



المصرف
AL MASRAF
Arab Bank for Investment & Foreign Trade المصرف العربي للاستثمار والتجارة الخارجية

ARAB BANK FOR INVESTMENT AND FOREIGN TRADE (AL MASRAF)

CAPITAL ADEQUACY PILLAR III DISCLOSURES

31st December 2018

Table of Contents

1. Summary.....	6
1.1 Capital Adequacy	6
2. Introduction.....	7
2.1 Information on Subsidiaries and Significant Investments	7
2.2 Basel Components.....	7
2.3 Banks Approach to Pillar 1 Risks	8
2.4 Banks Approach to Pillar II Risks	9
3. Overview of risk management and Risk Weighted Assets	10
3.1 KM1 - Key metrics (at consolidated group level)	10
3.2 OVA - Bank Risk Management Approach.....	14
3.3 OV1 - Overview of Risk Weighted Assets	25
4. Linkages between financial statements and regulatory exposures	26
4.1 LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories	26
4.2 LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements	28
4.3 LIA - Explanations of differences between accounting and regulatory exposure amounts.....	29
5. Prudential valuation adjustments.....	29
5.1 PV1 - Prudent valuation adjustments	29
6. Composition of capital.....	29
6.1 CC1 - Composition of regulatory capital	29
6.2 CC2 - Reconciliation of regulatory capital to balance sheet	33
6.3 CCA - Main features of regulatory capital instruments	35

7. Macroprudential Supervisory measures.....	35
7.1 DSIB1 - Disclosure of D-SIB indicator	35
7.2 CCyB1 - Geographical distribution of credit exposures used in the countercyclical buffer.....	36
8. Leverage ratio.....	36
8.1 LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure.....	36
8.2 LR2 - Leverage ratio common disclosure template	37
9. Liquidity.....	38
9.1 LIQA - Liquidity risk management.....	38
A. Qualitative.....	38
A. Stock Approach – Short term liquidity management	39
B. Structural Liquidity Statements	40
C. Intra-day liquidity	40
D. Liquidity Concentration from large deposits	40
9.2 LIQ1 - Liquidity Coverage Ratio.....	41
9.3 LIQ2 - Net Stable Funding Ratio	42
10. Credit risk.....	44
10.1 CRA - General qualitative information about credit risk.....	44
10.2 CR1 - Credit quality of assets	50
10.3 CR2 - Changes in the stock of defaulted loans and debt securities	51
10.4 CRB - Additional disclosure related to credit quality of assets	51
A. Qualitative.....	51
B. Quantitative.....	54
10.5 CRC - Qualitative information on the mitigation of credit risk	57
10.6 CR3 - Credit risk mitigation techniques - overview.....	59

10.7	CRD - Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk.....	59
10.8	CR4 - Standardised approach - credit risk exposure and CRM effects	61
10.9	CR5 - Standardised approach - exposures by asset classes and risk weights	62
11.	Counterparty credit risk (CCR).....	63
11.1	CCRA - Qualitative disclosure related to CCR	63
11.2	CCR1 - Analysis of CCR by approach	63
11.3	CCR2 - Credit valuation adjustment capital charge	63
11.4	CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk weights.....	63
11.5	CCR5 - Composition of collateral for CCR exposure	63
11.6	CCR6 - Credit derivatives exposures.....	63
11.7	CCR8 - Exposures to central counterparties.....	63
12	Securitisation.....	63
12.1	SECA - Qualitative disclosures related to securitisation exposures	63
12.2	SEC1 - Securitisation exposures in the banking book	63
12.3	SEC2 - Securitisation exposures in the trading book	63
12.4	SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor	63
12.5	SEC4 - Securitisation exposures in the trading book and associated capital requirements - bank acting as investor	63
13.	Market risk.....	64
13.1	MRA - General qualitative disclosure requirements related to market risk	64
13.2	MR1 - Market risk under the standardised approach.....	65
14.	Interest rate risk in the banking book (IRRBB).....	66
14.1	IRRBBA - IRRBB risk management objectives and policies.....	66

A. Quantitative.....	66
B. Quantitative.....	69
14.2 IRRBB1 - Quantitative information on IRRBB	70
15.Operational risk.....	71
15.1 OR1 - Qualitative disclosures on operational risk.....	71
16. Remuneration details	72

1. Summary

This Basel III - Pillar 3 Report for Arab Bank for Investment and Foreign Trade (“ARBIFT”, “Al Masraf” or “the bank”) has been prepared in accordance with the public/ market disclosure requirements and guidelines in respect of Pillar 3 of Basel III, as prescribed by the Central Bank of the UAE (CBUAE) and other clarifications received from time to time along with the Formal Disclosure Policy of the Bank.

The purpose of this report is to inform market participants of the key components, scope and effectiveness of the Banks risk measurement processes, risk profile and capital adequacy. This is accomplished by providing consistent and understandable disclosure of the Banks risk profile in a manner that enhances comparability with other institutions.

The Bank has adopted the Standardized Approach for Credit Risk, the Standardized Approach for Market Risk and the Basic Indicator Approach for determining the capital requirements for Operational Risk.

This Pillar 3 Report provides details on the Banks risk profile by risk asset class, which form the basis for the calculation of our capital requirement.

In accordance with the minimum capital requirement calculation methodology as prescribed under Basel III, the Banks capital adequacy as at 31st December 2018 and a comparison thereof with the figures as of 30th June 2018 and 31st December 2017 is as follows:

Particulars	Dec 2018	Jun 2018	Dec 2017
Total Capital Adequacy Ratio	20.70%	21.31%	21.57%
Tier 1 Capital Adequacy Ratio	19.55%	20.15%	20.42%

As of 31st December 2018, the Banks total Risk Weighted Assets (RWAs) amounted to AED 20,266 mn. which comprised of 92.70% Credit Risk; 0.42% Market Risk and 6.88% Operational Risk.

1.1 Capital Adequacy

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.

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 2018, the Bank's strategy, which was unchanged from 2017, 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.

2. Introduction

2.1 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 Exterieur 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 in UAE. The Bank also has one representative office in Libya.
- The Bank benefits from a pan-Arab culture and identity, this gives the Bank a competitive advantage in achieving its original mission of helping to promote and develop investment and trade relations between Arab nations.
- The Bank does not have any subsidiaries or significant investments.

2.2 Basel Components

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 financial statements.

2.3 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.

2.4 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 through proper checks and controls.
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

3. Overview of risk management and Risk Weighted Assets

3.1 KM1 - Key metrics (at consolidated group level)

Minimum Capital Requirements		Ratios	No.	Bank's Capital Ratio		Ratios
1.1	Common Equity Tier 1 Capital Ratio	7.00%	2	2.1	Common Equity Tier 1 Capital Ratio	19.55%
1.2	Tier 1 Capital Ratio	8.50%		2.1.1	Additional Tier 1 Ratio	0.00%
1.3	Total Capital Ratio	10.50%		2.2	Tier 1 Capital Ratio	19.55%
1.4	Aggregated Buffer requirement (effective CCB)	1.875%		2.2.1	Tier 2 Ratio	1.16%
1.4.1	Capital Conservation Buffer (CCB)	1.875%		2.3	Total Capital Ratio	20.70%
1.4.2.1	Countercyclical Buffer (CCyB) for exposures within the UAE	0.000%		2.4	CET1 available for the buffer requirement	10.20%
1.4.2.2	Effective Countercyclical Buffer (CCyB) of the bank	0.000%		2.5	Buffer quartile	Above buffer; 0% conservation
1.4.3	Domestic Systemically Important Bank Buffer	0.000%				
Supervisory Capital Guidance (SCG): Minimum Capital Requirements		Ratios	No.	Bank's Capital Ratio		Ratios
3.1	Supervisory Capital Guidance incl. SCG	0.00%	4	4.1	CET1 available for the buffer requirement	10.20%
3.2	Common Equity Tier 1 Capital Ratio incl. SCG	7.00%		4.2	Buffer Quartile	Above buffer; 0% conservation
3.3	Tier 1 Capital Ratio incl. SCG	8.50%				
3.4	Total Capital Ratio incl. SCG	10.50%				
3.5	Aggregated Buffer requirement (effective CCB)	1.875%				
Details		Amount	No.	Details		Amount
Total Eligible Capital		4,195,853	5.3	Tier 2 (T2) Capital		234,821
Common Equity Tier 1 (CET1) Capital		3,961,032		5.3.1	Perpetual equity instruments, not included in Tier 1 capital	
5.1.1	Share Capital	1,500,000		5.3.2	Share premium, resulting from the issue of T2 capital.	
5.1.2	Share premium account			5.3.3	Instruments which are eligible for inclusion of Tier 2 e.g. subordinated loan (After grandfathering and/or amortization)	
5.1.3	Eligible Reserves	1,532,585		5.3.3.1	Instruments which are eligible for inclusion of Tier 2 (Before grandfathering and/or amortization)	
5.1.3.1	Legal Reserves (Art. 82 Union Law No. 10)	589,075		5.3.4	Eligible amount of minority interest	
5.1.3.2	Statutory Reserves (Art. 192 Union Law No. 8)	593,665		5.3.5	Eligible general provision (max 1.25% of CRWA under standardised approach) (Note 3)	234,821
5.1.3.3	Accumulated other comprehensive income (Note 1)	-30,155			Total T2 capital after the regulatory adjustments	234,821

5.1.3.4	Other Disclosed Reserves (e.g. General Reserves, Other Reserves)	380,000			Total T2 capital after transitional arrangements (T2)	234,821
5.1.4	Retained Earnings / (-) Loss	928,447				
5.1.4.1	Accumulated Retained Earnings / (-) Loss	445,921	6		Total Risk Weighted Assets - Pillar 1	20,265,528
5.1.4.2	Audited/Reviewed current year profits / (-) Current financial year loss	482,526	6.1		Credit Risk Standardised approach (CSA)	18,785,683
5.1.4.3	Dividend Expected/Proposed		6.1.1		Sovereigns	0
5.1.4.4	IFRS transitional arrangement: Partial addback of ECL impact to CET1 (only with CBUAE approval)		6.1.2		Non-Commercial Public Sector Enterprises	0
5.1.4.5	CBUAE Regulatory deductions: (e.g.amount exceeding Large Exposure threshold)		6.1.3		Multilateral Development Banks	0
5.1.5	Eligible amount of minority interest		6.1.4		Banks	2,526,525
5.1.6	Capital shortfall of consolidated subsidiaries		6.1.5		Securities Firms	3,867
5.1.7	Capital shortfall of non- consolidated subsidiaries		6.1.6		Corporates and Government Related Enterprises	11,096,365
	CET1 Capital (prior to regulatory deductions)	3,961,032	6.1.7		Retail: Individuals and Small SMEs	523,028
5.1.8	Regulatory deductions:	0	6.1.8		Secured by residential property	829,183
5.1.8.1	Goodwill and other intangibles (including mortgage servicing rights)		6.1.9		Secured by commercial real estate	2,212,802
5.1.8.2	Deferred tax assets		6.1.10		Past due items	521,871
5.1.8.3	Cash flow hedge reserve		6.1.11		Items belonging to regulatory high-risk categories	0
5.1.8.4	Gain on sale related to securitisation transactions		6.1.12		Other assets	1,072,043
5.1.8.5	Cumulative gains and losses due to changes in own credit risk on fair valued financial liabilities		6.1.13		CSA securitisation exposures	0
5.1.8.6	Defined benefit pension fund assets and liabilities		6.1.14		Credit Derivatives (Protection seller)	0
5.1.8.7	Investments in own CET1 (e.g.treasury stock)		6.1.15		Settlement Risk (SR1)	0
5.1.8.8	Reciprocal cross holdings in banking, financial and insurance entities	0	6.2		Market Risk - Standardised approaches (SA)	84,685
5.1.8.8.1	Reciprocal cross holdings in the CET1 of banking, financial and insurance entities		6.2.1		Interest Rate in the Trading Book	60,671
5.1.8.8.2	Reciprocal cross holdings in the AT1 of banking, financial and insurance entities		6.2.2		Foreign Exchange	24,014
5.1.8.8.3	Reciprocal cross holdings in the T2 of banking, financial and insurance entities		6.2.3		Equity	0
	Total CET 1 capital after the regulatory adjustments above (CET1 A)	3,961,032	6.2.4		Commodities	0
5.1.8.9	Deduction: Investments in banking, financial and insurance entities where ownership is < 10% of issued common share capital (amount above 10% CET1 A)	0	6.2.5		Option	0
5.1.8.9.1	Proportion of investment in CET1 above 10% CET1 A		6.3		Operational Risk	1,395,160
5.1.8.9.2	Proportion of investment in AT1 above 10% CET1 A		6.3.1		OpRisk Basic indicator approach (BIA)	1,395,160

5.1.8.9.3	Proportion of investment in T2 above 10% CET1 A			6.3.2	OpRisk Standardised (STA) / Alternative Standardised (ASA) approaches	0
	Total CET1 after the regulatory adjustments above (CET1 B)	3,961,032	7	MEMORANDUM ITEMS:		
5.1.8.10	Deduction: Not common share Investments in banking, financial and insurance entities where ownership is >10% of the issued common share capital (Meet the criteria of CET1, AT1, & T2)	0	7.1	Pillar 2 Ratio		
5.1.8.10.1	Proportion of investment in CET1 above 10% CET1 A			7.1.1	Internal assessment Surplus (+) / Deficit (-) of capital from ICAAP	0
5.1.8.10.2	Proportion of investment in AT1 above 10% CET1 A			7.1.2	Internal assessment of capital supply	
5.1.8.10.3	Proportion of investment in T2 above 10% CET1 A			7.1.3	Internal assessment of capital demand	
	Total CET1 after the regulatory adjustments above (CET1 C)	3,961,032				
5.1.9	Threshold deductions:	0	8	Transitional Arrangement for Deductions		
5.1.9.1	Deduction: Significant investments in the common share of banking, financial and insurance entities (amount above 10% of CET1 C)			8.1	Total Deduction from CET1	0
5.1.9.2	Deferred tax assets arising from temporary differences (amount above 10% of CET1 C)			8.2	Transitional Deduction from CET1 (100% for 2018)	0
	Total CET1 after the regulatory adjustments above (CET1 D)	3,961,032		8.3	Transitional Deduction from AT1 (no transition for 2018 on wards)	0
5.1.9.3	Aggregated amount of exceeding the 17.65% of CET1* (Note 2)			8.4	Transitional Deduction from Tier 2 (no transition for 2018 on wards)	0
	Total CET1 capital after the regulatory adjustments and threshold deduction	3,961,032				
	Total CET1 capital after transitional arrangement for deductions (CET1)	3,961,032				
Additional Tier 1 (AT1) Capital		0				
5.2.1	Eligible AT1 capital (After grandfathering)					
5.2.1.1	AT capital (Before grandfathering)					
5.2.2	Share premium, resulting from the issue of AT1 capital.					
5.2.3	Eligible amount of minority interest					
	Total AT1 capital after the regulatory adjustments	0				
	Total AT1 capital after transitional arrangements (AT1)	0				
	Total Tier 1 Capital	3,961,032				
The amount of cumulative unrealized losses shall be fully deducted in the calculation of CET1 Capital. Revaluation reserves or cumulative unrealized gains shall be added to CET 1 with a haircut of 55%. The amount of cumulative unrealized gains arising from the changes in the fair value or revaluation of bank’s own premises and real estate investment are not allowed to be included as part of Asset Revaluation reserve for regulatory purposes.						
Amount of CET1 = Total CET1 (prior to deduction) – All the deduction except the threshold deduction (i.e. all deduction outlined in para 44 to 67) minus the total amount of both DTA that rely on future profitability and arise from temporary difference and significant investments in the unconsolidated financial institutions.						
Note, that for example "Other unallocated provisions for impaired assets" as per BRF 2 (25.2.2) should not be part of general provision.						

