized to the Audit Committee of the Board.

  (iii) Audit department also participates in the validation of bank's policies, systems' access rights to individual staff.

e. Adequacy of Risk Management Processes

- An understanding of risk-taking and transparency in risk-taking are key elements in the Bank's business strategy.
- The Bank's internal risk management processes support this objective. The Bank's overall risk objectives are to implement best practices in risk management.

(iii) Banks Approach to Pillar 1 Risks

- Pillar I approach adopted by the Bank is as under:

Risk Type	Current Approach
Credit Risk	Standardized Approach
Market Risk	Standardized Approach
Operational Risk	Basic Indicator Approach

a. Credit Risk

- Basel II provides three approaches to the calculation of credit risk regulatory capital.
- The Standardized approach which the Bank has adopted, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties, and groups other counterparties into broad categories and applies standardized risk weightings to these categories.
- The net exposure incorporates off-balance-sheet exposures after applying the credit conversion (CCF) and credit risk mitigation (CRM) factors

b. Market Risk

- The Bank has adopted the Standardized approach for determining the market risk capital requirement for general and specific interest rate risk, foreign exchange risk, and general and specific equity risk.

c. Operational risk

- Under the basic indicator approach, which the Bank has adopted for operational risk, the regulatory capital requirement for operational risk is calculated by applying a co-efficient of 15% to the average gross income for the preceding three financial years.
- The Operational Risk Framework (ORM) has been put in place along with the Risk and Control Self-Assessment (RCSA) process and related processes are embedded within the business units across the Bank.

(iv) **Banks Approach to Pillar II Risks**

- The Bank has adopted the method wherein the capital requirements will be determined as Pillar I capital requirements PLUS additional capital for Pillar II risks
- The risk assessment process for various types of Pillar II risks and assumptions are given below:

Risk Type	Assessment process	Assumptions
Credit Concentration Risk	Evaluation with reference to internal / statutory limits / benchmarks and stress testing.	Limits fixed for various items will serve as the benchmark for safe functioning in the normal course and exceeding the limits will place additional credit risk.
Indirect credit risk from credit risk mitigation techniques	Standardized Approach	Computation of credit risk under Standardized Approach
Liquidity Risk	Asset Liability Management (ALM)	Structural liquidity gap fixed by the Bank will adequately take care of the liquidity management.
Settlement Risk	Bank's Exposure Limits & limit monitoring	Management plans to put in place a Qualitative assessment process using a scorecard.
Interest rate Risk on Banking Book (IRRBB)	Bank's credit is majorly under floating rates of interest. Risk based Pricing adopted. Quantitative assessment 200 bps shock	Bank will be in a position to re-fix the interest rates on advances in an increasing interest trend.
Reputational Risk	Qualitative assessment: Scorecard method	Management through proper checks and controls.
Strategic Risk	Qualitative assessment: Scorecard method	Management through proper strategic framework.
Country Risk	Quantitative assessment	This risk is assessed quantitatively and managed through proper checks and controls
Compliance Risk	Qualitative assessment	Assessed based on feedback from correspondent banks as well as the observations of compliance dept.
Model Risk	Quantitative assessment	These risks are assessed qualitatively based up-to-date market information and managed through checks and controls and where necessary by acquiring the tools
Information Security & Cyber Threat Risk	Qualitative assessment	Adequate tools and controls are in place. Negotiations are in advance stage with the insurance company and this risk will be insured in 2018
Legal Risk	Qualitative assessment	Qualitative assessment – risk is managed through internal controls and checks

B. Quantitative Disclosures

AED in Mn

Sr. No.	Capital Requirements	2017			2016		
		RWA	Capital Charge	Capital Ratio (%)	RWA	Capital Charge	Capital Ratio (%)
A	**RISK WEIGHTED ASSETS & CAPITAL CHARGE**						
1	Credit Risk - Standardized Approach	17,109.49	2,224.23		15,054.17	1,957.04	
2	Market Risk - Standardized Approach	20.83	2.19		15.25	1.98	
3	Operation Risk	1,293.41	135.81		1,197.97	155.74	
a	Basic Indicator Approach	1,293.41	135.81		1,197.97	155.74	
b	Standardized Approach/ASA	-	-		-	-	
c	Advanced Measurement Approach	-	-		-	-	
	Total Capital requirements	**18,431.86**	**2,362.23**		**16,267.39**	**2,114.76**	
B	**Capital Ratio**						
a	**Total for Top consolidated Group**			21.57%			23.86%
b	**Tier 1 ratio only for top consolidated Group**			20.42%			22.70%
c	**CET1 ratio only for top consolidated Group**			20.42%			22.70%

