ARAB BANK FOR INVESTMENT AND FOREIGN TRADE

(AL MASRAF)

CAPITAL ADEQUACY

PILLAR III DISCLOSURES

31st December 2019

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1. Summary

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

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

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

This Pillar 3 Report provides details on the Banks risk profile by risk asset class, which form the basis for the calculation of 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 2019 and a comparison thereof with the figures as of 30th June 2019 and 31st December 2018 is as follows:

Particulars	Dec 2019	Jun 2019	Dec 2018
Total Capital Adequacy Ratio	21.08%	20.94%	20.70%
Tier 1 Capital Adequacy Ratio	19.92%	19.78%	19.55%

As of 31st December 2019, the Banks total Risk Weighted Assets (RWAs) amounted to AED 21,107 mn. which comprised of 92.56% Credit Risk; 0.28% Market Risk and 7.16% Operational Risk.

1.1 Capital Adequacy

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

- Central Bank issued guidelines regarding the Capital Supply Standards along with regulation vide notice 28/ 2018 dated 17 January 2018, which are effective from 31st December 2017.
- Central Bank thereafter issued update of these guidelines on 7th January 2020 vide notice CBUAE/BSD/N/2020/66 "Standard and Guidance Re Capital Adequacy in the UAE" which are effective from 31st December 2019.
- As per Central bank regulation for Basel III, the capital requirements is 13% inclusive of capital conservation buffer by year 2019.
- The bank must comply with following minimum requirement:
  - CET1 must be at least 7% of risk weighted assets (RWA);
  - Tier 1 capital must be at least 8.5% of risk weighted assets (RWA);
  - Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA);
- Additionally capital conservation buffer is to be maintained at 2.5% for 2019.

Capital Management

- The Bank’s regulator, the Central Bank of the UAE, sets and monitors regulatory capital requirements.
- The Bank’s objectives when managing capital are:
  - Safeguarding the Bank’s ability to continue as a going concern and increase the returns for the Shareholders; and
  - Complying with regulatory capital requirements set by the Central Bank of the UAE.
- During 2019, the Bank’s strategy, which was unchanged from 2018, was to:
  - Maintain capital adequacy ratios above the minimum specified by the Central Bank of the UAE and Basel Accord guidelines; and
  - Allocate capital to various businesses in an efficient manner
- Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates.

2. Introduction

2.1 Information on Subsidiaries and Significant Investments

- Arab Bank for Investment and Foreign Trade PJSC ("ARBIFT", "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 Exterieure d'Algerie, Algeria (15.44%).
- The Bank is engaged in commercial and retail banking activities and carries out its operations in the United Arab Emirates through its nine branches in UAE and provides services through digital channels. The Bank also has one representative office in Libya.
- The Bank benefits from a pan-Arab culture and identity, this gives the Bank a competitive advantage in achieving its original mission of helping to promote and develop investment and trade relations between Arab nations.
- The Bank does not have any subsidiaries or significant investments.

2.2 Basel Components

In November 2009, the Central Bank of the United Arab Emirates ("CBUAE") 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 regulations and standards with regard to Capital Adequacy, final being issued on January 2020 for implementation of Basel Capital Accord in the banks operating in the UAE.

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

(a) Pillar I - Minimum Capital Requirements

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

(c) Pillar III - Market Discipline

Pillar I - Minimum capital requirements
Pillar I deals with the basis for the computation of the regulatory capital ratio. It defines various classes and the calculation of Risk Weighted Assets (RWAs) in respect of credit risk, market risk and operational risk, as well as deriving the regulatory capital base.

The capital adequacy ratio is then calculated as the ratio of the Bank's regulatory capital to its total RWAs.

Pillar II - The supervisory review and evaluation process
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 to cover other risks. It provides a framework for dealing with all the other risks a bank may face, such as systemic risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk. This risk and capital assessment is commonly referred to as "Internal Capital Adequacy Assessment Process (ICAAP)".

Pillar III - Market discipline

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

b. Market Risk

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

c. Operational risk

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

2.4 Banks Approach to Pillar II Risks

- The Bank has adopted the method wherein the capital requirements will be determined as Pillar I capital requirements PLUS additional capital for Pillar II risks

- 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.
- The risk assessment process for various types of Pillar II risks and assumptions are given below:

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

3. Overview of risk management and Risk Weighted Assets

3.1 KM1 - Key metrics (at consolidated group level)

Sr. No.	Particulars	a	b	c	d	e
		T	T-1	T-2	T-3	T-4
		31.12.19	30.09.19	30.06.19	31.03.19	31.12.18
	Applicable capital (amount)					
1	Common Equity Tier 1 (CET1)	4,204,686	4,234,350	4,110,756	3,962,391	3,961,032
1a	Fully loaded ECL accounting model					
2	Tier 1	4,204,686	4,234,350	4,110,756	3,962,391	3,961,032
2a	Fully loaded accounting model Tier 1					
3	Total capital	4,448,897	4,468,713	4,352,367	4,196,206	4,195,853
3a	Fully loaded ECL accounting model total capital					
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	21,106,578	20,203,002	20,785,918	20,161,031	20,265,528
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.92%	20.96%	19.78%	19.65%	19.55%
5a	Fully loaded ECL accounting model CET1 (%)					
6	Tier 1 ratio (%)	19.92%	20.96%	19.78%	19.65%	19.55%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	21.08%	22.12%	20.94%	20.81%	20.70%
7a	Fully loaded ECL accounting model total capital ratio (%)					
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	0	0	0	0	0
9	Countercyclical bugger requirement (%)	0	0	0	0	0
10	Bank D-SIB additional requirements (%)	0	0	0	0	0
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	0	0	0	0	0
12	CET1 available after meeting the bank's minimum capital requirements (%)	0	0	0	0	0
	Basel III Leverage Ratio					
13	Total Basel III leverage ratio measure	27,389,401	26,558,532	26,257,033	26,422,848	26,387,474
14	Basel III leverage ratio (%) (row 2/row 13)	15.35%	15.94%	15.66%	15.00%	15.01%
14a	Fully loaded ECL accounting model Basel III leverage ratio (%) (row 2A/row 13)					
	)					
15	Total HQLA	2,779,804	2,811,751	2,266,871	2,375,750	2,361,172
16	Total net cash outflow	1,587,535	2,238,986	2,222,383	2,201,560	2,002,508
17	LCR ratio (%)	175.10%	125.58%	102.00%	107.91%	117.91%
	Net Stable Funding Ratio					
18	Total available stable funding	14,162	14,557	13,576	13,787	13,599
19	Total required stable funding	12,904	12,195	12,120	11,735	12,020
20	NSFR ratio (%)	109.75%	119.37%	112.01%	117.49%	113.14%

The increase in Risk Weighted Assets is mainly due to increase in the loans and advances of the Bank. Total Capital reduced in December 2019 after taking into account proposed dividend amount.

3.2 OVA - Bank Risk Management Approach

1. Business Model Determination and Risk Profile

- The Bank provides a wide range of integrated banking products and services to both corporate and retail sectors throughout its departments, business segments and its branch network across the United Arab Emirates (UAE) and also provides services through digital channels.

  The Bank has no subsidiaries established or operating outside the UAE.

- The following list indicates the key business lines of the Bank.

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

- The Bank is exposed to a standard range of risks in the normal course of its business. The Bank's risk and capital assessment policies are designed to identify and quantify these risks, set appropriate limits in line with defined risk appetite, ensuring control and monitoring adherence to the limits.

  The principal risks associated with the Banks business are credit risk, including cross-border and concentration risks, market risk, liquidity risk, operational risk and reputation risk among others.

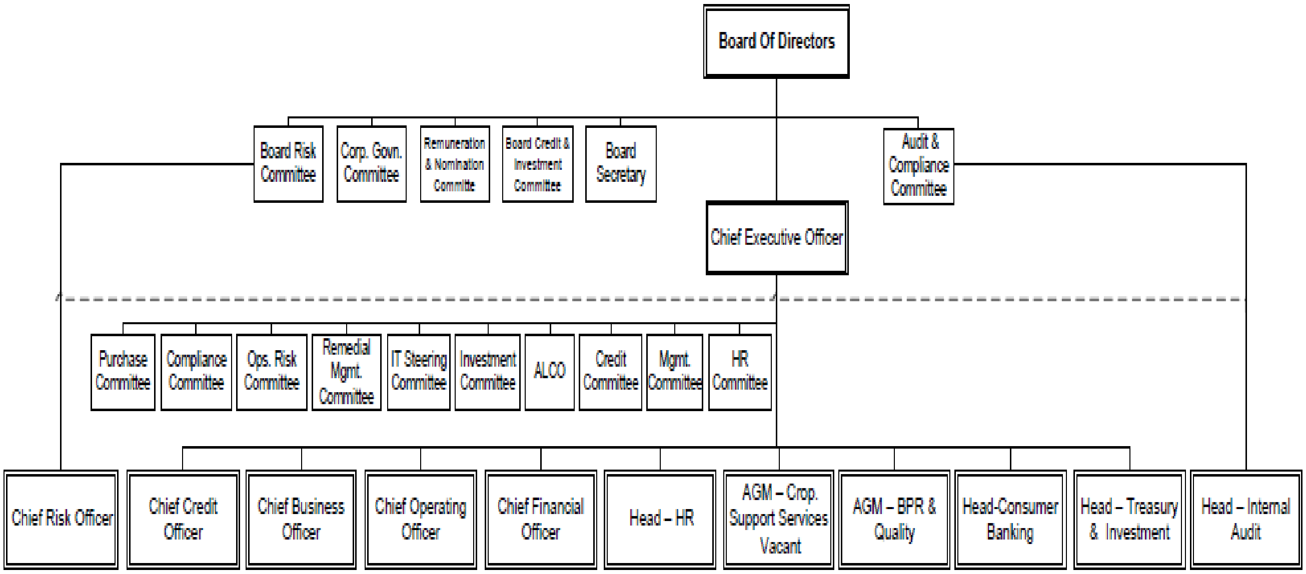
- Bank has Risk Appetite policy approved by Board. The policy along with Banks Integrated Risk Management policy includes process for defining and updating the Risk Appetite, reviewing current exposure against defined risk appetite levels and Remedial Action on breach of Risk Appetite early warning levels.

- The Risk Appetite framework of the Bank is approved by the Board of Directors and the Risk Appetite statement is reviewed by the Board of Directors at annual intervals.

  Its objective is to set the tone from the top in giving risk policy directions to the bank's management and providing business lines with guidance regarding the risk profile that the bank is prepared to accept. The business lines draw up their business and risk strategies in line with the laid down risk appetite parameters.

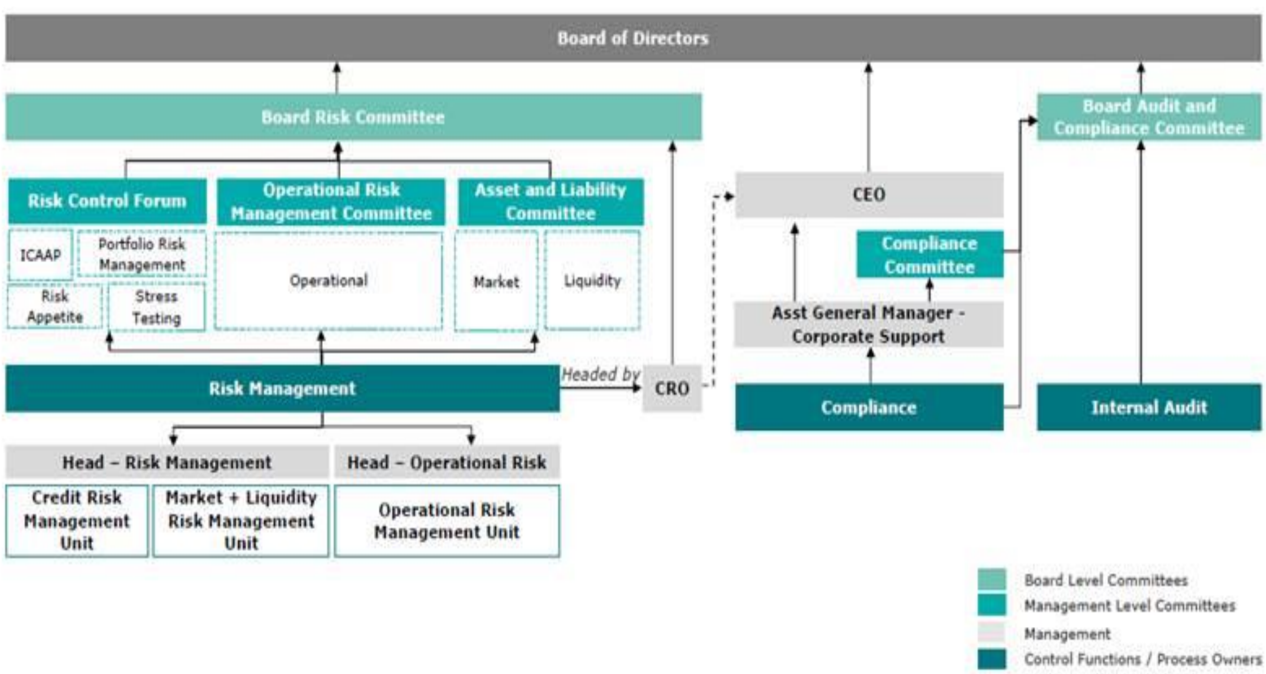
2. The risk governance structure

- Bank has its head office located in Abu Dhabi. The structure is presented below (approved by Board):



Apart from above, Bank has recently established Board Strategy & Innovation Committee, Management Risk Control Committee and Management Strategy Implementation Committee