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	3,961,032	3,872,631	3,753,822	3,622,593	3,762,900
1a	Fully loaded ECL accounting model					
2	Tier 1	3,961,032	3,872,631	3,753,822	3,622,593	3,762,900
2a	Fully loaded accounting model Tier 1					
3	Total capital	4,195,853	4,092,079	3,970,337	3,822,658	3,974,136
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	20,265,528	18,867,397	18,632,447	18,190,113	18,423,723
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.55%	20.53%	20.15%	19.92%	20.42%
5a	Fully loaded ECL accounting model CET1 (%)					
6	Tier 1 ratio (%)	19.55%	20.53%	20.15%	19.92%	20.42%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	20.70%	21.69%	21.31%	21.02%	21.57%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	0	0	0	0	0
9	Countercyclical bugger requirement (%)	0	0	0	0	0
10	Bank D-SIB additional requirements (%)	0	0	0	0	0
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	0	0	0	0	0
12	CET1 available after meeting the bank's minimum capital requirements (%)	0	0	0	0	0
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	26,387,474	24,528,483	24,009,321	23,354,039	23,979,931
14	Basel III leverage ratio (%) (row 2/row 13)	15.01%	15.79%	15.63%	15.51%	15.69%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)					
	Liquidity Coverage Ratio					
15	Total HQLA	2,361,172	2,338,504	2,337,597	2,188,523	2,498,550
16	Total net cash outflow	2,002,508	2,854,997	2,242,319	2,540,237	2,980,801
17	LCR ratio (%)	117.91%	81.91%	104.25%	86.15%	83.82%
	Net Stable Funding Ratio					
18	Total available stable funding	13,598,687	-	-	-	-
19	Total required stable funding	12,019,565	-	-	-	-
20	NSFR ratio (%)	113.14%	-	-	-	-

The increase in Risk Weighted Assets is mainly due to increase in the loans and advances of the Bank.

Gross Credit Exposure - Standardized Approach (Rated/ Unrated)

Asset Class	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	399,379	1,667,461	2,066,840	1,668,098	-
Claims on Non Central Government PSEs	92,378	-	92,378	-	-
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	5,169,343	2,235,458	7,404,801	2,869,197	2,526,525
Claims on Securities Firms	-	3,867	3,867	3,867	3,867
Claims on Corporates	220,102	14,846,259	15,066,361	10,951,390	11,050,939
Claims included in Regulatory Retail Portfolio	-	607,077	607,077	577,208	523,028
Claims Secured by Residential Property	-	1,003,537	1,003,537	998,892	829,183
Claims Secured by Commercial Real Estate	-	2,296,611	2,296,611	2,212,802	2,212,802
Equity	-	117,215	117,215	112,638	114,875
Past Due Loans	-	977,233	977,233	455,241	521,874
Higher Risk Categories	-	-	-	-	-
Other Assets	-	1,396,866	1,396,866	1,001,113	1,002,590
Total Amount	5,881,202	25,151,584	31,032,786	20,850,446	18,785,683

3.2 OVA - Bank Risk Management Approach

1. Business Model Determination and Risk Profile

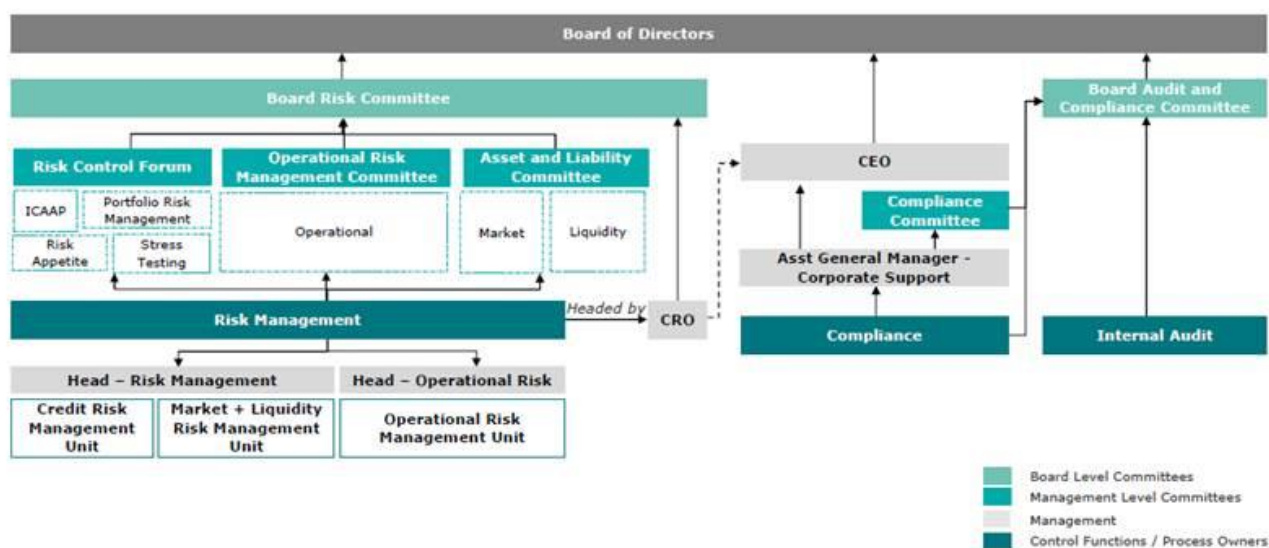
- The Bank provides a wide range of integrated banking products and services to both corporate and retail sectors throughout its departments, business segments and its branch network across the United Arab Emirates (UAE). The Bank has no subsidiaries established or operating outside the UAE.
- The following list indicates the key business lines of the Bank.

▪ Corporate Financing	▪ Retail Financing including Credit Card
▪ Islamic Finance	▪ Wealth Management
▪ Real Estate Finance	▪ Project Finance
▪ Trade Finance	▪ Contract Financing
▪ Mortgage Finance	▪ Industrial Financing
▪ Interbank Placements	▪ Risk Participation, Syndication and Banking Relationships
▪ Treasury products	▪ Investments (Fixed Income and Equity)

- The Bank is exposed to a standard range of risks in the normal course of its business. The Bank's risk and capital assessment policies are designed to identify and quantify these risks, set appropriate limits in line with defined risk appetite, ensuring control and monitoring adherence to the limits. The principal risks associated with the Bank's business are credit risk, including cross-border and concentration risks, market risk, liquidity risk, operational risk and reputation risk among others.
- The Risk Appetite framework of the Bank is approved by the Board of Directors and the Risk Appetite statement is reviewed by the Board of Directors at annual intervals. Its objective is to set the tone from the top in giving risk policy directions to the bank's management and providing business lines with guidance regarding the risk profile that the bank is prepared to accept. The business lines draw up their business and risk strategies in line with the laid down risk appetite parameters

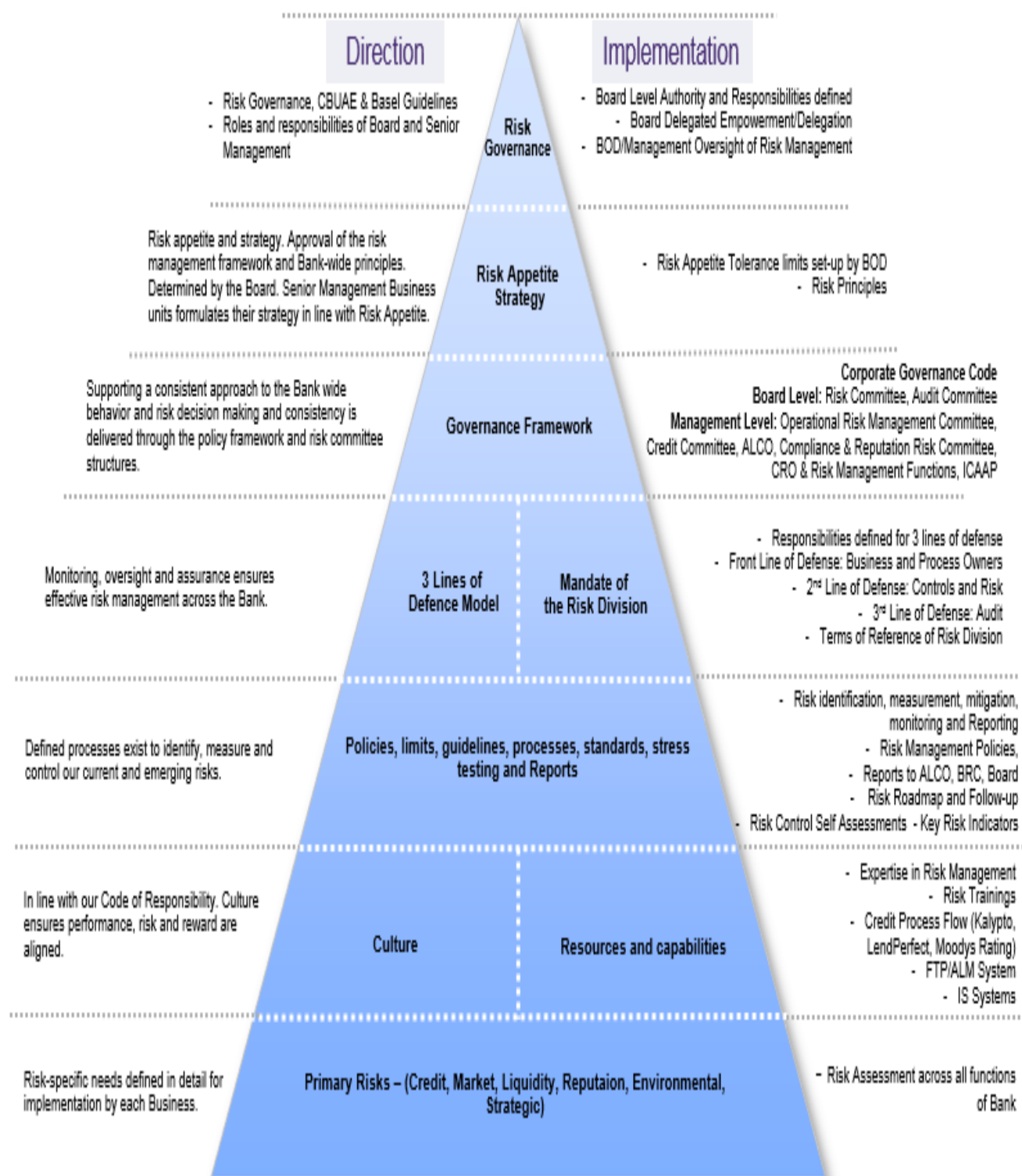
2. The risk governance structure

- Bank has its head office located in Abu Dhabi. The functional heads are located at the head office and structure is presented below:
- The bank has put in place corporate governance structure as a result of which management and governance related risks are well managed. The Bank implemented a complete Corporate Governance Code which was reviewed by the Hawkamah (the Institute of Corporate Governance).
- Risk Management Governance Structure of the Bank is as under:



2.1 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.
- Following chart depicts the overall risk management framework of the Bank:



2.2 Board Involvement in Risk Management

- The Bank's Board consists of experienced directors representing the three shareholders. The Board members are well aware of the risk exposure on Clients and Financial Institutions. Also, the Board regularly reviews the Bank's performance and profitability and the business budget.
- The strategic and other business policies of the Bank are formulated in consultation with the Board of Directors. The Board extensively discusses the annual strategy, budget plans and policies for all the segments of the business of the Bank at the Board Meeting. Progress on implementation are being submitted at various levels including Risk Control Forum (RCF), Board Risk Committee and the Board.
- Since a sound risk management process provides the basis for ensuring that a bank maintains adequate capital, the Board of Directors sets the tolerance level for risk and ensures that the Senior Management implements the Risk Management Framework as follows:
 - establishes a risk framework in order to assess and appropriately manage the various risk exposures of the Bank;
 - develops a system to monitor the Bank's risk exposures and to relate them to the Bank's capital and reserve funds;
 - establishes methods to monitor the Bank's compliance with internal policies, particularly in regard to risk management;
 - effectively communicates all relevant policies and procedures throughout the Bank;
 - adopt and support strong internal controls;
 - ensure that the Bank has appropriate written policies and procedures in place;
 - ensure that the Bank has an appropriate strategic plan in place
- **Board of Directors (BOD)** is responsible for the overall risk management approach within the Bank and for reviewing its effectiveness. Brief functions of various committees of the Bank are as under
 - **Board Risk Committee (BRC)** is assigned to oversee and advise the Board on all high-level risk related matters, and to provide strategic direction for Risk across the Bank including setting the risk vision, deciding priorities and overseeing the execution of major transformational risk initiatives. It consists of three members.
 - **Board Audit & Compliance Committee (BACC)** assists the Board in meeting its responsibilities by a) ensuring an effective system of internal control and compliance b) being responsible for the selection, oversight and remuneration of the external auditors c) meetings its external financial reporting obligations d) any changes in accounting policies and standards that could have a material impact on compliance with accounting standards e) reviewing issues of material concern raised by internal and external auditors f) any other duties as set in the Terms of Reference of the Committee approved by the Board.
 - **Risk Control Forum (RCF)** is responsible for review of risk management matters, including reviewing risk appetite and emerging risk and risk policy.
 - **Asset Liabilities Committee (ALCO)** is responsible for the monitoring and management of liquidity, the balance sheet and market risk resulting from the accrual portfolio.
- The bank has put in place corporate governance structure as a result of which management and governance related risks are well managed.

2.3 Committees of the Board and Management

- The Bank's Board has constituted the following committees and their charters. All these committees are functioning and exercising their powers as mandated by the Board.

