ARAB BANK FOR INVESTMENT AND FOREIGN TRADE

(AL MASRAF)

CAPITAL ADEQUACY

PILLAR III DISCLOSURES

30th June 2023

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1. Summary

- This Basel III - Pillar 3 Report for Arab Bank for Investment and Foreign Trade ("Al Masraf" or "the bank") has been prepared in accordance with the public/ market disclosure requirements and guidelines in respect of Pillar 3 of Basel III, as prescribed by the Central Bank of the UAE (CBUAE) and other clarifications received from time to time along with the Pillar 3 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 Bank's risk profile in a manner that enhances comparability with other institutions.
- The Bank has adopted the Standardized Approach for Credit Risk, and Market Risk and the Basic Indicator Approach for determining the capital requirements for Operational Risk.
- This Pillar 3 Report provides details on the Bank's risk weighted assets, which form the basis for the calculation of the capital requirement, leverage ratio and liquidity.
- In accordance with the minimum capital requirement calculation methodology as prescribed under Basel III, the Bank's capital adequacy as at 30th June 2023 and a comparison thereof with the figures as of 31st March 2023 and 31st December 2022 is as follows:

Particulars	Jun 2023	Mar 2023	December 2022
Total Capital Adequacy Ratio	20.5%	21.0%	20.9%
Tier 1 Capital Adequacy Ratio	19.3%	19.9%	19.7%
CET 1 Ratio	19.3%	19.9%	19.7%

- Numbers are stated in AED thousands unless stated otherwise.

2. Overview of risk management and Risk Weighted Assets

2.2 KM1 - Key Metrics

		30/06/2023	31/03/2023	31/12/2022	30/09/2022	30/06/2022
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	3,654,513	3,607,139	3,630,845	3,829,011	3,741,479
1a	Fully loaded ECL accounting model	3,627,366	3,562,548	3,520,101	3,548,963	3,579,206
2	Tier 1	3,654,513	3,607,139	3,630,845	3,829,011	3,741,479
2a	Fully loaded ECL accounting model Tier 1	3,627,366	3,562,548	3,520,101	3,548,963	3,579,206
3	Total capital	3,873,432	3,816,113	3,842,653	4,048,358	3,958,051
3a	Fully loaded ECL accounting model total capital	3,846,285	3,771,522	3,731,909	3,768,310	3,795,778
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	18,926,659	18,131,592	18,398,715	19,065,779	18,840,274
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	19.3%	19.9%	19.7%	20.1%	19.9%
5a	Fully loaded ECL accounting model CET1 (%)	19.2%	19.6%	19.1%	18.6%	19.0%
6	Tier 1 ratio (%)	19.3%	19.9%	19.7%	20.1%	19.9%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	19.2%	19.6%	19.1%	18.6%	19.0%
7	Total capital ratio (%)	20.5%	21.0%	20.9%	21.2%	21.0%
7a	Fully loaded ECL accounting model total capital ratio (%)	20.3%	20.8%	20.3%	19.8%	20.1%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%

10	Bank D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.5%	2.5%	2.5%	2.5%	2.5%
12	CET1 available after meeting the bank's minimum capital requirements (%)	10.0%	10.4%	10.7%	10.5%	9.9%
	Leverage Ratio					
13	Total leverage ratio measure	25,025,800	23,780,212	23,595,654	23,364,329	23,756,657
14	Leverage ratio (%) (row 2/row 13)	14.6%	15.2%	15.3%	15.5%	16.1%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	14.5%	15.0%	15.1%	15.1%	14.9%
14 b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	14.6%	15.2%	15.3%	15.5%	16.1%
	Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
	Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
	ELAR					
21	Total HQLA	3,249,571	2,913,842	2,262,544	2,420,411	3,014,090
22	Total liabilities	18,047,404	17,074,706	16,623,161	16,423,697	16,779,210
23	Eligible Liquid Assets Ratio (ELAR) (%)	18.0%	17.1%	13.6%	14.7%	18.0%
	ASRR					
24	Total available stable funding	15,924,069	15,801,128	15,887,922	15,598,492	15,825,119
25	Total Advances	13,565,704	13,685,056	14,412,044	14,841,058	14,277,286
26	Advances to Stable Resources Ratio (%)	85.2%	86.6%	90.7%	95.1%	90.2%

The Risk Weighted Assets (RWA) increased during the period due to the increase in due from banks and increase in the investment portfolio. The RWAs increased to AED 18,926 million as at 30 June 2023 compared to AED 18,132 million as at 31 March 2023 and AED 18,399 million as at 31 December 2022.