- The bank has put in place corporate governance structure as a result of which management and governance related risks are well managed.
- The Bank implemented a complete Corporate Governance Code 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 has reviewed existing Corporate Governance code in the contest of CBUAE Regulation (83/2019 dated 18th July 2019). The gaps have been identified and action plan is drafted. The existing code will be suitably revised in line with CBUAE regulation in due course of time.
- Risk Management Governance Structure of the Bank is as under:

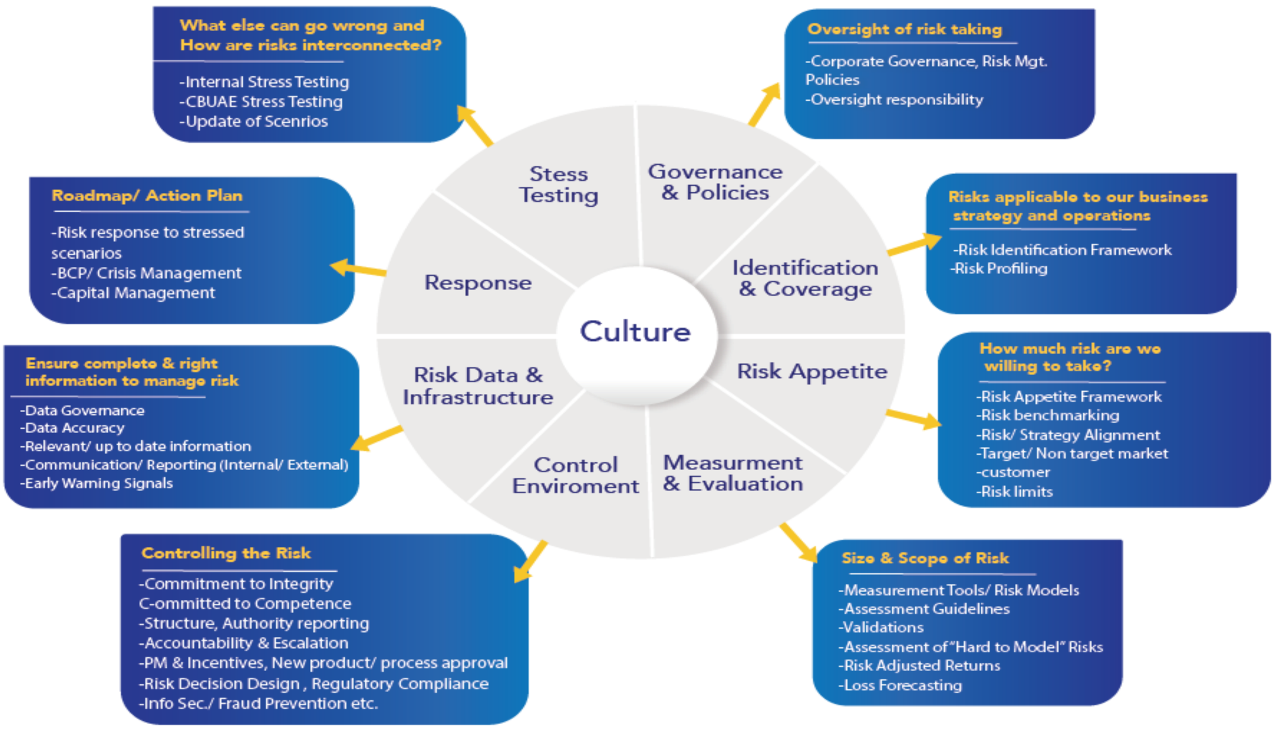


2.1 Risk Management Framework

- The risk management framework lays emphasis on the Bank's risk philosophy, proper organizational structure, risk and reward balance and is supported by dedicated monitoring and risk measuring mechanism.
- Following chart depicts the overall risk management framework of the Bank:

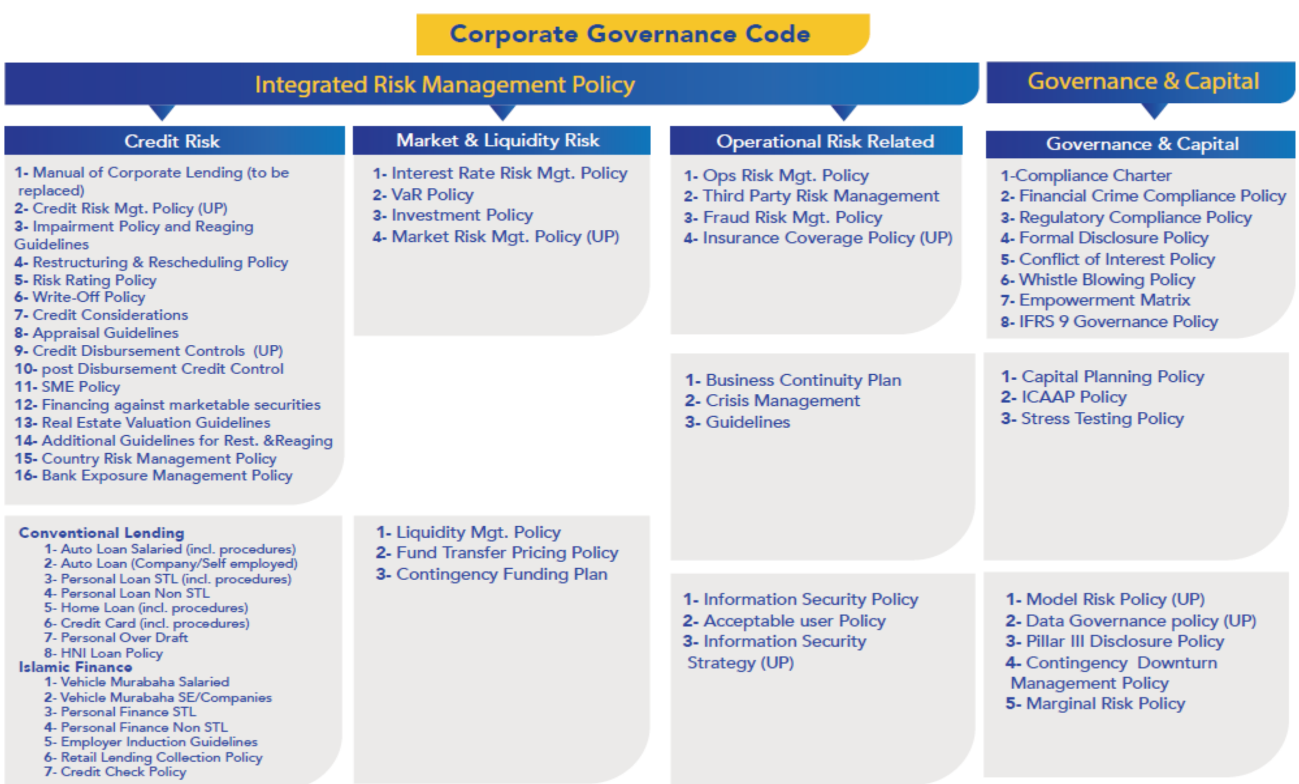
2.2.1 Enterprise Risk Management

- The following depicts the Enterprise Risk Management framework of the Bank.
- This has been adopted in 2019 and action plan for its implementation is under process:



2.2.2 Risk Policies Framework

- The following represents the existing Risk policies framework of the Bank:



2.2 Board Involvement in Risk Management

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

2.3 Committees of the Board and Management

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

Board Level Committees	Management Level Committees
❖ Audit & Compliance Committee	❖ Credit Committee
❖ Risk Committee	❖ Management Committee
❖ Remuneration & Nomination Committee	❖ IT Steering Committee
❖ Board Credit & Investment Committee	❖ Asset Liability Management Committee
❖ Board Strategy & Innovations Committee	❖ Investment Committee
Management Level Committees	❖ Operational Risk Management Committee
❖ Management Risk Control Committee	❖ Human Resource Committee
❖ Strategy Implementation Committee	❖ Remedial Management Committee
❖ Purchase Committee	❖ Compliance Committee

2.4 Governance, Risk Management and Controls

- 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 (credit, market, operational, BCP, mid-office) are established headed by Chief Risk Officer (CRO).
- The Board of Directors are responsible for the overall governance of the Bank. This includes, determining the strategy, providing direction to the Senior Management, ensuring that the control functions are robust and that they conforms to international best practices.
- The Bank has setup a risk governance framework as part of implementation of Corporate Governance Code to strengthen its Corporate Governance and Risk Management.
- The Risk and Credit functions which were earlier handled by Chief Risk Officer were been segregated with Chief Credit Officer (CCO) reporting to Chief Executive Officer (CEO) directly and Chief Risk Officer (CRO) to Board Risk Committee (BRC). Further, CRO attends Credit Committee as an observer without voting rights.
- The process of managing risk consists of the following key components:

Identification	The Bank endeavors to identify all material risks that may affect it. Identification is a continuous process and covers all the current activities of the Bank as well as new products and initiatives.
Policies	In order to ensure that the Bank complies with the approved risk management framework, the Bank has the required policies (viz. Credit Risk Policy, Lending Manual, ALM Policy etc.).

Measuring and handling risk	The Bank hired external consultant from time to time for review of various areas of Risks - Information Security review for National Electronic Security Authority (NESA) compliance by Ernst & Young (E&Y) in 2018 - AML/ Compliance review by KPMG in 2018 - Enterprise Risk Management (ERM) review by Deloitte The Bank also spends considerable resources on maintaining a modern IT platform. - The Bank has implemented T24 Core Banking System in 2019. The Bank also plans to strengthen its risk management by acquiring systems in the areas of AML, Operational Risk etc.
Controls	The Bank is continuously training the operating staff to provide knowledge of specific risks in their area and to implement Risk Controls and Self-Assessment (RCSA).
Reporting	The Bank has set up a process for reporting risk factors to the Management Risk Control Committee (MRCC), Asset Liability Management Committee (ALCO) as well as to the Board level Risk Committee (BRC) periodically.

2.5 Role of Risk Management Department

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

- Risk to be approved within the **appetite and corporate governance** framework set up by the BOD
- Risk and Business **strategies** to be fully aligned, to be executed by risk aware and skilled people
- **Enterprise Risk Management (ERM)** framework to be embedded in planning as well as execution
- **Risk Culture** - Everyone is responsible for management of risk faced
- **Risk Communication** to be transparent, encourages effective challenge and systemic escalations
- **Risk and Reward** - Risk taken should be compensated with focus on quality of earning
- **Risk Response** - Planned, swift and with cohesive sense of personal responsibility
- **Risk related behavior** to be accounted for in performance assessment & compensation process
- **Non-financial risk management** of reputation, compliance and confidentiality is paramount
- **Sustainability and Responsible Banking** to be one of core risk values of institution
- **Continuous improvement** in handling risks reflected in dynamic roadmaps and learning

The Bank has an independent Risk Management Structure managed under the Chief Risk Officer (CRO), that functionally reports to Risk Committee/ Board of Directors and administratively to the Chief Executive Officer (CEO).

Following are the major areas of responsibilities of risk management:

- Establishing bank wide Risk Management and control Policies, Strategies and processes
- Provide oversight and independent challenge of business line accountabilities
- Develop and Communicate risk and control procedures
- Implementing the enterprise-wide risk governance framework, which includes the bank's risk culture, risk appetite and risk limits;

- Monitoring of the risk-taking activities and risk exposures in line with the board-approved risk appetite, risk limits and corresponding capital or liquidity needs;
- Trigger systems for breaches of the Bank's risk appetite or limits;
- Identifying material individual, aggregate and emerging risks and measuring the Bank's exposure to them

3 Channels to communicate, decline and enforce the risk culture

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

4 The scope and main features of risk measurement systems

- Risk management in the Bank operations includes risk identification, measurement and assessment, and its objective is to minimize negative effects risks can have on the financial results and capital of the Bank
- The Bank identifies the critical risks associated with business lines and monitors them on regular basis. The material risks that may impact the Banks operations are identified and thoroughly assessed and stressed, both qualitatively and quantitatively. The Bank has adequate checks and controls in place where-ever manual computations are involved.
- **Credit Risk**
  - The fundamental pillars of the Bank's credit risk management systems are its credit rating systems for assessing the credit quality of its customers on a regular basis, IFRS 9 system for assessing the forward looking expected loss and loan origination systems (corporate and retail) among others. These advanced systems are deployed in quantifying credit risk and in setting various lending policies incorporating robust credit underwriting standards.
  - The scope and features of credit risk management systems deployed in credit risk management are as follows:

(i) Corporate Loan Origination System

- The Bank has implemented integrated business process management system (IBPMS) moving the corporate banking towards more comprehensive end to end loan origination, approval, limit management and disbursement system.
- Main feature of the system includes lead management, proposal preparation & recommendation, proposal analysis, review & approval, documentation, limit loading and disbursement, collateral management, internal communication within various departments of the Bank, integration with various IT systems used by the Bank, email intimation & escalations, dashboard and reporting.

(ii) Retail Loan Origination System

- The Bank has retail loan origination system with an automated infused workflow, evaluation of risk based on factors such as credit history, liquidity & collateral value etc., Customizable workflow enhancing processing standards, meticulous business process management (BPM) standards, report and analytics tool etc.

(iii) Corporate Rating System

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

(iv) IFRS 9 System

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

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

Market Risk

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

▪ **Liquidity Risk**

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

▪ **Operational risk**

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

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

▪ As a part of the reporting framework, Risk Management Department submits various risk reports pertaining to all the areas of the Bank to the Management Committees viz. Management Risk Control Committee/ Credit Committee/ ALCO as well as to the Board Risk Committee (BRC).

▪ Summary of the BRC observations are furnished by BRC to the Board.