Board Level Committees	Management Level Committees
❖ Audit & Compliance Committee	❖ Credit Committee
❖ Risk Committee	❖ Management Committee
❖ Remuneration & Nomination Committee	❖ IT Steering Committee
❖ Board Credit & Investment Committee	❖ Asset Liability Management Committee
	❖ Investment Committee
	❖ Operational Risk Management Committee
	❖ Human Resource Committee
	❖ Remedial Management Committee
	❖ Compliance Committee
	❖ Purchase Committee
	❖ Risk Control Forum (2017)

2.4 Governance, Risk Management and Controls

- The Bank has a robust risk management framework and is working towards integrating risk management into its operations and culture. During past years, various functions pertaining to risk (credit, market, operational, BCP, mid-office) are established headed by Chief Risk Officer (CRO).
- The Board of Directors are responsible for the overall governance of the Bank. This includes, determining the strategy, providing direction to the Senior Management, ensuring that the control functions are robust and that they conforms to international best practices.
- The Bank has setup a risk governance framework as part of implementation of Corporate Governance Code to strengthen its Corporate Governance and Risk Management.
- The process of managing risk consists of the following key components:

Identification	The Bank endeavors to identify all material risks that may affect it. Identification is a continuous process and covers all the current activities of the Bank as well as new products and initiatives.
Policies	In order to ensure that the Bank complies with the approved risk management framework, the Bank has the required policies (viz. Credit Risk Policy, Lending Manual, ALM Policy etc.).
Measuring and handling risk	The Bank spends considerable resources on maintaining a modern IT platform. The Bank also plans to strengthen its risk management by acquiring systems in the areas of AML, Operational Risk etc.
Controls	The Bank is continuously training the operating staff to provide knowledge of specific risks in their area and to implement Risk Controls and Self-Assessment (RCSA).
Reporting	The Bank has set up a process for reporting risk factors to the Risk Forum as well as to the Board level Risk Management Committee periodically.

2.5 Role of Risk Management Department

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.

Risk Management is an independent function within the Bank managed under the Chief Risk Officer with responsibility for the development, validation and oversight of the Banks risk policies, procedures and reporting. Following are the major areas of responsibilities of risk management:

- Establishing bank wide Risk Management and control Policies, Strategies and processes
- Provide oversight and independent challenge of business line accountabilities
- Develop and Communicate risk and control procedures
- Implementing the enterprise-wide risk governance framework, which includes the bank's risk culture, risk appetite and risk limits;
- Monitoring of the risk-taking activities and risk exposures in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs;
- Trigger systems for breaches of the Bank's risk appetite or limits;
- Identifying material individual, aggregate and emerging risks and measuring the Bank's exposure to them

3. Channels to communicate, decline and enforce the risk culture

- The Bank's fundamental risk management goal is to build a culture of risk understanding so that better decisions can be made at every level. Risk culture is an integral part of the Bank's overall corporate culture. The conservative risk profile is embedded in the risk culture by means of communication and training and is monitored through periodic performance assessment.
- Risk Culture is enforced in the Bank through a combination of methods. The risk appetite lays down what the bank is prepared to accept as a risk profile. The risk appetite parameters are disseminated in the bank to the business line heads. Additionally, the bank lays down as part of credit policy the credit risk acceptance criteria for different segments of the Banking book which the business lines have to follow while originating credit.
- The process of identifying and reporting the health of the Banks businesses and portfolios is undertaken through the use of risk appetite statements, top and emerging risk reports and risk dashboard. These are compiled and submitted to the Risk Control Forum.
- The Bank has most of the required policies and procedures that defines 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. The Bank has a process flow application which provides online, the Policies, Standard Operating Procedures (SOPs) and training. This serves as guiding documents to employees on different functions to enable them to perform their duties.
- The Bank also has Corporate Governance Code, Employee code of conduct policy and Whistle blowing policy in place which supports reporting of any misconduct or concerns with regard to unethical behavior of any employee.
- The bank has implemented a 'Three Lines of Defense' model for managing risks facing the Bank.

4. The scope and main features of risk measurement systems

- Risk management in Bank operations includes risk identification, measurement and assessment, and its objective is to minimize negative effects risks can have on the financial results and capital of the Bank
- The Bank identifies the critical risks associated with business lines and monitors them on regular basis. The material risks that may impact the Banks operations are identified and thoroughly assessed and stressed, both qualitatively and quantitatively. The Bank has adequate checks and controls in place where-ever manual computations are involved.
- **Credit Risk**
 - The fundamental pillars of the Bank's credit risk management systems are its credit rating systems for assessing the credit quality of its customers on a regular basis, IFRS 9 system for assessing the forward looking expected loss and loan origination systems (corporate and retail) among others. These advanced systems are deployed in quantifying credit risk and in setting various lending policies incorporating robust credit underwriting standards.
 - The scope and features of credit risk management systems deployed in credit risk management are as follows:
 - (i) Corporate Loan Origination System
 - The Bank has implemented integrated business process management system (IBPMS) moving the corporate banking towards more comprehensive end to end loan origination, approval, limit management and disbursement system.
 - Main feature of the system includes lead management, proposal preparation & recommendation, proposal analysis, review & approval, documentation, limit loading and disbursement, collateral management, internal communication within various departments of the Bank, integration with various IT systems used by the Bank, email intimation & escalations, dashboard and reporting.
 - (ii) Retail Loan Origination System
 - The Bank has retail loan origination system with an automated infused workflow, evaluation of risk based on factors such as credit history, liquidity & collateral value etc., Customizable workflow enhancing processing standards, meticulous business process management (BPM) standards, report and analytics tool etc.

(iii) Corporate Rating System

- Corporate rating system provides comprehensive obligor risk information designed to improve the accuracy of risk management by capturing financials in a consistent manner and producing risk ratings across corporate portfolio.
- System provides a complete view of each borrower across company financials, enables in making better lending decisions based on risk measurement metrics and standardized spreading templates to avoid data entry errors.
- The system streamlines credit decisions and gain operational efficiencies by having a single source of data to query and report upon and is build a solid foundation for regulatory compliance with strong data integrity.

(iv) IFRS 9 System

Bank has implemented IFRS 9 system w.e.f. 1st January 2018 and the main features of the same are as under:

- Based on the classification of the assets and the stage allocation logic, the IFRS 9 system calculates IFRS 9 loss allowance (expected credit loss 1-year or lifetime), fair value and amortized cost.
- Convert an internal rating or Through-the-cycle PD to an IFRS 9 compliant Point-in-Time PD term structure.
- Scenario-based loss allowance can be based on a single or multiple scenarios.
- Considers all contractual terms of the financial instrument (For example: Modelling loans with prepayment option).
- Allows to provide custom cash flow information for different types of instruments and uses it for impairment calculations.

Market Risk

- Market Risk is the risk that movements in market risk factors, including foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices will impact the Banks income or the value of its portfolios.
- Foreign exchange risk (FX) arises from an open position, either overbought (long) or oversold (short), in a foreign currency, creating exposure to a change in the relevant exchange rate.
- Bank monitors market risk through Value At Risk (VaR), daily, weekly and monthly reports among others.
- Reports submitted to Asset Liability Management Committee (ALCO) includes reports on Liquidity Coverage Ratio (LCR), Advance to Stable Resource Ratio (ASRR), Eligible Liquid Asset Ratio (ELAR), Top Customer Deposits, Net Lending Ratio (NLR), Real Estate Ratio (RE Ratio), Money Market (MM) Placements and Borrowings etc.

▪ Liquidity Risk

- The Bank has Asset Liability Management (ALM) and Funds Transfer Pricing (FTP) systems for monitoring of liquidity risks.
- The Bank uses Liquidity Coverage Ratio (LCR), Eligible Lending to Asset Ratio (ELAR) and Advances to Stable Recourse Ratio (ASRR) among others to monitor its liquidity positions.

- **Operational risk**

- Risk Control Self-Assessment (RCSA) is a component of the Operational Risk Management Framework implemented across the Bank. The RCSA process is designed to provide business/function with a forward looking view of operational risk to help them proactively determine whether their key operational risks are controlled within acceptable levels.
- New Product Process Approval (NPPA) is in place and is implemented across the Bank.
- The Bank has system for reporting of loss data and tolls to conduct risk assessments.

5. Process of risk information reporting provided to the board and senior management

- The Board is regularly informed and updated regarding the risk status of the Bank through several reports. Following are the key reports which are considered comprehensive and hence provide Bank wide risk assessment on periodic basis.
- **Monthly Risk Report** including Risk Dashboard is submitted to the Risk Control Forum (RCF) encompassing risks related to the Bank. The report provides a concise overview of all regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, liquidity position of the Bank, market risk, interest rate risk, major operational risks, major breaches among others, various portfolio level credit quality related parameters, large exposure status, recovery position etc. Also review risk management matters, including reviewing risk appetite and emerging risk and risk policy.
- **Quarterly Risk Report** is submitted to the Board Risk Committee encompassing risks related to the Bank. The report provides a concise overview of key regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, risk adjusted return, liquidity position of the Bank, market risk, major operational risk incidents and mitigating actions and information security update.
- **Risk appetite** monitoring of the Bank is an integral part of the monthly reporting to the senior management, which it combines the Bank's business model, governance, and strategic decisions. It holistically integrates the risk limits and performance targets for the Bank and the business groups, and sets the overall risk tolerance boundaries. Additionally, it facilitates the management decisions with various risk targets in order to ensure compliance with regulatory constraints and changing economic conditions
- **Stress testing** is another key component of the quarterly risk reporting process to the Board and senior management that assesses the potential risk and the resulting impact due to stressed operating scenarios. Stress testing framework at the Bank is comprehensive and is reasonably granular, which enables the management and the Board to assess the impact of different scenarios on the portfolios in terms of credit quality, liquidity, capital adequacy and profitability.
- **Internal Capital Adequacy Assessment Process (ICAAP)** is considered as the most comprehensive exercise that conducts the risk assessment of the Bank on forward looking basis, given the business plan and growth aspirations. This provides a complete overview of existing capital adequacy and future capital requirements to the Board and the senior management, which aids the long term capital management process in the Bank.
- Moreover, senior management exercises its risk management function through various management committees which require more frequent and more granular reporting on risk exposures
- The risk review cycle followed by the Bank consist of:
 - A monthly review of the top and emerging risks is undertaken and challenged through the Risk Control Forum (RCF).
 - The risk appetite and risk assessment process is reviewed at least quarterly by ALCO and RCF in consultation with the business functions.

- Risk reports for various risk category are submitted to the BRC in every meeting.
- The stress test scenarios and outcomes are updated quarterly and reviewed by the RMC and BRC.
- Senior management challenges the risk appetite and risk assessment methodologies through the MRRC and ALCO.
- The BRC challenges and approves the risk appetite and the ICAAP.
- Breach identification and reporting.

6. Qualitative information on stress testing

- Stress testing is used to evaluate potential vulnerability of risk management system of the banks to certain unlikely but plausible events or movements in financial variables.
- The Bank has implemented a Board approved Policy on Stress Testing and Scenario Analysis that defines the framework and approach for conducting stress tests to assess the impact on earnings and capital.
- The Bank undertakes a range of stress test scenarios to assess the risk and impact of different events on profitability or capital requirements. Stress scenarios are designed and undertaken on the principal risk factors like Credit Risk, Liquidity Risk, Interest rate Risk (earnings perspective), Business risk, Reputation Risk, Strategy Risk etc. In addition, the Bank also undertakes stress testing based on macroeconomic scenario as provided by CBUAE annually.
- Three stress levels viz. Minor; Moderate and Major is conducted on all the principal risk factors and periodic basis as per the Stress Testing Policy.
- In terms of governance, the Stress Testing is conducted by Risk Management department and is reviewed by Risk Control Forum and Board Risk Committee.
- The Bank also runs a series of reverse stress tests to consider scenarios beyond normal business settings to evaluate potential vulnerabilities and assess the mitigation required.
- The Bank also conducts Macroeconomic Scenario based stress testing on annual basis based on the guidelines from CBUAE.

7. The strategies and processes to manage, hedge and mitigate risks

- The mitigation of credit risk is an important aspect of its effective management and takes many forms
- The Bank grants facilities based on the borrower's ability to repay, rather than placing its reliance on credit risk mitigation. The Bank nevertheless does hold a range of security to reduce the risk of loss and maximise the probability of facilities being repaid. A number of these risk mitigants have been applied under the Standardised approach in Pillar I, and there are other securities that cannot be assigned a value such as shares, land and property/ mortgages.
- The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of the Banks standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and realize security. The Bank monitors the concentration of risk mitigants and does not have any material concentrations in the risk mitigants currently held.
- Credit risk is managed through a stringent process of credit due diligence at origination through credit risk acceptance criteria, single obligor lending limits, economic sector limits, internal risk rating and a credit committee approval process where business line proposals are assessed for risk through risk opinions tendered by an independent credit risk function. Further credit risk mitigants like obtaining eligible collateral , valuations and minimum security coverage and guarantees are monitored over the life of the credit facility

- The Bank has established a Risk Appetite Statement (RAS) for liquidity and funding risk that is approved by the BRC annually, and reviewed monthly through the Risk Control Forum (RCF), Asset Liability Management Committee (ALCO), with quarterly reports provided to the Board Risk Committee.
- The Bank recognizes the importance of liquidity management and has in place this Liquidity Contingency Funding Plan (CFP) to provide guidance on how to approach any potential liquidity event, defining responsibilities and setting out a predetermined plan of action. CFPs are a crucial tool in effective liquidity and funding risk planning.
- The Bank has effective risk mitigation techniques in place to manage and mitigate risk as follows
 - The Board of Directors has approved credit policy guidelines for the Bank. All exposures must confirm to these macro credit-limits, product types and tenors.
 - The Bank has comprehensive Credit Risk Management (CRM) Framework in place approved by the Board of Directors to cover all Bank-wide credit functions and activities. The CRM framework along with strong credit risk governance structure are designed to provide comprehensive controls and continuing management of the credit risk.
 - A strong credit Strategy and risk appetite approved by the Board is in place and monitored and reported through risk appetite dashboard which provide integrated approach to spot and trigger immediate remedial actions with clearly defined roles and responsibilities.
 - The Bank has internal rating model and Risk Adjusted Return on Capital (RAROC) model which provides effective screening and measurement tool of credit risk to assist with the building of high quality credit portfolio at the outset.
 - The Bank have deployed early warning signal system that covers areas such as account turnover pattern, Central Bank Risk Bureau Classification, Central Bank Risk Bureau behaviour (dealing with other banks), days past due past due amount, customer rating, etc. The Bank is also more vigilant in terms of the application of credit mitigants. Concentration risk is also well monitored on regular basis.
 - Exposure to single borrower/ group of related borrows is in line with the maximum legal limits set by CBUAE supported by policies, processes and auto solution to monitor the total indebtedness of group counterparties.
 - Impairment and Provisioning is done based on IFRS 9 forward looking Expected Credit Loss Impairment Methodology for all performing as well as non performing loans (effective from January 01, 2018).

3.3 OV1 - Overview of Risk Weighted Assets

		a	b	c
		RWA		Minimum capital requirements
		T	T-1	T
1	Credit risk (excluding counterparty credit risk)	18,785,683	17,555,865	
2	Of which: standardised approach (SA)	18,785,683	17,555,865	
3	Of which: foundation internal ratings-based (F-IRB) approach		-	
4	Of which: supervisory slotting approach		-	
5	Of which: advanced internal ratings-based (A-IRB) approach		-	
6	Counterparty credit risk (CCR)		-	
7	Of which: standardised approach for counterparty credit risk		-	
8	Of which: Internal Model Method (IMM)		-	
9	Of which: other CCR		-	
10	Credit valuation adjustment (CVA)		-	
11	Equity positions under the simple risk weight approach		-	
12	Equity investments in funds - look-through approach		-	
13	Equity investments in funds - mandate-based approach		-	
14	Equity investments in funds - fall-back approach		-	
15	Settlement risk		-	
16	Securitisation exposures in the banking book		-	
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)		-	
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach		-	
19	Of which: securitisation standardised approach (SEC-SA)		-	
20	Market risk	84,685	18,127	
21	Of which: standardised approach (SA)	84,685	18,127	
22	Of which: internal model approaches (IMA)		-	
23	Capital charge for switch between trading book and banking book		-	
24	Operational risk	1,395,160	1,293,406	
25	Amounts below thresholds for deduction (subject to 250% risk weight)		-	
26	Floor adjustment		-	
27	Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)	20,265,528	18,867,397	-

The increase in Risk Weighted Assets is mainly due to increase in the loans and advances of the Bank.

