



# **ARAB BANK FOR INVESTMENT AND FOREIGN TRADE (AL MASRAF)**

## **CAPITAL ADEQUACY PILLAR III DISCLOSURES 31<sup>st</sup> December 2021**

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## 1. Summary

- This Basel III - Pillar 3 Report for Arab Bank for Investment and Foreign Trade ("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 and 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 the capital requirement.
- In accordance with the minimum capital requirement calculation methodology as prescribed under Basel III, the Banks capital adequacy as at 31st December 2021 and a comparison thereof with the figures as of 30th June 2021 and 31st December 2020 is as follows:

Particulars	Dec 2021	Jun 2021	Dec 2020
<b>Total Capital Adequacy Ratio</b>	19.81%	18.12%	18.93%
<b>Tier 1 Capital Adequacy Ratio</b>	18.65%	16.97%	17.77%
<b>CET 1 Ratio</b>	18.65%	16.97%	17.77%

- As of 31st December 2021, the Banks total Risk Weighted Assets (RWAs) amounted to AED 19,700 million, which comprised of 92.31% Credit Risk; 0.12% Market Risk and 7.57% Operational Risk.
- This Pillar 3 Report provides details on the Bank's risk profile by risk asset class, which form the basis for the calculation of the capital requirement. Numbers are stated in AED thousands unless stated otherwise.

### 1.1 Capital Adequacy

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

- CBUAE issued "Regulation Re Capital Adequacy in the UAE" in 2017 and "Standard Re Capital Adequacy in the UAE" in 2018. In 2020, the CBUAE issued "the update of Standards re Capital Adequacy in the UAE" ("the Standards"). In November 2021, the CBUAE issued revised templates for Pillar 3 disclosures. The Standards and reporting templates support the implementation of the "Regulations re Capital Adequacy" and are applicable to all banks operating in the UAE. Based on these standards, revised Pillar 3 disclosures requirements are effective from December 2021.
- As per Central Bank regulation for Basel III, the capital requirements is 10.50%. 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 & Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
- Additionally Capital Conservation Buffer (CCB) is to be maintained at 2.5%. However, banks are allowed to tap into the CCB upto a maximum of 60% without supervisory consequences effective from 15 March 2020 till 30 June 2022 under the CBUAE's Targeted Economic Support Scheme (TESS).

#### Capital Management

- The Bank's regulator, CBUAE, 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 2021, the Bank's strategy, which was unchanged from 2020, was to:
  - Maintain capital adequacy ratios above the minimum specified by the CBUAE 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 as part of Risk Appetite through ALCO and Management Risk Committee.

## 2. Introduction

### 2.1 Information on Subsidiaries and Significant Investments

- Arab Bank for Investment and Foreign Trade PJSC ( "Al Masraf" or "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 (including Islamic financial services) and carries out its operations in the United Arab Emirates through its branches in UAE and provides services through digital channels. The Bank also has representative offices in Libya.

### 2.2 Basel Components

- In November 2009, the Central Bank of the United Arab Emirates ("CBUAE") had first issued guidelines for implementation of Basel II Capital Accord in the banks operating in the UAE.
- In March 2017, the CBUAE issued guidelines "Regulations Re Capital Adequacy" to bring the capital adequacy regulation framework in the UAE in line with revised capital standards set out by the Basel Committee on Banking Supervision – Basel III. Thereafter, CBUAE from time to time has issued regulations and standards with regard to Capital Adequacy for implementation of Basel Capital Accord in the banks operating in the UAE.
- CBUAE Basel framework is intended to strengthen the market discipline and risk management while enhancing the safety and soundness of UAE banking industry. Basel is structured around three 'Pillars' viz.
  - 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.
  - Pillar II - The Supervisory Review Process and the Internal Capital Adequacy Assessment Process (ICAAP):** Pillar II allows banks and supervisors to take a view on whether the bank holds additional capital to cover the three Pillar 1 risk types and other risks not covered under pillar 1. 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. This risk and capital assessment is commonly referred to as 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 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 is generally to 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 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 factor (CCF) and credit risk mitigation (CRM).

**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
- Pillar II risks have been identified in accordance with the defined process of the Bank and in compliance with CBUAE guidelines. Where possible, the identification and measurement is quantitative, else it is measured in a qualitative manner using scorecards.

**3. Overview of risk management and Risk Weighted Assets****3.1 KM1 - Key Metrics**

AED in '000

Sr. No.	Particulars	31/12/2021	30/09/2021	30/06/2021	31/03/2021	31/12/2020
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 (CET1)	3,675,074	3,566,554	3,511,450	3,633,352	3,664,036
1a	Fully loaded ECL accounting model	3,587,958	3,502,372	3,495,554	3,530,811	3,482,331
2	Tier 1	3,675,074	3,566,554	3,511,450	3,633,352	3,664,036
2a	Fully loaded ECL accounting model Tier 1	3,587,958	3,502,372	3,495,554	3,530,811	3,482,331
3	Total capital	3,902,406	3,794,897	3,750,623	3,868,684	3,902,258
3a	Fully loaded ECL accounting model total capital	3,815,290	3,730,715	3,734,727	3,766,143	3,720,553
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets (RWA)	19,700,623	19,830,963	20,696,464	20,378,698	20,619,548
<b>Risk-based capital ratios as a percentage of RWA</b>						
5	Common Equity Tier 1 ratio (%)	18.7%	18.0%	17.0%	17.8%	17.8%
5a	Fully loaded ECL accounting model CET1 (%)	18.2%	17.7%	16.9%	17.3%	16.9%
6	Tier 1 ratio (%)	18.7%	18.0%	17.0%	17.8%	17.8%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	18.2%	17.7%	16.9%	17.3%	16.9%
7	Total capital ratio (%)	19.8%	19.1%	18.1%	19.0%	18.9%
7a	Fully loaded ECL accounting model total capital ratio (%)	19.4%	18.8%	18.0%	18.5%	18.0%

Additional CET1 buffer requirements as a percentage of RWA						
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	9.3%	8.6%	7.6%	8.5%	8.4%
Leverage Ratio						
13	Total leverage ratio measure	25,715,125	25,888,048	26,527,308	26,322,769	27,528,497
14	Leverage ratio (%) (row 2/row 13)	14.3%	13.8%	13.2%	13.8%	13.3%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	14.0%	13.5%	13.1%	13.4%	12.6%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	14.0%	13.5%	13.1%	13.4%	12.6%
Liquidity Coverage Ratio						
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
Net Stable Funding Ratio						
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
ELAR						
21	Total HQLA	2,963,291	3,054,602	2,664,196	2,977,561	3,873,513
22	Total liabilities	18,583,522	18,447,851	19,105,811	18,954,362	20,111,855
23	Eligible Liquid Assets Ratio (ELAR) (%)	15.95%	16.56%	13.94%	15.71%	19.26%
ASRR						
24	Total available stable funding	18,431,938	18,269,673	19,399,439	18,345,074	18,692,488
25	Total Advances	15,680,935	15,874,783	16,340,615	16,442,171	16,725,398
26	Advances to Stable Resources Ratio (%)	85.07%	86.89%	84.23%	89.63%	89.48%

Risk Weighted Assets reduced to AED 19,700 million as at December 2021 from AED 20,620 million as of December 2020 due to the contraction in the balance sheet and the provisions taken during the year.

## 3.2 OVA - Bank Risk Management Approach

### 1. Business Model Determination and Risk Profile

The Bank provides a range of banking products and services to both corporate and retail sectors throughout its departments, business segments and its branch network in the United Arab Emirates (UAE) and also provides services through digital channels. The Bank has no subsidiaries established or operating outside the UAE.

The key business lines of the Bank broadly includes Corporate, SME, Retail, Financial Institution, and Treasury. 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 Banks 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 and statement of the Bank is approved by the Board of Directors and is reviewed at annual intervals. Its objective is to set the tone from the top in giving 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. Governance Structure

The bank has put in place corporate governance structure as a result of which management and governance related risks are managed. The Bank implemented a Corporate Governance Code in accordance with CBUAE guidelines. The Corporate Governance code was revised in 2017, after a review by the Hawkamah (the Institute of Corporate Governance).

The Bank had further reviewed existing Corporate Governance code in the context of revised CBUAE Regulation. The existing code was revised and implemented in August 2021 (after a review by the Hawkamah) to be in line with CBUAE regulation.