Leverage ratio dropped to 14.6% as at 30 June 2023 compared to 15.2% as at March 2023 due to an increase in the leverage ratio exposure and a reduction in the partial add back of ECL under the IFRS transitional arrangements.

The ELAR and ASRR at 18.0% and 85.2% improved as compared to 31 March 2023 as the Bank continued to proactively manage its balance sheet and funding position. The ratios were above the minimum limits set by Central Bank of UAE.

The Bank is applying the transitional adjustment for the ECL amount in line with the requirements under Notice No. CBUAE/BSD/N/2020/2016 – “Regulation Regarding Accounting provisions and Capital Requirements – Transitional Arrangements” issued by CBUAE.

2.2 OV1 - Overview of Risk Weighted Assets

		RWA		Minimum capital requirements
		30/06/2023	31/03/2023	30/06/2023
1	Credit risk (excluding counterparty credit risk)	17,487,700	16,699,436	1,836,209
2	Of which: standardised approach (SA)	17,487,700	16,699,436	1,836,209
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)	25,856	18,478	2,715
7	Of which: standardised approach for counterparty credit risk	25,856	18,478	2,715
8	Of which: Internal Model Method (IMM)	-	-	-
9	Of which: other CCR	-	-	-
10	Credit valuation adjustment (CVA)	-	-	-
11	Equity positions under the simple risk weight approach	-	-	-
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	3,450	4,025	362
21	Of which: standardised approach (SA)	3,450	4,025	362
22	Of which: internal models approach (IMA)	-	-	-
23	Operational risk	1,409,653	1,409,653	148,014
24	Amounts below thresholds for deduction (subject to 250% risk weight)	-	-	-
25	Floor adjustment	-	-	-
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**18,926,659**	**18,131,592**	**1,987,299**

Credit risk weighted assets (excluding counterparty credit risk) increased to AED 17,488 million as at 30 June 2023 from AED 16,699 million as at 31 March 2023 due to increase in the due from banks and investments portfolio. The total balance sheet also increased due to increase in cash and balances with Central Bank of UAE during the period. The counterparty credit risk weighted assets increased to AED 25.9 million as at 30 June 2023 from AED 18.5 million as at 31 March 2023 due to increase in underlying exposures.

There was a marginal drop in Market risk weighted assets during the period as compared to 31 March 2023 on the back of reduced underlying exposures.

3. Composition of capital

3.1 CC1 - Composition of regulatory capital

		Amounts	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2,000,000	Same as (h) from CC2 template
2	Retained earnings	448,161	
3	Accumulated other comprehensive income (and other reserves)	1,240,680	
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**	**3,688,841**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments		
8	Goodwill (net of related tax liability)		CC2 (a) minus (d)
9	Other intangibles including mortgage servicing rights (net of related tax liability)	(57,121)	CC2 (b) minus (e)
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)		
11	Cash flow hedge reserve		
12	Securitisation gain on sale		
13	Gains and losses due to changes in own credit risk on fair valued liabilities		
14	Defined benefit pension fund net assets		
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)		
16	Reciprocal cross-holdings in CET1, AT1, Tier 2		
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	(4,354)	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)		
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)		
20	Amount exceeding 15% threshold		
21	Of which: significant investments in the common stock of financials		
22	Of which: deferred tax assets arising from temporary differences		
23	CBUAE specific regulatory adjustments	27,147	
24	**Total regulatory adjustments to Common Equity Tier 1**	(34,328)	
25	**Common Equity Tier 1 capital (CET1)**	**3,654,513**	
	Additional Tier 1 capital: instruments		