Note:
In addition to minimum capital requirement of 10.50%, banks were also required to maintain a Capital Conservative Buffer of 1.25% and Counter Cyclical Buffer of 1.25% for the year 2017. Al Masraf is sufficiently in compliance with the minimum capital requirement

4. Qualitative Disclosures

Definition of past due and Impaired loans and advances
▪ Individually impaired loans and investments are loans and advances and available-for-sale investments for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the agreement(s). These assets are graded 8 to 10 in the Bank's internal credit risk grading system. ▪ Past due but not impaired loans and investments are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.
Description of approaches followed for specific and general allowances and statistical methods
▪ The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan and investment portfolio. ▪ The main components of this allowance are a **specific loss component** that relates to individually significant exposures, and a **collective loan loss allowance** established for groups of homogeneous assets as well as for individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired ▪ The Bank evaluates impairment on loans and advances and investments on an on-going basis and a comprehensive review on a quarterly basis to assess whether an impairment charge should be recognized in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of impairment charge required. In estimating these cash flows, management makes judgments about the counterparty's financial situation and other means of settlement and the net realizable value of any underlying collateral. Such estimates are based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such impairment charges. ▪ In addition to specific impairment charge against individually impaired assets, the Bank also maintains a collective impairment allowance against portfolios of loans and advances with similar economic characteristics which have not been specifically identified as impaired. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.
Discussion of Bank's credit risk management policy
▪ The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits, implement controls, monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

- The Bank's board risk committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

Write-off Policy

- The Bank writes off a loan or investment balance, and any related suspended interest and allowances for impairment losses, when the management determines that the loan or investment is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Partial adoption of foundation IRB/advanced IRB

Approach	Description of exposures	Plans and timing of migration to implement fully higher approach
Standardized Approach	All Exposures	Bank is planning to start collecting the default data to develop internal LGD model
Foundation IRB	-	-
Advanced IRB	All Credit Exposures	This will be implemented based on the guidance from CBUAE

5. Quantitative Disclosures

A. Gross Credit Exposure by Currency Type

31st December, 2017

AED in Mn

Currency	Loans/ Banks	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet Exposures	Total Non-Funded	Total
Foreign Currency	2,062.08	1,157.46	19.59	3,239.13	-	-	3,050.86	3,050.86	6,289.99
AED	15,554.92	-	1,596.47	17,151.39	5,629.66	-	4,211.96	9,841.62	26,993.01
Total	**17,617.00**	**1,157.46**	**1,616.06**	**20,390.52**	**5,629.66**	**-**	**7,262.82**	**12,892.48**	**33,283.00**

31st December, 2016

AED in Mn

Currency	Loans/ Banks	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet Exposures	Total Non-Funded	Total
Foreign Currency	2,767.23	854.52	59.95	3,681.70	-	0.87	3,008.76	3,009.63	6,691.33
AED	13,932.83	-	1,511.22	15,444.05	4,577.28	-	4,246.05	8,823.33	24,267.38
Total	**16,700.06**	**854.52**	**1,571.17**	**19,125.75**	**4,577.28**	**0.87**	**7,254.81**	**11,832.96**	**30,958.71**