▪ Following are the key reports which are considered comprehensive and hence provide Bank wide risk assessment on periodic basis.

▪ **Monthly Risk Report** including Risk Dashboard is submitted to the Management Risk Control Committee (MRCC) encompassing risks related to the Bank.

The report provides a concise overview of all regulatory ratios and thresholds, capital adequacy, asset quality and provision coverage, liquidity position of the Bank, market risk, interest rate risk, major operational risks, major breaches among others, various portfolio level credit quality related parameters, large exposure status, recovery position etc.

It also includes review risk management matters, including reviewing risk appetite and emerging risk and risk policy.

- **Other Risk 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, risk adjusted return, liquidity position of the Bank, market risk, major operational risk incidents and mitigating actions and information security update.
- **Risk appetite** monitoring of the Bank is an integral part of the monthly reporting to the senior management, which it combines the Bank's business model, governance, and strategic decisions.

  It holistically integrates the risk limits and performance targets for the Bank and the business groups, and sets the overall risk tolerance boundaries. Additionally, it facilitates the management decisions with various risk targets in order to ensure compliance with regulatory constraints and changing economic conditions
- **Stress testing** is another key component of the quarterly risk reporting process to the Board and senior management that assesses the potential risk and the resulting impact due to stressed operating scenarios.

  Stress testing framework at the Bank is comprehensive and is reasonably granular, which enables the management and the Board to assess the impact of different scenarios on the portfolios in terms of credit quality, liquidity, capital adequacy and profitability.
- **Internal Capital Adequacy Assessment Process (ICAAP)** is considered as the most comprehensive exercise that conducts the risk assessment of the Bank on forward looking basis, given the business plan and growth aspirations. This provides a complete overview of existing capital adequacy and future capital requirements to the Board and the senior management, which aids the long term capital management process in the Bank.
- Moreover, senior management exercises its risk management function through various management committees which require more frequent and more granular reporting on risk exposures
- The risk review cycle followed by the Bank consist of:
  - A monthly review of the top and emerging risks is undertaken and challenged through the Management Risk Control Committee (MRCC).
  - The risk appetite and risk assessment process is reviewed at least quarterly by ALCO and MRCC in consultation with the business functions.
  - Risk reports for various risk category are submitted to the BRC in every meeting.
  - The stress test scenarios and outcomes are updated quarterly and reviewed by the MRCC and BRC.
  - Senior management challenges the risk appetite and risk assessment methodologies through the MRCC and ALCO.
  - The BRC challenges and approves the risk appetite and the ICAAP.
  - Breach identification and reporting.

6 Qualitative information on stress testing

- Stress testing is used to evaluate potential vulnerability of risk management system of the banks to certain unlikely but plausible events or movements in financial variables.
- The Bank has implemented a Board approved Policy on Stress Testing and Scenario Analysis that defines the framework and approach for conducting stress tests to assess the impact on earnings and capital.
- The Bank undertakes a range of stress test scenarios to assess the risk and impact of different events on profitability or capital requirements. Stress scenarios are designed and undertaken on the principal risk factors like Credit Risk, Liquidity Risk, Interest rate Risk (earnings perspective), Business risk, Reputation Risk, Strategy Risk etc. In addition, the Bank also undertakes stress testing based on macroeconomic scenario as provided by CBUAE annually.

- Three stress levels viz. Minor; Moderate and Major is conducted on all the principal risk factors on periodic basis as per the Stress Testing Policy.
- In terms of governance, the Stress Testing is conducted by Risk Management department and is reviewed by Management Risk Control Committee and Board Risk Committee.
- The Bank also runs a series of reverse stress tests to consider scenarios beyond normal business settings to evaluate potential vulnerabilities and assess the mitigation required.
- The Bank also conducts Macroeconomic Scenario based stress testing on annual basis based on the guidelines from CBUAE.

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

- The mitigation of credit risk is an important aspect of its effective management and takes many forms.
- The Bank grants facilities based on the borrower's ability to repay, rather than placing its reliance on credit risk mitigation. The Bank nevertheless does hold a range of security to reduce the risk of loss and maximise the probability of facilities being repaid. A number of these risk mitigants have been applied under the Standardised approach in Pillar I, and there are other securities that cannot be assigned a value such as shares, land and property/ mortgages.
- The granting of facilities and taking of collateral as risk mitigants is governed by defined policies and procedures, as well as the use of the Banks standard documentation that cater for the offset of credit balances against facilities granted, the control over the integrity and valuation of collateral, and the rights required to enforce and realize security. The Bank monitors the concentration of risk mitigants and does not have any material concentrations in the risk mitigants currently held.
- Credit risk is managed through a stringent process of credit due diligence at origination through credit risk acceptance criteria, single obligor lending limits, economic sector limits, internal risk rating and a credit committee approval process where business line proposals are assessed for risk through risk opinions tendered by an independent credit risk function. Further credit risk mitigants like obtaining eligible collateral, valuations and minimum security coverage and guarantees are monitored over the life of the credit facility.
- The Bank has established a Risk Appetite Statement (RAS) for liquidity and funding risk that is approved by the BRC annually, and reviewed monthly through the Management Risk Control Committee, Asset Liability Management Committee (ALCO), with quarterly reports provided to the Board Risk Committee.
- The Bank recognizes the importance of liquidity management and has in place 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. CFPs are a crucial tool in effective liquidity and funding risk planning.
- The Bank has effective risk mitigation techniques in place to manage and mitigate risk as follows:
  - The Board of Directors has approved credit policy guidelines for the Bank. All exposures must confirm to these macro credit-limits, product types and tenors.
  - The Bank has comprehensive Credit Risk Management (CRM) Framework in place approved by the Board of Directors to cover all Bank-wide credit functions and activities. The CRM framework along with strong credit risk governance structure are designed to provide comprehensive controls and continuing management of the credit risk.
  - A strong credit strategy and risk appetite approved by the Board is in place and monitored and reported through risk appetite dashboard which provide integrated approach to spot and trigger immediate remedial actions with clearly defined roles and responsibilities.

- The Bank has internal rating model and Risk Adjusted Return on Capital (RAROC) model which provides effective screening and measurement tool of credit risk to assist with the building of high quality credit portfolio at the outset.
- The Bank have deployed early warning signal system that covers areas such as Account Turnover pattern, Central Bank Risk Bureau Classification, Central Bank Risk Bureau behaviour (dealing with other banks), days past 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 well monitors on regular basis.
- Exposure to single borrower/ group of related borrows is in line with the maximum legal limits set by CBUAE supported by policies, processes and auto solution to monitor the total indebtedness of group counterparties.
- Impairment and Provisioning is done based on IFRS 9 forward looking Expected Credit Loss Impairment Methodology for all performing as well as non performing loans (effective from January 01, 2018).

3.3 OV1 - Overview of Risk Weighted Assets

Sr. No.	Particulars	a	b	c
		RWA		Minimum capital requirements
		T 31.12.19	T-1 30.09.19	T 31.12.19
1	Credit risk (excluding counterparty credit risk)	19,536,919	18,749,002	2,539,799
2	Of which: standardised approach (SA)	19,536,919	18,749,002	2,539,799
3	Of which: foundation internal ratings-based (F-IRB) approach	-	-	-
4	Of which: supervisory slotting approach	-	-	-
5	Of which: advanced internal ratings-based (A-IRB) approach	-	-	-
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
11	Equity positions under the simple risk weight approach	-	-	-
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA), including internal assessment approach	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	58,254	58,840	7,573
21	Of which: standardised approach (SA)	58,254	58,840	7,573
22	Of which: internal model approaches (IMA)	-	-	-
23	Capital charge for switch between trading book and banking book	-	-	-
24	Operational risk	1,511,404	1,395,161	196,483
25	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
26	Floor adjustment	-	-	-
27	**Total (1+6+10+11+12+13+14+15+16+20+23+24+25+26)**	**21,106,578**	**20,203,002**	**2,743,855**

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

4. Linkages between financial statements and regulatory exposures

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

Particulars	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction
Assets							
Cash and balances at central bank	1,788,798	1,788,798	1,788,798	1,788,798	-	-	
Due from Banks	2,794,410	2,794,410	2,794,410	2,794,410	-	-	
Investment at fair value through profit or loss (FVTPL)	40,446	40,446	40,446	40,446	-	-	
Investment at amortised cost	38,143	38,143	38,143	38,143			
Financial assets designated at fair value		-	-	-	-	-	
Derivative financial instruments	-	-	-	-	-	-	
Loans and advances to banks	-	-	-	-	-	-	
Loans and advances to customers	15,569,483	15,569,483	15,569,483	15,569,483	-	-	
Reverse repurchase agreements and other similar secured lending		-	-	-	-	-	
Available for sale financial investments	1,919,048	1,919,048	1,919,048	1,919,048	-	-	
Non-current assets held-for-sale	120,568	120,568	120,568	120,568			
Investment properties	366,621	366,621	366,621	366,621	-	-	
Property and equipment	290,523	290,523	290,523	290,523	-	-	
Other Assets	519,572	519,572	519,572	519,572	-	-	
Total Assets	**23,447,612**	**23,447,612**	**23,447,612**	**23,447,612**	**-**	**-**	**-**
Liabilities							
Due to banks	2,584,080	2,584,080	-	-	-	-	
Items in the course of collection due to other banks	-	-	-	-	-	-	
Customer accounts	15,735,610	15,735,610	-	-	-	-	
Repurchase agreements and other similar secured borrowings	-	-	-	-	-	-	
Trading portfolio liabilities	-	-	-	-	-	-	
Financial liabilities designated at fair value	-	-	-	-	-	-	
Derivative financial instruments	-	-	-	-	-	-	
Other liabilities	613,193	613,193	-	-	-	-	
Share Capital	1,500,000	1,500,000	-	-	-	-	
Statutory Reserve	642,722	642,722	-	-	-	-	
Special reserve	638,132	638,132	-	-	-	-	
General reserve	380,000	380,000	-	-	-	-	
Revaluation Reserve	129,542	129,542	-	-	-	-	
Fair Value reserve	55,457	55,457	-	-	-	-	
Retained Earnings	1,168,876	1,168,876	-	-	-	-	
Total Liabilities	**23,447,612**	**23,447,612**	**-**	-	-	-	-

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

Sr. No.	Particulars	a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	-	-	-	-	-
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	-	-	-	-	-
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**	37,501,379	37,501,379	-	37,501,379	-

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

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

5. Prudential valuation adjustments

5.1 PV1 - Prudent valuation adjustments

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

6. Composition of capital

6.1 CC1 - Composition of regulatory capital

Sr. No.	Particulars	a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	1,500,000	Same as (h) from CC1 template
2	Retained earnings	1,018,874	
3	Accumulated other comprehensive income (and other reserves)	1,685,812	
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*		
5	Common share capital issued by third parties (amount allowed in group CET1)		
6	**Common Equity Tier 1 capital before regulatory deductions**	**4,204,686**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	CC1 (a) minus (d)
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	-	CC1 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	
11	Cash flow hedge reserve	-	
12	Shortfall of provisions to expected losses	-	
13	Securitisation gain on sale (as set out in paragraph 36 of Basel III securitisation framework)	-	
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
15	Defined benefit pension fund net assets	-	
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
17	Reciprocal cross-holdings in common equity	-	
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
20	Mortgage servicing rights (amount above 10% threshold)	-	CC1 (c) minus (f) minus 10% threshold
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
22	Amount exceeding 15% threshold	-	
23	Of which: significant investments in the common stock of financials	-	
24	Of which: mortgage servicing rights	-	
25	Of which: deferred tax assets arising from temporary differences	-	
26	National specific regulatory adjustments	-	
27	Regulatory adjustments applied to Common Equity Tier 1 due to insufficient Additional Tier 1 and Tier 2 to cover deductions	-	
28	**Total regulatory adjustments to Common Equity Tier 1**	-	
29	**Common Equity Tier 1 capital (CET1)**	4,204,686	

Sr. No.	Particulars	a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Additional Tier 1 capital: instruments		
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	CC1 (i)
31	OF which: classified as equity under applicable accounting standards	-	
32	Of which: classified as liabilities under applicable accounting standards	-	
33	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-	
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	
35	*Of which: instruments issued by subsidiaries subject to phase-out*	-	
36	Additional Tier 1 capital before regulatory adjustments	-	
	Additional Tier 1 capital: regulatory adjustments		
37	Investments in own additional Tier 1 instruments	-	
38	Reciprocal cross-holdings in additional Tier 1 instruments	-	
39	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
40	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	
41	National specific regulatory adjustments	-	
42	Regulatory adjustments applied to additional Tier 1 due to insufficient Tier 2 to cover deductions	-	
43	Total regulatory adjustments to additional Tier 1 capital	-	
44	**Additional Tier 1 capital (AT1)**	**-**	
45	**Tier 1 capital (T1= CET1 + AT1)**	**4,204,686**	
	Tier 2 capital: instruments and provisions		
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	-	
47	*Directly issued capital instruments subject to phase-out from Tier 2*	-	
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-	
49	*Of which: instruments issued by subsidiaries subject to phase-out*	-	
50	Provisions	244,211	
51	**Tier 2 capital before regulatory adjustments**	244,211	