4. Linkages between financial statements and regulatory exposures

4.1 LI1 - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances at central bank	1,730,980	1,730,980	1,730,980	1,730,980	-	-	
Due from Banks	3,175,495	3,175,495	3,175,495	3,175,495	-	-	
Investment at fair value through profit or loss (FVTPL)	40,446	40,446	40,446	40,446	-	-	
Financial assets designated at fair value	-	-			-	-	
Derivative financial instruments	-	-			-	-	
Loans and advances to banks		-	-	-	-	-	
Loans and advances to customers	13,898,204	13,898,204	13,898,204	13,898,204	-	-	
Reverse repurchase agreements and other similar secured lending	-	-	-	-	-	-	
Available for sale financial investments	1,357,425	1,357,425	1,357,425	1,357,425	-	-	
Non-current assets held-for-sale	120,608	120,608	120,608	120,608			
Investment properties	392,584	392,584	392,584	392,584	-	-	
Property and equipment	281,074	281,074	281,074	281,074	-	-	
Other Assets	262,469	206,847	206,847	206,847	-	-	
Total Assets	21,259,285	21,203,663	21,203,663	21,203,663	-	-	-

Liabilities							
Due to banks	2,635,582	2,635,582	-	-	-	-	
Items in the course of collection due to other banks	-	-	-	-	-	-	
Customer accounts	14,154,810	14,154,810	-	-	-	-	
Repurchase agreements and other similar secured borrowings	-	-	-	-	-	-	
Trading portfolio liabilities		-	-	-	-	-	
Financial liabilities designated at fair value		-	-	-	-	-	
Derivative financial instruments		-	-	-	-	-	
Other liabilities	362,166	306,544	-	-	-	-	
Share Capital	1,500,000	1,500,000	-	-	-	-	
Statutory Reserve	593,665	593,665	-	-	-	-	
Special reserve	589,075	589,075	-	-	-	-	
General reserve	380,000	380,000	-	-	-	-	
Revaluation Reserve	145,695	145,695	-	-	-	-	
Fair Value reserve	(30,155)	(30,155)	-	-	-	-	
Retained Earnings	928,447	928,447	-	-	-	-	
Total Liabilities	21,259,285	21,203,663	-	-	-	-	-

4.2 LI2 - Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	(55,622)	(55,622)	-	(55,622)	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	(55,622)	-	-	-	-
3	Total net amount under regulatory scope of consolidation	-	-	-	-	-
4	Off-balance sheet amounts	-	-	-	-	-
5	<i>Differences in valuations</i>	-	-	-	-	-
6	<i>Differences due to different netting rules, other than those already included in row 2</i>	-	-	-	-	-
7	<i>Differences due to consideration of provisions</i>	-	-	-	-	-
8	<i>Differences due to prudential filters</i>	-	-	-	-	-
9	Exposure amounts considered for regulatory purposes	36,478,483	36,478,483	-	36,478,483	-

4.3 LIA - Explanations of differences between accounting and regulatory exposure amounts

The difference between accounting and regulatory exposure relates to “Acceptances for export bills under LC” which is considered as “On-Balance-sheet” for financial reporting as against “Off Balance-sheet” item for regulatory reporting purpose.

5. Prudential valuation adjustments

5.1 PV1 - Prudent valuation adjustments

Since bank do not carry derivative exposure, there is no prudent valuation adjustments.

6. Composition of capital

6.1 CC1 - Composition of regulatory capital

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	1,500,000	Same as (h) from CC1 template
2	Retained earnings	928,447	
3	Accumulated other comprehensive income (and other reserves)	1,532,585	
4	<i>Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)</i>		
5	Common share capital issued by third parties (amount allowed in group CET1)		
6	Common Equity Tier 1 capital before regulatory deductions	3,961,032	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	CC1 (a) minus (d)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	-	CC1 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	

16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	CC1 (c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding 15% threshold	-	
23	Of which: significant investments in the common stock of financials	-	
24	Of which: mortgage servicing rights	-	
25	Of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	Total regulatory adjustments to Common Equity Tier 1	-	
29	Common Equity Tier 1 capital (CET1)	3,961,032	
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC1 (i)
31	Of which: classified as equity under applicable accounting standards	-	
32	Of which: classified as liabilities under applicable accounting standards	-	
33	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	
35	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	
36	Additional Tier 1 capital before regulatory adjustments	-	

	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in additional Tier 1 instruments	-	
39	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
40	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments	-	
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to additional Tier 1 capital	-	
44	Additional Tier 1 capital (AT1)	-	
45	Tier 1 capital (T1= CET1 + AT1)	3,961,032	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	
50	Provisions	234,821	
51	Tier 2 capital before regulatory adjustments	234,821	
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-	
54	Investments in capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common	-	

	share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)		
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	Total regulatory adjustments to Tier 2 capital	-	
58	Tier 2 capital (T2)	234,821	
59	Total regulatory capital (TC = T1 + T2)	4,195,853	
60	Total risk-weighted assets	20,265,528	
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk-weighted assets)	19.55%	
62	Tier 1 (as a percentage of risk-weighted assets)	19.55%	
63	Total capital (as a percentage of risk-weighted assets)	20.70%	
64	Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)		
65	Of which: capital conservation buffer requirement	1.875%	
66	Of which: bank-specific countercyclical buffer requirement	0%	
67	Of which: higher loss absorbency requirement	0%	
68	Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.	13%	
National minima (if different from Basel III)			
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-	
71	National total capital minimum (if different from Basel III minimum)	-	
Amounts below the thresholds for deduction (before risk weighting)			
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	

73	Significant investments in common stock of financial entities	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
Applicable caps on the inclusion of provisions in Tier 2			
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	302,256	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	234,821	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)			
80	<i>Current cap on CET1 instruments subject to phase-out arrangements</i>	-	
81	<i>Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)</i>	-	
82	<i>Current cap on AT1 instruments subject to phase-out arrangements</i>	-	
83	<i>Amount excluded from AT1 due to cap (excess after redemptions and maturities)</i>	-	
84	<i>Current cap on T2 instruments subject to phase-out arrangements</i>	-	
85	<i>Amount excluded from T2 due to cap (excess after redemptions and maturities)</i>	-	
Instructions & Definitions: See pages 31 to 35 of Basel's Pillar 3 disclosure requirements - consolidated and enhanced framework - March 2017			

6.2 CC2 - Reconciliation of regulatory capital to balance sheet

	a	b	c
--	---	---	---

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Referenc e
	As at period-end	As at period-end	
Assets			
Cash and balances at central banks	1,730,980	1,731,617	
Due from Banks	3,175,495	3,180,599	
Investment at fair value through profit or loss (FVTPL)	40,446	43,947	
Financial assets designated at fair value	-	-	
Derivative financial instruments	-	-	
Loans and advances to banks	-	-	
Loans and advances to customers	13,898,204	14,918,189	
Reverse repurchase agreements and other similar secured lending	-	-	
Available for sale financial investments	1,357,425	1,362,002	
Non-current assets held-for-sale	120,608	206,348	
Investment properties	392,584	638,564	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	262,469	245,010	
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	-	-	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	-	-	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	281,074	298,946	
Total assets	21,259,285	22,625,222	
Liabilities			
Due to banks	2,635,582	2,635,582	
Items in the course of collection due to other banks	-	-	
Customer accounts	14,154,810	14,154,810	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	

Derivative financial instruments	-	-	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	362,166	375,334	
Current and deferred tax liabilities			
Of which: DTLs related to goodwill			(d)
Of which: DTLs related to intangible assets (excluding MSRs)			(e)
Of which: DTLs related to MSRs			(f)
Subordinated liabilities			
Provisions		1,352,769	
Retirement benefit liabilities			
Total liabilities	17,152,558	18,518,495	
Shareholders' equity			
Paid-in share capital	1,500,000	1,500,000	
Of which: amount eligible for CET1			(h)
Of which: amount eligible for AT1			(i)
Retained earnings	928,447	928,447	
Accumulated other comprehensive income	1,678,280	1,678,280	
Total shareholders' equity	4,106,727	4,106,727	

6.3 CCA - Main features of regulatory capital instruments

CCA information is not applicable for Al Masraf since the Bank has neither issued/ repaid a capital instrument nor there is a redemption, conversion/ write-down or other material change in the nature of an existing instrument/ capital.

7. Macroprudential Supervisory measures

7.1 DSIB1 - Disclosure of D-SIB indicator

Al Masraf is not part of D-SIBs (Classification by Central Bank)

7.2 CCyB1 - Geographical distribution of credit exposures used in the countercyclical buffer

	a	c	d	e	f
Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
United Arab Emirates	0	30,563,841	16,663,083		
Norway	0.02	62	31		
Sweden	0.02	31	16		
United Kingdom	0.01	164,855	80,218		
Sum		30,728,789	16,743,348		
Total		30,728,789	16,743,348		

8. Leverage ratio

8.1 LR1 - Summary comparison of accounting assets vs leverage ratio exposure measure

	a
1 Total consolidated assets as per published financial statements	21,259,285
2 Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3 Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4 Adjustments for derivative financial instruments	
5 Adjustment for securities financing transactions (ie repos and similar secured lending)	
6 Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	5,128,189
7 Other adjustments	
8 Leverage ratio exposure measure	26,387,474

8.2 LR2 - Leverage ratio common disclosure template

		a	b
		T	T-1
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	21,259,285	19,436,909
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)	21,259,285	19,436,909
Derivative exposures			
4	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-	-
6	Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	Total derivative exposures (sum of rows 4 to 10)	-	-
Securities financing transactions			
12	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	Total securities financing transaction exposures (sum of rows 12 to 15)	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	13,909,520	13,281,534
18	(Adjustments for conversion to credit equivalent amounts)	8,781,331	8,189,960
19	Off-balance sheet items (sum of rows 17 and 18)	5,128,189	5,091,574
Capital and total exposures			

20	Tier 1 capital	3,961,032	3,872,631
21	Total exposures (sum of rows 3, 11, 16 and 19)	26,387,474	24,528,483
Leverage ratio			
22	Basel III leverage ratio	15.01%	15.79%

The increase in on balance sheet exposure is mainly due to increase in the loans and advances of the Bank.

9. Liquidity

9.1 LIQA - Liquidity risk management

A. Qualitative

1. General

- Liquidity Risk is the risk to earnings and capital arising from the bank's inability to meet its obligations as they fall due, without incurring unacceptable cost or losses.
- Liquidity Risk is best understood as Funding Liquidity Risk - the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flow needs without affecting either daily operations or its financial condition.
- Maintaining sufficient cash resources and retaining the confidence of both market parties and retail clients have proved to be crucial in this respect over the past few years, as the Bank kept good access to the money markets.
- Liquidity risk often results in risks related to reputation, legal and business continuity as it impacts the ability to fulfill financial obligations and often have a systemic impact.
- Bank classifies Liquidity Risks as:
 1. Funding liquidity risks: Need to replace net outflows.
 2. Time risk: Need to compensate for non-receipt of expected inflows,
 3. Call risk: Due to crystallization of contingent liabilities.

2. Risk Assessment Methodology

- The Bank's policy is aimed at financing long-term lending with stable funding, i.e. funds entrusted by customers and long-term funding provided by the money market.
- Liquidity Risk Management at the Bank is based on three pillars.
 1. The first pillar sets strict limits for the maximum cash outflow of wholesale banking. This includes measurement and reporting of expected cash inflows and outflows for the next twelve months. Limits have been set for these cash outflows. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests will be performed for these plans from 2018 onwards.
 2. An extensive buffer of liquid assets is maintained as a second pillar. In addition to credit balances held at central banks, these assets can be used to be pledged to central banks, in repo transactions or to be sold directly in the market as to generate liquidity immediately. The size of the liquidity buffer is attuned to the risk that the Bank is exposed to in its balance sheet.

3. The third pillar for limiting liquidity risk is a prudent funding policy, in order to be able to provide funding to group entities at acceptable costs. Key success factors are the diversification of funding sources and currencies, the flexibility of the funding instruments used and an active investor relations role.

- The best category of buffer assets (Level 1 assets) constitutes approximately 96% of the HQLA buffer (and 62% of the total buffer). The HQLA buffer is unencumbered and is managed by the Treasury department.
- Apart from undertaking liquidity gap analysis, stress testing is also undertaken on a periodic basis to assess the impact of liquidity risk on the position of the balance sheet.
- Besides, the following liquidity ratios are monitored by the ALCO committee on a monthly basis:
 1. Loans to Deposits Ratio (LD Ratio)
 2. Advances to Stable Resource Ratio (ASRR)
 3. Liquidity Coverage Ratio (LCR)
 4. Eligible Liquid Assets Ratio (ELAR)
 5. Loans to Assets Ratio
 6. Real Estate Ratio (RE Ratio)
 7. Net Interbank
 8. Money Market (MM) placements and borrowings
- ALCO reviews liquidity risk reports as a part of ALCO pack which is also submitted to the BRC.
- To guard against liquidity risk, the Bank acts actively to diversify its funding sources and maintains a healthy balance of cash and cash equivalents, and readily marketable securities.
- For extreme cases of stress on liquidity, a contingency funding plan, as part of ALM policy, has been put in place.

3. Monitoring of Concentration of Deposits

- The Bank is exposed to some degree of liquidity concentration in the form of large deposits mainly from Government related entities.
- The Bank is taking adequate measures to diversify its funding sources including additional mobilization of retail deposits.
- Deposits maintained by top 20 and top 12 depositors are monitored closely and presented to ALCO.
- In order to reduce the deposit concentration risk, the bank has also set up the size based limits on new deposits and monitors periodically.

A. STOCK APPROACH – SHORT TERM LIQUIDITY MANAGEMENT

- The Bank compares the near term liabilities with liquid and short term assets to determine the Bank's ability to meet its short term obligations as a measurement of liquidity risk.
- To facilitate this comparison, the Bank has implemented the following liquidity ratios in accordance with the requirements of ALM Policy.
 1. Short-term Borrowings / Short-term Assets
 2. Liquid Assets / Total Assets
 3. Market Liabilities / Liquid Assets

4. Volatile Liabilities / Total Assets
5. Liquidity Coverage Ratio (LCR)
6. Uses to Stable Resources Ratio (USRR)

B. STRUCTURAL LIQUIDITY STATEMENTS

- The Structural Liquidity Statement is a key report used to assess the liquidity position continuously. The Bank's ALM policy prescribes Tolerance levels on mismatches in addition to any regulatory limits. In the Statement of Structural Liquidity (STL), inflows and outflows are arranged into different time-buckets in a 'maturity ladder'. The statement of structural liquidity is placed before the ALCO.
- The liquidity risk will be assessed through the level of negative mismatches in various buckets. The Bank shall follow prudential limits on net cumulative negative mismatch. Breaches in the prudential limits, if any, are escalated to the ALCO. The Bank has also implemented "Positive Liquidity limits" to improve return on assets.
- As part of the structural liquidity assessment, a detailed behaviour study of non-maturing deposits was initiated and will be deliberated by the ALCO during Q1 2018. The study is based on daily balances over a 2 year period and will be updated on a quarterly basis.