B. Gross Credit Exposure by Geography

31st December, 2017

AED in Mn

Geographic Distribution	Loans/ Banks	Debt Securities	Others	Total Funded	Commit ments	OTC Deriva tives	Other Off-Balance Sheet	Total Non-Funded	Total
United Arab Emirates	16,017.17	920.32	1,590.07	18,527.56	5,629.66	-	4,704.62	10,334.28	28,861.84
GCC excluding UAE	500.52	218.28	12.20	731.00	-	-	9.65	9.65	740.65
Arab League (excluding GCC)	28.96	-	13.50	42.46	-	-	2,456.53	2,456.53	2,498.99
Asia	289.58	-	-	289.58	-	-	35.38	35.38	324.96
Africa	-	-	-	-	-	-	-	-	-
North America	16.16	18.86	-	35.02	-	-	2.51	2.51	37.53
South America	-	-	-	0.00	-	-	-	-	-
Caribbean	-	-	-	0.00	-	-	-	-	-
Europe	764.52	-	0.29	764.81	-	-	54.13	54.13	818.94
Australia	0.09	-	-	0.09	-	-	-	-	0.09
Others	-	-	-	0.00	-	-	-	-	-
Total	**17,617.00**	**1,157.46**	**1,616.06**	**20,390.52**	**5,629.66**	**-**	**7,262.82**	**12,892.48**	**33,283.00**

31st December, 2016 **AED in Mn**

Geographic Distribution	Loans/ Banks	Debt Securities	Others	Total Funded	Commit ments	OTC Deriva tives	Other Off-Balance Sheet	Total Non-Funded	Total
United Arab Emirates	14,149.43	854.52	1,571.17	16,575.12	4,577.28	-	4,825.93	9,403.21	25,978.33
GCC excluding UAE	386.17	-	-	386.17	-	-	10.09	10.09	396.26
Arab League (excluding GCC)	26.33	-	-	26.33	-	0.87	2,336.71	2,337.58	2,363.91
Asia	1,242.19	-	-	1,242.19	-	-	39.07	39.07	1,281.26
Africa	-	-	-	-	-	-	-	-	-
North America	29.60	-	-	29.60	-	-	-	-	29.60
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	866.26	-	-	866.26	-	-	43.01	43.01	909.27
Australia	0.08	-	-	0.08	-	-	-	-	0.08
Others	-	-	-	-	-	-	-	-	-
Total	**16,700.06**	**854.52**	**1,571.17**	**19,125.75**	**4,577.28**	**0.87**	**7,254.81**	**11,832.96**	**30,958.71**

C. Gross Credit Exposure by Industry Segment

31st December, 2017 **AED in Mn**

Industry Segment	Loans	Debt Securities	Others	Total Funded	Commit ments	OTC Deriv atives	Other Off-Balance Sheet	Total Non-Funded	Gross
Agriculture, Fishing & related activities	-	-	-	-	-	-	0.10	0.10	0.10
Crude Oil, Gas, Mining & Quarrying	-	-	-	-	-	-	-	-	-
Manufacturing	929.08	-	-	929.08	600.29	-	411.24	1,011.53	1,940.61
Electricity& Water	133.32	102.51	-	235.83	49.61	-	26.46	76.07	311.90
Construction	3,018.97	116.61	-	3,135.58	1,272.84	-	1,018.53	2,291.37	5,426.95
Trade	2,913.30	-	-	2,913.30	2,015.24	-	1,001.32	3,016.56	5,929.86
Transport, Storage & Communication	428.62	-	-	428.62	114.61	-	48.56	163.17	591.79
Financial Institutions	3,536.84	453.04	1,602.27	5,592.15	148.78	-	2,688.86	2,837.64	8,429.79
Services	1,327.72	44.85	13.79	1,386.36	313.21	-	227.09	540.30	1,926.66
Government	2,103.31	440.45	-	2,543.76	362.81	-	7.83	370.64	2,914.40
Retail/ Consumer banking	1,154.25	-	-	1,154.25	184.55	-	1,812.33	1,996.88	3,151.13
All Others	2,071.59	-	-	2,071.59	567.72	-	20.50	588.22	2,659.81
Total	**17,617.00**	**1,157.46**	**1,616.06**	**20,390.52**	**5,629.66**	**-**	**7,262.82**	12,892.48	**33,283.00**