### 2.1 Risk Management Framework

The risk management framework lays emphasis on the Bank's risk philosophy, risk governance and structure, policies and guidelines, risk and reward balance and is supported by regular risk measuring, monitoring, and reporting mechanism, and correction/mitigating actions.

### 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, 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 discusses the medium term 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 Management Risk Committee, Board Risk Committee and the Board. More details are covered under Corporate Governance Report in the annual financial statements.

### 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
i. Board Audit & Compliance Committee	i. Management Committee
ii. Board Risk Committee	ii. Management Risk Committee
iii. Board Remuneration & Nomination Committee	iii. Credit Committee
iv. Board Credit & Investment Committee	iv. Asset Liability Management Committee
v. Board Strategy & Innovations Committee	v. Investment Committee
vi. Board Corporate Governance Committee	vi. Human Resource Committee
vii. Board Executive Committee	vii. Remedial Management Committee
	viii. Provision Committee
	ix. Procurement Committee
	x. Digital Transformation Committee

### 2.4 Governance, Risk Management and Controls

- 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 conform to international best practices.
- The Risk and Credit functions which were earlier handled by Chief Risk Officer (CRO) are segregated with Chief Risk Officer (CRO) directly reports to Board Risk Committee (BRC). Further, CRO attends Credit Committee as an observer without voting rights.
- The Bank has a risk management framework and is working towards integrating risk management into its operations and culture. During past years, various functions pertaining to risk (Risk Governance & Analytics, Market Risk, Operational Risk, BCP, Information Security monitoring and Data Protection) are established headed by Chief Risk Officer (CRO).

## 2.5 Role of Risk Management Department

The Bank has an independent Risk Management Structure managed under the Chief Risk Officer (CRO). Following are the major areas of responsibilities of risk management:

- Establishing bank wide Risk Management and Control Policies, Processes and Procedures;
- 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.

As part of reorganization, Information Security and Data Protection is reporting to CRO from 2021.

## 3. Channels to communicate, 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.
- 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 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 and risk dashboard. These are compiled and submitted to the Management Risk Committee.
- 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 the Policies, Standard Operating Procedures (SOPs) and training online. 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 framework in the Bank 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 when 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.
  - Bank has deployed various credit risk management systems, mainly:
    - (i) Corporate Loan Origination System;
    - (ii) Retail Loan Origination System;
    - (iii) Corporate Rating System; and
    - (iv) IFRS 9 System.

- **Market Risk**

- Bank monitors market risk through Value at Risk (VaR), and other weekly and monthly reports.
- Reports submitted to Asset Liability Management Committee (ALCO) includes reports on Limit monitoring covering investment in banks own book portfolio and includes parameters like modified duration, PVBP, portfolio rating, residual maturity etc. and Investment Portfolio performance report.

- **Liquidity Risk**

- The Bank uses 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) Advances to Stable Recourse Ratio (ASRR), Net Stable Funding Ratio (NSFR) and Liquidity Gap Statement etc. among others to monitor its liquidity positions.

- **Operational risk and BCP**

- 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 tools to conduct risk assessments.
- Business Continuity Planning (BCP)/ Disaster recovery plan (DRP): The Bank has in place BCP and DRP methodologies to prevent prolonged disruptions as a result of application outages, business disruptions etc. The BCP policy facilitates the implementation of Business Continuity Plans through the establishment of a Business Continuity Management (BCM) framework, to ensure essential services are made available during disaster or foreseeable or unforeseeable disruption. The key functional areas within this framework comprises of Planning, Training, Testing, Controls & Monitoring and Reporting.

- **Information Security & Cyber Threat Risk**

- Bank has implemented various tools and controls to address cyber risk. Some of them includes DDOS protection Service Provider, Anti-virus or Anti-malware controls, Intrusion prevention systems, Network access control systems, Physical security boundary and access control systems etc.
- Bank is currently running a program to implement Data Protection and enhance its solutions and products to provide better privacy to its customers and stakeholders.
- Vendor (Hardware & software) support agreement during cyber-attack and Cyber insurance is in place as reactive risk management controls to reduce the impact of cyber risk, if any.

## 5. Process of risk information reporting provided to the Board and Senior Management

- As a part of the reporting framework, various reports pertaining to major risk areas of the Bank are provided to the Management Committees such as Management Risk Committee/ Credit Committee/ ALCO as well as to the Board Risk Committee (BRC).
- Summary of the BRC observations are furnished to the Board.
- The key comprehensive reports provide the Bank wide risk assessment on periodic basis. They are as follows:
  - a) **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.
  - b) **Periodic Reports** including Risk Dashboard, Credit Asset Quality, IFRS 9 ECL and Provision Adequacy, is submitted to the Management Risk Committee (MRC) encompassing risks related to the Bank. Reports on past dues, excess over limit accounts, accounts with early warning signals, expired limits, expired valuations etc. are part of regular Remedial Monitoring Committee reports.
  - c) **Other Reports** submitted to the Board Risk Committee encompasses risks related to the Bank. The report provides a concise overview of key regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, liquidity position of the Bank, market risk, major operational risk incidents and information security update. **Stress testing** is another key component of the quarterly risk reporting process to the 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 in line with complexity and size of Bank, which enables the management 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 policies and various management committees which require more frequent and more granular reporting on risk exposures.

## 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 and Interest rate Risk etc. In addition, the Bank also undertakes stress testing based on macroeconomic scenario as provided by CBUAE annually. Within Credit Risk, stress testing is done to cover market wide macro-economic scenarios and idiosyncratic risks.
- Three stress levels (Minor, Moderate and Major) are conducted on all the principal risk factors on periodic basis as per the Stress Testing Policy.
- In terms of governance, the Stress Testing is conducted by the Risk Management department and is reviewed by the Management Risk Committee and a summary is submitted to the Board Risk Committee.
- The Bank also runs reverse stress test scenario beyond normal business settings to evaluate potential vulnerabilities and assess the mitigation required.

## 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 collaterals to reduce the risk of loss and maximise the probability of facilities being repaid. These risk mitigants include collaterals which are eligible as per Standardised approach in Pillar I, and other securities such as land and property/ mortgages.
- The granting of facilities and taking collaterals as risk mitigants is governed by defined policies and procedures, as well as the use of the Bank's standard documentation that allow for the offset of credit balances against facilities granted, the control over the integrity and valuation of collaterals, and the rights required to enforce and realize applicable collaterals.
- Credit risk is managed through a process of credit due diligence at origination through credit risk acceptance criteria, single obligor lending limits, real estate 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 collaterals, 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 Board annually, and reviewed regularly through the Management Risk Committee, Asset Liability Management Committee (ALCO), with reports provided to the Board Risk Committee.
- The Bank recognizes the importance of liquidity management and has in place the 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.

- The Bank has effective risk mitigation techniques in place to manage and mitigate risk as follows:
  - The Board of Directors has approved credit policy for the Bank.
  - The Bank has internal rating models 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 dues, past due amount, customer rating, etc. The Bank is also more vigilant in terms of the application of credit mitigants. Concentration risk is also monitored on regular basis via Single Large Exposure Limits, Real Estate Sector Cap, Country Limits and Financial Institutions (Bank) Exposure Limits.
  - Exposure to single borrower/ group of related borrows is in line with the maximum legal limits set by CBUAE supported by policies, processes to monitor the total indebtedness of group counterparties.
  - Impairment and Provisioning is done based on IFRS 9 forward looking Expected Credit Loss Impairment Methodology.

### 3.3 OV1 - Overview of Risk Weighted Assets

The decrease in overall Risk Weighted Assets is mainly due to the contraction of the balance sheet and the additional provisions taken during the year.