C. INTRA-DAY LIQUIDITY

- The Liquidity Risk Management approach starts at the intraday level. Intraday liquidity management involves managing the daily queue of payments, forecasting the quantum and timing of cash flows, prioritizing critical payment transactions, assessing etc.
- On a dynamic intraday basis, an assessment is made of the known and expected liquidity inflows and outflows in the day as well as the possible timing of these flows. Timely and accurate information-flow is the key to intraday liquidity management process. Information regarding major treasury and non-treasury Fund-flows is obtained from a variety of sources like the Treasury Back-office system, Finance Department, L/C Payment desk and branches.

D. LIQUIDITY CONCENTRATION FROM LARGE DEPOSITS

- The Bank is exposed to some degree of liquidity concentration in the form of large deposits especially high levels of large deposits from Libya and Algeria. However, given the fact that these deposits are essentially from shareholding countries, these are less likely to be withdrawn all of a sudden and are considered by the Bank as stable funds.
- Despite the above, the Bank is taking adequate measures to diversify its funding sources including additional mobilization of retail deposits.

4. Risk Mitigation Actions and / or Controls

- Liquidity Risk is a key focus-area for the Bank's senior management. Bank has put in place Asset Liability Management (ALM) Policy.
- Tolerance levels for various time buckets of Structural Liquidity statement are prescribed in the Policy and the policy guidelines are communicated throughout the Bank.
- The Contingency Funding Plan lists out the triggers and action points for four different levels of liquidity crisis, which is being monitored by ALCO on a monthly basis.
- The Bank through its Treasury ensures that it has access to diverse sources of funding ranging from customer deposits from both its retail and corporate customers and money market lines with local and international banks.

- In addition, the following controls and risk mitigation steps have been implemented to manage liquidity Risk.
 - Risk management department under supervision of ALCO has developed liquidity risk management framework.
 - ALCO sets prudential limits to control the Bank's liquidity risk exposure and vulnerabilities. E.g., Limit on the contractual cash-flow mismatches over different time horizons.
 - ALCO closely monitors current trends and potential market developments that may present significant and complex challenges for managing Liquidity risk.
 - ALCO determines Balance sheet planning in terms of the desired maturity profile and mix of incremental assets and liabilities.
 - The Bank recognizes the risks of Funding concentrations and has made a conscious effort to diversify its sources of funds.
- The Bank has made enhancements in the contingency funding plan and a separate policy is under preparation.
- The Bank has hired a consultant for strengthening Asset Liability Management (ALM)/ Funds Transfer Pricing (FTP) and has outsourced ALM system for analysis and reporting to ALCO.

9.2 LIQ1 - Liquidity Coverage Ratio

		a	b
		Total unweighted value (avg)	Total weighted value (avg)
High-quality liquid assets			
1	Total HQLA		2,361,172
Cash outflows			
2	Retail deposits and deposits from small business customers, of which:		
3	Stable deposits	717,116	35,856
4	Less stable deposits	776,876	77,688
5	Unsecured wholesale funding, of which:		-
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	3,562,786	890,696
7	Non-operational deposits (all counterparties)	3,897,536	2,489,085
8	Unsecured debt		-
9	Secured wholesale funding		-
10	Additional requirements, of which:		-
11	Outflows related to derivative exposures and other collateral requirements		-
12	Outflows related to loss of funding of debt products		-
13	Credit and liquidity facilities		-
14	Other contractual funding obligations		435,998
15	Other contingent funding obligations		378,955
16	TOTAL CASH OUTFLOWS		4,308,278
Cash inflows			

17	Secured lending (eg reverse repo)		
18	Inflows from fully performing exposures		
19	Other cash inflows		2,305,770
20	TOTAL CASH INFLOWS		2,305,770
			Total adj. value
21	Total HQLA		2,361,172
22	Total net cash outflows		2,002,508
23	Liquidity coverage ratio (%)		117.91%

9.3 LIQ2 - Net Stable Funding Ratio

		a	b	c	d	e
		Unweighted value by residual maturity				Weighted value
		No maturity*	<6 months	6 months to <1 year	≥1 year	
Available stable funding (ASF) item						
1	Capital:					
2	Regulatory capital	4,106,728	-	-	-	4,106,728
3	Other capital instruments	435,634	-	-	-	435,634
4	Retail deposits and deposits from small business customers:					
5	Stable deposits	839,379	355,815	954,303	-	2,042,022
6	Less stable deposits	209,845	88954	238,576	-	483,637
7	Wholesale funding:					
8	Operational deposits	1,178,432	-	-	-	589,216
9	Other wholesale funding	-	2,282,945	9,599,956	-	5,941,450
10	Liabilities with matching interdependent assets	-	-	-	-	-
11	Other liabilities:					
12	NSFR derivative liabilities	-				-

13	<i>All other liabilities and equity not included in the above categories</i>	-	-	-	-	-
14	Total ASF					13,598,687
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)	-	-	-	-	576,302
16	Deposits held at other financial institutions for operational purposes	-	-	-	-	440,949
17	Performing loans and securities:	-	-	-	-	-
18	<i>Performing loans to financial institutions secured by Level 1 HQLA</i>	-	-	-	-	-
19	<i>Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions</i>				7,089,843	3,407,039
20	<i>Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:</i>					
21	<i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>					3,555,475
22	<i>Performing residential mortgages, of which:</i>					
23	<i>With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk</i>					2,474,331
24	<i>Securities that are not in default and do not qualify</i>					

	<i>as HQLA, including exchange-traded equities</i>					
25	Assets with matching interdependent liabilities					
26	Other assets:					
27	<i>Physical traded commodities, including gold</i>					
28	<i>Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs</i>					
29	<i>NSFR derivative assets</i>					
30	<i>NSFR derivative liabilities before deduction of variation margin posted</i>					
31	<i>All other assets not included in the above categories</i>				978,099	978,099
32	Off-balance sheet items					587,370
33	Total RSF					12,019,566
34	Net Stable Funding Ratio (%)					113%

10. Credit risk

10.1 CRA - General qualitative information about credit risk

1. Business Model and Credit Risk Profile

1.1 Business Model

- The Banks business line is broadly classified into Corporate and Retail. Apart from this, Banks portfolio consist of Exposure on Banks, Fixed Income and Quoted Equity Portfolio.
- With-in Corporate, its business is bifurcated into various Segments viz. Large Corporate, High Net-worth Individuals (Corporate), Syndications, Commercial (SME Medium), SME Small and SME Micro
- For the purposes of aligning business model to Bank's credit risk profile, the Bank has a policy defining the Target Sectors and Non-Target Clients, Prohibited and restricted lending. In addition, the Bank has

established clear standards for credit risk management that should be met by employees, for application across the Bank. This among others, includes:

- Risk Appetite
- Credit Policies Guidelines and Procedures
- General Credit Standards
- Target Clients, Prohibited and Restricted lending,
- Portfolio Guidelines
- Credit Concentration Caps (Industry Sector, Segment & Geographical Caps)

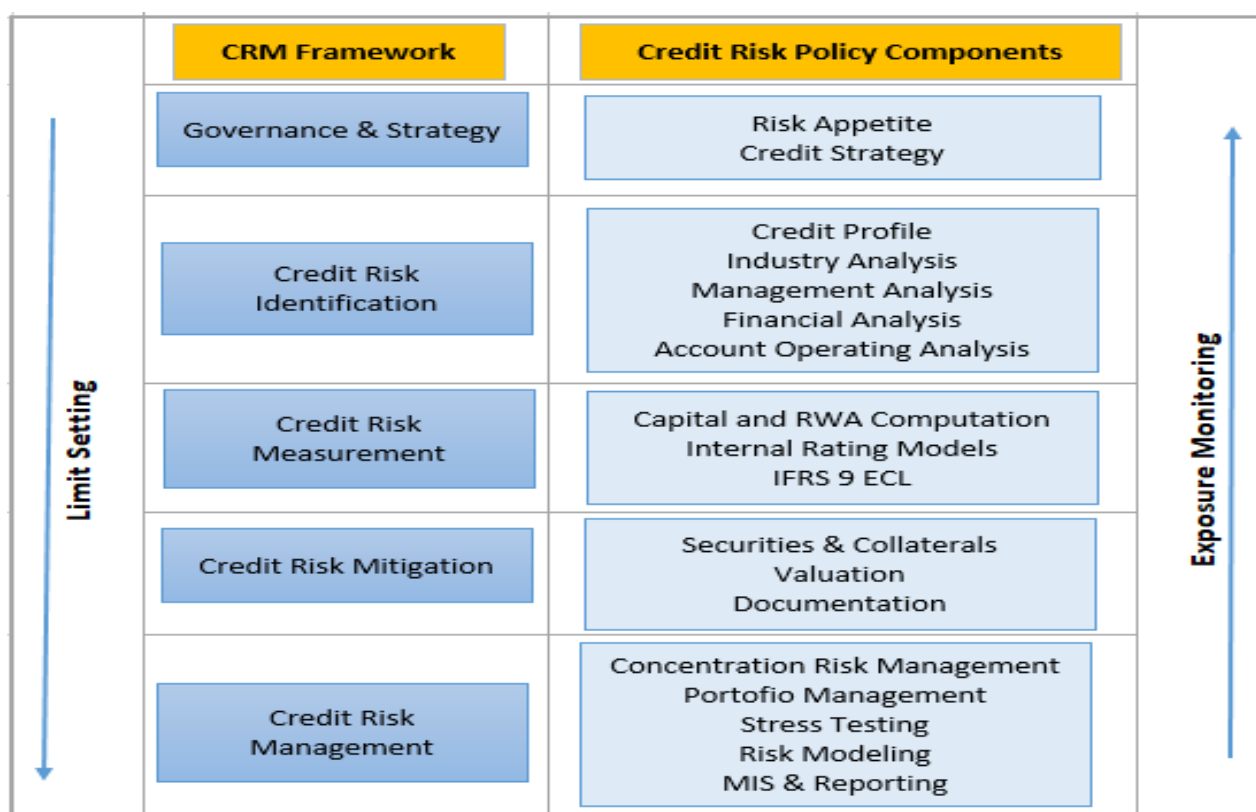
1.2 Credit Risk Profile

- Credit risk represents as single largest component of regulatory capital requirement of the Bank.
- Efficient management of credit portfolio has assumed greater significance as it is the largest asset of the Bank having direct impact on its profitability. Therefore, it has become imperative that the credit risk related issues need to be addressed through robust Credit Risk Management policy and procedures.
- **Credit risk:** Credit Risk is the risk of financial loss through the failure of a customer or counterparty to honour their commitments as they fall due. Credit risk arises principally in corporate and personal lending, trade finance, treasury, debt securities and syndication underwriting, but credit risk also arises from off balance sheet products such as guarantees.
- Components of Credit Risk include:
 1. Default Risk: The failure of clients to meet contractual obligations on account of inability to pay, or unwillingness to pay.
 2. Country Risk: The inability of clients to fulfil their payment obligations owing to government embargo (e.g. transfer restrictions or problems related to externalization) or country-specific economic factors (e.g. currency devaluation).
 3. Settlement Risk: The risk to the Bank that arises if financial obligations are not settled on time or not settled at all in trading transactions, either due to the failure of the trading/payment system or due to counterparty failure.
 4. Pre-settlement Risk: The risk that one party of a contract fails to meet the terms of the contract and may default before the contract settlement date, prematurely ending the contract.
- A culture of prudent and responsible lending is a cornerstone of the Banks risk management philosophy. This is attained through effective control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns.
- Credit policy and guidelines provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. The policies are reviewed by the Risk Management function and approved by Board through Board Risk Committee (BRC).
- Credit risk assessment is undertaken by the credit risk management function which reports to the Chief Risk Officer (CEO) through the Chief Credit Officer (CCO); hence ensuring that they have an appropriate degree of independence. The teams are responsible for credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.
- A key element in the Bank's credit culture is the proactive management of the portfolio through:
 - The regular review of facilities by lending and credit officers, at least annually

- Periodic rating of the customer using the rating system implemented by the Bank
 - Risk based pricing using Risk Adjusted Return on Capital (RAROC)
 - The operation of an independent special asset management function to handle non performing and problem exposures.
 - The central monitoring of credit concentration in certain industries/ sectors, products, customers and customer groups with monthly reports to the Asset and Liability Committee (ALCO), and periodic reporting to Risk Control Forum (RCF) and Board Risk Committee through Risk Dashboard.
 - The continual development of improved techniques for measuring and evaluating risk, and for optimizing risk-adjusted return on capital.
 - The development and adoption of automated application processing and assessment systems, to enable consistency of decisions and an efficient framework for application processing.
 - A structured framework of credit training and accreditation to build risk awareness and credit assessment capabilities.
- For defaulted customers, impairment provisions (collective and discounted cash flow basis) are maintained in accordance with established IFRS 9 accounting practices.
 - The Bank has dedicated monitoring and recovery team to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal.
 - Credit risk consumes the largest proportion of the Bank minimum capital requirement. Within the established principles and parameters, the Bank ensures that strict capital discipline is maintained through correct pricing and management of credit risks in relation to the regulatory and economic capital requirements.
 - The Bank has adopted standardized approach for Credit risk calculation and the concentration risk is part of Pillar II according to CBUAE.

2. Criteria and approach used for defining credit risk management policy and for setting credit risk limits

- The Integrated Credit Risk Management Policy is an integral part of the Credit Risk Management(CRM) framework. It provides details of the Banks strategy towards the granting of credit and the management of associated credit risk. It complements the Credit Policy which primarily deals with the details of the principles, standards and processes related to lending. So, while the primary audience of the Credit Policy is the business team (covering Relationship Manager, Relationship Officers), approving authorities such as the Corporate Credit Review Department and the Credit Committees, the Integrated Credit Risk Management policy's primary audience is personnel engaged in the measurement, management and monitoring of risk
- Shown below are the components of the Credit Risk Policy Manual and how it fits in with the CRM framework of the bank



- The Bank devises its Risk Appetite at-least on an annual basis or earlier, if necessary. The Bank also devises and provides portfolio guidelines based on Risk Appetite and Outlook of various industries. Corporate Credit is considered as material risk for the Bank and hence RAS normally covers Non Performing Loans, Stress Assets, Provision Coverage Ratio, Portfolio Rating, Top Group Borrowers Exposure, Concentration Risk for specific Industry/(ies) etc.
- In general, while determining the Risk Appetite, the Bank considers the following:
 - Updates provided by senior management, stakeholders on key strategic matters
 - The Banks strategic plan and budget
 - Significant matters that have been reserved for the board
 - Risk Assessments facilitated by the Risk management function
 - The reports of the internal and external auditors, CBUAE Examination
 - Risk Appetite guidelines of CBUAE
- Within the ambit of RAS approved by Board of Directors, key directions from various board and management committees and stipulations on specific lending guidelines, management devises Annual Portfolio Guidelines.
- In addition to specific limits set out under RAS, to have control over growth, Concentration Risk is monitored based on segment and sector wise exposure limits/ caps.
- The key components of the Credit Risk Management Policy and Lending Manual are:
 - Credit is granted on the basis of insight into the customer's circumstances and of specific assessments that provide a basis for such credits.
 - It is ensured that the credit facilities granted matches the customer's creditworthiness, capital position or assets, and the repayment capacity.