31st December, 2016 **AED in Mn**

Industry Segment	Loans	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Gross
Agriculture, Fishing & related activities	2.6	-	-	2.6	6.00	-	-	6.00	8.60
Crude Oil, Gas, Mining & Quarrying	0	-	-	0	15.00	-	-	15.00	15.00
Manufacturing	0	-	-	0	638.00	-	-	638.00	638.00
Electricity& Water	62.6	105.06	-	167.66	77.00	-	44.93	121.93	289.59
Construction	2857.38	96.86	6.86	2961.1	1,165.00	-	974.35	2,139.35	5,100.45
Trade	3561.39	-	-	3561.39	1,642.28	-	1,665.26	3,307.54	6,868.93
Transport, Storage & Communication	426.24	-	-	426.24	201.00	-	57.83	258.83	685.07
Financial Institutions	4911.94	293.91	1,523.54	6729.39	191.00	0.87	2,503.24	2,695.11	9,424.50
Services	2333.8	44.41	40.77	2418.98	275.00	-	200.27	475.27	2,894.25
Government	0	314.28	-	314.28	-	-	0.09	0.09	314.37
Retail/ Consumer banking	667.55	-	-	667.55	367.00	-	1,796.37	2,163.37	2,830.92
All Others	1876.56	-	-	1876.56	-	-	12.47	12.47	1,889.03
Total	**16,700.06**	**854.52**	**1,571.17**	**19,125.75**	**4,577.28**	**0.87**	**7,254.81**	**11,832.96**	**30,958.71**

D. Gross Credit Exposure by Residual Contractual Maturity

31st December, 2017 **AED in Mn**

Residual Contractual Maturity	Loans/ Banks	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Less than 3 months	5,805.84	-	-	5,805.84	-	-	3,517.12	3,517.12	9,322.96
3 months to one year	1,720.61	96.79	-	1,817.40	5,629.66	-	1,333.35	6,963.01	8,780.41
One to five years	3,360.97	1,013.10	-	4,374.07	-	-	595.42	595.42	4,969.49
Over five years	5,515.97	47.57	-	5,563.54	-	-	1,816.93	1,816.93	7,380.47
Unspecified	1,213.61	-	1,616.06	2,829.67	-	-	-	-	2,829.67
Grand Total	**17,617.00**	**1,157.46**	**1,616.06**	**20,390.52**	**5,629.66**	**-**	**7,262.82**	**12,892.48**	**33,283.00**

31st December, 2016 **AED in Mn**

Residual Contractual Maturity	Loans/ Banks	Debt Securities	Others	Total Funded	Commitm ents	OTC Derivatives	Other Off-Balance Sheet exposures	Total Non-Funded	Total
Less than 3 months	5,537.25	-	-	5537.25	846.00	0.87	3,185.44	4,032.31	9,569.56
3 months to one year	2,203.68	-	-	2203.68	3,731.28	-	1,418.98	5,150.26	7,353.94
One to five years	3,225.72	802.85	-	4028.57		-	854.20	854.20	4,882.77
Over five years	4,306.28	51.67	-	4357.95		-	1,796.19	1,796.19	6,154.14
Unspecified	1,427.13	-	1,571.17	2998.30		-	-	-	2,998.30
Grand Total	**16,700.06**	**854.52**	**1,571.17**	**19,125.75**	**4,577.28**	**0.87**	**7,254.81**	**11,832.96**	**30,958.71**

E. Past Due and Impaired loans by Industry Segment

31st December, 2017

AED in Mn

Industry Segment	Past due & Non-Performing Loans	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
	Outstanding Amount	Overdue	Specific	General	Write-offs	Write-backs		
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	-	-	-	-	-	-	-	-
Manufacturing	87.38	2.38	28.47	1.17	-	-	5.01	53.90
Electricity& Water	53.24	48.72	17.43	0.78	-	-	1.26	34.55
Construction	375.72	76.81	99.75	4.19	-	22.69	40.23	235.74
Trade	263.52	54.01	87.33	2.82	47.26	0.77	20.59	155.60
Transport, Storage & Communication	6.46	3.69	1.69	0.10	-	-	0.41	4.36
Financial Institutions	106.34	6.82	23.74	0.84	-	-	0.37	82.23
Other Services	82.53	1.04	55.36	0.02	-	-	26.11	1.06
Government	-	-	-	-	-	-	-	
Retail/ Consumer banking	110.22	46.02	29.77	1.65	-	-	7.76	72.69
All Others	249.83	40.63	40.19	4.89	-	6.50	9.83	199.81
Grand Total	**1,335.24**	**280.12**	**383.73**	**16.46**	**47.26**	**29.96**	**111.57**	**839.94**