AED in '000

		a		b	c
		RWA		Minimum capital requirements	
		31/12/2021	30/09/2021	31/12/2021	
1	Credit risk (excluding counterparty credit risk)	18,186,591	18,267,457	1,909,592	
2	Of which: standardised approach (SA)	18,186,591	18,267,457	1,909,592	
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)	-	-	-	
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-	
20	Market risk	24,358	32,749	2,558	
21	Of which: standardised approach (SA)	24,358	32,749	2,558	
22	Of which: internal models approach (IMA)	-	-	-	
23	Operational risk	1,489,674	1,530,757	156,416	
24	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-	
25	Floor adjustment	-	-	-	
26	<b>Total (1+6+10+11+12+13+14+15+16+20+23)</b>	<b>19,700,623</b>	<b>19,830,963</b>	<b>2,068,565</b>	

## 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

AED in '000

	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 with the Central Bank of UAE	1,433,471	1,434,046	1,434,046	-	-	-	-
Due from Banks	1,571,654	1,573,035	1,573,035	-	-	-	-
Investments at fair value through profit or loss (FVTPL)	17,577	43,946	43,946	-	-	-	-
Investment at amortised cost	945,521	946,117	946,117	-	-	-	-
Loans and advances	14,897,420	17,672,634	17,672,634	-	-	-	-
Investments at fair value through other comprehensive income (FVOCI)	2,280,300	2,255,675	2,255,675	-	-	-	-
Investment properties	377,768	708,534	708,534	-	-	-	-
Other assets	751,550	764,874	764,874				
Property and equipment	273,609	273,609	273,609	-	-	-	-
Total Assets	22,548,870	25,672,470	25,672,470	-	-	-	-
Liabilities							
Due to Banks	1,303,062	1,303,062	-	-	-	-	-
Customers’ deposits	16,368,132	16,368,132	-	-	-	-	-
Other liabilities	1,088,119	1,088,119	-	-	-	-	-
Total Liabilities	18,759,313	18,759,313	-	-	-	-	-

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

AED in '000

		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)	25,672,470	25,672,470	-	-	-
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	-	-	-	-	-
3	Total net amount under regulatory scope of consolidation	-	-	-	-	-
4	Off-balance sheet amounts	8,685,421	8,685,421	-	-	-
5	Differences in valuations	-	-	-	-	-
6	Differences due to different netting rules, other than those already included in row 2	-	-	-	-	-
7	Differences due to consideration of provisions	-	-	-	-	-
8	Differences due to prudential filters	-	-	-	-	-
9	Exposure amounts considered for regulatory purposes	34,357,891	34,357,891	-	-	-

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

- General / collective provision is netted from Loans and advances, due from banks and Investments in the financial statements but not deducted for the purposes of Basel reporting. Other assets in financials include acceptances where as they are part of off-balance sheet exposure under Basel reporting.
- Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.
- When applicable, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- When there is no quoted price in an active market, the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates the factors that market participants would take into account in pricing a transaction.
- The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.
- Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.
- If an asset or a liability measured at fair value has a bid price and an ask price, the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.
- The Bank recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

## 5. Prudential valuation adjustments

### 5.1 PV1 - Prudent valuation adjustments

Not applicable to the Bank.

## 6. Composition of capital

### 6.1 CC1 - Composition of regulatory capital

AED in '000

		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
<b>Common Equity Tier 1 capital: instruments and reserves</b>			
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 CC2 template
2	Retained earnings	468,118	Includes AED 87,116 K of IFRS 9 transitional amount
3	Accumulated other comprehensive income (and other reserves)	1,731,581	
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	<b>Common Equity Tier 1 capital before regulatory deductions</b>	<b>3,699,699</b>	
<b>Common Equity Tier 1 capital regulatory adjustments</b>			
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-	CC2 (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	Securitisation gain on sale	-	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
14	Defined benefit pension fund net assets	-	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
17	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)	24,625	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	-	
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	-	
24	<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>24,625</b>	
25	<b>Common Equity Tier 1 capital (CET1)</b>	<b>3,675,074</b>	
<b>Additional Tier 1 capital: instruments</b>			
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC2 (i)
27	Of which: classified as equity under applicable accounting standards	-	
28	Of which: classified as liabilities under applicable accounting standards	-	
29	<i>Directly issued capital instruments subject to phase-out from additional Tier 1</i>	-	
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	
31	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	
32	Additional Tier 1 capital before regulatory adjustments	-	
<b>Additional Tier 1 capital: regulatory adjustments</b>			
33	Investments in own additional Tier 1 instruments	-	
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
36	CBUAE specific regulatory adjustments	-	
37	Total regulatory adjustments to additional Tier 1 capital	-	
38	<b>Additional Tier 1 capital (AT1)</b>	<b>-</b>	
39	<b>Tier 1 capital (T1= CET1 + AT1)</b>	<b>3,675,074</b>	

Tier 2 capital: instruments and provisions			
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
41	<i>Directly issued capital instruments subject to phase-out from Tier 2</i>	-	
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
43	<i>Of which: instruments issued by subsidiaries subject to phase-out</i>	-	
44	Provisions	227,332	
45	<b>Tier 2 capital before regulatory adjustments</b>	227,332	
Tier 2 capital: regulatory adjustments			
46	Investments in own Tier 2 instruments	-	
47	Investments in capital, 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)	-	
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
49	CBUAE specific regulatory adjustments	-	
50	<b>Total regulatory adjustments to Tier 2 capital</b>	-	
51	<b>Tier 2 capital (T2)</b>	227,332	
52	<b>Total regulatory capital (TC = T1 + T2)</b>	3,902,406	
53	<b>Total risk-weighted assets</b>	19,700,623	
Capital ratios and buffers			
54	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets)</b>	18.65%	
55	<b>Tier 1 (as a percentage of risk-weighted assets)</b>	18.65%	
56	<b>Total capital (as a percentage of risk-weighted assets)</b>	19.81%	
57	<b>Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)</b>	-	
58	<b>Of which: capital conservation buffer requirement</b>	-	
59	<b>Of which: bank-specific countercyclical buffer requirement</b>	-	
60	<b>Of which: higher loss absorbency requirement (e.g. DSIB)</b>	-	
61	<b>Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.</b>	9.31%	
The CBUAE Minimum Capital Requirement			
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
Amounts below the thresholds for deduction (before risk weighting)			
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	
66	Significant investments in common stock of financial entities	-	
67	Mortgage servicing rights (net of related tax liability)	-	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-	

Applicable caps on the inclusion of provisions in Tier 2			
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	574,071	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	227,332	
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
72	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)			
73	Current cap on CET1 instruments subject to phase-out arrangements	NA	
74	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	NA	
75	Current cap on AT1 instruments subject to phase-out arrangements	NA	
76	Amount excluded from AT1 due to cap (excess after redemptions and maturities)	NA	
77	Current cap on T2 instruments subject to phase-out arrangements	NA	
78	Amount excluded from T2 due to cap (excess after redemptions and maturities)	NA	

The Capital base of the Bank as at 31 December 2021 is AED 3,902,406 K (31 December 2020: AED 3,902,258 K) has stayed almost constant.

## 6.2 CC2 - Reconciliation of regulatory capital to balance sheet

AED in '000

	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
<b>Assets</b>			
Cash and balances with the Central Bank of UAE	1,433,471	1,434,046	
Due from Banks	1,571,654	1,573,035	
Investments at fair value through profit or loss (FVTPL)	17,577	43,946	
Investment at amortised cost	945,521	946,117	
Loans and advances	14,897,420	17,672,634	
Investments at fair value through other comprehensive income (FVOCI)	2,280,300	2,255,675	
Investment properties	377,768	,534	
Other assets	751,550	764,874	
Property and equipment	273,609	273,609	
<b>Total assets</b>	<b>22,548,870</b>	<b>25,672,470</b>	
<b>Liabilities</b>			
Due to Banks	1,303,062	1,303,062	
Customers' deposits	16,368,132	16,368,132	
Other liabilities	1,088,119	1,088,119	
<b>Total liabilities</b>	<b>18,759,313</b>	<b>18,759,313</b>	
<b>Shareholders' equity</b>			
Paid-in share capital	1,500,000	1,500,000	
Of which: amount eligible for CET1	1,500,000	1,500,000	(h)
Of which: amount eligible for AT1	-	-	(i)
Statutory reserve	655,965	655,965	
Special reserve	651,375	651,375	
General reserve	380,000	380,000	
Revaluation reserve	122,902	-	
Fair value reserve	98,313	44,241	
Retained earnings	381,002	468,118	
<b>Total shareholders' equity</b>	<b>3,789,557</b>	<b>3,699,699</b>	

General / collective provision is netted from Loans and advances, due from banks and Investments in the financial statements but not deducted for the purposes of Basel reporting. Other assets in financials include acceptances where as they are part of off-balance sheet exposure under Basel reporting.

The difference in Capital is due to the capital deductions and the adjustment for IFRS9 transitional adjustment as per the Basel III guidelines.

### 6.3 CCA - Main features of regulatory capital instruments

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

## 7. Macro Prudential 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

The Bank is not exposed to countercyclical capital buffer requirements.