26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus		CC2 (i)
27	OF which: classified as equity under applicable accounting standards		
28	Of which: classified as liabilities under applicable accounting standards		
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*		
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)		
31	*Of which: instruments issued by subsidiaries subject to phase-out*		
32	Additional Tier 1 capital before regulatory adjustments		
	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments		
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation		
36	CBUAE specific regulatory adjustments		
37	Total regulatory adjustments to additional Tier 1 capital		
38	**Additional Tier 1 capital (AT1)**		
39	**Tier 1 capital (T1= CET1 + AT1)**	**3,654,513**	
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus		
41	*Directly issued capital instruments subject to phase-out from Tier 2*		
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)		
43	*Of which: instruments issued by subsidiaries subject to phase-out*		
44	Provisions	218,919	
45	**Tier 2 capital before regulatory adjustments**	**218,919**	
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments		
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)		
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)		
49	CBUAE specific regulatory adjustments		
50	**Total regulatory adjustments to Tier 2 capital**		
51	**Tier 2 capital (T2)**	**218,919**	
52	**Total regulatory capital (TC = T1 + T2)**	**3,873,432**	
53	**Total risk-weighted assets**	**18,926,659**	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	19.3%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	19.3%	
56	**Total capital (as a percentage of risk-weighted assets)**	20.5%	

57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.5%	
58	**Of which: capital conservation buffer requirement**	2.5%	
59	**Of which: bank-specific countercyclical buffer requirement**	0.0%	
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	0.0%	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	10.0%	
	The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7.0%	
63	Tier 1 minimum ratio	8.5%	
64	Total capital minimum ratio	10.5%	
	Amounts below the thresholds for deduction (before risk weighting)		
[redacted]			
66	Significant investments in common stock of financial entities		
[redacted]			
68	Deferred tax assets arising from temporary differences (net of related tax liability)		
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	540,408	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	218,919	
[redacted]			
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
73	*Current cap on CET1 instruments subject to phase-out arrangements*		
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*		
75	*Current cap on AT1 instruments subject to phase-out arrangements*		
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*		
77	*Current cap on T2 instruments subject to phase-out arrangements*		
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*		

The increase in Regulatory Capital from December 2022 is on account of the profit for the 6 months and the decrease in the IFRS 9 transitional amount.

Following receipt of necessary approvals the paid-up Share Capital of the Bank increased in the second quarter of 2023 from AED 1.5 billion to AED 2.0 billion by issuance of Bonus Shares through capitalization of the General Reserves and partly from the Retained Earnings.

3.2 CC2 - Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	30/06/2023	**30/06/2023**	
Assets			
Cash and balances with the Central Bank of UAE	2,606,841	2,606,845	
Due from Banks	1,982,275	1,983,616	
Investments at fair value through other comprehensive income (FVOCI)	2,972,150	2,972,150	
Investments at fair value through profit or loss (FVTPL)	172,444	172,444	
Investment at amortised cost	66,130	66,145	
Loans and advances	12,886,849	16,069,438	
Investment properties	160,827	268,302	
Other assets	939,010	939,010	
Intangible assets	57,121	57,121	(b)
Property and equipment	228,221	228,221	
Assets held-for-sale	11,395	17,544	
Total assets	**22,083,863**	**25,380,836**	
Liabilities			
Due to Banks	2,769,248	2,769,248	
Customers' deposits	14,237,892	14,237,892	
Other liabilities	1,258,310	1,258,310	
Total liabilities	**18,265,450**	**18,265,450**	
Shareholders' equity			
Paid-in share capital	2,000,000	2,000,000	
Of which: amount eligible for CET1	2,000,000	2,000,000	(h)
Of which: amount eligible for AT1	-	-	(i)
Statutory reserve	669,172	669,172	
Special reserve	664,582	664,582	
General reserve	-	-	
Revaluation reserve	128,972	-	
Fair value reserve	(93,074)	(93,074)	
Retained earnings	448,161	448,161	
Total shareholders' equity	**3,817,813**	**3,688,841**	

Stage 1 and Stage 2 provisions are not netted off against the credit exposures but instead included in the Tier 2 capital, capped at 1.25% of the Credit RWA in accordance with the CBUAE Capital Adequacy Standards on Tier Capital Supply para 31.