- The Bank assumes risks only within the limits of applicable legislation and other rules, including the rules on good practice for financial enterprises.
- The Bank is particularly cautious while granting credits to businesses in troubled or cyclical industries.
- In connection with the management of the Bank's country risk, particular caution and suitable risk mitigation is exercised while assuming risk in high risk countries.
- **General Credit Standards**
 - Bank's strategy for country risks, sector wise concentration, group risk concentrations, business lines wise credit approach and decisions about asset and liabilities management as well as regulatory limits determines the broad framework for financing the corporate.
 - General Credit Standards (Qualitative and Quantitative) includes Industry, Market Position, Ownership, Management, Succession, Financials, Bank Track Record, Security etc. In addition to qualitative measures, Corporate credit requires subjective process of evaluating several variables in determining credit decisions.

3. Structure and organisation of the credit risk management and control function

- The Board of Directors is responsible for the overall risk management approach within the Bank and for reviewing its effectiveness. The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, risk management strategies and the establishment of effective control procedures among others.
- The Bank operates an independent risk management function which provides high-level oversight and management of Credit and Market risk.
- The credit teams are responsible for credit review, credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.
- The administration of credit facilities is performed by an independent credit administration function. This function is responsible for ensuring completeness of documentation in accordance with approved terms and conditions, along with undertaking the operational management and control of facilities.
- A dedicated remedial and recovery team is set to manage companies in financial distress and non-performing. For personal banking there is a dedicated collections function undertaking recovery activities at each stage of delinquency.

4. Relationships between the credit risk management, risk control, compliance and internal audit functions

- The Board is responsible for internal control in the Bank and for reviewing its effectiveness. The framework of standards, policies and key procedures that the Board have established is designed to provide effective segregation of duties and internal control within the Bank for managing risks within the accepted risk appetite along with the on-going identification, evaluation and management of the significant risks faced by the Bank.
- The management is responsible for establishing and maintaining an adequate and effective system of internal control which encompasses the policies, procedures/ processes and information systems as approved by the Board, that facilitate effective and efficient operations.
- The bank has implemented a 'Three Lines of Defense' model for managing risks facing the Bank.

- First Line of defense: the business line
- Second Line of defense: risk management function and a compliance function independent from the first line of defense
- Third Line of defense: internal audit function independent from the first and second line of defense

■ **First Line of Defense:**

- Business management, as the first Line of defense, is responsible for defining operating procedures and standards across all areas under their responsibility.
- Specific business manuals/ procedures are established by functions covering all material risks including credit, market, liquidity, information security, capital, compliance, model, reputational, strategic and other operational risks.
- Business management is also responsible for implementing effective monitoring mechanisms to identify, assess, measure, manage, monitor, and mitigate operational risks and prevent deviations or breaches from established policies and regulatory requirements.

■ **Second Line of Defense:**

- The Second Line of defense comprises various risk management functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud.
- These functions act as the risk stewards, who set policy and guidelines for managing risks, provide advice to support these policies and test effectiveness of first line processes in adherence to the policy.
- They also challenge the first Line of defense to ensure that its risk management activities are working effectively. The second Line of defense operates independently from the operational management in the First Line of defense.
- The Credit function undertake a credit review to ensure that the facilities are in line with the bank's credit policy & procedures, CBUAE guidelines and are appropriately structured to ensure end use of funds. They also monitor the financial performance & condition, approval conditions wherever applicable and past dues to identify early warning signs.
- As part of the second line, the Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of Bank Accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules and other key level international regulatory requirements.

■ **Third Line of Defense:**

- Internal Audit (INA) represents the Third Line of defense by independently reviewing the design effectiveness and operating efficiency of internal control systems and policies focusing on the areas of greatest risk to the Bank as determined by a risk based grading approach.
- The Audit Committee supervises Internal Audit and reviews control weaknesses and system deficiencies

5. Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

- The Bank has systems and procedures in place to identify, control and report on the material risks and issues faced by the Bank.
- **Risk Dashboard**
Dashboard submitted to Risk Control Forum and Board Risk Committee encompasses Risk Assessment, Evolution of Risks (Bank wide Top Risks, Emerging Risks and Top Operational Risks), Risk Appetite Statement, Monitoring of Large Exposure Limits, Reports on Credit Quality and Investments, Value At Risk (VaR), Monitoring of Large Exposure etc.
- **Asset Quality Report**
This comprehensive report is produced and shared on a monthly basis and covers details regarding portfolio growth, Top group exposures, evaluation of funded and non funded exposure, Sector and Segment wise loans and advances, Portfolio rating, NPLs (Non-Performing Loans) and Loan loss reserves, portfolio quality, provision coverage and concentrations in the portfolio. It also includes Portfolio risk profile and risk migration as well as exposures in different economic sectors
- **Risk Appetite Statement (RAS)**
Risk Appetite is the quantum of risk that the Banks Board is willing to accept in pursuit of its financial and strategic objectives, recognizing a range of possible outcomes detailed in overall business plan and budget. It encompasses various areas of risk including but not limited to credit risk, market risk, operational risk, liquidity risk etc.
- **Investment Reports**
Investment Portfolio Limits monitoring, Performance of Fixed Income Portfolio, Performance of Quoted Equity Portfolio, Money Market Placement and Borrowing report etc.
- More granular Reports for monitoring and control purposes are provided on periodic basis- monthly, quarterly to Senior Management. The reports cover a full range of material risk issues and trends including breaches (policies/ regulatory), portfolio quality and concentration risk in term of industries, countries and individual counterparties, watch lists, accounts having early warning signals etc.

10.2 CR1 - Credit quality of assets

		a		b	c	d		e	f
		Gross carrying values of			Allowances/ Impairment s	Of which ECL accounting provisions for credit losses on SA exposures			Net values (a+b-c)
		Defaulted exposures	Non- defaulted exposures			Allocated in regulatory category of Specific	Allocated in regulatory category of General		
1	Loans	767,528	13,914,670		586,933	385,051	201,882		14,095,265
2	Debt securities	-	1,288,734		3,500	3,500			1,285,234
	Off-balance sheet exposures								
3		15	13,909,505		-	-	-		13,909,520
4	Total	767,543	29,112,909		590,433	388,551	201,882		29,290,019

10.3 CR2 - Changes in the stock of defaulted loans and debt securities

		a
1	Defaulted loans and debt securities at the end of the previous reporting period	549,012
2	Loans and debt securities that have defaulted since the last reporting period	614,904
3	Returned to non-default status	(114,607)
4	Amounts written off	(272,247)
5	Other changes	(9,535)
6	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	767,527

10.4 CRB - Additional disclosure related to credit quality of assets

A. Qualitative

1. The scope and definitions of 'past due' and 'impaired' exposures

- **Past Dues:** Any part of the contractual obligation (principal or Interest) is not met on time. The number of days past due is non-cumulative, where the most recent payment cures the earliest contractual breach.
- **Past due but not impaired:** Loans and investments 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.
- **Impaired/ Default:** If the obligor is past due more than 90 days on any material credit obligation to the banking.

2. Reasons for the Past-due exposures (>90 days) that are not considered to be impaired

- For Corporate financing, the above classification of impaired/ default shall be used unless based on evidence and sound judgment, it can be demonstrated that:
 - The listed criteria for a specific facility is not the best indication of impairment. In this case, account can be classified to an alternate category (higher or lower). However, this instance needs to be documented for not classifying a particular account and setting aside the necessary provisions.
 - Particular attention needs to be paid to restructured/ rescheduled facilities. Rational for not classifying any restructured account should be clear.
 - In terms of grading an account, its classification and consequently deciding on extent of the required provisions, a mature judgment based on expertise and knowledge of account to be exercised, as some of the characteristics mentioned under classification category 8, 9 and 10 may not necessarily apply to all cases.
 - Any deviation in account classification to be documented and approved by Credit Committee

Note1: Flexibility of "sound judgment" is applicable only to classification and not for provisioning. Once an account is classified as non-performing then the applicable provision has to be made

3. Methods used for determining accounting provisions for credit losses along with rationale for categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures

- The Bank has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1st January 2018

- The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
 - Financial assets that are financing instruments;
 - Off-balance sheet instruments issued; and
 - Financial guarantee contracts issued.
- The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.
 - Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
 - Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
 - Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.
- Measurement of ECL
 - IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

4. The bank's own definition of a restructured approach

- Loans with renegotiated terms are loans that have been restructured with any material concessions due to deterioration in the borrower's financial position even if these accounts were under normal classification at the time of restructuring. Once a loan is restructured, it remains in this category for a minimum period of twenty four month, in order to establish satisfactory track record of performance under the restructuring agreement
- In case of multiple restructurings of one counter party either within the same account or consolidation into any other group account, key concern is if principle payment is being made over time or is it becoming an evergreen facility because customer has inability to service the dues. This fact may have a direct bearing on classification of account at the time of restructuring. Second restructuring can be allowed before account becomes 90 days past due to avoid account being downgraded only if valid reasons exist. However, any further restructuring without payment of 6 months equivalent of principle installment payment or 10%, whichever is lower, will be considered as event of default and account has to go through classification cycle.

Legal / Settlement Write Off:

- For legal write off where bank relinquish further claim on corporate customer for which litigation is in process, a review from legal department will be necessary before submission of request to relevant authorities.
- Legal write-off will be considered only when all recovery efforts through legal course or otherwise have failed and when the prospect of recovery are bleak. The loss is realized and no other recovery/ legal action is done post write- off. Other justifiable circumstances are:
 - Insolvency

- Borrower/ guarantor not traceable or absconding or deceased or jailed with no known income source
- Expected recovery is not commensurate with Legal costs to be incurred

In cases where no legal action has been taken, the views of legal department is obtained regarding prospects of the recovery through legal action.

In certain cases of settlement agreements, part of loan may be agreed to be written off and the rest of the amount put under repayment program, to be followed accordingly.

Accounting / Technical write - off:

- The Bank follows guidelines issued by CBUAE from time to time.
- Fully provided classified accounts with no repayment for two or more years or on which legal suits have been initiated, are written - off by way of technical write - off by removing them from the banks accounting books, leaving AED 1/- as debit balance under 'Loss' classification.
- Generally, the fully provided accounts with legal action are considered for Technical write – off.
- Authority for Technical write-off is given by the Board of Directors.
- The amounts technically written off are not subjected to final write-off (Relinquishing our claim) for at least two years
- Follow-up and recovery of these accounts is part of Bank's Key Performance Indicators (KPI's)

B. Quantitative

1. Breakdown of exposures by geographical areas, industry and residual maturity.

1.1 Gross Credit Exposure by Currency Type

31st December, 2018

AED in '000

Currency	Loans/ Banks	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off- Balance Sheet Exposures	Total Non- Funded	Total
Foreign Currency	3,227,883	1,244,787	162,691	4,635,361	829,780	749,922	3,229,304	4,809,006	9,444,367
AED	14,870,906	-	3,062,697	17,933,603	5,365,839	-	4,484,596	9,850,435	27,784,038
Total	18,098,789	1,244,787	3,225,388	22,568,964	6,195,619	749,922	7,713,900	14,659,441	37,228,405

1.2 Gross Credit Exposure by Geography

31st December, 2018

AED in '000

Geographic Distribution	Loans/ Banks	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off- Balance Sheet	Total Non- Funded	Total
United Arab Emirates	15,085,933	916,160	3,202,134	19,204,227	6,195,619	652,021	5,163,995	12,011,636	31,215,861
GCC	681,457	328,627	9,560	1,019,644	0	0	80,030	80,030	1,099,674
Arab League (excluding GCC)	152,727	0	13,498	166,225	0	0	2,176,159	2,176,160	2,342,385
Asia	1,095,393	0	0	1,095,393	0	0	201,787	201,787	1,297,180
Africa	0	0	0	0	0	0	0	0	0
North	36,131	0	0	36,131	0	0	2,508	2,508	38,639
South America	0	0	0	0	0	0	0	0	0
Caribbean	0	0	0	0	0	0	0	0	0
Europe	1,047,148	0	196	1,047,344	0	97,901	89,421	187,322	1,234,666
Australia	0	0	0	0	0	0	0	0	0
Others	0	0	0	0	0	0	0	0	0
Total	18,098,789	1,244,787	3,225,388	22,568,964	6,195,619	749,922	7,713,900	14,659,443	37,228,405

1.3 Gross Credit Exposure by Industry Segment**31st December, 2018****AED in '000**

Industry Segment	Loans	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet	Total Non-Funded	Gross
Agriculture, Fishing & related activities	2	-	-	2	109	-	6,133	6,242	6,244
Crude Oil, Gas, Mining & Quarrying	17,190	-	-	17,190	1,742	-	1,499	3,241	20,431
Manufacturing	870,746	245,276	-	1,116,022	1,005,659	-	605,014	1,610,673	2,726,695
Electricity & Water	123,858	-	-	123,858	38,100	-	23,645	61,745	185,603
Construction	4,443,718	65,859	-	4,509,577	2,616,905	-	1,497,979	4,114,884	8,624,461
Trade	2,732,217	-	-	2,732,217	1,275,778	-	2,195,832	3,471,610	6,203,827
Transport, Storage & Communication	853,180	-	-	853,180	171,253	-	119,351	290,604	1,143,784
Financial Institutions	4,749,921	441,895	1,667,362	6,859,178	151,017	749,922	2,892,632	3,793,571	10,652,749
Services	1,604,117	-	-	1,604,117	756,322	-	362,090	1,118,412	2,722,529
Government	-	491,757	-	491,757	3,251	-	101	3,352	495,109
Retail/ Consumer banking	1,319,724	-	-	1,319,724	58,692	-	186	58,878	1,378,602
All Others	1,384,116	-	1,558,026	2,942,142	116,791	-	9,438	126,229	3,068,371
Total	18,098,789	1,244,787	3,225,388	22,568,964	6,195,619	749,922	7,713,900	14,659,441	37,228,405

1.4 Gross Credit Exposure by Residual Contractual Maturity**31st December, 2018****AED in '000**

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 mths	6,572,877	55,006	100,000	6,727,883	4,058,417	293,703	3,748,958	8,101,078	14,828,961
3 mths to one year	2,139,420	158,564	600,000	2,897,984	1,478,100	456,219	1,670,367	3,604,686	6,502,670
One to five years	2,987,976	958,552	-	3,946,528	527,142	-	587,128	1,114,270	5,060,798
Over five years	6,110,509	72,665	-	6,183,174	105,389	-	7	105,396	6,288,570
Unspecified	288,007	-	2,525,388	2,813,395	26,571	-	1,707,440	1,734,011	4,547,406
Grand Total	18,098,789	1,244,787	3,225,388	22,568,964	6,195,619	749,922	7,713,900	14,659,441	37,228,405

2. Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.