Sr. No.	Particulars	a Amounts	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Tier 2 capital: regulatory adjustments		
52	Investments in own Tier 2 instruments	-	
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	-	
54	Investments in capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-	
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	-	
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-	
56	National specific regulatory adjustments	-	
57	**Total regulatory adjustments to Tier 2 capital**	-	
58	**Tier 2 capital (T2)**	244,211	
59	**Total regulatory capital (TC = T1 + T2)**	4,448,897	
60	**Total risk-weighted assets**	21,106,578	
	Capital ratios and buffers		
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	19.92%	
62	**Tier 1 (as a percentage of risk-weighted assets)**	19.92%	
63	**Total capital (as a percentage of risk-weighted assets)**	21.08%	
64	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**		
65	**Of which: capital conservation buffer requirement**	2.500%	
66	**Of which: bank-specific countercyclical buffer requirement**	0%	
67	**Of which: higher loss absorbency requirement**	0%	
68	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	13%	
	National minima (if different from Basel III)		
69	National Common Equity Tier 1 minimum ratio (if different from Basel III minimum)	-	
70	National Tier 1 minimum ratio (if different from Basel III minimum)	-	
71	National total capital minimum (if different from Basel III minimum)	-	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	
73	Significant investments in common stock of financial entities	-	
74	Mortgage servicing rights (net of related tax liability)	-	
75	Deferred tax assets arising from temporary differences (net of related tax liability)	-	

Sr. No.	Particulars	a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Applicable caps on the inclusion of provisions in Tier 2		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	366,528	
77	Cap on inclusion of provisions in Tier 2 under standardised approach	244,211	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
79	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
80	*Current cap on CET1 instruments subject to phase-out arrangements*	-	
81	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	
82	*Current cap on AT1 instruments subject to phase-out arrangements*	-	
83	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	-	
84	*Current cap on T2 instruments subject to phase-out arrangements*	-	
85	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	-	

6.2 CC2 - Reconciliation of regulatory capital to balance sheet

Particulars	a Balance sheet as in published financial statements As at period-end	b Under regulatory scope of consolidation As at period-end	c Reference
Assets			
Cash and balances at central banks	1,788,798	1,789,399	
Due from Banks	2,794,410	2,804,851	
Investment at fair value through profit or loss (FVTPL)	40,446	43,947	
Investment at amortised cost	38,143	38,143	
Financial assets designated at fair value	-	-	
Derivative financial instruments	-	-	
Loans and advances to banks	-	-	
Loans and advances to customers	15,569,483	16,634,878	
Reverse repurchase agreements and other similar secured lending	-	-	
Available for sale financial investments	1,919,048	1,923,626	
Non-current assets held-for-sale	120,568	206,348	
Investment properties	366,621	627,928	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	519,572	517,725	
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	-	-	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	-	-	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	290,523	308,394	
Total assets	23,447,612	24,895,239	

Particulars	a	b	c
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Liabilities			
Due to banks	2,584,080	2,584,080	
Items in the course of collection due to other banks	-	-	
Customer accounts	15,735,610	15,735,610	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	-	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	613,193	625,364	
Current and deferred tax liabilities			
Of which: DTLs related to goodwill			(d)
Of which: DTLs related to intangible assets (excluding MSRs)			(e)
Of which: DTLs related to MSRs			(f)
Subordinated liabilities			
Provisions		1,435,456	
Retirement benefit liabilities			
Total liabilities	18,932,883	20,380,510	
Shareholders' equity			
Paid-in share capital	1,500,000	1,500,000	
Of which: amount eligible for CET1			(h)
Of which: amount eligible for AT1			(i)
Retained earnings	1,168,876	1,168,876	
Accumulated other comprehensive income	1,845,853	1,845,853	
Total shareholders' equity	4,514,729	4,514,729	

6.3 CCA - Main features of regulatory capital instruments

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

7. Macroprudential Supervisory measures

7.1 DSIB1 - Disclosure of D-SIB indicator

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

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

	a	c	d	e	f
Geographical breakdown	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
United Arab Emirates	0.00%	34,177,519	18,110,390		
France	0.25%	16,046	8,023		
Norway	2.50%	56	11		
Sweden	2.00%	32	6		
United Kingdom	1.00%	55,985	43,478		
Sum		34,249,638	18,161,908		
Total		34,249,638	18,161,908		

8. Leverage ratio

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

Sr. No.	Particulars	a
1	Total consolidated assets as per published financial statements	23,447,612
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	
6	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	3,941,789
7	Other adjustments	
8	**Leverage ratio exposure measure**	**27,389,401**

8.2 LR2 - Leverage ratio common disclosure template

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

Sr. No.	Particulars	a T 31.12.19	b T-1 30.09.19
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	23,447,612	22,393,682
2	(Asset amounts deducted in determining Basel III Tier 1 capital)		
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of row 1 and 2)**	23,447,612	22,393,682
Derivative exposures			
4	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
5	Add-on amounts for PFE associated with *all* derivatives transactions	-	-
6	Gross-up for derivatives collateral provide where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	**Total derivative exposures (sum of rows 4 to 10)**	-	-
Securities financing transactions			
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Agent transaction exposures	-	-
16	**Total securities financing transaction exposures (sum of rows 12 to 15)**	-	-
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	12,552,327	8,701,599
18	(Adjustments for conversion to credit equivalent amounts)	8,610,538	4,536,748
19	**Off-balance sheet items (sum of rows 17 and 18)**	3,941,789	4,164,850
Capital and total exposures			
20	**Tier 1 capital**	4,204,686	4,234,350
21	**Total exposures (sum of rows 3, 11, 16 and 19)**	27,389,401	26,558,532
Leverage ratio			
22	**Basel III leverage ratio**	15.35%	15.94%

9. Liquidity

9.1 LIQA - Liquidity risk management

A. Qualitative

1. General

- Liquidity Risk is the risk to earnings and capital arising from the bank's inability to meet its obligations as they fall due, without incurring unacceptable cost or losses.
- Liquidity Risk is best understood as Funding Liquidity Risk - the risk that the Bank will not be able to efficiently meet both expected and unexpected current and future cash flow needs without affecting either daily operations or its financial condition. The capacity to counter balance cash outflows with high quality liquid assets provide cover for any unforeseen liquidity shock.
- Maintaining sufficient cash resources and retaining the confidence of both market parties and clients remain crucial. The Bank improved access to the money markets and this provided more standby lines of liquidity.
- Liquidity risk often results in risks related to reputation, legal and business continuity as it impacts the ability to fulfill financial obligations and often have a systemic impact.
- Bank classifies Liquidity Risks as:
  1. Funding liquidity risks: Need to replace net outflows.
  2. Time risk: Need to compensate for non-receipt of expected inflows,
  3. Call risk: Due to crystallization of contingent liabilities.

2. Risk Assessment Methodology

- The Bank's policy is aimed at financing long-term lending with stable funding, i.e. funds entrusted by customers and long-term funding provided by the money market.
- Liquidity Risk Management at the Bank is based on three pillars.
  1. The first pillar sets strict limits for the maximum cash outflow of wholesale banking. This includes measurement and reporting of expected cash inflows and outflows for the next twelve months. Limits have been set for these cash outflows. Detailed plans (the contingency funding plans) have been drawn up for contingency funding to ensure the bank is prepared for potential crisis situations. Periodic operational tests are performed for these plans.
  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 funding policy, in order to be able to provide funding to group entities at acceptable costs. Key success factors are the diversification of funding sources and currencies, the flexibility of the funding instruments used and an active investor relations role.
- The best category of buffer assets (Level 1 assets) constitutes approximately 94% of the HQLA buffer. The HQLA buffer is unencumbered and is managed by the Treasury department.
- Apart from undertaking liquidity gap analysis, stress testing is also undertaken on a periodic basis to assess the impact of liquidity risk on the position of the balance sheet.

- The bank complies with both the new LCR and NSFR requirements. These are measured on a weekly basis and Treasury implement pro-active strategies in the market to ensure compliance at all times with the ratios.
- Besides, the following liquidity ratios are monitored by the ALCO committee on a monthly basis:
  1. Loans to Deposits Ratio (LD Ratio)
  2. Advances to Stable Resource Ratio (ASRR)
  3. Liquidity Coverage Ratio (LCR
  4. Eligible Liquid Assets Ratio (ELAR)
  5. Loans to Assets Ratio
  6. Net Interbank
  7. Net Stable Funded Ratio (NSFR)
- ALCO reviews liquidity risk reports as a part of ALCO pack which is also submitted to the BRC.
- To guard against liquidity risk, the Bank acts actively to diversify its funding sources and maintains a healthy balance of cash and cash equivalents, and readily marketable securities.
- For extreme cases of stress on liquidity, a contingency funding plan, as part of Liquidity Risk policy is in place.

3. Monitoring of Concentration of Deposits

- The Bank is exposed to some degree of liquidity concentration in the form of large deposits mainly from Government related entities.
- The Bank is taking adequate measures to diversify its funding sources including additional mobilization of retail deposits.
- Deposits maintained by top 20 and top 15 depositors are monitored closely and presented to ALCO.
- In order to reduce the deposit concentration risk, size based limits on new deposits are in place and being monitored periodically.

A. STOCK APPROACH – SHORT TERM LIQUIDITY MANAGEMENT

- The Bank compares the near term liabilities with liquid and short term assets to determine the Bank's ability to meet its short term obligations as a measurement of liquidity risk.
- To facilitate this comparison, the Bank has implemented the following liquidity ratios in accordance with the requirements of ALM Policy.
  1. Short-term Borrowings/ Short-term Assets
  2. Liquid Assets/ Total Assets
  3. Market Liabilities/ Liquid Assets
  4. Volatile Liabilities/ Total Assets
  5. Liquidity Coverage Ratio (LCR)
  6. Uses to Stable Resources Ratio (USRR)

B. STRUCTURAL LIQUIDITY STATEMENTS

- The Structural Liquidity Statement is a key report used to assess the liquidity position continuously. The Bank's ALM policy prescribes Tolerance levels on mismatches in addition to any regulatory limits. In the Statement of Structural Liquidity (STL), inflows and outflows are arranged into different time-buckets in a 'maturity ladder'. The statement of structural liquidity is presented to ALCO.
- The liquidity risk is through the level of negative mismatches in various buckets. The Bank follow prudential limits on net cumulative negative mismatch. Breaches in the prudential limits, if any, are escalated to the ALCO. The Bank has also implemented "Positive Liquidity limits" to improve return on assets.
- The results of a customer behavioural analysis are used to adjust the contractual liquidity cash flows to reflect customer behaviour as well as the maturity roll-overs of time deposits. This study will be expanded to include loan pre-payments.

C. INTRA-DAY LIQUIDITY

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

D. LIQUIDITY CONCENTRATION FROM LARGE DEPOSITS

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

4. Risk Mitigation Actions and / or Controls

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

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

9.2 LIQ1 - Liquidity Coverage Ratio

CB Circular Para No.	Cash Inflows	Available Amount AED in '000	Taken at	Eligible Amount AED in '000
97	**Level 1 HQLA**			
a	Cash at Central Bank and physical cash at the Bank	**60,525**	100%	**60,525**
b	Reserve and account balances held at the Central Bank	**757,067**	100%	**757,067**
c	Central Bank CDs and all debt issued or explicitly guaranteed by UAE Federal Governments or Local Governments	**1,009,708**	100%	**1,009,708**
d	Debt issued by multilateral developments banks and the IMF	-	100%	-
e	Foreign Soverign or Central Bank debt or guaranteed debt receiving 0% Risk Wight under Basel II standardized approach	**445,496**	100%	**445,496**
f	UAE Public Sector Entities (PSE or GRE) debt securities which receive 0% Risk Weight under Basel II standardized Approach	**110,098**	100%	**110,098**
	TOTAL Level 1 HQLA	2,382,894		**2,382,894**
98	**Level 2A / 2B HQLA**			
a	Marketable securities representing claims issued or guaranteed by Sovereigns, Central Banks, PSE's or multi-lateral development banks receiving 20% risk weight under Basel II standardized approach	**309,634**	70%	**216,744**
b	Corporate bonds holding an AA- equivalent or higher long term credit rating provided it is not issued by a financial institution or any of its affiliates.	**112,346**	85%	**95,494**
c	Covered Bonds holding an AA- equivalent or higher long terms credit rating provided it is not issued by the bank itself or any of its affiliates	-	85%	**-**
d	Residential Mortgage Backed Securities (RMBS)	-	75%	-
e	Corporate bonds holding a rating of between A+ and BBB-.	**169,344**	50%	**84,672**
f	Common equity shares (strict qualifying conditions)	-	50%	**-**
	TOTAL Level 2A / 2B HQLA	591,323		396,909
	TOTAL HQLA	**2,974,218**		**2,779,804**