## 8. Leverage ratio

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

		AED in '000
		31/12/2021
1	Total consolidated assets as per published financial statements	22,548,870
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 securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,166,255
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	<b>Leverage ratio exposure measure</b>	<b>25,715,125</b>

## 8.2 LR2 - Leverage ratio common disclosure template

The leverage ratio exposures as at 31 December 2021 has increased slightly as compared to the exposure as at 30 September 2021.

AED in '000

		31/12/2021	30/09/2021
<b>On-balance sheet exposures</b>			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	22,548,870	22,394,252
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	-	-
7	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)</b>	22,548,870	22,394,252
<b>Derivative exposures</b>			
8	Replacement cost associated with <i>all</i> derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
9	Add-on amounts for PFE associated with <i>all</i> derivatives transactions	-	-
10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	<b>Total derivative exposures (sum of rows 8 to 12)</b>	-	-
<b>Securities financing transactions</b>			
14	Gross SFT <i>assets</i> (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	<b>Total securities financing transaction exposures (sum of rows 14 to 17)</b>	-	-
<b>Other off-balance sheet exposures</b>			
19	Off-balance sheet exposure at gross notional amount	8,685,421	10,146,491
20	(Adjustments for conversion to credit equivalent amounts)	(5,519,166)	(6,652,695)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	<b>Off-balance sheet items (sum of rows 19 to 21)</b>	3,166,255	3,493,796
<b>Capital and total exposures</b>			
23	<b>Tier 1 capital</b>	3,675,074	3,566,554
24	<b>Total exposures (sum of rows 7, 13, 18 and 22)</b>	25,566,053	25,888,048
<b>Leverage ratio</b>			
25	<b>Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)</b>	14.3%	13.8%
25 a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	14.3%	13.8%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	<b>Applicable leverage buffers</b>	NA	NA

## 9. Liquidity

### 9.1 LIQA - Liquidity risk management

#### 1. General

- Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset..
- 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 limits for the maximum net cash outflow for specific periods. 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.
  2. An extensive buffer of high-quality 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 funds transfer pricing policy, in order to be able to provide funding at acceptable costs.
- 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.
- Bank computes LCR and NSFR on regular basis. Treasury implement pro-active strategies in the market to ensure compliance at all times with the applicable regulatory ratios (number 2 and 4 below).
- The following liquidity ratios are monitored by the ALCO committee on a monthly basis:
  1. Loans to Deposits Ratio (LD Ratio)
  2. Eligible Liquid Assets Ratio (ELAR)
  3. Liquidity Coverage Ratio (LCR)
  4. Advances to Stable Resource Ratio (ASRR)
  5. Net Stable Funded Ratio (NSFR)
  6. Net Interbank Position
- ALCO reviews liquidity risk reports as a part of its agenda.
- The Bank acts actively to diversify its funding sources and maintains a healthy balance of cash and cash equivalents, and readily marketable securities to guard against liquidity risk. For extreme cases of stress on liquidity, a contingency funding plan was set in place, as part of Liquidity Risk policy.

#### 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 15 depositors are monitored on regular basis and presented to ALCO.

#### 4. Risk Mitigation Actions and / or Controls covering stress testing and contingency funding plan

- Liquidity Risk is a key focus-area for the Bank's senior management. The Bank has Board approved Liquidity Management Policy in place.
- 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 different levels of liquidity crisis, which is being monitored by ALCO.
- The Bank ensures to have access to diverse sources of funding ranging from customer deposits (both retail and corporate) and money market lines with local and international banks.
- Bank conducts stress testing covering situations where liquidity stress is caused by drying up of large deposits categorized under different types. Stress Testing also covers off balance sheet commitments. Stress Testing is being done at varying severity levels (Minor, Moderate and Major).
- For extreme cases of stress on liquidity, a contingency funding plan was set in place, as part of Liquidity Risk policy. The Bank's Contingency Funding Plan (CFP) provides a framework to respond quickly in a variety of situations.

#### 5. Concentration limits

- The Bank has in place deposit concentration limits as part of its risk appetite. This is monitored on daily basis and is part of monthly ALCO pack and management review and discussion.

#### 6. Liquidity exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, taking into account legal, regulatory and operational limitations on the transferability of capital

- The Bank does not have any subsidiaries. The Liquidity Exposure and funding needs are managed centrally at Bank level.

## 7. Balance sheet broken down into maturity buckets and the resultant liquidity gaps\*

AED in '000

	Carrying Amount	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Unspecified maturity
<b>Assets</b>							
Cash and balances with the Central Bank of the UAE	1,433,471	1,433,471	-	-	-	-	-
Due from banks	1,571,654	1,556,962	14,692	-	-	-	-
Investments at FVOCI	2,280,300	129,205	185,701	627,247	416,661	774,261	147,225
Investment at FVTPL	17,577	-	-	-	-	-	17,577
Investment at amortised cost	945,521	360,279	563,258	-	-	21,984	-
Loans and advances	14,897,420	3,511,297	2,535,484	2,656,647	2,232,026	3,961,966	-
Other assets	722,101	516,154	205,195	402	350	-	-
<b>Total assets</b>	<b>21,868,044</b>	<b>7,507,368</b>	<b>3,504,330</b>	<b>3,284,296</b>	<b>2,649,037</b>	<b>4,758,211</b>	<b>164,802</b>
<b>Liabilities</b>							
Customers' deposits	16,368,132	12,022,990	3,513,714	831,428	-	-	-
Due to banks	1,303,062	458,272	844,790	-	-	-	-
Other liabilities	825,017	647,574	176,554	540	349	-	-
<b>Total liabilities</b>	<b>18,496,211</b>	<b>13,128,836</b>	<b>4,535,058</b>	<b>831,968</b>	<b>349</b>	<b>-</b>	<b>-</b>
<b>Statement of financial position gap</b>	<b>3,371,833</b>	<b>(5,621,468)</b>	<b>(1,030,728)</b>	<b>2,452,328</b>	<b>2,648,688</b>	<b>4,758,211</b>	<b>164,802</b>

\* This includes financial assets &amp; financial liabilities

## 9.2 ELAR - Eligible Liquid Assets Ratio

AED in '000

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	1,434,047	
1.2	UAE Federal Government Bonds and Sukuks	924,133	
	Sub Total (1.1 to 1.2)	2,358,180	2,358,180
1.3	UAE local governments publicly traded debt securities	632,829	
1.4	UAE Public sector publicly traded debt securities	34,547	
	Sub Total (1.3 to 1.4)	667,376	605,111
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	<b>Total</b>	<b>3,025,556</b>	<b>2,963,291</b>
2	Total liabilities		18,583,522
3	<b>Eligible Liquid Assets Ratio (ELAR)</b>		<b>15.9%</b>

## 9.3 ASRR - Advances to Stable Resources Ratio

AED in '000

	Items	Amount
1	<b>Computation of Advances</b>	
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	15,005,576
1.2	Lending to non-banking financial institutions	399,145
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	261,522
1.4	Interbank Placements	14,692
1.5	<b>Total Advances</b>	<b>15,680,935</b>
2	<b>Calculation of Net Stable Resources</b>	
2.1	Total capital + general provisions	4,284,260
	<b>Deduct:</b>	
2.1.1	Goodwill and other intangible assets	
2.1.2	Fixed Assets	1,000,010
2.1.3	Funds allocated to branches abroad	
2.1.5	Unquoted Investments	32,085
2.1.6	Investment in subsidiaries, associates and affiliates	
2.1.7	<b>Total deduction</b>	<b>1,032,095</b>
2.2	<b>Net Free Capital Funds</b>	<b>3,252,165</b>
2.3	<b>Other stable resources:</b>	
2.3.1	Funds from the head office	
2.3.2	Interbank deposits with remaining life of more than 6 months	844,792
2.3.3	Refinancing of Housing Loans	0
2.3.4	Borrowing from non-Banking Financial Institutions	125,257
2.3.5	Customer Deposits	14,209,724
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
2.3.7	<b>Total other stable resources</b>	<b>15,179,773</b>
2.4	<b>Total Stable Resources (2.2+2.3.7)</b>	<b>18,431,938</b>
3	<b>Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)</b>	<b>85.1%</b>

## 10. Credit risk

### 10.1 CRA - General qualitative information about credit risk

#### 1. Business Model and Credit Risk Profile

##### 1.1 Business Model

- The Bank's business line is broadly classified into Corporate and Retail. The Banks portfolio consist of Exposure on Banks, Fixed Income and Quoted Equity Portfolio.
- With-in Corporate, the business is bifurcated into various Segments such as Large Corporate, High Net-worth Individuals (Corporate), and SME.
- For the purposes of aligning the business model to the Bank's credit risk profile, the Bank has a policy defining the Target 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 includes:
  - Risk Appetite,
  - Credit Policies Guidelines and Procedures,
  - General Credit Standards,
  - Target Clients, Prohibited and Restricted lending,
  - Credit Concentration Caps.