31st December, 2018

AED in '000

Industry Segment	Past due & Non-Performing Loans Outstanding	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
	Outstanding Amount	Overdue	Specific	General	Write-offs	Write-backs		
United Arab Emirates	903,183	128,914	385,051	7,011	272,247	110,734	49,065	469,067
GCC (excluding UAE)	-	-	-	-	-	-	-	-
Arab League (excluding	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	-	-	-	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Grand Total	903,183	128,914	385,051	7,011	272,247	110,734	49,065	469,067

3. Gross Credit Exposure - Standardized Approach (Rated/ Unrated)

31st December, 2018

AED in '000

Asset Class	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	399,379	1,667,461	2,066,840	1,668,098	-
Claims on Non Central Government PSEs	92,378	-	92,378	-	-
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	5,169,343	2,235,458	7,404,801	2,869,197	2,526,525
Claims on Securities Firms	-	3,867	3,867	3,867	3,867
Claims on Corporates	220,102	14,846,259	15,066,361	10,951,390	11,050,939
Claims included in Regulatory Retail Portfolio	-	607,077	607,077	577,208	523,028
Claims Secured by Residential Property	-	1,003,537	1,003,537	998,892	829,183
Claims Secured by Commercial Real Estate	-	2,296,611	2,296,611	2,212,802	2,212,802
Equity	-	117,215	117,215	112,638	114,875
Past Due Loans	-	977,233	977,233	455,241	521,874
Higher Risk Categories	-	-	-	-	-
Other Assets	-	1,396,866	1,396,866	1,001,113	1,002,590
Total Amount	5,881,202	25,151,584	31,032,786	20,850,446	18,785,683

4. Ageing analysis of accounting past-due exposures

4.1 Past Due and Impaired loans by Industry Segment

31st December, 2018

AED in '000

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	39	11	20	-	-	-	1	18
Manufacturing	51,475	6,986	37,954	155	2,734	15,883	2,933	10,588
Electricity & Water	-	-	-	-	-	26,919	-	-
Construction	381,577	39,465	125,186	3,354	-	24,676	10,296	246,095
Trade	158,661	25,290	101,151	722	53,096	36,565	15,436	42,074
Transport, Storage & Communication	46,217	28,276	17,896	575	-	1,036	1,355	26,966
Financial Institutions	4,674	-	636	83	148,652	-	500	3,538
Other Services	3,872	150	394	52	55,653	250	33	3,445
Government	-	-	-	-	-	-	-	-
Retail/ Consumer banking	38,384	3,306	14,676	293	12,112	5,405	5,641	18,067
All Others	218,284	25,430	87,138	1,777	-	-	12,870	118,276
Grand Total	903,183	128,914	385,051	7,011	272,247	110,734	49,065	469,067

5. Breakdown of restructured exposures between impaired and not impaired exposures.

31st December, 2018

AED in '000

Regulatory Group	NPL-Restructured	Restructured	Total
Claims On Corporates	-	1,274,587	1,274,587
Claims Included In The Regulatory Retail Portfolio	-	44,128	44,128
Claims Secured By Residential Property	-	75,533	75,533
Claims Secured By Commercial Real Estate	-	941,278	941,278
Past Due Loans	495,412	88,993	584,405
Total Outstanding amount	495,412	2,424,519	2,919,931

10.5 CRC - Qualitative information on the mitigation of credit risk

1. Core features of policies and processes for, and indication of the extent to which the bank makes use of, on- and off-balance sheet netting

- The bank does not use on- and off-balance sheet netting for Capital Adequacy Reporting. The bank uses deposit/cash/ cash margin for of collateral.

2. Core features of policies and processes for collateral evaluation 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 in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances.
- The Bank takes into account basic principles of valuation, haircuts and mismatch adjustments, legal considerations and other aspects in valuation of collaterals.
- Quality of Collaterals: All collaterals accepted, as security generally be

- Marketable i.e. readily realizable
 - Easily valued i.e. value to be easily ascertainable
 - Stable in value i.e. all not be prone to violent fluctuation in prices
 - Durable
 - Clear title and transferable
 - Yield: to generate income to honor the obligations either wholly or in part e.g. shares income, rentals from property etc.
- Security and Collaterals are bifurcated into following categories:
 - Tangible: This includes Cash Margin, FD Under lien Mortgages over immovable assets, Pledge of Shares, Commercial Pledge over movable assets.
 - Non Tangible: Guarantees and all other collaterals not having any tangible worth/ value.
 - Collateralization of exposure is supported by proper documentation, charge (registered where required) etc. to ensure its enforceability/reliability.
 - The Bank has collateral valuation guidelines which details the principles and frequency of valuation of securities.
 - The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.
 - When valuations are obtained from Banks' approved evaluators, the lowest value is taken thereafter for the purpose of collateral / LTV computation. A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high. Where the bank accepts fixed assets e.g. property as collateral, these are adequately insured with the bank as loss payee, where-ever applicable. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable.
 - All securities are held under the custody of an independent credit administration function

3. Market or credit risk concentrations under the credit risk mitigation instruments used

- 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.
- The bank endeavors to take an appropriate level of security to secure our advances. All borrowing relationships need to identify a secondary source of repayment.
- The nature of collateral types available to the bank is limited and these collaterals mostly include mortgages/ real estate, time, demand and other cash deposits, financial guarantees, equities other fixed assets. The security margin is computed accordingly keeping in view the type of collateral held.

10.6 CR3 - Credit risk mitigation techniques - overview

		a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	13,691,968	990,230	669,867	0	0	0	0
2	Debt securities	1,288,734	0	0	0	0	0	0
3	Total	14,980,702	990,230	669,867	0	0	0	0
4	Of which defaulted	765,598	1,929	1,407				

10.7 CRD - Qualitative disclosures on banks' use of external credit ratings under the standardised approach for credit risk

1. Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period

- Recognized rating agency shall be Standard and Poor's Ratings Group (S&P), Moody's Investors Service (Moody's), Fitch Group (Fitch) and Capital Intelligence (CI).
- External Credit Assessment Institutions (ECAI) Rating Priority:
 - 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 i.e. In case of two ratings, the lower rating is considered. For multiple ratings, the second lowest rating is considered.
- For foreign currency ratings, only Standard& Poor's, Moody's and Fitch ratings are used.

2. The asset classes for which ECAI and ECA is used

- ECAI risk assessments are used by the Bank as part of the determination of risk weightings for exposure to Banks, Investments (Bonds and Quoted Equity) and Sovereigns.

3. A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book.

- Under the Standardized Approach, the Bank applies the issue specific risk weights where the bank's claim is not an investment in a specific assessed issue. The Bank used issue-specific assessment for cases where specific debt ranks pari-passu or senior to the claim.

4. The alignment of the alphanumerical scale of each agency used with the risk buckets

- Credit ratings of all exposures are determined from the ECAIs and mapped to the exposures assigning a risk weight according to the supervisory tables.

- The alignment of alphanumeric scales of each agency to risk buckets is as follows

S&P	Moody's	Fitch	CI
AAA	Aaa	AAA	AAA
AA+	Aa1	AA+	AA+
AA	Aa2	AA	AA
AA-	Aa3	AA-	AA-
A+	A1	A+	A+
A	A2	A	A
A-	A3	A-	A-
BBB+	Baa1	BBB+	BBB+
BBB	Baa2	BBB	BBB
BBB-	Baa3	BBB-	BBB-
BB+	Ba1	BB+	BB+
BB	Ba2	BB	BB
BB-	Ba3	BB-	BB-
B+	B1	B+	B+
B	B2	B	B
B-	B3	B-	B-
CCC+	Caa1	CCC+	CCC+
CCC	Caa2	CCC	CCC
CCC-	Caa3	CCC-	CCC-
CC	Ca	CC	CC
C	C	C	C
SD	-	DDD	DDD
D	-	DDD	DDD
-	-	D	D

- Standardised approach risk weights corresponding to the Credit Ratings assigned by ECAs have been prescribed by CBUAE for different asset classes as detailed under and is followed by the Bank:

Long-term mapping –Assessments and Risk weights

Risk Grade	ASSESSMENT				RISK WEIGHTS			
	S&P	Fitch	Moody's	CI	Corporate	Banks (Credit Assessment Method Option 2)		Sovereign
						Maturity > 3 Mths	Maturity 3 months or less (Domestic currency only)	
1	AAA to AA-	AAA to AA-	Aaa to Aa3	AAA	20%	20%	20%	0%
2	A+ to A-	A+ to A-	A1 to A3	AA to A	50%	50%	20%	20%
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 to Baa3	BBB	100%	50%	20%	50%
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	BB	100%	100%	50%	100%
5	B+ to B-	B+ to B-	B- to B3	B	150%	100%	50%	100%
6	CCC+ and below	CCC+ and below	Caa1 and below	C and below	150%	150%	150%	150%
7	Unrated	Unrated	Unrated	Unrated	100%	50%	20%	100%

- UAE Dirham denominated and funded sovereign exposures to the Federal and Local Emirate governments attract a risk weighting of 0%. Similarly, all GCC sovereign exposures attract a risk weighting of 0%.

- For the mapping of ratings to risk weights for exposures to banks and securities firms, only the risk weights associated with Option 2 are shown.

10.8 CR4 - Standardised approach - credit risk exposure and CRM effects

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	2,067,377	3,352	2,067,377	101	2,067,478	0.07
2	Non-central government public sector entities	92,378	-	92,378	-	92,378	0.00
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	3,839,950	2,814,930	3,839,950	1,053,947	6,654,880	0.23
5	Securities firms	30,000	-	3,867	-	3,867	0.00
6	Corporates	12,500,020	8,465,711	9,538,986	1,582,567	15,003,011	0.51
7	Regulatory retail portfolios	629,023	7,071	572,979	4,228	597,705	0.02
8	Secured by residential property	1,084,304	-	998,892	-	1,003,537	0.03
9	Secured by commercial real estate	2,294,865	-	2,212,802	-	2,213,802	0.08
10	Equity	112,638	-	112,638	-	112,638	0.00
11	Past-due loans	420,347	77,331	418,925	36,316	494,382	0.02
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	1,064,732	-	1,001,113	-	1,064,732	0.04
14	Total	24,135,634	11,368,395	20,859,907	2,677,159	29,308,410	1.00

10.9 CR5 - Standardised approach - exposures by asset classes and risk weights

		a	b	c	d	e	f	g	h	i	j
	Risk weight*	0%	10%	20%	35%	50%	75%	100%	150%	Others 115%	Total credit exposures amount (post CCF and post-CRM)
	Asset classes										
1	Sovereigns and their central banks	2,067,478	-	-	-	-	-	-	-	-	2,067,478
2	Non-central government public sector entities	92,378	-	-	-	-	-	-	-	-	92,378
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	243,300	-	4,437,287	-	121,484	91,825	-	4,893,896
5	Securities firms	-	-	-	-	-	-	3,867	-	-	3,867
6	Corporates	-	-	53,524	-	55,588	-	11,012,440	-	-	11,121,552
7	Regulatory retail portfolios	-	-	-	-	-	216,719	360,488	-	-	577,207
8	Secured by residential property	-	-	-	261,091	-	-	737,801	-	-	998,892
9	Secured by commercial real estate	-	-	-	-	-	-	2,212,802	-	-	2,212,802
10	Equity	-	-	-	-	-	-	97,720	-	14,918	112,638
11	Past-due loans	-	-	-	-	-	-	321,975	133,266	-	455,241
12	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13	Other assets	-	-	-	-	-	-	1,001,113	-	-	1,001,113
14	Total	2,159,856	-	296,824	261,091	4,492,875	216,719	15,869,690	225,091	14,918	23,537,064

11. Counterparty credit risk (CCR)

11.1 CCRA - Qualitative disclosure related to CCR

Not Applicable to the Bank

11.2 CCR1 - Analysis of CCR by approach

Not Applicable to the Bank

11.3 CCR2 - Credit valuation adjustment capital charge

Not Applicable to the Bank

11.4 CCR3 - Standardised approach - CCR exposures by regulatory portfolio and risk weights

Not Applicable to the Bank

11.5 CCR5 - Composition of collateral for CCR exposure

Not Applicable to the Bank

11.6 CCR6 - Credit derivatives exposures

Not Applicable to the Bank

11.7 CCR8 - Exposures to central counterparties

Not Applicable to the Bank

12. Securitisation

12.1 SECA - Qualitative disclosures related to securitisation exposures

Not Applicable to the Bank

12.2 SEC1 - Securitisation exposures in the banking book

Not Applicable to the Bank

12.3 SEC2 - Securitisation exposures in the trading book

Not Applicable to the Bank

12.4 SEC3 - Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor

Not Applicable to the Bank

12.5 SEC4 - Securitisation exposures in the trading book and associated capital requirements - bank acting as investor

Not Applicable to the Bank

13. Market risk

13.1 MRA - General qualitative disclosure requirements related to market risk

- The Bank conducts regular analysis of its interest rate, foreign exchange and liquidity risks. The measures includes Economic Value of Equity (EVE), Earnings At Risk (EaR), Value At Risk (VaR) that are reported to ALCO and Risk Control Forum. In addition to regular market risk exposure limit compliance, variety of adhoc analysis of market risk issues is carried out as directed by senior management.
- The Bank has the following principles for managing the investments in financial assets:
 1. **Preservation of Capital** – The first objective of the investment operations is safety of the funds invested. A proper assessment and appraisal of risks is a pre-requisite for any investment decision.
 2. **Maintenance of Liquidity** – Adequate caution to be exercised to ensure that the Bank does not face any liquidity constraints in the future as a result of maturity profile of the investment. All future outflows and inflows to be reasonably estimated and investments be made considering the liquidity profile of the Bank based on sound commercial judgment.
 3. **Optimization of Returns** – Earning optimum returns on funds invested is essential for the successful conduct of investment activities in the Bank. The return must be commensurate with the safety and liquidity requirements.
 4. **Compliance with Regulatory Guidelines** – The Investment Committee to ensure that all regulatory and internal guidelines are followed for management of investment portfolio.
- As a policy, Bank does not invest in:
 - **Private Equity**
 - **Hedge Funds**
 - **Subordinated Debts**

Existing legacy portfolio in unquoted equity are in exit mode. To be liquidated based on market conditions. Investment in these asset classes permitted only with specific approval of Board Credit & Investment Committee (BCIC)

- **Reporting:**
 - Bank monitors Market to Market (MTM) valuation for Bonds and Equity portfolio on a daily basis.
 - Bank also monitors compliance with Investment policy on a weekly basis and performance of Investment portfolio on a monthly basis. These reports are part of Risk Dashboard and submitted to Asset Liability Management Committee (ALCO) and Risk Control Forum and to Board Risk Committee.
 - The performance report is also reviewed by Board Audit and Compliance committee in their meetings.