CB Circular Para No.	Cash Outflows	Available Amount AED in '000	Taken at	Eligible Amount AED in '000
102	**Liabilities maturing outside the 30 days stress period - 0% run off**			
103	All liabilities that have a contractual maturity over 30 days and where the bank is not contractually oblidged to pay the customer before the maturity date	10,195,251	0%	-
106	Stable Retail deposits receives 5% run off and less stable receives 10% run off (capped at 60%)	625,741	5%	31,287
	All other retail deposits that do not meet the criteria for classification as "stable" are considered less stable receives 10% run off	677,886	10%	67,789
111	Unsecured Deposits from Non Financial Corporates - 40% run off for Non operational	1,091,513	40%	436,605
111	Unsecured Deposits from Non Financial Corporates - 25% run off for Operational	3,177,995	25%	794,499
116	Wholesale Deposits Maturing in 1 month - Operational 40% maximum	440,343	25%	110,086
116	Wholesale Deposits Maturing in 1 month - Non-Operational 60%	660,514	40%	264,206
117	Unsecured wholesale funding from Financial institutions - Operational 25% run off,	-	25%	-
117	Vostro	481,231	100%	481,231
117	All other deposits from legal entities, including those from SMEs in excess of AED 20mn are non-operational	-	40%	-
119	Operational deposits from Financial institutions	-	25%	-
120	Non-operational financial services deposits maturing within 30 days	1,404,052	100%	1,404,052
122	Colalteral securing maturing wholesale funding (for Level 1 HQLA)	-	0%	-
122	Colalteral securing maturing wholesale funding (for Level 2A HQLA	-	15%	-
122	Transactions with soverign, central banks, PSE, GRE that are not backed by Level 1 or Level 2A HQLA	-	25%	-
122	Colalteral securing maturing wholesale funding (for Level 2B HQLA)	-	50%	-
122	All other collateral	-	100%	-
123	Credit Lines provided to Retail Customers - 5% draw down for commiitted credit liens and 30% for liquidity facilities	336,701	5%	16,835
123	Credit Lines provided to non-financial coporates - 10% draw down for commiitted credit liens and 30% for liquidity facilities	3,874,031	10%	387,403
125	LCs, LGs (total outstanding amount)	6,794,660	5%	339,733
125	Credit Lines provided to Financial coporates - 40% draw down for commiitted credit liens and 100% for liquidity facilities	111,187	40%	44,475
126	Liquidity facilites to all other entities	-	100%	-
131	Derivatives contracts - Net outflow under the contract within 30 days	-	100%	-
	TOTAL OUTFLOWS	**29,871,103**		**4,378,200**
	Cash Inflows			
134	Loans & Advances	639,401	50%	319,701
135	Overdrafts & Credit Cards	3,480,146	0%	-
136	Financial Institutions Deposits and Debt instuments maturing in 30 days	2,470,964	100%	2,470,964
138	Derivatives contract	-	100%	-
139	Non Operational deposits made to financial institutions	-	0%	-
140	Transactions backed by Level 1 assets	-	0%	
141	Transactions secured by Level 2A assets (0% if the collateral is used to cover a short position)	-	15%	-
142	Margin lending backed by all other including Level 2B assets (0% if the collateral is used to cover a short position)	-	50%	-
143	All other collateral - (0% if the collateral is used to cover a short position)	-	100%	-
	Total Inflows	**6,590,512**		**2,790,665**
93	**Cash inflows restricted to 75% of Contractual Inflows**	**4,378,200**	**75%**	**2,790,665**
	NETT 1 MONTH GAP OUTFLOWS			**1,587,535**
	LCR			**175.1%**

9.3 LIQ2 - Net Stable Funding Ratio

CB Circular Para No.	Available Stable Funding (ASF)- Liabilities	Available Amount AED in '000	Taken at	Eligible Amount AED in '000
150	**Liabilities receiving a 100% ASF factor**			
a	Regulatory capital (Excluding the portion of Tier 2 instruments with a residual maturity of Less than one year)	**4,514,727**	100%	**4,514,727**
b	Capital Instrument not included in (a) that has an effective maturity of one year or more(Excludes those with explicit or embedded option that negates this condition)	-	100%	-
c	Secured and unsecured borrowings and liabilities with effective residual maturities of one year or more	**59,729**	100%	**59,729**
151	**Liabilities receiving a 95% ASF factor**			
	'Stable' demand deposits as per LCR (paragraph 107 & 108)as well as retail term deposits as per the LCR with residual maturity of less than on year *(paragraph 107: Current retail deposits are considered stable if :They are resident deposits. A relationship with the customer has been well established ,for example the customer has been dealing with the bank for over 1 year or the customer uses the account for transactions such as salary being deposited in the account,paying bills and standing orders)* *(paragraph 108 :Retail term deposits which are maturing within the 30 day period are classified as stable if : they are resident deposits and a relation ship with the customer has been well establised ,for example the term deposit has a history of being rolled over at maturity with the bank or the relationship has been established for over 1 year with the customer)*	1,477,907	95%	**1,404,011**
152	**Liabilities receiving a 90% ASF factor**			
	'Less Stable' demand deposits as defined in the LCR as well as retail term deposits as per the LCR(Paragraph 109) with residual maturities of less than one year *(Paragraph 109: No more than 60% of retail deposits maturing within 30 days can be classified as stable.This cap will only be applicable during the transaction period until 1 january 2019 after which all banks are expected to be in a position to comply with the basel III requirements in full)*	**369,477**	90%	**332,529**
153	**Liabilities receiving a 50% ASF factor**			
a	Funding (secured and secured) with a residual maturity of less than one year provided by non financial corporate customers	8,764,300	50%	**4,382,150**
b	Operational deposits (as defined in the LCR paragraph 114) *Unsecured wholesale deposits from non - financial institutions are separated into operational and non operational wholesale deposits. Operational wholesale deposits have one or more of the following characteristics:* *The customer is reliant on the bank to perform payments ,clearing ,collections ,custody ,cash management and or payroll supported by a legally binding contractual agreement. The bank will have to prove reliance .The deposits are by products of the underlying services provided by the banking organization and not sought out in the wholesale market in the sole interest of the offerinf interest income. The deposits are held in specifically designated accounts and priced without giving as economic incentive to the customer to leave any excess funds.*	3,096,762	50%	**1,548,381**
c	Funding with a residual maturity of less than one year from sovereigns, public sector entities and multilateral and development banks	1,188,056	50%	**594,028**
d	Funding from other sources not included above with a residual maturity between 6 months and one year	**2,652,872**	50%	**1,326,436**
154	**Liabilities receiving a 0% ASF factor**			
	These comprise everything else with a few technical exceptions including net derivative liabilities (refer BCBS document peragrapg 25 and paragraph 149 above) *paragraph 149 :The cash flows for derivative contracts will be assessed at the replacement cost where the contract has a negative value.if a netting agreement exists then this can be taken into account and the netted position can be used collateral posted as variation margin can also be allowed for*	**1,407,827**	0%	-
	Total	**23,531,655**		**14,161,991**

CB Circular Para No.	Required Stable Funding (RSF)- Assets	Available Amount AED in '000	Taken at	Eligible Amount AED in '000
162	**Assets assigned a 0% RSF factor**			
a	Coins and Banks notes	**60,525**	0%	-
b	Central bank Reserves	**757,067**	0%	-
c	All claims on central banks with residual maturities of less than 6 months	**1,009,708**	0%	-
d	Trade date receivables' as per BCBS document paragraph 30 and 36 (d)	-	0%	-
163	**Assets assigned a 5% RSF factor**			
a	Unencumbered level 1 high quality liquid assets as defined in the LCR excluding those receiving a 0% RSF as above	**715,302**	5%	**35,765**
b	Marketable securities representing claims or guaranteed by those entities prescribed a 0% risk weight by the basel II standardized approach for credit risk		5%	-
164	**Assets assigned a 10 % RSF factor**			
a	Unencumbered loans to finacial institutions with residual maturities of less than 6 month where the loan is secured againist level 1 assets as defined by the LCR and where the bank can freely use the collateral for the life of the loan	-	10%	-
165	**Assets assigned a 15 % RSF factor**			
a	Unencumbered level 2 A assets as defined in the LCR	**421,980**	15%	**63,297**
b	All other unencumbered loans to financial institutions with residual maturities of less than 6 months not included in 164	**2,182,339**	15%	**327,351**
166	**Assets assigned a 50% RSF factor**			
a	Unencumbered level 2 B assets as per the LCR (When Allowed)	-	50%	-
b	HQLA (as per LCR) that are unencumbered for a period of between six months and one year	-	50%	-
c	Loans to financial institutions and central banks with a residual maturity of between six months and one year	-	50%	-
d	Deposits held at other financial institutions for operational purposes	**635,193**	50%	**317,596**
e	All other assets not included in the above categories that have a residual maturity of less than one year including loans to non financial coporate clients ,retail and SME loan as well as loan to sovereign and PSEs (GRE included)	**5,143,461**	50%	**2,571,731**
f	Overdrafts that are core are to be assessed on a case by case basis and will be assumed to have a maturity greated than one year	**3,480,146**	50%	**1,740,073**
167	**Assets assigned a 65% RSF factor**			
a	Unencumbered residential mortgages with a residual maturity of one year or more providing they qualify for 35% or lower risk weight under Basel II standardized approach for credit risk	**224,524**	65%	**145,941**
b	Other unencumbered loans not included in the above categories ,excluding loans to financial institutions ,with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under basel II standerdised approach	**3,490,740**	65%	**2,268,981**
168	**Assets assigned a 85% RSF factor**			
a	Cash ,securities or other assets posted as initial margin for derivative contracts or assets provided to contracts or assets provided to contribute to the default fund of a central counterparty	-	85%	-
b	Other unencumbered performing loans that do not qualify for the 35% or lower risk weight requirements in 167 and have residual maturities of one year or more excluding loans to financial institutions	**3,490,740**	85%	**2,967,129**
c	Unencumbered securities with a remainig maturity of one year or more as well as exchange traded equities that are not in default and do not qualify as HQLA under LCR	**860,356**	85%	**731,303**
d	physical traded commodities such as gold	-	85%	-

CB Circular Para No.	Required Stable Funding (RSF)- Assets	Available Amount AED mn	Taken at	Eligible Amount AED mn
169	**Assets assigned a 100% RSF factor**			
a	All assets that are encumbered for a period of one year or more	-	100%	-
b	NSFR derivative assets as calculated as per paragraph 160 & 161 net of NSFR derivative liabilities calculated as per paragrapg 149, if the NSFR derivatives assets are greater than liabilities	-	100%	-
c	All other assets not included in the above categories including non performing loans ,loans to FI with a residual maturity of one year or more ,non exchange traded equities ,fixed assets,items deducted from regulatory capital ,subsidiary interest and defaulted securities	**1,179,073**	100%	**1,179,073**
d	20% of derivative liabilities as calculated according to para 149	-	100%	-
170	**5% RSF factor of the currently undrawn portion**			-
a	irrevocable and conditionally revocable credit and liquidity facilities for any client	**4,321,919**	5%	**216,096**
b	Trade finance related obligations (including guarantees and letter of credit)	**6,794,660**	5%	**339,733**
171	**10% RSF factor**			
a	Non contractual obligations such as potential requests for debt repurchases of the bank own debt, structured products where the bank has to maintain liquidity and managed funds where there is a commitment to maintain stability		10%	-
172	**20% RSF factor**			
a	Guarantees and letter of credit unrelated to trade finance obligations		20%	-
	Total	**34,767,732**		**12,904,067**
	Net Stable Funding Ratio			**109.75%**

10. Credit risk

10.1 CRA - General qualitative information about credit risk

1. Business Model and Credit Risk Profile

1.1 Business Model

- The Banks business line is broadly classified into Corporate and Retail. Apart from this, Banks portfolio consist of Exposure on Banks, Fixed Income and Quoted Equity Portfolio.
- With-in Corporate, its business is bifurcated into various Segments viz. Large Corporate, High Net-worth Individuals (Corporate), Syndications, Commercial (SME Medium), SME Small and SME Micro.
- For the purposes of aligning business model to Bank's credit risk profile, the Bank has a policy defining the Target Sectors and Non-Target Clients, Prohibited and restricted lending. In addition, the Bank has established clear standards for credit risk management that should be met by employees, for application across the Bank. This among others, includes:
  - Risk Appetite
  - Credit Policies Guidelines and Procedures
  - General Credit Standards
  - Target Clients, Prohibited and Restricted lending,
  - Portfolio Guidelines
  - Credit Concentration Caps (Industry Sector, Segment & Geographical Caps)

1.2 Credit Risk Profile

- Credit risk represents as single largest component of regulatory capital requirement of the Bank.
- Efficient management of credit portfolio has assumed greater significance as it is the largest asset of the Bank having direct impact on its profitability. Therefore, it has become imperative that the credit risk related issues need to be addressed through robust Credit Risk Management policy and procedures.
- **Credit risk**: Credit Risk is the risk of financial loss through the failure of a customer or counterparty to honour their commitments as they fall due. Credit risk arises principally in corporate and personal lending, trade finance, treasury, debt securities and syndication underwriting, but credit risk also arises from off balance sheet products such as guarantees.
- Components of Credit Risk include:
  1. Default Risk: The failure of clients to meet contractual obligations on account of inability to pay, or unwillingness to pay.
  2. Country Risk: The inability of clients to fulfil their payment obligations owing to government embargo (e.g. transfer restrictions or problems related to externalization) or country-specific economic factors (e.g. currency devaluation).
  3. Settlement Risk: The risk to the Bank that arises if financial obligations are not settled on time or not settled at all in trading transactions, either due to the failure of the trading/payment system or due to counterparty failure.
  4. Pre-settlement Risk: The risk that one party of a contract fails to meet the terms of the contract and may default before the contract settlement date, prematurely ending the contract.
- A culture of prudent and responsible lending is a cornerstone of the Banks risk management philosophy. This is attained through effective control and management of risk, seeking to minimize credit losses while enhancing risk-adjusted returns.
- Credit policy and guidelines provide clear and consistent lending guidelines, policies, and procedures to manage the corporate and personal banking asset portfolios. The policies are reviewed by the Risk Management function and approved by Board through Board Risk Committee (BRC).
- Credit risk assessment is undertaken by the credit risk management function which reports to the Chief Executive Officer (CEO) through the Chief Credit Officer (CCO); hence ensuring that they have an appropriate degree of independence. The teams are responsible for credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.
- A key element in the Bank's credit culture is the proactive management of the portfolio through:
  - The regular review of facilities by lending and credit officers, at least annually.
  - Periodic rating of the customer using the rating system implemented by the Bank.
  - Risk based pricing using Risk Adjusted Return on Capital (RAROC).
  - The operation of an independent special asset management function to handle non performing and problem exposures.
  - The central monitoring of credit concentration in certain industries/ sectors, products, customers and customer groups with monthly reports to the Asset and Liability Committee (ALCO), and periodic reporting to Management Risk Control 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 (collective and discounted cash flow basis) are maintained in accordance with established IFRS 9 accounting practices.
- The Bank has dedicated monitoring and recovery team to manage companies in financial distress and non-performing loans to maximise recovery rates. For high value and problematic accounts the recovery process includes direct involvement from Legal.
- Credit risk consumes the largest proportion of the Banks minimum capital requirement. Within the established principles and parameters, the Bank ensures that strict capital discipline is maintained through correct pricing and management of credit risks in relation to the regulatory and economic capital requirements.
- The Bank has adopted standardized approach for Credit risk calculation and the concentration risk is part of Pillar II according to CBUAE.