In line with the Central Bank guidelines, the Bank is deducting intangible assets and the investments in banking entities exceeding the threshold from the capital computation.

Following receipt of necessary approvals the paid-up Share Capital of the Bank increased in the second quarter of 2023 from AED 1.5 billion to AED 2.0 billion by issuance of Bonus Shares through capitalization of the General Reserves and partly from the Retained Earnings.

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4. Leverage ratio

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

		30/06/2023
1	Total consolidated assets as per published financial statements	22,083,263
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	94,613
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,847,923
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	**Leverage ratio exposure measure**	**25,025,800**

The Bank computes the Leverage Ratio on a quarterly basis. Leverage ratio exposure also includes the credit converted amounts for off balance sheet items ie. Letters of Credit, Letters of Guarantee etc.

4.2 LR2 - Leverage ratio common disclosure template

		30/06/2023	31/03/2023
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	22,083,263	21,077,595
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	-	-
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)	-	-
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	-	-
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	-	-
6	(Asset amounts deducted in determining Tier 1 capital)	-	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**22,083,263**	**21,077,595**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	1,464	5,506
9	Add-on amounts for PFE associated with *all* derivatives transactions	93,149	74,691

10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivative exposures (sum of rows 8 to 12)**	**94,613**	**80,198**
Securities financing transactions			
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	-	-
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	8,662,195	7,912,222
20	(Adjustments for conversion to credit equivalent amounts)	(5,814,272)	(5,289,803)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	**Off-balance sheet items (sum of rows 19 to 21)**	**2,847,923**	**2,622,419**
Capital and total exposures			
23	**Tier 1 capital**	**3,654,513**	**3,607,139**
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**25,025,800**	**23,780,212**
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	14.6%	15.2%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	14.6%	15.2%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	**Applicable leverage buffers**	-	-

The leverage ratio dropped during the quarter due to an increase in the leverage ratio exposure due to an increase in the overall total assets and a reduction in the partial add back of ECL under the IFRS transitional arrangements.

5. Liquidity

5.1 ELAR - Eligible Liquid Assets Ratio

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	2,612,587	
1.2	UAE Federal Government Bonds and Sukuks	61,579	
	Sub Total (1.1 to 1.2)	2,674,166	2,674,166
1.3	UAE local governments publicly traded debt securities	543,365	
1.4	UAE Public sector publicly traded debt securities	32,040	
	Sub total (1.3 to 1.4)	575,405	575,405
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**3,249,571**	**3,249,571**
2	Total liabilities		18,047,404
3	**Eligible Liquid Assets Ratio (ELAR)**		**18.0%**

The ELAR ratio improved to 18.0% as at 30 June 2023 compared to 17.1% as at March 2023 due to increase in the balances with Central Bank of UAE.

5.2 ASRR - Advances to Stable Resources Ratio

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	12,772,919
	1.2	Lending to non-banking financial institutions	296,139
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	177,257
	1.4	Interbank Placements	319,389
	1.5	**Total Advances**	13,565,704
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	4,286,650
		Deduct:	
	2.1.1	Goodwill and other intangible assets	52,082
	2.1.2	Fixed Assets	519,107
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	176,467
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	**Total deduction**	747,656

	2.2	**Net Free Capital Funds**	3,538,994
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	36,477
	2.3.5	Customer Deposits	12,348,598
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	12,385,075
	2.4	**Total Stable Resources (2.2+2.3.7)**	15,924,069
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	85.2%

The ratio improved to 85.2% as at June 2023 from 86.6% as at March 2023 due to reduction in the loans and advances balances and increase in the customer deposits.

6. Credit risk

Please refer Note no. 5 in the annual financial statements for the year ended 31 December 2022, for criteria, approach, structure, and organization of credit risk management and reporting of risk exposures, risk mitigation and definition of default.