Note: An unallocated provision of AED 194.03 against performing loans and general provisions of AED 248.87 (1.5% of risk weighted assets) are also available

31st December, 2016

AED in Mn

Industry Segment	Past due & Non-Performing Loans	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
	Outstanding Amount	Overdue	Specific	General	Write-offs	Write-backs		
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	-	-	-	-	-	-	-	-
Manufacturing	56.59	5.87	12.49	0.80	-	-	1.26	42.84
Electricity& Water	-	-	-	-	-	-	-	-
Construction	628.46	78.79	150.45	8.77	-	-	63.53	414.48
Trade	280.50	68.99	94.12	2.90	47	37.39	19.40	166.98
Transport, Storage & Communication	42.33	9.70	-	0.95	-	-	0.24	42.09
Financial Institutions	0.69	0.45	-	0.01	-	-	0.34	0.35
Other Services	88.60	5.91	51.41	0.35	-	-	21.47	15.72
Government	-	-	-	-	-	-	-	-
Retail/ Consumer banking	28.53	7.82	-	0.54	-	-	4.33	24.20
All Others	214.81	16.64	-	4.83	-	-	-	214.81
Grand Total	**1,340.51**	**194.17**	**308.47**	**19.15**	**47**	**37.39**	**110.57**	**921.47**

F. Past due and impaired Loans by Geographic Distribution

31st December, 2017

AED in Mn

Geographic Region	Past due & Non-Performing Loans	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
		Overdue	Specific	General	Write-offs	Write-backs		
United Arab Emirates	1,335.24	280.12	383.73	16.46	47.26	29.96	111.57	839.94
GCC (excluding UAE)	-	-	-	-	-	-	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Grand Total	**1,335.24**	**280.12**	**383.73**	**16.46**	**47.26**	**29.96**	**111.57**	**839.94**

Note: An unallocated provision of AED 194.03 against performing loans and general provisions of AED 248.87 (1.5% of risk weighted assets) are also available

31st December, 2016 **AED in Mn**

Geographic Region	Past due & Non-Performing Loans	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
		Overdue	Specific	General	Write-offs	Write-backs		
United Arab Emirates	1,340.51	194.17	308.47	19.15	47	37.39	110.57	921.47
GCC (excluding UAE)	-	-	-	-	-	-	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Grand Total	**1,340.51**	**194.17**	**308.47**	**19.15**	**47**	**37.39**	**110.57**	**921.47**

G. Reconciliation of Changes in Provision for Impaired Loans

AED in Mn

Description		31/12/2017	31/12/2016
	Opening Balance of Provisions for Impaired Loans	727.93	616.69
Add:	Charge for the year	194.59	175.04
-	Specific provisions	150.99	102.02
-	General provisions	43.60	73.02
Less:	Write-off of impaired loans to income statement	-	-
Less:	Recovery of loan loss provisions	29.96	37.38
Less:	Recovery of loans previously written-off	73.48	42.11
Less:	Write-back of provisions for loans	-	-
	Adjustments of loan loss provisions	-	15.69
	Closing Balance of Provisions for Impaired Loans	**819.08**	**727.93**

H. Loan Portfolio as per Standardized Approach

31st December, 2017

AED in Mn

Asset Class	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			Risk Weighted Assets Gross Outstanding
	Gross Outstanding	Net Exposure Before CCF	Total Gross Exposure Before CRM & CCF	CRM	Net Exposure After CRM & CCF	
Claims on Sovereigns	2,151.78	3.36	2,155.14	-	2,151.89	-
Claims on Non Central Government PSEs	119.18	-	119.18	-	119.18	-
Claims on Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks	2,573.56	2,630.02	5,203.58	0.62	3,634.22	1,738.27
Claims on Securities Firms	18.92	11.08	30.00	-	18.92	18.92
Claims on Corporates	9,209.23	10,089.08	19,298.31	2,837.24	12,479.99	9,810.80
Claims included in Regulatory Retail Portfolio	485.74	4.92	490.66	17.65	490.65	425.84
Claims Secured by Residential Property	255.50	-	255.50	4.61	255.50	148.18
Claims Secured by Commercial Real Estate	2,625.30	77.39	2,702.69	3.00	2,625.30	2,622.30
Past Due Loans	1,335.25	76.63	1,411.88	18.55	863.41	1,188.43
Higher Risk Categories	-	-	-	-	-	-
Other Assets	1,616.06	-	1,616.06	-	1,221.13	1,156.73
Claims on Securitised Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-
Total Amount	**20,390.52**	**12,892.48**	**33,283.00**	**2,881.67**	**23,860.19**	**17,109.48**