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

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

Limit Setting	CRM Framework	Credit Risk Policy Components	Exposure Monitoring
	Governance & Strategy	Risk Appetite Credit Strategy	
	Credit Risk Identification	Credit Profile Industry Analysis Management Analysis Financial Analysis Account Operating Analysis	
	Credit Risk Measurement	Capital and RWA Computation Internal Rating Models IFRS 9 ECL	
	Credit Risk Mitigation	Securities & Collaterals Valuation Documentation	
	Credit Risk Management	Concentration Risk Management Portofio Management Stress Testing Risk Modeling MIS & Reporting	

- The Bank devises its Risk Appetite at-least on an annual basis or earlier, if necessary. The Bank also devises and provides portfolio guidelines based on Risk Appetite and Outlook of various industries. Corporate

Credit is considered as material risk for the Bank and hence RAS normally covers Non Performing Loans, Stress Assets, Provision Coverage Ratio, Portfolio Rating, Top Group Borrowers Exposure, Concentration Risk for specific Industry/(ies) etc.

- In general, while determining the Risk Appetite, the Bank considers the following:
  - Updates provided by senior management, stakeholders on key strategic matters
  - The Banks strategic plan and budget
  - Significant matters that have been reserved for the board
  - Risk Assessments facilitated by the Risk management function
  - The reports of the internal and external auditors, CBUAE Examination
  - Risk Appetite guidelines of CBUAE
- Within the ambit of RAS approved by Board of Directors, key directions from various board and management committees and stipulations on specific lending guidelines, management devises Annual Portfolio Guidelines.
- In addition to specific limits set out under RAS, to have control over growth, Concentration Risk is monitored based on segment and sector wise exposure limits/ caps.
- The key components of the Credit Risk Management Policy, Credit Risk Policy and Lending Manual are:
  - Credit is granted on the basis of insight into the customer's circumstances and of specific assessments that provide a basis for such credits.
  - It is ensured that the credit facilities granted matches the customer's creditworthiness, capital position or assets, and the repayment capacity.
  - The Bank assumes risks only within the limits of applicable legislation and other rules, including the rules on good practice for financial enterprises.
  - The Bank is particularly cautious while granting credits to businesses in troubled or cyclical industries.
  - In connection with the management of the Bank's country risk, particular caution and suitable risk mitigation is exercised while assuming risk in high risk countries.
- General Credit Standards
  - Bank's strategy for country risks, sector wise concentration, group risk concentrations, business lines wise credit approach and decisions about asset and liabilities management as well as regulatory limits determines the broad framework for financing the corporate.
  - General Credit Standards (Qualitative and Quantitative) includes Industry, Market Position, Ownership, Management, Succession, Financials, Bank Track Record, Security etc. In addition to qualitative measures, Corporate credit requires subjective process of evaluating several variables in determining credit decisions.

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

- The Board of Directors is responsible for the overall risk management approach within the Bank and for reviewing its effectiveness. The Board's designated committee for risk matters is the Board Risk Committee which approves and provides oversight for the Bank's risk framework, plans and performance targets, which include the establishment of risk appetite statements, risk management strategies and the establishment of effective control procedures among others.
- The Bank operates an independent risk management function which provides high-level oversight and management of Credit and Market risk.

- The credit teams are responsible for credit review, credit approval decisions, as well as key aspects of the risk rating systems, including selection, implementation, performance, and oversight.
- The administration of credit facilities is performed by an independent credit administration function. This function is responsible for ensuring completeness of documentation in accordance with approved terms and conditions, along with undertaking the operationally management and control of facilities.
- A dedicated remedial and recovery team is set to manage companies in financial distress and non-performing. For personal banking there is a dedicated collections function undertaking recovery activities at each stage of delinquency.

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

- The Board is responsible for internal control in the Bank and for reviewing its effectiveness. The framework of standards, policies and key procedures that the Board have established is designed to provide effective segregation of duties and internal control within the Bank for managing risks within the accepted risk appetite along with the on-going identification, evaluation and management of the significant risks faced by the Bank.
- The management is responsible for establishing and maintaining an adequate and effective system of internal control which encompasses the policies, procedures/ processes and information systems as approved by the Board, that facilitate effective and efficient operations.
- The bank has implemented a ‘Three Lines of Defense’ model for managing risks facing the Bank.
  - First Line of defense: the business line
  - Second Line of defense: risk management function and a compliance function independent from the first line of defense
  - Third Line of defense: internal audit function independent from the first and second line of defense
- **First Line of Defense:**
  - Business management, as the first Line of defense, is responsible for defining operating procedures and standards across all areas under their responsibility.
  - Specific business manuals/ procedures are established by functions covering all material risks including credit, market, liquidity, information security, capital, compliance, model, reputational, strategic and other operational risks.
  - Business management is also responsible for implementing effective monitoring mechanisms to identify, assess, measure, manage, monitor, and mitigate operational risks and prevent deviations or breaches from established policies and regulatory requirements.
- **Second Line of Defense:**
  - The Second Line of defense comprises various risk management functions which maintain oversight of credit, market, legal, compliance, information technology, financial control, reputational risks as well as other operational risks relating to business continuity, security and fraud.
  - These functions act as the risk stewards, who set policy and guidelines for managing risks, provide advice to support these policies and test effectiveness of first line processes in adherence to the policy.

- They also challenge the first Line of defense to ensure that its risk management activities are working effectively. The second Line of defense operates independently from the operational management in the First Line of defense.
- The Credit function undertake a credit review to ensure that the facilities are in line with the bank's credit policy & procedures, CBUAE guidelines and are appropriately structured to ensure end use of funds. They also monitor the financial performance & condition, approval conditions wherever applicable and past dues to identify early warning signs.
- As part of the second line, the Compliance function maintains oversight of business operations and management action to ensure conformity with regulatory requirements, particularly the Rules for Opening of Bank Accounts, Anti-Money Laundering and Terrorism Finance Fighting Rules and other key level international regulatory requirements.

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

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

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

10.2 CR1 - Credit quality of assets

Sr. No.	Particulars	a	b	c	d	e	f
		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	963,215	15,671,663	521,088	432,638	88,450	16,113,790
2	Debt securities	-	1,869,093	3,500	3,500	-	1,865,593
3	Off-balance sheet exposures	-	12,618,292	76,438	76,438	-	12,541,854
4	**Total**	**963,215**	**30,159,048**	**601,026**	**512,576**	**88,450**	**30,521,237**

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

Sr. No.	Particulars	a
1	**Defaulted loans and debt securities at the end of the previous reporting period**	767,527
2	Loans and debt securities that have defaulted since the last reporting period	397,464
3	Returned to non-default status	(52,217)
4	Amounts written off	(83,803)
5	Other changes	(65,756)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	963,215

10.4 CRB - Additional disclosure related to credit quality of assets

A. Qualitative

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

- **Past Dues**: Any part of the contractual obligation (principal or Interest) is not met on time. The number of days past due is non-cumulative, where the most recent payment cures the earliest contractual breach.
- **Past due but not impaired**: Loans and investments for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.
- **Impaired/ Default**: If the obligor is past due more than 90 days on any material credit obligation to the banking.

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

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

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

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

- The Bank has adopted IFRS 9 Financial Instruments issued in July 2014 with a date of initial application of 1st January 2018
- The Bank recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
  - Financial assets that are financing instruments;
  - Off-balance sheet instruments issued; and
  - Financial guarantee contracts issued.
- The Expected Credit Loss (ECL) model contains a three stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.
  - Under Stage 1, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL will be recorded.
  - Under Stage 2, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded.
  - Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets.
- Measurement of ECL
  - IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios.

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

- Loans with renegotiated terms are loans that have been restructured with any material concessions due to deterioration in the borrower's financial position even if these accounts were under normal classification at the time of restructuring. Once a loan is restructured, it remains in this category for a minimum period of twelve months, in order to establish satisfactory track record of performance under the restructuring agreement
- In case of multiple restructurings of one counter party either within the same account or consolidation into any other group account, key concern is if principle payment is being made over time or is it becoming an evergreen facility because customer has inability to service the dues.

  This fact may have a direct bearing on classification of account at the time of restructuring. Second restructuring can be allowed before account becomes 90 days past due to avoid account being downgraded only if valid reasons exist. However, any further restructuring without payment of 6 months equivalent of principle installment payment or 10%, whichever is lower, will be considered as event of default and account has to go through classification cycle.

<u>Legal/ Settlement Write Off:</u>

- For legal write off where bank relinquish further claim on corporate customer for which litigation is in process, a review from legal department will be necessary before submission of request to relevant authorities.
- Legal write-off will be considered only when all recovery efforts through legal course or otherwise have failed and when the prospect of recovery are bleak. The loss is realized and no other recovery/ legal action is done post write- off. Other justifiable circumstances are:
  - Insolvency
  - Borrower/ guarantor not traceable or absconding or deceased or jailed with no known income source
  - Expected recovery is not commensurate with Legal costs to be incurred

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

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

<u>Accounting/ Technical write - off:</u>

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

B. Quantitative

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

1.1 Gross Credit Exposure by Currency Type

31st December, 2019 **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	2,598,431	1,825,146	311,091	4,734,668	-	65,970	1,920,980	1,986,950	6,721,618
AED	16,841,299	43,947	3,263,168	20,148,414	6,595,455	-	4,035,892	10,631,347	30,779,761
Total	**19,439,730**	**1,869,093**	**3,574,259**	**24,883,082**	**6,595,455**	**65,970**	**5,956,872**	**12,618,297**	**37,501,379**

31st December, 2018 **AED in '000**

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

1.2 Gross Credit Exposure by Geography

31st December, 2019 **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	17,284,487	1,367,162	3,533,839	22,185,488	6,595,374	65,947	4,577,666	11,238,987	33,424,475
GCC	932,452	501,931	14,110	1,448,493	-	-	920	920	1,449,413
Arab League (excluding GCC)	156,676	-	15,277	171,953	81	-	963,156	963,237	1,135,190
Asia	523,566	-	10,841	534,407	-	-	337,463	337,463	871,870
Africa	-	-	-	-	-	-	-	-	-
North America	305,090	-	-	305,090	-	-	1,480	1,480	306,570
South America	-	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-	-
Europe	237,459	-	192	237,651	-	23	76,187	76,210	313,861
Australia	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
Total	**19,439,730**	**1,869,093**	**3,574,259**	**24,883,082**	**6,595,455**	**65,970**	**5,956,872**	**12,618,297**	**37,501,379**

31st December, 2018 **AED in '000**

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

Gross Credit Exposure by Industry Segment

31st December, 2019 **AED in '000**

Industry Segment	Loans	Debt Securities	Others	Total Funded	Commitments	OTC Derivatives	Other Off-Balance Sheet	Total Non-Funded	Gross
Agriculture, Fishing & related activities	1,183	-	3	1,186	2,570	-	6,137	8,707	9,893
Crude Oil, Gas, Mining & Quarrying	102,171	19,457	2,597	124,225	170,739	-	30,569	201,308	325,533
Manufacturing	978,322	-	105,633	1,083,955	1,121,769	-	609,142	1,730,911	2,814,866
Electricity& Water	117,544	-	5,341	122,885	17,017	-	12,108	29,125	152,010
Construction	4,830,640	71,899	141,487	5,044,026	1,969,502	-	1,430,580	3,400,082	8,444,108
Trade	2,725,439	-	70,931	2,796,370	1,083,186	11,367	586,508	1,681,061	4,477,431
Transport, Storage & Communication	669,526	191,204	9,972	870,702	452,566	-	146,448	599,014	1,469,716
Financial Institutions	4,846,271	814,796	1,890,756	7,551,823	84,260	54,603	1,336,010	1,474,873	9,026,696
Services	2,173,296	-	45,477	2,218,773	276,103	-	409,736	685,839	2,904,612
Government	-	715,302	6,769	722,071	9,668	-	16,332	26,000	748,071
Retail/ Consumer banking	1,571,015	-	7,994	1,579,009	371,835	-	585	372,420	1,951,429
All Others	1,424,323	56,435	1,287,299	2,768,057	1,036,240	-	1,372,717	2,408,957	5,177,014
Total	19,439,730	1,869,093	3,574,259	24,883,082	6,595,455	65,970	5,956,872	12,618,297	37,501,379

31st December, 2018 **AED in '000**

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

1.3 Gross Credit Exposure by Residual Contractual Maturity

31st December, 2019 **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	7,756,096	18,518	688,202	8,462,816	1,605,823	84	1,852,425	3,458,332	11,921,148
3 mths to one year	3,091,339	280,822	378,615	3,750,776	1,508,072	55,557	2,151,565	3,715,194	7,465,970
One to five years	4,972,235	1,123,348	-	6,095,583	577,752	10,329	533,020	1,121,101	7,216,684
Over five years	3,573,336	402,458	4,233	3,980,027	574,762	-	7,029	581,791	4,561,818
Unspecified	46,724	43,947	2,503,209	2,593,880	2,329,046	-	1,412,833	3,741,879	6,335,759
Grand Total	**19,439,730**	**1,869,093**	**3,574,259**	**24,883,082**	**6,595,455**	**65,970**	**5,956,872**	**12,618,297**	**37,501,379**