##### 1.2 Credit Risk Profile

- Credit risk represents a single large component of regulatory capital requirements 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 and capital. Therefore, it has become imperative that the credit risk related issues need to be addressed through robust Credit Risk Management policy, and guidelines.
- 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, MRC, BRC and approved by the Board.
- 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 assessment of customer's rating using the internal rating system implemented by the Bank.
  - Risk based pricing using Risk Adjusted Return on Capital (RAROC).
  - The monitoring of credit concentration in certain industries/ sectors, customers and customer groups with periodic reporting to Management Risk Committee 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 are maintained in accordance with established IFRS 9 accounting practices.
- The Bank has a dedicated remedial and recovery team to manage companies in financial distress and non-performing loans to maximise recovery rates. For doubtful and loss accounts the recovery process includes direct involvement from Legal Team.
- The Bank has adopted a standardized approach for Credit risk calculation and the concentration risk is part of Pillar II assessment in line with the guidelines issued by CBUAE.

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

- The Bank has a Risk Appetite Framework which includes the policies, processes, controls, and systems taken by Al Masraf. The risk appetite is established, communicated and monitored through this framework. Risk Appetite formulation helps the Bank to operate within its Risk Capacity, its budget aspirations, stakeholder confidence, resilience of operational losses, and its reputation. The thresholds for Risk Appetite parameters are set in alignment with Bank's budget objectives, capital management/ICAAP process, plausible stress scenarios, and feedback from key business lines.
- The Bank revises its Risk Appetite at-least on an annual basis or earlier, if necessary. In addition to specific limits set out under RAS, to have control over concentration, the exposure is monitored against segment, single large customer/group, country limits etc.
- The key components looked into when extending credit are as follows:
  - Credit is granted on the basis of insight into the customer's circumstances and 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.

## 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 includes the establishment of risk appetite statements and risk management strategies.
- The Bank operates an independent risk management function which provides high-level oversight and management of Credit, Operational 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 management and control of facilities.
- A dedicated remedial and recovery team is set to manage companies in financial distress and non-performing stage. For personal banking there is a dedicated collections function undertaking recovery activities at each stage of delinquency.

## 4. Relationships between the credit risk, risk management, 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 has 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 including credit under-writing & monitoring 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.

## 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 Appetite Statement (RAS)**  
Risk Appetite is the aggregate level 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 all material risks including but not limited to credit risk, market risk, operational risk, liquidity risk etc.
- **Risk Dashboard**  
Dashboard submitted to Management Risk Committee and Board Risk Committee encompasses Risk Assessment, Evolution of Risks (Bank wide Top Risks, Emerging Risks and Top Operational Risks), Risk Appetite Statement, Reports on Credit Quality & ECL, Credit Concentration, Capital Adequacy, Market & Liquidity Risk, Ops. Risk and BCP, Information Security & Data, Stress Test, CBUAE Regulatory Guidelines, Credit & Risk related Breach Reporting, Monitoring of Large Exposure etc.
- **Asset Quality Report**  
This comprehensive report is produced and shared on a regular basis and covers details regarding IFRS9 stage wise exposure and coverage, major movement within stages along with reasons, past due trends, provision adequacy, top exposures, evaluation of funded and non-funded exposure, sector wise loans and advances, portfolio quality, provision coverage and concentrations in the portfolio 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 controlling 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, and accounts having early warning signals etc.

## 10.2 CR1 - Credit quality of assets

AED in '000

		Gross carrying values of		Allowances/ Impairments	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	3,901,933	13,770,701	2,439,076	1,945,755	493,321	15,233,558
2	Debt securities	43,946	3,100,561	48,335	26,369	21,966	3,096,172
3	Off-balance sheet exposures	166,289	4,539,540	191,306	133,909	57,397	4,514,523
4	<b>Total</b>	<b>4,112,168</b>	<b>21,410,802</b>	<b>2,678,717</b>	<b>2,106,033</b>	<b>572,684</b>	<b>22,844,253</b>

The above table includes Stage 3 exposures reported in the balance sheet.

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

AED in '000

		31/12/2021
1	<b>Defaulted loans and debt securities at the end of the previous reporting period</b>	3,558,918
2	Loans and debt securities that have defaulted since the last reporting period	985,105
3	Returned to non-default status	714,126
4	Amounts written off	69,890
5	Other changes	185,872
6	<b>Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)</b>	<b>3,945,879</b>

## 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 Bank.

#### 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 past due 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/ remedial management committee/ provision 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 1<sup>st</sup> 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

- As per CBUAE guidelines, Restructured facilities are those with renegotiated terms that may result in a loss to the bank as a result of reduced interest and/ or principal amount. (Discounted cash flows of the facility resulting from the restructuring are less than the discounted cash flow at the time the facility was granted). Restructured loans criteria include, but are not limited to amendment of the repayment terms, where deterioration in financial position or credit risk of the borrower is identified by:
  - Inability to meet the interest and or installment repayments on due date; or
  - Insufficient present and future cash flows to repay the loan and interest
- Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under restructuring agreement.
- Bank has a separate restructuring and rescheduling policy in place which details the criteria, conditions and other parameters with regard to restructuring of facility.

## B. Quantitative

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

#### 1.1 Gross Credit Exposure by Currency Type

31<sup>st</sup> December, 2021

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	1,859,819	2,130,434	483,812	4,474,065	-	104,197	2,017,770	2,121,967	6,596,032
AED	17,385,850	43,946	3,768,609	21,198,405	3,875,395	-	2,688,059	6,563,454	27,761,859
<b>Total</b>	<b>19,245,669</b>	<b>2,174,380</b>	<b>4,252,421</b>	<b>25,672,470</b>	<b>3,875,395</b>	<b>104,197</b>	<b>4,705,829</b>	<b>8,685,421</b>	<b>34,357,891</b>

31<sup>st</sup> December, 2020

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	1,791,209	2,320,843	140,254	4,252,306	-	24,010	1,859,510	1,883,520	6,135,826
AED	17,827,134	43,947	4,507,203	22,378,284	5,022,247	-	3,283,690	8,305,937	30,684,221
<b>Total</b>	<b>19,618,343</b>	<b>2,364,790</b>	<b>4,647,457</b>	<b>26,630,590</b>	<b>5,022,247</b>	<b>24,010</b>	<b>5,143,200</b>	<b>10,189,457</b>	<b>36,820,047</b>

**1.2 Gross Credit Exposure by Geography****31<sup>st</sup> December, 2021****AED in '000**

Geographic Distribution	Loans/ Banks	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off- Balance Sheet exposures	Total Non- Funded	Total
United Arab Emirates	17,750,964	1,786,745	3,941,254	23,478,963	3,875,395	99,320	3,251,697	7,226,412	30,705,375
GCC excluding UAE	852,642	387,635	8,953	1,249,230	-	1,407	2,286	3,693	1,252,923
Arab League (excluding GCC)	201,501	-	200,384	401,885	-	-	1,168,610	1,168,610	1,570,495
Asia	385	-	101,635	102,020	-	-	189,963	189,963	291,983
Africa	-	-	-	-	-	-	-	-	-
North America	178,242	-	-	178,242	-	-	-	-	178,242
Europe	261,935	-	195	262,130	-	3,470	93,273	96,743	358,873
Others	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>19,245,669</b>	<b>2,174,380</b>	<b>4,252,421</b>	<b>25,672,470</b>	<b>3,875,395</b>	<b>104,197</b>	<b>4,705,829</b>	<b>8,685,421</b>	<b>34,357,891</b>

**31<sup>st</sup> December, 2020****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	18,059,353	1,814,320	4,619,093	24,492,766	5,022,247	24,010	3,964,835	9,011,092	33,503,858
GCC excluding UAE	365,441	550,470	11,057	926,968	-	-	22,762	22,762	949,730
Arab League (excluding GCC)	155,771	-	15,783	171,554	-	-	614,603	614,603	786,157
Asia	41,143	-	77	41,220	-	-	471,586	471,586	512,806
Africa	15	-	-	15	-	-	-	-	15
North America	251,896	-	-	251,896	-	-	-	-	251,896
Europe	744,724	-	211	744,935	-	-	69,414	69,414	814,349
Others	-	-	1,236	1,236	-	-	-	-	1,236
<b>Total</b>	<b>19,618,343</b>	<b>2,364,790</b>	<b>4,647,457</b>	<b>26,630,590</b>	<b>5,022,247</b>	<b>24,010</b>	<b>5,143,200</b>	<b>10,189,457</b>	<b>36,820,047</b>