31st December, 2016

AED in Mn

Asset Class	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			Risk Weighted Assets Gross Outstanding
	Gross Outstanding	Net Exposure Before CCF	Total Gross Exposure Before CRM & CCF	CRM	Net Exposure After CRM and CCF	
Claims on Sovereigns	1,971.22	6.35	1,977.57	-	1,972.23	-
Claims on Non Central Government PSEs	121.37	-	121.37	-	121.37	-
Claims on Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks	3,663.83	2,468.54	6,132.37	3.13	4,643.59	1,295.79
Claims on Securities Firms	10.01	4.99	15.00	-	10.01	10.01
Claims on Corporates	9,019.40	9,344.45	18,363.87	2,308.03	12,380.73	10,051.42
Claims included in Regulatory Retail Portfolio	366.10	8.63	374.73	3.86	366.69	356.66
Claims Secured by Residential Property	90.12	-	90.12	-	90.12	39.15
Claims Secured by Commercial Real Estate	972.02	-	972.02	1.00	949.33	948.33
Past Due Loans	1,340.51	-	1,340.51	40.84	921.46	1,277.33
Higher Risk Categories	-	-	-	-	-	-
Other Assets	1,571.17	-	1,571.17	-	1,118.12	1,075.48
Claims on Securitised Assets	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-
Total Amount	**19,125.75**	**11,832.96**	**30,958.71**	**2,356.86**	**22,573.65**	**15,054.17**

6. Loan Portfolio as per Standardized Approach

A. Qualitative Disclosures

- For The Bank uses External Credit Assessment Institutions (ECAI) ratings for exposure to Banks, Investments (Bonds and Quoted Equity) and Sovereigns
- As per the CBUAE guidelines "if there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights will be applied". The Bank follows and complies with the same principle.

B. Quantitative Disclosures

Gross Credit Exposure - Standardized Approach (Rated/ Unrated)

31st December, 2017 **AED in Mn**

Asset Class	Gross Credit Exposures					Exposures Subject to Deduction				
	Rated	Unrated	Total	Post CRM	RWA Post CRM	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	348.66	1,806.48	2,155.14	2,151.89	-	-	-	-	-	-
Claims on Non Central Government PSEs	119.18	-	119.18	119.18	-	-	-	-	-	-
Claims on Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
Claims on Banks	-	2,671.68	5,203.58	3,634.22	1,738.27	-	-	-	-	-
Claims on Securities Firms	2,531.90	30.00	30.00	18.92	18.92	-	-	-	-	-
Claims on Corporates	282.53	19,015.78	19,298.31	12,479.99	9,810.81	-	513.16	513.16	324.69	324.69
Claims included in Regulatory Retail Portfolio	-	490.67	490.67	490.65	425.84	-	-	-	-	-
Claims Secured by Residential Property	-	255.50	255.50	255.50	148.18	-	-	-	-	-
Claims Secured by Commercial Real Estate	-	2,702.69	2,702.69	2,625.30	2,622.30	-	37.36	37.36	31.20	31.20
Past Due Loans	-	1,411.88	1,411.88	863.41	1,188.43	-	906.53	906.53	405.75	530.57
Higher Risk Categories	-	-	-	-	-	-	-	-	-	-
Other Assets	-	1,616.06	1,616.05	1,221.13	1,156.73	-	611.85	611.85	216.92	216.92
Claims on Securitised Assets	-	-	-	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)	-	-	-	-	-	-	-	-	-	-
Total Amount	**3,282.27**	**30,000.74**	**33,283.00**	**23,860.19**	**17,109.48**	**-**	2,068.90	2,068.90	978.56	1,103.38