31st December, 2018 **AED in '000**

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

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

31st December, 2019 **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	1,357,629	151,671	509,077	14,425	83,803	178,728	77,805	770,747
GCC (excluding UAE)	-	-	-	-	-	-	-	-
Arab League (excluding	-	-	-	-	-	-	-	-
Asia	-	-	-	-	-	-	-	-
Africa	-	-	-	-	-	-	-	-
North America	-	-	-	-	-	-	-	-
South America	-	-	-	-	-	-	-	-
Caribbean	-	-	-	-	-	-	-	-
Europe	1	-	-	-	-	-	-	1
Australia	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Grand Total	**1,357,630**	**151,671**	**509,077**	**14,425**	**83,803**	**178,728**	**77,805**	**770,748**

31st December, 2018 **AED in '000**

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

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

31st December, 2019 **AED in '000**

Asset Class	Gross Credit Exposures				
	Rated	Unrated	Total	Post CRM	RWA Post CRM
Claims on Sovereigns	467,104	1,883,398	2,350,502	2,337,436	-
Claims on Non Central Government PSEs	110,098	-	110,098	110,098	-
Claims on Multilateral Development Banks	-	-	-	-	-
Claims on Banks	3,348,742	1,678,926	5,027,668	3,928,973	1,693,922
Claims on Securities Firms	-	8,196	8,196	8,196	8,196
Claims on Corporates	113,516	22,808,302	22,921,818	11,857,736	11,784,047
Claims included in Regulatory Retail Portfolio	-	388,601	388,601	370,920	347,807
Claims Secured by Residential Property	-	657,805	657,805	647,491	564,904
Claims Secured by Commercial Real Estate	-	2,833,766	2,833,766	2,766,412	2,766,412
Equity	-	136,622	136,622	132,045	139,735
Past Due Loans	-	1,357,630	1,357,630	763,618	927,064
Higher Risk Categories	-	17,872	17,872	15,100	22,650
Other Assets	-	1,690,801	1,690,801	1,342,015	1,282,182
Total Amount	**4,039,460**	**33,461,919**	**37,501,379**	**24,280,040**	**19,536,919**

31st December, 2018 **AED in '000**

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

4. Ageing analysis of accounting past-due exposures

4.1 Past Due and Impaired loans by Industry Segment

31st December, 2019 **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		
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	23	17	-	-	-	-	2	21
Manufacturing	127,507	7,573	78,940	777	-	8,620	496	48,071
Electricity& Water	-	-	-	-	-	21,340	-	-
Construction	481,491	48,029	174,881	5,241	-	96,775	24,384	282,226
Trade	143,116	4,698	85,662	743	60,935	4,305	8,597	48,857
Transport, Storage & Communication	172,976	7,537	15,358	3,288	-	-	1,991	155,627
Financial Institutions	54,188	-	19,304	517	-	19,490	499	34,385
Other Services	87,398	3,673	23,351	921	-	-	2,169	61,878
Government	-	-	-	-	-	-	-	-
Retail/ Consumer banking	64,439	5,560	7,312	1,089	-	8,920	6,156	50,971
All Others	226,492	74,584	104,269	1,849	22,868	19,278	33,511	88,712
Grand Total	**1,357,630**	**151,671**	**509,077**	**14,425**	**83,803**	**178,728**	**77,805**	**770,748**

31st December, 2018 **AED in '000**

Industry Segment	Past due & Non-Performing Loans	Overdue Amount	Provisions		Adjustments		IIS	Impaired Loans (net of Specific Prov. and IIS)
	Outstanding Amount	Overdue	Specific	General	Write-offs	Write-backs		
Agriculture, Fishing & related activities	-	-	-	-	-	-	-	-
Crude Oil, Gas, Mining & Quarrying	39	11	20	-	-	-	1	18
Manufacturing	51,475	6,986	37,954	155	2,734	15,883	2,933	10,588
Electricity& Water	-	-	-	-	-	26,919	-	-
Construction	381,577	39,465	125,186	3,354	-	24,676	10,296	246,095
Trade	158,661	25,290	101,151	722	53,096	36,565	15,436	42,074
Transport, Storage & Communication	46,217	28,276	17,896	575	-	1,036	1,355	26,966
Financial Institutions	4,674	-	636	83	148,652	-	500	3,538
Other Services	3,872	150	394	52	55,653	250	33	3,445
Government	-	-	-	-	-	-	-	-
Retail/ Consumer banking	38,384	3,306	14,676	293	12,112	5,405	5,641	18,067
All Others	218,284	25,430	87,138	1,777	-	-	12,870	118,276
Grand Total	**903,183**	**128,914**	**385,051**	**7,011**	**272,247**	**110,734**	**49,065**	**469,067**

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

31st December, 2019 **AED in '000**

Regulatory group	NPL Restructured	Restructured	Total
Claim on Corporates	-	1,049,040	1,049,040
Claim included in the Regulatory Retail Portfolio	-	7,380	7,380
Claim secured by Residential property	-	41,439	41,439
Claim secured by Commercial property	-	949,354	949,354
Past due loans	572,367	97,488	669,855
Total	**572,367**	**2,144,701**	**2,717,068**

31st December, 2018 **AED in '000**

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

10.5 CRC - Qualitative information on the mitigation of credit risk

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

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

2. Core features of policies and processes for collateral evaluation and management

- The Bank's lending portfolio comprises of both, Secured and Unsecured loans and advances. The Bank accepts collateral or other credit risk mitigants as part of the Secured lending.
- The Bank in the ordinary course of lending activities holds collaterals as security to mitigate credit risk in the loans and advances.
- The Bank takes into account basic principles of valuation, haircuts and mismatch adjustments, legal considerations and other aspects in valuation of collaterals.
- Quality of Collaterals: All collaterals accepted, as security generally be
  - Marketable i.e. readily realizable
  - Easily valued i.e. value to be easily ascertainable
  - Stable in value i.e. all not be prone to violent fluctuation in prices
  - Durable
  - Clear title and transferable
  - Yield: to generate income to honor the obligations either wholly or in part e.g. shares income, rentals from property etc.
- Security and Collaterals are bifurcated into following categories:
  - Tangible Collaterals: This includes securities 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 securities is updated and held at all times by the bank.
- CBUAE guidelines on the Use of Other Forms of Movable Collaterals (Ref. CBUAE/BSD/N/2018/2925), pertaining to establishment of the electronic Register allocated for the declaration of rights on movable property under the purview of Emirates Movable Collateral Registry Corporation (EMCR), which is wholly owned by the Emirates Development Bank should be followed where-ever applicable.
- The Bank has collateral valuation guidelines which details the principles and frequency of valuation of securities.
- The Bank monitors the market value of collateral and requests additional collateral in accordance with the underlying agreements. It also monitors the market value of collateral obtained during its review of the adequacy of the provision for credit losses.
- When valuations are obtained from Banks' approved evaluators, the lowest value is taken thereafter for the purpose of collateral/ LTV computation. A refreshed valuations are obtained for properties with more frequency in cases where there are difficulties and hence reliance on the security is increasingly high.

Where the bank accepts fixed assets e.g. property as collateral, these are adequately insured with the bank as loss payee, where-ever applicable. If corporate guarantees are accepted their tangible net worth are re-evaluated annually along with the annual review of facilities, where-ever applicable.

- All securities are held under the custody of an independent credit administration function.

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

- The Bank follows "Simple Approach" to Credit Risk Mitigation (CRM) technique for Capital Adequacy Ratio (CAR) computation on secured portfolios, collateralized with cash & cash equivalent underlying only, as per BASEL and CBUAE guidelines.
- The bank endeavors to take an appropriate level of security to secure our advances. All borrowing relationships need to identify a secondary source of repayment.
- The nature of collateral types available to the bank is limited and these collaterals mostly include mortgages/ real estate, time, demand and other cash deposits, financial guarantees, equities other fixed assets. The security margin is computed accordingly keeping in view the type of collateral held.

10.6 CR3 - Credit risk mitigation techniques – overview

Sr. No.	Particulars	a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	13,691,968	990,230	669,867	-	-	-	-
2	Debt securities	1,288,734	-	-	-	-	-	-
3	**Total**	14,980,702	990,230	669,867	-	-	-	-
4	Of which defaulted	765,598	1,929	1,407	-	-	-	-

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

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

- Recognized rating agency shall be Standard and Poor's Ratings Group (S&P), Moody's Investors Service (Moody's), Fitch Group (Fitch) and Capital Intelligence (CI).
- External Credit Assessment Institutions (ECAI) Rating Priority:
  - As per the CBUAE guidelines "if there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights will be applied".
  - The Bank follows and complies with the same principle i.e. In case of two ratings, the lower rating is considered. For multiple ratings, the second lowest rating is considered.
- For foreign currency ratings, only Standard& Poor's, Moody's and Fitch ratings are used.

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

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

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

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

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

- Credit ratings of all exposures are determined from the ECAIs and mapped to the exposures assigning a risk weight according to the supervisory tables.
- The alignment of alphanumeric scales of each agency to risk buckets is as follows

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

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

Long-term mapping –Assessments and Risk weights

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

- UAE Dirham denominated and funded sovereign exposures to the Federal and Local Emirate governments attract a risk weighting of 0%. Similarly, all GCC sovereign exposures attract a risk weighting of 0%.
- For the mapping of ratings to risk weights for exposures to banks and securities firms, only the risk weights associated with Option 2 are shown.

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

31st December, 2019 **AED in '000**

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	2,334,170.00	16,332.00	2,334,170.00	3,266.00	-	-
2	Non-central government public sector entities	110,098.00	-	110,098.00	-	-	-
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	3,537,244.00	1,490,424.00	3,537,244.00	391,729.00	1,693,922.00	0.09
5	Securities firms	8,196.00	-	8,196.00	-	8,196.00	0.00
6	Corporates	11,922,194.00	10,996,114.00	10,489,699.00	1,368,037.00	11,784,047.00	0.60
7	Regulatory retail portfolios	381,942.00	6,372.00	366,037.00	4,883.00	347,807.00	0.02
8	Secured by residential property	657,805.00	-	647,491.00	-	564,904.00	0.03
9	Secured by commercial real estate	2,833,766.00	-	2,766,412.00	-	2,766,412.00	0.14
10	Equity	132,045.00	-	132,045.00	-	139,735.00	0.01
11	Past-due loans	738,136.00	32,612.00	733,092.00	30,527.00	927,064.00	0.05
12	Higher-risk categories	15,100.00	-	15,100.00	-	22,650.00	0.00
13	Other assets	1,342,015.00	-	1,342,015.00	-	1,282,182.00	0.07
14	**Total**	**24,012,711.00**	**12,541,854.00**	**22,481,599.00**	**1,798,442.00**	**19,536,919.00**	**1.00**

31st December, 2018 **AED in '000**

		a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	2,067,377.00	3,352.00	2,067,377.00	101.00	2,067,478.00	0.07
2	Non-central government public sector entities	92,378.00	-	92,378.00	-	92,378.00	0.00
3	Multilateral development banks	-	-	-	-	-	-
4	Banks	3,839,950.00	2,814,930.00	3,839,950.00	1,053,947.00	6,654,880.00	0.23
5	Securities firms	30,000.00	-	3,867.00	-	3,867.00	0.00
6	Corporates	12,500,020.00	8,465,711.00	9,538,986.00	1,582,567.20	15,003,011.00	0.51
7	Regulatory retail portfolios	629,023.00	7,071.00	572,979.00	4,228.00	597,705.00	0.02
8	Secured by residential property	1,084,304.00	-	998,892.00	-	1,003,537.00	0.03
9	Secured by commercial real estate	2,294,865.00	-	2,212,802.00	-	2,213,802.00	0.08
10	Equity	112,638.00	-	112,638.00	-	112,638.00	0.00
11	Past-due loans	420,347.00	77,331.00	418,925.00	36,316.00	494,382.00	0.02
12	Higher-risk categories	-	-	-	-	-	-
13	Other assets	1,064,732.00	-	1,001,113.00	-	1,064,732.00	0.04
14	**Total**	**24,135,634.00**	**11,368,395.00**	**20,859,907.00**	**2,677,159.20**	**29,308,410.00**	**1.00**

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

31st December, 2019 **AED in '000**

		a	b	c	d	e	f	g	h	i	j
	Risk weight* / Asset classes	0%	10%	20%	35%	50%	75%	100%	150%	Others 115%	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	2,337,436	-	-	-	-	-	-	-	-	2,337,436
2	Non-central government public sector entities	110,098	-	-	-	-	-	-	-	-	110,098
3	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4	Banks	-	-	1,467,461	-	2,122,164	-	339,348	-	-	3,928,973
5	Securities firms	-	-	-	-	-	-	8,196	-	-	8,196
6	Corporates	-	-	56,435	-	57,081	-	11,744,220	-	-	11,857,736
7	Regulatory retail portfolios	-	-	-	-	-	92,454	278,466	-	-	370,920
8	Secured by residential property	-	-	-	127,057	-	-	520,434	-	-	647,491
9	Secured by commercial real estate	-	-	-	-	-	-	2,766,412	-	-	2,766,412
10	Equity	-	-	-	-	-	-	116,664	15,381	-	132,045
11	Past-due loans	-	-	-	-	-	-	436,728	326,891	-	763,619
12	Higher-risk categories	-	-	-	-	-	-	-	15,100	-	15,100
13	Other assets	59,832	-	-	-	-	-	1,282,183	-	-	1,342,015
14	**Total**	2,507,366	-	1,523,896	127,057	2,179,245	92,454	17,492,651	357,372	-	24,280,041

31st December, 2018 **AED in '000**

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

11. Counterparty credit risk (CCR)

11.1 CCRA - Qualitative disclosure related to CCR

Not Applicable to the Bank

11.2 CCR1 - Analysis of CCR by approach

Not Applicable to the Bank

11.3 CCR2 - Credit valuation adjustment capital charge

Not Applicable to the Bank

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

Not Applicable to the Bank

11.5 CCR5 - Composition of collateral for CCR exposure

Not Applicable to the Bank

11.6 CCR6 - Credit derivatives exposures

Not Applicable to the Bank

11.7 CCR8 - Exposures to central counterparties

Not Applicable to the Bank

12. Securitisation

12.1 SECA - Qualitative disclosures related to securitisation exposures

Not Applicable to the Bank

12.2 SEC1 - Securitisation exposures in the banking book

Not Applicable to the Bank

12.3 SEC2 - Securitisation exposures in the trading book

Not Applicable to the Bank

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

Not Applicable to the Bank

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

Not Applicable to the Bank

13. Market risk

13.1 MRA - General qualitative disclosure requirements related to market risk

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

  Existing legacy portfolio in unquoted equity are in exit mode. To be liquidated based on market conditions. Investment in these asset classes permitted only with specific approval of Board Credit & Investment Committee (BCIC).
- **Reporting:**
  - Bank monitors Market to Market (MTM) valuation for Bonds and Equity portfolio on a daily basis.
  - Bank also monitors compliance with Investment policy on a weekly basis and performance of Investment portfolio on a monthly basis. These reports are part of Risk Dashboard and submitted to Asset Liability Management Committee (ALCO) and Management Risk Control Committee and to Board Risk Committee.
  - The performance report is also reviewed by Board Audit and Compliance committee in their meetings.