**1.3 Gross Credit Exposure by Industry segment****31<sup>st</sup> December, 2021****AED in '000**

Industry Segment	Loans	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet	Total Non-Funded	Total
Agriculture, Fishing & related activities	63,182	-	184	63,366	-	-	6,587	6,587	69,953
Crude Oil, Gas, Mining & Quarrying	-	-	-	-	-	-	44,839	44,839	44,839
Manufacturing	1,204,567	-	110,734	1,315,301	77,220	-	300,959	378,179	1,693,480
Electricity & Water	99,586	-	11,052	110,638	5,000	-	9,504	14,504	125,142
Construction	6,298,920	73,519	80,138	6,452,577	74,187	-	850,715	924,902	7,377,479
Trade	2,218,929	-	140,223	2,359,152	124,437	-	1,323,517	1,447,954	3,807,106
Transport, Storage & Communication	588,108	140,722	2,889	731,719	4,779	-	215,750	220,529	952,248
Financial Institutions	3,860,668	905,129	2,542,432	7,308,229	77,133	104,197	1,483,429	1,664,759	8,972,988
Services	2,770,771	-	243,245	3,014,016	59,698	-	400,866	460,564	3,474,580
Government	-	999,090	6,917	1,006,007	-	-	-	-	1,006,007
Retail/ Consumer banking	2,140,938	-	7,825	2,148,763	74,453	-	792	75,245	2,224,008
All Others	-	55,920	1,106,782	1,162,702	3,378,488	-	68,871	3,447,359	4,610,061
<b>Total</b>	<b>19,245,669</b>	<b>2,174,380</b>	<b>4,252,421</b>	<b>25,672,470</b>	<b>3,875,395</b>	<b>104,197</b>	<b>4,705,829</b>	<b>8,685,421</b>	<b>34,357,891</b>

**31<sup>st</sup> December, 2020****AED in '000**

Industry Segment	Loans	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet	Total Non-Funded	Total
Agriculture, Fishing & related activities	542	-	-	542	-	-	6,137	6,137	6,679
Crude Oil, Gas, Mining & Quarrying	110,121	19,248	1,060	130,429	878	-	26,241	27,119	157,548
Manufacturing	1,200,226	-	31,402	1,231,628	78,928	-	547,851	626,779	1,858,407
Electricity & Water	119,462	-	3,656	123,118	80	-	12,146	12,226	135,344
Construction	5,554,036	73,060	142,767	5,769,863	88,829	-	1,263,159	1,351,988	7,121,851
Trade	2,655,157	-	135,382	2,790,243	92,931	-	1,420,123	1,513,054	4,303,297
Transport, Storage & Communication	725,239	192,763	2,798	920,800	463	-	136,143	136,606	1,057,406
Financial Institutions	1,252,646	920,085	3,156,058	5,327,976	66,056	24,010	1,174,683	1,264,749	6,592,725
Services	3,144,079	-	58,373	3,200,533	112,202	-	398,649	510,851	3,711,384
Government	10,859	1,102,032	151	1,113,042	-	-	3,834	3,834	1,116,876
Retail/ Consumer banking	3,154,097	-	16,359	3,173,484	113,452	-	3,239	116,691	3,290,175
All Others	1,691,879	57,602	1,099,451	2,848,932	4,468,428	-	150,995	4,619,423	7,468,355
<b>Total</b>	<b>19,618,343</b>	<b>2,364,790</b>	<b>4,647,457</b>	<b>26,630,590</b>	<b>5,022,247</b>	<b>24,010</b>	<b>5,143,200</b>	<b>10,189,457</b>	<b>36,820,047</b>

**1.4 Gross Credit Exposure by Residual Contractual Maturity****31<sup>st</sup> December, 2021****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	7,844,854	129,205	1,794,720	9,768,779	295,465	88,927	1,989,609	2,374,001	12,142,780
3 mths to one year	2,550,176	185,701	563,063	3,298,940	201,442	15,270	1,469,392	1,686,104	4,985,044
One to five years	4,888,673	1,043,908	-	5,932,581	-	-	254,646	254,646	6,187,227
Over five years	3,961,966	796,245	-	4,758,211	-	-	122,467	122,467	4,880,678
Unspecified	-	19,321	1,894,638	1,913,959	3,378,488	-	869,715	4,248,203	6,162,162
<b>Grand Total</b>	<b>19,245,669</b>	<b>2,174,380</b>	<b>4,252,421</b>	<b>25,672,470</b>	<b>3,875,395</b>	<b>104,197</b>	<b>4,705,829</b>	<b>8,685,421</b>	<b>34,357,891</b>

**31<sup>st</sup> December, 2020****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	7,486,379	103,184	231,000	7,820,563	321,064	-	79,404	400,468	8,221,031
3 mths to one year	2,726,891	203,769	481,000	3,411,660	232,753	24,010	1,164,167	1,420,930	4,832,590
One to five years	2,566,090	487,072	-	3,053,162	2	-	2,942,547	2,942,549	5,995,711
Over five years	6,838,983	1,526,818	-	8,365,801	-	-	63,146	63,146	8,428,947
Unspecified	-	43,947	3,935,457	3,979,404	4,468,428	-	893,936	5,362,364	9,341,768
<b>Grand Total</b>	<b>19,618,343</b>	<b>2,364,790</b>	<b>4,647,457</b>	<b>26,630,590</b>	<b>5,022,247</b>	<b>24,010</b>	<b>5,143,200</b>	<b>10,189,457</b>	<b>36,820,047</b>

**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****31<sup>st</sup> December, 2021****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	4,528,794	859,671	1,945,754	36,914			322,155	2,260,885
GCC (excluding UAE)	-	-	-	-	-	-	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-

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		
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	1	-	1	-	-	-	-	-
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
<b>Grand Total</b>	<b>4,528,795</b>	<b>859,671</b>	<b>1,945,755</b>	<b>36,914</b>	<b>-</b>	<b>-</b>	<b>322,155</b>	<b>2,260,885</b>

The above table includes 90 DPD loans in addition to Stage 3 loans as disclosed in the Basel III return.

### 31<sup>st</sup> December, 2020

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	4,551,135	642,722	1,451,297	49,407	16,920	30,832	206,077	2,893,761
GCC (excluding UAE)	-	-	-	-	-	-	-	-
Arab League (excluding GCC)	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	1	-	-	-	-	-	-	1
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
<b>Grand Total</b>	<b>4,551,136</b>	<b>642,722</b>	<b>1,451,297</b>	<b>49,407</b>	<b>16,920</b>	<b>30,832</b>	<b>206,077</b>	<b>2,893,762</b>

The above table includes 90 DPD loans in addition to Stage 3 loans as disclosed in the Basel III return.

### 3. Ageing analysis of accounting past-due exposures

#### 31<sup>st</sup> December, 2021

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		
Manufacturing	473,271	230,403	230,046	3,865	-	-	35,170	208,055
Electricity & Water	59,437	44,303	17,860	513	-	-	7,370	34,207
Construction	2,052,355	155,765	872,924	16,973	-	-	98,905	1,080,526

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		
Trade	579,968	175,785	263,691	3,518	-	-	91,960	224,317
Transport, Storage & Communication	77,626	35,316	60,289	213	-	-	3,135	14,202
Financial Institutions	285,916	114,693	128,917	1,769	-	-	39,080	117,919
Other Services	523,813	44,110	166,898	5,335	-	-	30,454	326,461
Retail/ Consumer banking	476,409	59,296	205,130	4,728	-	-	16,081	255,198
All Others	-	-	-	-	-	-	-	-
<b>Grand Total</b>	<b>4,528,795</b>	<b>859,671</b>	<b>1,945,755</b>	<b>36,914</b>	<b>-</b>	<b>-</b>	<b>322,155</b>	<b>2,260,885</b>

The above table includes 90 DPD loans in addition to Stage 3 loans as disclosed in the Basel III return.