31st December, 2016

AED in Mn

Asset Class	Gross Credit Exposures					Exposures Subject to Deduction				
	Rated	Unrated	Total	Post CRM	RWA Post CRM	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	74.00	1,903.00	1,978.00	1,978.00	-	-	-	-	-	-
Claims on Non Central Government PSEs	-	121.00	121.00	121.00	-	-	-	-	-	-
Claims on Multilateral Development Banks	-	-	-	-	-	-	-	-	-	-
Claims on Banks	4,322.00	1,810.00	6,132.00	6,132.00	1,296.00	-	-	-	-	-
Claims on Securities Firms	-	15.00	15.00	15.00	10.00	-	-	-	-	-
Claims on Corporates	273.00	18,091.00	18,364.00	18,156.00	10,051.00	-	-	-	-	-
Claims included in Regulatory Retail Portfolio		375.00	375.00	375.00	357.00	-	-	-	-	-
Claims Secured by Residential Property		90.00	90.00	90.00	39.00	-	-	-	-	-
Claims Secured by Commercial Real Estate		972.00	972.00	949.00	948.00	-	-	-	-	-
Past Due Loans		1,341.00	1,341.00	921.00	1,277.00	-	563.44	563.44	190.21	247.72
Higher Risk Categories		-	-	-	-	-	-	-	-	-
Other Assets	-	1,571.00	1,571.00	1,118.00	1,075.00	-	40.87	40.87	15.94	15.94
Claims on Securitised Assets		-	-	-	-	-	-	-	-	-
Credit Derivatives (Banks Selling protection)		-	-	-	-	-	-	-	-	-
Total Amount	**4,670.00**	**26,289.00**	**30,959.00**	**29,856.00**	**15,054.00**	**-**	**604.31**	**604.31**	**206.15**	**257.66**

7. Credit Risk Mitigation: Disclosures for Standardized Approach

A. Qualitative Disclosures

(i) Policies and processes for, and an indication of the extent to which the bank makes use of, on- and off-balance sheet netting

Currently, there are no instances of netting used.

(ii) Policies and processes for collateral valuation and management:

- The Bank's lending portfolio comprises of both, Secured and Unsecured loans and advances. The Bank accepts collateral or other credit risk mitigants as part of the Secured lending,
- The Bank has collateral valuation guidelines which detail the principles and frequency of valuation of securities.
- Collaterals and credit risk mitigation measures enables the Bank to protect its financial interests, understand and manage risks more effectively and allow lower capital to be held against lending.
- The valuation of collateral is used in capital computation and margin requirement estimation.
- The Bank takes into account basic principles of valuation, haircuts and mismatch adjustments, legal considerations and other aspects in valuation of collaterals.

(iii) Description of the main types of collateral taken by the bank

- The Bank follows "Simple Approach" to Credit Risk Mitigation (CRM) technique for Capital Adequacy Ratio (CAR) computation on secured portfolios, collateralized with cash & cash equivalent underlying only, as per BASEL and CBUAE guidelines.

(iv) The main types of guarantor/credit derivative counter-party and their credit worthiness:

The Bank does not have significant amount of exposure covered by guarantor.

(v) Information about (market or credit) risk concentrations within the mitigation taken:

Not Applicable

B. Quantitative Disclosures

Credit Risk Mitigation: Disclosures for Standardized Approach

AED in Mn

Year	31/12/2017		31/12/2016	
Particulars	**Exposures**	**Risk Weighted Assets**	**Exposures**	**Risk Weighted Assets**
Gross Exposure prior to Credit Risk Mitigation	33,283.00	19,991.15	30,958.71	17,411.03
Reduced by Eligible Financial Collateral & Credit Conversion Factor *	9,422.81	2,881.67	8,385.06	2,356.86
Net Exposures after Credit Risk Mitigation	**23,860.19**	**17,109.48**	**22,573.65**	**15,054.17**

* Includes CCF, Eligible Financial Collaterals, Specific Provision and IIS

8. Capital Requirement for Market Risk under Standardized Approach

AED in Mn

Particulars	Minimum Capital	
	31/12/2017	31/12/2016
Market Risk		
Interest rate risk in trading book	-	-
Equity position risk	-	-
Foreign exchange risk	2.50	1.83
Commodity risk	-	-
Total Market Risk Capital Requirement	**2.50**	**1.83**

9. Equity Position in the Banking Book

A. Qualitative Disclosures

Differentiation between holdings on which capital gains are expected and those taken under other objectives including for relationship and strategic reasons

The Bank does not hold and such equity positions.