1. Capital Charge for Market Risk

The minimum capital charge for market risk consists of two separately calculated charges:

- **Specific Risk Charge:**
 - Specific risk charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.
 - CBUAE has prescribed specific risk charges (as % of exposure) for various kinds of exposure. The Bank follows the prescribed specific risk charges.
 -

▪ **General Market Risk Charge:**

- General market risk charge towards interest rate risk in the portfolio.
- Bank follows “Standardized Duration Method” to arrive at capital charge for general market risk for all interest rate related instruments.
- Capital charge for market risk in major currencies also have to be included in the calculation.

2. Aggregation of the capital charge for market risks

Capital charges for specific risk and general market risk are computed separately before aggregation. The Bank follows the same methodology for calculation of total capital charge for Market Risk.

3. Market Risk Measurement & Monitoring

- The measurement of risk includes statistical tools like Modified Duration, as well as non-statistical tools like Price Value Basis Point (PVBP), Weighted Average Portfolio Rating (WAPR) etc. Bank has also initiated monitoring of market risk portfolio VaR as part of Risk Appetite statement.
- Interest rate risk is measured through interest rate sensitivity. Bank uses Traditional Maturity Gap Analysis and Duration Gap Analysis for measurement of interest rate risk.
- Bank carries out stress test on interest rate risk and measures sensitivity of NII against interest rate, periodically, by testing the portfolio for movement in interest rate in different directions.
- Bank’s fixed income portfolio is exposed to interest rate risk in ‘rising interest rate’ scenario which is monitored regularly and Bank may examine hedging strategy for the portfolio. Those held under ‘available for sale’ are subject to expected credit loss calculation under IFRS 9.

13.2 MR1 - Market risk under the standardised approach

		a	
		Capital charge in SA	RWA
1	General interest rate risk	6,370	60,671
2	Equity risk		
3	Commodity risk		
4	Foreign exchange risk	2,521	24,014
5	Credit spread risk - non-securitisations		
6	Credit spread risk - securitisations (non-correlation trading portfolio)		
7	Credit spread risk - securitisation (correlation trading portfolio)		
8	Default risk - non-securitisations		

9	Default risk - securitisations (non-correlation trading portfolio)		
10	Default risk - securitisations (correlation trading portfolio)		
11	Residual risk add-on		
12	Total	8,892	84,685

14. Interest rate risk in the banking book (IRRBB)

14.1 IRRBBA - IRRBB risk management objectives and policies

A. Quantitative

1. Definition

- 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 repricing 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.

2. Components of Interest Rate Risks in Banking Books

- Re-pricing risk:** related to the timing mismatch in the maturity and interest rate re-pricing of assets and liabilities, off balance sheet short and long term positions. This risk is measured using re-pricing and duration gap report.
- Basis risk:** as the Bank's assets and liabilities are currently linked to benchmarks that mimics each other, the measurement of this component will be restricted to measuring basis risk arising on account of different currencies only.
- Yield curve risk:** arising from unequal changes in spreads between two or more rates for different maturities in the same yield curve (currency) (e.g. short term interest rates changing more than the change in long term interest rates).
- An important driver of interest rate risk in the banking environment is client behaviour. Any risk run by clients due to the fact that their financial obligations increase as a result of movements in interest rates does not affect the Banks's exposure to interest rate risk, but it may increase the bank's exposure to credit risk.

3. 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.
- The Bank has also started using two standard measures for the management of interest rate risk in the banking environment:
 - Economic Value of Equity at Risk (EVE).
 - Earnings at Risk (EaR).
- The EVE and the EaR are used to control and manage the interest rate risk in the banking environment arising from changes in the level of interest rates. The delta is used to control and manage the risk of changes of the yield curve.
- In addition to the standard measures of interest rate risk in the banking environment, bank regularly analyses the effect of one or more macroeconomic scenarios on its earnings and economic value. The results of this analysis are important for integrated interest rate risk management purposes and are included in reports to ALCO.
- Furthermore, the amount of capital required to compensate for the effect of unfavourable interest rate developments on the books in the banking environment is calculated on the basis of both historical scenarios and scenarios based on the opinions of experts.

4. Risk Measurement Methodology (Quantitative / Qualitative)

- The Bank views Interest Rate Risk from two different but complimentary perspectives viz.
 - The **Earnings Perspective** and
 - The **Economic Value Perspective**

A. Earnings Perspective of IRRBB

- In the earnings perspective, the Bank focuses on the impact of changes in interest rates on the Net Interest Income. The key variables that determine the impact on NII are the extent & nature of shifts in the yields and the re-pricing mismatches in the Bank's rate sensitive assets and liabilities. The main measure used by the bank to manage interest rate risk from the earnings perspective (or short term perspective) is Earnings at Risk (EaR).
- The main measure used by the bank to manage interest rate risk from the earnings perspective (or short term perspective) is Earnings at Risk (EaR).

The EaR is the largest deviation, in negative terms of the expected net interest income in the next 12 months, as a result of an immediate and sustained rise/fall in all money and capital markets interest rates in this period by 2 percentage points.

The limit for this measure was 7.5% of the base NII scenarios. The EaR analysis does not take account of active management intervention, but it does take account of the changes in the pricing policy for savings products. The limit for this measure was 7.5% of the base NII scenarios. The EaR analysis does not take account of active management intervention, but it does take account of the changes in the pricing policy for savings products.

AED mn	Delta NII or EaR	Dec.18 %
Dn 400	(44.76)	-7.14%
Dn 300	(64.51)	-10.29%
Dn 200	(96.31)	-15.37%
Dn 100	(67.86)	-10.83%
IRR	-	
Up 100	60.31	9.62%
Up 200	121.27	19.35%
Up 300	182.87	29.17%
Up 400	245.12	39.11%
Base 12 mths NII	626.79	

- The Bank also uses traditional rate sensitive gap analysis as a way to measure IRRBB exposure. The re-pricing gap statement is used as the base for Traditional Gap Analysis.
- In the re-pricing gap statement, assets and liabilities are bucketed in defined tranches based on their maturity or re-pricing date, whichever comes first. The impact of 100bps and 200bps parallel movement in interest rates on the NII of the Bank over a 1 year horizon is determined.
- The Bank's interest rate re-pricing gap position based on the contractual re-pricing arrangements at 31st December 2017 was as follows:

AED Mn										
Particulars	Upto 1 M	1-3 M	3-6 M	6-12 M	1-3 Y	3-5 Y	5-10 Y	>10 Y	Non Rate Sensitive	Total
Rate Sensitive Assets	14,657	1,878	971	407	1,016	580	784	51	1,147	21,492
Rate Sensitive Liabilities	5,213	3,321	2,016	2,120	436	-	-	-	8,386	21,492
Re-pricing Gap	9,444	(1,442)	(1,045)	(1,714)	581	580	784	51	(7,239)	
Cumulative Re-pricing Gap	9,444	8,002	6,957	5,243	5,824	6,404	7,188	7,239		

- Impact of 2% sudden and parallel rise in yield curve on NII:
: If yield for all tenors rise by 2%, this is expected to positively affect the NII by AED 135 mn. The above analysis is used in conjunction with the Economic Value perspective.

B. Economic Value Perspective of IRRBB

The main measure used by the bank to manage interest rate risk from the perspective of economic value is the Economic Value of Equity (EVE). The EVE shows the percentage decline in the economic value of equity if money and capital market interest rates rise by 200 basis points.

AED mn	Delta EVE or EVE at Risk	Dec %
Dn 200	653.74	12.46%
Dn 150	653.03	12.45%
Dn 100	277.37	5.29%
Dn 50	93.32	1.78%
EVE	-	
Up 50	(83.47)	-1.59%
Up 100	(160.45)	-3.06%
Up 150	(231.57)	-4.41%
Up 200	(297.38)	-5.67%
Base 12 mths NII		200bp Rise as % of Tier 1 Capital
Tier 1 Equity	5,247.15	7.80%

5. Framework for Measuring Interest Rate Sensitivity

- Economic Value of Equity at Risk, Earnings at Risk are used on a monthly basis to measure the bank's exposure to short term and long term interest rate risk
- The ALM Policy defines the framework for measuring interest rate sensitivity.
- It identifies each major class of asset and liability and its sensitivity under the NII and EVE approach.

6. Risk Mitigation Actions and/ or Controls

- Customer deposits constitute around 60% of bank's funding. Tenor of most customer term deposits are short (normally, less than a year) resulting in faster re-pricing of such liabilities.
- Further, majority of loans are floating, wherein fixing of interest rate are carried out every 3 months. The Bank is in the process of reducing the periodicity to 1 month. Similar re-pricing pattern between assets and liabilities results in a 'natural hedge' and reduces interest rate risk in banking book.
- Risk management department monitors exposure with respect to major sources of interest rate risks in banking book, namely fixed coupon debt securities as well as few long term loans with fixed coupons, and appraises ALCO on a monthly basis for deliberation.
- The Bank has in place necessary systems and frameworks as required by principles set out in 'Principles for the Management and Supervision of Interest Rate Risk, Basel Committee on Banking Supervision (BCBS).
- Additionally, ALCO deliberates on the basis of re-pricing gap report prepared by risk management department. Tolerance limits for interest rate risk in banking book is clearly articulated under Risk appetite –tolerance limit documents.

- Additionally limits are in place for weighted average maturity of debt security investment portfolio in Banking Book. These limits are reviewed periodically by the committee and revised on the basis of interest rate outlook.

7. Capital Impact and Allocation

- The Bank manages this risk principally through monitoring the tenor wise net re-pricing gap between its rate sensitive assets and liabilities.
- For management and supervision of Interest Rate Risk in banking book, BCBS recommends that if a standardized shock (sudden and parallel rise in interest rate by 2%) leads to an economic value decline of more than 20% of the sum of Tier 1 and Tier 2 capital, the bank will be considered as having excessive IRRBB and would normally be required by the CBUAE to hold additional capital.
- In the increasing interest rate scenario, it is not felt necessary to allocate capital for this risk.

B. Quantitative

1. **Average repricing maturity assigned to NMDs** - Not Applicable to the Bank

2. **Longest repricing maturity assigned to NMDs** - Not Applicable to the Bank

14.2 IRRBB1 - Quantitative information on IRRBB

In reporting currency	ΔEVE		ΔNII	
Period	T	T-1	T	T-1
Parallel up	653.74	465.07	121.27	119.91
Steepener	-	-	-	-
Flattener	-	-	-	-
Short rate up	-	-	-	-
Short rate down	-	-	-	-
Maximum	-	-	-	-
Period	T		T-1	
Tier 1 capital	5,247		4,006	

15. Operational risk

15.1 OR1 - Qualitative disclosures on operational risk

- Basel II requires banks to have sufficient capital to cover Operational Risks. Operational Risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems as also the risk of loss arising from external events. More than the regulation, Basel II provides opportunity to improve internal control and risk measurement processes supplemented by supervisory review process and market discipline through Pillar II as well as Pillar III of the Accord.
- The regulatory framework outlines three methods for calculating operational risk capital charges in continuum of increasing sophistication and risk sensitivity.
 - Basic Indicator Approach (BIA);
 - Standardized Approach (TSA)
- As a start, CBUAE has advised that the Banks shall compute the capital requirements for operational risk under the “Basic Indicator Approach”. Accordingly, the Bank is following the Basic Indicator Approach for Operational Risk.
- Currently Basel committee is working on the consultative paper on the ‘Standardized Measurement Approach’ (SMA), which has been released for the market feedback. Al Masraf will explore the SMA approach when it has been finalized and required to be complied with.

A. Basic Indicator Approach

- Under the Basic Indicator Approach, banks are required to hold capital for operational risk equal to 15% of average gross income (positive annual gross income) over the previous three years. Negative annual gross income, for any year, should be excluded from the numerator and denominator when calculating average.

B. Operational Risk Management Framework

- Operational Risk governance framework is made up of Operational Risk Policies, Procedures, Management Information to various committees and oversight by the Operational Risk Management Committee (ORMC). An operational risk assessment process is undertaken periodically by each line of business and support functions with the output challenged through the Operational Risk Management Committee (ORMC).
- The Bank has implemented 3 lines of defense as part of its Risk Governance. This is in accordance with Basel recommendation for ORM. Loss trends reports are reviewed periodically by ORMC with a regular update provided to the BRC. New Product Process Approval (NPPA) is in place and is implemented across the Bank.
- Risk Control Self Assessment (RCSA) is a component of the Operational Risk Management Framework implemented across the Bank. The RCSA process is designed to provide business/function with a forward looking view of operational risk to help them proactively determine whether their key operational risks are controlled within acceptable levels.
- The Bank has also implemented Key Risk Indicators (KRI) Framework as part of Risk Monitoring and has reasonable Internal Loss Event Reporting to continuously build up its internal loss database.



- The Bank has a comprehensive policy on Operational Risk Management.
- As part of governance structure, bank has constituted Operational Risk Management committee as a principal forum for discussing and communicating bank wide issues, initiatives and decisions in respect of Operational Risk.
- The Mandate of Al Masraf Operational Risk Management Committee covers the following responsibilities:
 - (i) oversee the formulation of the Operational Risk Framework and propose Operational Risk Procedures for approval by Board Risk Committee (BRC) or Chief Executive Officer (CEO) as required
 - (ii) monitor Operational Risk appetite and tolerance so as to ensure that the Bank is able to make a fair statement of its Risk profile and to minimize significant operational losses
 - (iii) evaluate Operational Risk environment for implementing systems employed by the Bank and for introducing any new banking products or any process changes.
- The bank conducts regular operational risk awareness trainings across all departments and business units/branches.

16. Remuneration details

The number of employees as at 31 December 2018 was 391 employees (2017: 354 employees).

Staff costs are divided as follows:

	2018 AED'000	2017 AED'000
Salaries and wages	88,995	75,574
End of service benefits	6,339	10,712
Other benefits	78,543	70,174
	173,877	156,460

The volume of related party transactions, outstanding balances and related expenses and income for the year were as follows:

	Key management personnel		Others	
	31 December 2018 AED'000	31 December 2017 AED'000	31 December 2018 AED'000	31 December 2017 AED'000
Balances				
Loans and advances	33,245	26,191	4,515	4,630
Deposits	22,355	24,884	3,818,837	2,820,273
Commitments and contingencies	-	-	2,152,075	2,881,989
Transactions				
Board of Directors'	10,640	12,000	-	-
Salaries and benefits	17,781	18,880	-	-
Post-employment benefits	1,345	1,301	-	-
Interest income	1,422	483	-	2
Interest expense	312	282	49,825	23,597
Fee and commission	-	-	2,797	7,336
Dividend paid	-	-	150,000	150,000

Included within others above are balances and transactions with the Bank's Shareholders and parties related to them.

Loans and advances issued to related parties are repayable over one year and bear interest rates ranging between 3% and 5% (2017: 4% to 7%). No collateral is under lien on loans and advances to related parties. No provisions have been passed against loans and advances to related parties.