### 31<sup>st</sup> December, 2020

AED in '000

Industry Segment	Past due & Non-Performing	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
	Outstanding Amount	Overdue	Specific	General	Write-offs	Write-backs		
Manufacturing	255,543	19,167	134,330	1,975	-	1,199	9,780	111,433
Electricity& Water	57,021	25,834	-	1,283	-	-	-	57,021
Construction	2,151,226	111,360	776,702	21,422	-	21,981	68,232	1,306,292
Trade	632,153	158,548	183,613	6,625	16,920	2,924	70,945	377,595
Transport, Storage & Communication	127,431	52,137	40,891	1,166	-	-	7,807	78,733
Financial Institutions	272,062	82,682	64,752	2,764	-	-	23,121	184,189
Other Services	506,477	154,893	121,238	6,996	-	4,194	11,644	373,595
Retail/ Consumer banking	547,730	38,101	129,771	7,176	-	534	14,548	403,411
All Others	1,493	-	-	-	-	-	-	1,493
<b>Grand Total</b>	<b>4,551,136</b>	<b>642,722</b>	<b>1,451,297</b>	<b>49,407</b>	<b>16,920</b>	<b>30,832</b>	<b>206,077</b>	<b>2,893,762</b>

The above table includes 90 DPD loans in addition to Stage 3 loans as disclosed in the Basel III return.

### 4. Breakdown of restructured exposures between impaired and not impaired exposures.

	2021 AED'000	2020 AED'000
Gross carrying amount	1,941,530	1,520,017
Impaired loans	1,791,838	1,687,418
Allowance for impairment	(830,367)	(624,595)
<b>Net loans with renegotiated terms</b>	<b>2,903,001</b>	<b>2,582,840</b>

## 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 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 Collaterals: this includes collaterals like Cash Margin, FD Under lien, Mortgages over immovable assets, Pledge of Shares etc.
  - Non Tangible Securities & Collaterals: 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.
- Validity and currency of collaterals is updated and held at all times by the bank.
- The Bank has collateral valuation guidelines which details the principles and frequency of valuation of collaterals.
- 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.
- All collaterals 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 ensures to identify the primary source of repayment for all the facilities granted to the borrower. It also ensures to identify a secondary source of repayment, where-ever required. The bank endeavours to take an appropriate level of collateral to secure our advances, where-ever applicable, as additional mitigating factor.
- 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 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

AED in '000

		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	12,438,671	5,233,963	1,632,662	-	-	-	-
2	Debt securities	2,174,380	-	-	-	-	-	-
3	<b>Total</b>	14,613,051	5,233,963	1,632,662	-	-	-	-
4	Of which defaulted	4,003,642	525,152	89,819	-	-	-	-

## 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 the reasons for any changes over the reporting period

- Recognized rating agency is as per CBUAE guidelines.
- 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.

## 2. The asset classes for which ECAI is used

- ECAI risk assessments are used by the Bank as part of the determination of risk weightings for exposure to Corporate, 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 issuer 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. Standardised approach risk weights corresponding to the Credit Ratings assigned by ECAIs have been prescribed by the Central Bank of the UAE for different asset classes and the same is followed by the Bank.

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

31<sup>st</sup> December, 2021

AED in '000

		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	3,208,198	-	3,208,198	-	297,953	9%
2	Public Sector Entities	448,559	40,217	448,559	24,253	409,200	87%
3	Multilateral development banks	-	-	-	-	-	NA
4	Banks	2,600,487	1,649,696	2,600,486	544,072	1,495,123	48%
5	Securities firms	17,078	-	17,078	-	17,078	100%
6	Corporates	8,457,460	6,792,604	8,430,992	1,957,944	7,794,384	75%
7	Regulatory retail portfolios	374,292	-	372,779	-	343,602	92%
8	Secured by residential property	627,226	-	627,226	-	405,112	65%
9	Secured by commercial real estate	3,401,613	5,301	3,401,613	5,153	3,327,823	98%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	NA
11	Past-due loans	4,528,795	197,603	2,262,496	63,694	2,533,092	109%
12	Higher-risk categories	17,872	-	6,910	-	10,365	150%
13	Other assets	1,990,890	-	1,660,129	-	1,552,859	94%
14	<b>Total</b>	<b>25,672,470</b>	<b>8,685,421</b>	<b>23,036,466</b>	<b>2,595,116</b>	<b>18,186,591</b>	<b>71%</b>

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

AED in '000

		a	b	c	d	e	f	g	h	i	j
	<b>Risk weight</b>	0%	20%	35%	50%	75%	85%	100%	150%	Others	<b>Total credit exposures amount (post CCF and post-CRM)</b>
	<b>Asset classes</b>										
1	Sovereigns and their central banks	2,876,484	42,201	-	-	-	-	289,513	-	-	3,208,198
2	Public Sector Entities	-	55,921	-	34,547	-	-	382,344	-	-	472,812
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	1,021,476	-	1,679,200	-	-	429,190	14,692	-	3,144,558
5	Securities firms	-	-	-	-	-	-	17,078	-	-	17,078
6	Corporates	-	-	-	-	-	1,244,514	9,144,422	-	-	10,388,936
7	Regulatory retail portfolios	-	-	-	-	111,170	-	261,609	-	-	372,779
8	Secured by residential property	-	-	320,818	-	-	-	306,408	-	-	627,226
9	Secured by commercial real estate	-	-	-	-	-	-	3,406,766	-	-	3,406,766
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	-	1,629,818	696,372	-	2,326,190
12	Higher-risk categories	-	-	-	-	-	-	-	6,910	-	6,910
13	Other assets	114,524	-	-	-	-	-	1,531,098	14,507	-	1,660,129
14	<b>Total</b>	<b>2,991,008</b>	<b>1,119,598</b>	<b>320,818</b>	<b>1,713,747</b>	<b>111,170</b>		<b>17,398,246</b>	<b>732,481</b>	<b>-</b>	<b>25,631,582</b>

## 11. Counterparty credit risk (CCR)

Not Applicable to the Bank.

## 12. Securitisation

Not Applicable to the Bank.

## 13. Market risk

### 13.1 MRA - General qualitative disclosure requirements related to market risk

- 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, hence these will 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 performance of Investment portfolio on a regular basis. These reports are submitted to Asset Liability Management Committee (ALCO) on a regular basis.

### 1. 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 is also monitoring of market risk Value at Risk (VaR) of various portfolios.
- 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 is not trading in Fixed Income portfolio. 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 'fair value through OCI' are subject to expected credit loss calculation under IFRS 9.

## 13.2 MR1 - Market risk under the standardised approach

AED in '000

		<b>RWA</b>
1	General Interest rate risk (General and Specific)	17,577
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	6,781
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	<b>Total</b>	<b>24,358</b>

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

### 14.1 IRRBB - 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.
- 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).

##### 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 200 bps parallel interest rate shock on NII is calculated on a monthly basis and presented to ALCO for deliberations.
- The Bank uses two standard measures for the management of interest rate risk in the banking environment. This is in line with regulatory requirements under Basel's IRRBB framework:
  - Economic Value of Equity at Risk (EVE). The banks' EVE at risk is low and has been stable.

- Earnings at Risk (EaR). The bank implemented an internal limit of 10% of earnings at risk (Net Interest Income) over a 1-year horizon for a 200-basis point change in interest rates. The limit is reviewed annually by ALCO to ensure that it is not restrictive on the management of the Net Interest Margin. Given the interest rate volatility and substantially lower rates due to the COVID pandemic, net interest margins were under initial pressure.
- The EVE and the EaR are used to control and manage the interest rate risk in relation to the Net interest Margin arising from changes in the level of interest rates. The delta is used to control and manage the risk in changes of the yield curve.
- In addition to standard measures of interest rate risk in banking environment, bank regularly analyses the effect of one or more macroeconomic scenarios on its earnings and economic value. Results of this analysis are important for integrated interest rate risk management purposes & are included in reports to ALCO.

#### 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 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 200 basis points.
- 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.

##### 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 economic value of equity (EVE) is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. The bank uses the economic value of equity to manage its assets and liabilities. This is a long-term economic measure used to assess the degree of interest rate risk exposure—as opposed to net-interest income (NII), which reflects short-term interest rate risk.
- This value is used as an estimate of total capital when evaluating the sensitivity of total capital to fluctuations in interest rates. A bank may use this measure to monitor how interest rate changes will affect its total capital.

#### 5. Framework for Measuring Interest Rate Sensitivity

- Economic Value of Equity at Risk and 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 EaR and EVE approach.