1. Capital Charge for Market Risk

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

- **Specific Risk Charge**:
  - Specific risk charge for each security, which is designed to protect against an adverse movement in the price of an individual security owing to factors related to the individual issuer.

- CBUAE has prescribed specific risk charges (as % of exposure) for various kinds of exposure. The Bank follows the prescribed specific risk charges.

▪ **General Market Risk Charge**:

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

2. Aggregation of the capital charge for market risks

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

3. Market Risk Measurement & Monitoring

▪ The measurement of risk includes statistical tools like Modified Duration, as well as non-statistical tools like Price Value Basis Point (PVBP), Weighted Average Portfolio Rating (WAPR) etc. Bank has also initiated monitoring of market risk portfolio VaR as part of Risk Appetite statement.

▪ Interest rate risk is measured through interest rate sensitivity. Bank uses Traditional Maturity Gap Analysis and Duration Gap Analysis for measurement of interest rate risk.

▪ Bank carries out stress test on interest rate risk and measures sensitivity of NII against interest rate, periodically, by testing the portfolio for movement in interest rate in different directions.

▪ Bank's fixed income portfolio is exposed to interest rate risk in 'rising interest rate' scenario which is monitored regularly and Bank may examine hedging strategy for the portfolio. Those held under 'available for sale' are subject to expected credit loss calculation under IFRS 9.

13.2 MR1 - Market risk under the standardised approach

Sr. No	Particulars	a	
		Capital charge in SA	RWA
1	General interest rate risk	4,247	40,446
2	Equity risk		
3	Commodity risk		
4	Foreign exchange risk	1,870	17,808
5	Credit spread risk - non-securitisations		
6	Credit spread risk - securitisations (non-correlation trading portfolio)		
7	Credit spread risk - securitisation (correlation trading portfolio)		
8	Default risk - non-securitisations		
9	Default risk - securitisations (non-correlation trading portfolio)		
10	Default risk - securitisations (correlation trading portfolio)		
11	Residual risk add-on		
12	**Total**	**6,117**	**58,254**

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

14.1 IRRBBA - IRRBB risk management objectives and policies

A. Quantitative

1. Definition

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

2. Components of Interest Rate Risks in Banking Books

- **Re-pricing risk**: related to the timing mismatch in the maturity and interest rate re-pricing of assets and liabilities, off balance sheet short and long term positions. This risk is measured using re-pricing and duration gap report.
- **Basis risk**: as the Bank's assets and liabilities are currently linked to benchmarks that mimics each other, the measurement of this component will be restricted to measuring basis risk arising on account of different currencies only.
- **Yield curve risk**: arising from unequal changes in spreads between two or more rates for different maturities in the same yield curve (currency) (e.g. short term interest rates changing more than the change in long term interest rates).

- An important driver of interest rate risk in the banking environment is client behaviour. Any risk run by clients due to the fact that their financial obligations increase as a result of movements in interest rates does not affect the Banks's exposure to interest rate risk, but it may increase the bank's exposure to credit risk.

3. Risk Assessment Methodology

The Bank has developed capabilities to measure interest rate sensitive gaps across tenors considering the re-pricing nature of all its assets and liabilities.

- The sensitivity analysis i.e. the impact of a parallel shift in the interest rate curves on the Net Interest Income (NII) and Equity is ascertained and presented to ALCO for review on a monthly basis.
- Hedging decisions required to mitigate this risk, if any, are decided/ approved by ALCO and executed by Treasury.
- Additionally an impact of 200bps parallel interest rate shock on NII is calculated on a monthly basis and presented to ALCO for deliberations.
- The Bank 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 and the CBUAE application thereof:
  - Economic Value of Equity at Risk (EVE). The UAECB prescribes a limit of 20% negative impact on the bank's equity for a 200-basis point adverse change to interest rates. The banks' EVE at risk is low and has been stable around 8.5% of Tier 1 Equity

- Earnings at Risk (EaR). The bank implemented an internal limit of 7.5% of earnings at risk (Net Interest Income) over a 1-year horizon for a 200-basis point change in interest rates. The limit is currently under review by ALCO as the limit is restrictive on the management of the Net Interest Margin. Given that interest rates are relatively stable, the Treasury department can implement effective interest rate risk management strategies to ensure that IRRBB is controlled adequately.

- 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 the standard measures of interest rate risk in the banking environment, bank regularly analyses the effect of one or more macroeconomic scenarios on its earnings and economic value. The results of this analysis are important for integrated interest rate risk management purposes and are included in reports to ALCO.
- Furthermore, the amount of capital required to compensate for the effect of unfavourable interest rate developments on the books in the banking environment is calculated on the basis of both historical scenarios and scenarios based on the opinions of experts.

4. Risk Measurement Methodology (Quantitative / Qualitative)

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

A. Earnings Perspective of IRRBB

- In the earnings perspective, the Bank focuses on the impact of changes in interest rates on the Net Interest Income. The key variables that determine the impact on NII are the extent & nature of shifts in the yields and the re-pricing mismatches in the Bank's rate sensitive assets and liabilities.
- The main measure used by the bank to manage interest rate risk from the earnings perspective (or short term perspective) is Earnings at Risk (EaR).
- The EaR is the largest deviation, in negative terms of the expected net interest income in the next 12 months, as a result of an immediate and sustained rise/fall in all money and capital markets interest rates in this period by 2 percentage points.
- The agreed limit for this measure is 7.5% of the base NII scenarios. The EaR analysis does not take account of active management intervention, nor does it take account of the changes in the pricing policy for savings products.

AED mn	Delta NII or EaR	Dec.18 %
Dn 200	(78.9)	(11.97)
Dn 150	(85.5)	(12.96)
Dn 100	(71.6)	(10.86)
Dn 50	(42.2)	(6.40)
IRR	0.0	-
Up 50	36.9	5.59
Up 100	74.1	11.24
Up 150	111.5	16.91
Up 200	149.1	22.61
Base 12 mths NII	**659.28**	

- The Bank also uses traditional rate sensitive gap analysis as a way to measure IRRBB exposure. The re-pricing gap statement is used as the base for Traditional Gap Analysis.
- In the re-pricing gap statement, assets and liabilities are bucketed in defined tranches based on their maturity or re-pricing date, whichever comes first.
- The Bank's interest rate re-pricing gap position based on the contractual re-pricing arrangements at 31st December 2019 was as follows:

Particulars AED mn	Upto 1 M	1-3 M	3-6 M	6-12 M	1-3 Y	3-5 Y	5-10 Y	>10 Y	Non Rate Sensitive	Total
Rate Sensitive Assets	8,862	8,885	666	341	1,132	997	634	-	1,943	23,459
Rate Sensitive Liabilities	3,212	2,025	4,094	5,542	1,745	23	-	-	6,818	23,459
Re-pricing Gap	5,649	6,859	(3,428)	(5,202)	(613)	974	634	-	(4,875)	
Cumulative Re-pricing Gap	5,649	12,509	9,081	3,880	3,267	4,241	4,875	4,875		

B. Economic Value Perspective of IRRBB

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

AED mn	Delta EVE or EVE at Risk	Dec %
Dn 200	498.67	8.71
Dn 150	498.67	8.71
Dn 100	507.28	8.86
Dn 50	262.21	4.58
EVE		-
Up 50	(112.96)	(1.97)
Up 100	(193.07)	(3.37)
Up 150	(265.55)	(4.64)
Up 200	(331.61)	(5.79)
Base 12 mths NII		**200bp Rise as % of Tier 1 Capital**
Tier 1 Equity	**4,205**	**7.89%**

5. Framework for Measuring Interest Rate Sensitivity

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

6. Risk Mitigation Actions and/ or Controls

- Customer deposits constitute around 60% of bank's funding. Tenor of most customer term deposits are short (normally, less than a year) resulting in faster re-pricing of such liabilities.

- Further, majority of loans are floating, wherein fixing of interest rate are carried out every 3 months. Similar re-pricing pattern between assets and liabilities results in a 'natural hedge' and reduces interest rate risk in banking book.
- Risk management department monitors exposure with respect to major sources of interest rate risks in banking book, namely fixed coupon debt securities as well as few long term loans with fixed coupons, and apprises ALCO on a monthly basis for deliberation.
- The Bank has in place necessary systems and frameworks as required by principles set out in 'Principles for Management and Supervision of Interest Rate Risk, Basel Committee on Banking Supervision (BCBS)'.
- Additionally, ALCO deliberates on the basis of re-pricing gap report prepared by risk management department. Tolerance limits for interest rate risk in banking book is clearly articulated under Risk appetite - tolerance limit documents.
- Additionally limits are in place for weighted average maturity of debt security investment portfolio in Banking Book. These limits are reviewed periodically by the committee and revised on the basis of interest rate outlook

7. Capital Impact and Allocation

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

B. Quantitative

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

14.2 IRRBB1 - Quantitative information on IRRBB

In reporting currency	**ΔEVE**		**ΔNII**	
Period	**T 31.12.19**	**T-1 30.09.19**	**T 31.12.19**	**T-1 30.09.19**
Parallel up	(184,511)	(297,379)	132,088	121,266
Steepener	(7,941)	NA		
Flattener	8,058	NA		
Short rate up	-	-		
Short rate down	-	-		
Maximum	-	-		
Period		**T**		**T-1**
Tier 1 capital		**4,234,350**		**3,873,403**

15. Operational risk

15.1 OR1 - Qualitative disclosures on operational risk

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

A. Basic Indicator Approach

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

B. Operational Risk Management Framework

- The Bank has implemented 3 lines of defence 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 defence 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 constituted Operational Risk Management committee as a principal forum for discussing and communicating bank wide issues, initiatives and decisions in respect of Operational Risk.

- Following depicts the ORM policy and governance

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

C. Operational Risk System

- Currently the bank is working on automating the complete operational risk framework and developing the required system with the vendors. The plan is to go live by Q1, 2020. This will facilitate the Loss event reporting, RCSA submissions, KRI reporting, Control and Risk registry and reduce the turnaround time by automating the workflow. The entire workflow integrate with the TLC (GIEOM) system for every process linked with risk reporting.
- Additionally management dashboards has been created to provide the risk status of the bank holistically and by each department giving details of each risk across the respective units with drill down options

D. Fraud Risk Management:

- Fraud Risk Management unit - under operational risk department, which follow-up on investigation reports and its actions to be implemented. However, due to resource constraints, all investigations are being conducted by the Internal Audit Department.
- Fraud Risk management Committee has been formed and meets as and when required with minimum once every 2 months.

16. Remuneration details

The number of employees as at 31 December 2019 was 408 employees *(2018:* 391 *employees)*.

Staff costs are divided as follows:

	2019	2018
	AED'000	AED'000
Salaries and wages	**90,278**	88,995
End of service benefits	**7,773**	6,339
Other benefits	**81,381**	78,543
	179,432	173,877

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

	Key management personnel		**Others**	
	31 December 2019 AED'000	31 December 2018 AED'000	**31 December 2019 AED'000**	31 December 2018 AED'000
Balances				
Loans and advances	**12,331**	33,245	**41,466**	4,515
Deposits	**8,705**	22,355	**2,002,434**	3,818,837
Commitments and contingencies	-	-	**1,694,014**	2,152,075
Transactions				
Board of Directors'			**-**	-
Salaries and benefits	**17,396**	17,781	**-**	-
Post-employment benefits	**1,368**	1,345	**-**	-
Interest income	**857**	1,422	**-**	2
Interest expense	**524**	312	**48,450**	49,825
Fee and commission	**-**	-	**1,869**	2,797
Dividend paid	**-**	-	**150,000**	150,000

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

Loans and advances issued to related parties are repayable over one year and bear interest rates ranging between 3% and 5% *(2018: 3% to 5%)*. No collateral is under lien on loans and advances to related parties. No provisions have been passed against loans and advances to related parties.