Discussion of important policies covering the valuation and accounting of equity holdings in the banking book. This includes the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation as well as significant changes in these practices

For details on the accounting policies and valuation methodology, please refer to Note 3 to financial statements under "Summary of Significant Accounting Policies".

As at 31st December 2017, the Bank's Total Equity Investment Portfolio in the banking book amounted to AED 80.36 mn (2016: AED 67.40 mn) of which 81.32% (2016: 67.89%) represents quoted equity investments of total equity investments.

B. Quantitative Disclosures

1. Quantitative details of Equity Position

AED in Mn

Type	31/12/2017		31/12/2016	
	Publicly Traded	Privately Held	Publicly Traded	Privately Held
Equities	65.35	15.01	45.76	21.64
Collective investment schemes	-	-	-	-
Any other investment	-	-	-	-
Total	**65.35**	**15.01**	**45.76**	**21.64**

2. Realized, Unrealized and Latest Revaluation Gains (Losses) during the year 31st December 2017

AED in Mn

Particulars	31/12/2017	31/12/2016
Gains (Losses)	-	-
Realized gains (losses) from sales and liquidations	28.64	6.93
Unrealized gains (losses) recognized in the balance sheet but not through profit and loss account	1.83	10.05
Latent revaluation gains (losses) for investment recorded at cost but not recognized in balance sheet or profit and loss account	-	
Total	**30.47**	**16.98**

3. Items in 2 above included in Tier 1/ Tier 2 Capital

AED in Mn

Particulars	**31/12/2017**	**31/12/2016**
Tier Capital		
Amount included in Tier I capital	28.64	6.93
Amount included in Tier II capital	1.83	-
Total	**30.47**	**6.93**

4. Capital Requirements by Equity Groupings

AED in Mn

Grouping	**31/12/2017**	**31/12/2016**
Strategic Investments	-	-
Available for Sale	9.64	8.09
Held for Trading	-	-
Total Capital Requirement	**9.64**	**8.09**

10. Interest Rate Risk in Banking Book (IRRBB)

- Interest Rate risk in the banking book is defined as the risk of loss to bank's earnings as well as diminution in the value of bank's capital due to adverse changes in interest rates.
- The Bank is exposed to interest rate risk in the banking environment mainly as a result of the structural maturity and reprising mismatches between assets and liabilities, i.e. mismatches resulting from differences in end dates and/or interest rate reset dates in financial contracts, and because of products with embedded option (to prepay or withdraw prematurely) that are offered to clients.
- Interest rate risk arising from the bank's activities not related to trading occurs mainly within the banking business as a result of the difference in interest periods between assets and liabilities and implicit options in various products offered by bank.

1. Risk Assessment Methodology

- The Bank has developed capabilities to measure interest rate sensitive gaps across tenors considering the re-pricing nature of all its assets and liabilities.
- The sensitivity analysis i.e. the impact of a parallel shift in the interest rate curves on the Net Interest Income (NII) and Equity is ascertained and presented to ALCO for review on a monthly basis.
- Hedging decisions required to mitigate this risk, if any, are decided/ approved by ALCO and executed by Treasury.
- Additionally an impact of 200bps parallel interest rate shock on NII is calculated on a monthly basis and presented to ALCO for deliberations.

2. Impact

- The following impact on the net interest income and regulatory capital for the year of an immediate and permanent movement in interest yield curves as at 31st December 2017 is as under:

AED in Mn

Shift in Yield Curves	31/12/2017	
	Net Interest Income	Regulatory Capital
+200 basis point	11.70	8.11
- 200 basis point	(11.70)	(8.11)

The above interest rate sensitivities are illustrative only and adopt simplified scenarios. The sensitivities do not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.