#### 6. Risk Mitigation Actions and/ or Controls

- Customer deposits constitute around 72% 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. Similar re-pricing pattern between assets and liabilities results in a 'natural hedge' and reduces interest rate risk in banking book. Moreover, the majority of floating loans have a floor rate contractually agreed with clients.
- Treasury 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 apprises ALCO on a monthly basis for deliberation.

- Additionally, ALCO deliberates on the basis of re-pricing gap report. 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.

## B. Quantitative

1. **Average repricing maturity assigned to NMDs** - Non-rate sensitive (maturity profile) of 2 years

2. **Longest repricing maturity assigned to NMDs** - Non-rate sensitive (maturity profile) of 2 years

## 14.2 IRRBB1 - Quantitative information on IRRBB

In reporting currency (AED in '000)	ΔEVE		ΔNII	
Period	31/12/2021	30/09/2021	31/12/2021	30/09/2021
Parallel up	(475,415)	(510,455)	38,913	66,099
Parallel down	381,209	348,145	(25,123)	(26,913)
Steepener	(30,775)	(35,543)		
Flattener	15,608	18,092		
Short rate up	-	-		
Short rate down	-	-		
<b>Maximum</b>	(475,415)	(510,455)		
<b>Period</b>	<b>31/12/2021</b>		<b>30/09/2021</b>	
<b>Tier 1 capital</b>	3,675,074		3,566,554	

## 15. Operational Risk

### 15.1 OR1 - Qualitative disclosures on Operational Risk

- Operational risk is inherent in all dimensions of a Bank, including all banking products, activities, processes and systems. Accordingly, the effective management of operational risk is a fundamental element of a Bank's risk management program. Banks with a sound operational risk management framework, a strong risk management culture and ethical business practices, are less likely to experience potentially damaging operational risk events and better placed to deal effectively with those events that do occur.
- The Bank has adopted Basel definition of operational risk, which is also stipulated in UAE Central Bank Regulations. This definition is articulated as "Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events." This definition includes legal risk but excludes strategic and reputational risk.
- Bank has adopted the Basel operational risk event type classification. The Bank adopts a two dimensional classification to operational risk mapping: the types of operational risks (event type) and where they reside in the bank (Business Line)

#### 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 Governance

- The Bank has implemented 3 lines of defense as part of its Risk Governance. This is in accordance with Basel recommendation for ORM. Based on Al Masraf's environment the 3 lines of defense was updated and shared with all stake holders for their compliance.
- The Bank has implemented "Risk Control Self-Assessment" (RCSA) as part of Risk Assessment, 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 Risk Management committee as a principal forum for discussing and communicating bank wide issues, initiatives and decisions in respect of Operational Risk.
- The bank conducts regular operational risk awareness trainings across all departments and business units/branches.
- The Bank adheres to the Three Lines of Defense (3 LoD) model for the management of operational risk, as stipulated in CBUAE regulations, as well as in the Revision to the Principles for the Sound Management of Operational Risk published by the Basel Committee. Main responsibilities across the lines of defense are mentioned in the below table.

Line of Defense	Accountability & Responsibility
<b>1<sup>st</sup> Line of Defense</b> <i>The risk-taking units with all their support functions (e.g., IT and HR).</i>	<p>The first line identifies and own the operational risks. They are responsible for the identification and control of risks by implementing the Board-approved operational risk management framework and its components, i.e. reporting incidents, performing risk assessments, identifying and reporting KRIs, raising issues and action plans, etc.</p> <p>To support first line management in their ORM responsibilities, dedicated Operational Risk Champions (ORCs) are appointed by Head of the first line management.</p>
<b>2<sup>nd</sup> Line of Defense</b> <i>Operational Risk Department</i>	<p>The ORM Department is independent of the management and decision-making of the bank's risk-taking functions.</p> <p>Responsibilities of the Operational Risk Department:</p> <ul style="list-style-type: none"> <li>• Providing challenge &amp; oversight of risk, related controls &amp; action plans, and indicators identified by the 1st LoD.</li> <li>• Reporting and escalation of operational risks and related incidents reported by first line to Board / Senior Management / Regulators.</li> <li>• Collaborating with first line to provide advice on how to apply the operational risk framework and tools.</li> <li>• Developing and providing operational risk training and education.</li> <li>• Developing operational risk policies, procedures, and defining appetite.</li> </ul>
<b>3<sup>rd</sup> Line of Defense</b> <i>Internal Audit</i>	<ul style="list-style-type: none"> <li>• Internal Audit will provide assurance for the Board and Senior Management on the robustness and effectiveness of the processes for the management of operational risk.</li> <li>• Independently assess the effectiveness of business line management in fulfilling their mandates and managing risks.</li> </ul>

### C. Operational Risk Management Framework

- The following chart depicts the key components of the Bank's operational risk management framework. This framework depicts the management of operational risk in the Bank.



- The Operational Risk Management Department (ORM) has further updated the Bank's operational risk policy in alignment to the UAE Central Bank regulations and standards as well as international best practices in line with the Bank's size and complexity. Key changes in the Policy included:
  - Comprehensive OpRisk Framework with clearly defined roles of lines of defense for each framework component. (Responsibility matrix).
  - Detailed Role and governance structure of OpRisk Champions.
  - Revised Incident reporting template including event materiality, Basel and ORX categories, Boundary events, provisions, etc.
  - Introducing different types of risk identification and assessments (Simplified, Detailed, and Change).
  - Introducing Uniform Risk Rating scale to be used for all operational risk assessments.
  - New template for Key Risk Indicators linked to risk assessment exercise and featuring KRIs levels, trend charts and escalation thresholds.

## Remuneration policy

The Board of Directors (Board) of the Bank has established the Board Nomination and Remuneration Committee (RNC) that provides oversight and endorse principal remuneration policy and decisions.

The Board delegates to the Remuneration and Nomination Committee (RNC) matters relating to the appointment of Senior Management and review their remunerations and motivations, including policy for executive management remuneration and their annual individual remuneration awards.

The RNC also reviews succession plans for the Chief Executive Officer and other key Senior Management positions and approves and review strategic Human Resource issues, including employee retention, motivation and commitment and succession planning for senior management positions.

From a governance perspective, the RNC oversees the Bank's remuneration policies, ensuring that the policies are consistent with and promote sound and effective risk management and do not encourage excessive risk-taking. Compensation is linked to corporate, business and individual performance objectives, including performance against metrics set by control functions, including risk.

The Total Rewards Philosophy positions the Bank as a recognized employer of choice by addressing the following aspects: foundational rewards, performance-based rewards and career development.

Total Rewards lays guiding principles on what to pay employees for and how to pay them to deliver a superior employee value proposition. These principles help design compensation and benefits programs that will be more attractive for new hires and retain the right people.

The Bank has partnered with AON Consulting for Job Evaluations and Annual Salary scale adjustments to benchmark and adjusts remuneration in line with the market for all job roles. All roles are subject to formal job evaluation, which is completed with the assistance of an external consultancy, and the Bank obtains an annual external salary survey to align with market benchmarks.

The Bank is working to adjust its remuneration policy to adhere to the Central Bank of the UAE corporate governance regulations, particularly new requirements for the deferred incentive scheme and fixed/ variable remuneration.

The Bank is in the process of determining Material Risk Takers (MRTs), of which the identification will be based on appropriately set qualitative and quantitative criteria and in line with the CBUAE Corporate Governance Regulations (September 2019) and Corporate Governance Standards (September 2019). This exercise will be completed in 2022.

## 16.1 REM1 - Remuneration awarded during the financial year

			a	B
	Remuneration Amount		Senior Management	Other Material Risk-takers
1	Fixed Remuneration	Number of employees	10	-
2		Total fixed remuneration (3 + 5 + 7)	11,102	-
3		Of which: cash-based	11,102	-
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	-	-
8		Of which: deferred	-	-
9	Variable Remuneration	Number of employees	-	-
10		Total variable remuneration (11 + 13 + 15)	-	-
11		Of which: cash-based	-	-
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	Total Remuneration (2+10)		11,102	-

## 16.2 REM1 – Special Payments

Special Payments	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	-	-	-	-	6	254
Other material risk-takers	-	-	-	-	-	-

## 16.3 REM1 – Deferred Remuneration

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	-	-	-	-	-
Cash	-	-	-	-	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
Other material risk-takers	-	-	-	-	-
Cash	-	-	-	-	-
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	-	-	-	-	-