6.1 CR1 - Credit quality of assets

		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	4,135,527	11,933,911	2,591,636	2,123,493	468,143	13,477,802
2	Debt securities	-	2,972,043	20,546	-	20,546	2,951,497
3	Off-balance sheet exposures	282,179	4,386,641	258,583	208,209	50,374	4,410,237
4	**Total**	**4,417,706**	**19,292,595**	**2,870,765**	**2,331,702**	**539,063**	**20,839,536**

The above table includes 90DPD and classified exposures as reported in the balance sheet. The reduction in loans and advances was due to some loan repayments as the Bank continued to selectively book new business. As part of an active balance sheet management, the Bank increased its portfolio of investment securities.

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

		30/06/2023
1	**Defaulted loans and debt securities at the end of the previous reporting period**	**3,886,156**
2	Loans and debt securities that have defaulted since the last reporting period	246,207
3	Returned to non-default status	277,529
4	Amounts written off	192,244
5	Other changes	472,937
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**4,135,527**

The stock of defaulted loans and debt securities increased during the period.

6.3 CR3 - Credit risk mitigation techniques – overview

		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	12,972,168	3,097,270	1,211,919	-	-	-	-
2	Debt securities	2,972,043	-	-	-	-	-	-
3	**Total**	**15,944,211**	**3,097,270**	**1,211,919**	-	-	-	-
4	Of which defaulted	3,973,128	162,399	1,928	-	-	-	-

The above table includes Stage 3 exposures reported in the balance sheet and shows the value of loans secured by collateral. The reduction in loans and advances was due to some loan repayments and as the Bank continued to selectively book new business. As part of an active balance sheet management, the Bank increased its portfolio of investment securities.

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

AED in '000

		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	**On-balance sheet amount**	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWA**	**RWA density**
1	Sovereigns and their central banks	3,715,015	-	3,715,015	-	514,952	14%
2	Public Sector Entities	1,139,163	46,039	1,139,163	27,157	754,023	65%
3	Multilateral development banks	-	-	-	-	-	NA
4	Banks	3,497,807	1,739,812	3,497,807	677,274	2,413,530	58%
5	Securities firms	-	-	-	-	-	NA
6	Corporates	7,564,869	6,683,522	7,564,552	1,483,612	7,184,636	79%
7	Regulatory retail portfolios	65,204	184	65,168	182	59,446	91%
8	Secured by residential property	188,836	-	188,836	-	86,642	46%
9	Secured by commercial real estate	3,455,659	5,072	3,455,659	5,045	3,340,495	97%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	NA
11	Past-due loans	4,135,527	282,179	1,454,885	73,993	1,788,146	117%
12	Higher-risk categories	-	-	-	-	-	NA
13	Other assets	1,562,323	-	1,448,699	-	1,345,830	93%
14	**Total**	**25,324,403**	**8,756,808**	**22,529,784**	**2,267,263**	**17,487,700**	**71%**

The increase in risk weighted assets is due to the increase in the balance sheet mainly on account of increase in the due from banks and the investment portfolio as compared to December 2022.

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

	Risk weight / Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	3,112,324	109,673	-	-	-	493,018	-	-	3,715,015
2	Public Sector Entities	-	321,164	-	307,515	-	537,641	-	-	1,166,320
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	1,386,663	-	1,304,568	-	1,483,915	-	-	4,175,146
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	45,830	-	46,858	-	7,888,670	56,253	1,010,553	9,048,164
7	Regulatory retail portfolios	-	-	-	-	22,970	42,380	-	-	65,350
8	Secured by residential property	-	-	151,353	-	14,349	23,134	-	-	188,836
9	Secured by commercial real estate	-	-	-	-	-	3,460,704	-	-	3,460,704
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	988,056	540,822	-	1,528,878
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	105,205	-	-	-	-	1,338,821	4,673	-	1,448,699
14	**Total**	**3,217,529**	**1,863,330**	**151,353**	**1,658,941**	**37,319**	**16,256,339**	**601,748**	**1,010,553**	**24,797,112**

The increase in exposure is mainly on account of increase in the cash and balances with CBUAE and the investment portfolio as compared to December 2022. There was a reduction in the loans and advances due to some loan repayments and as the Bank continued to selectively book new business.

7. Counterparty Credit risk

7.1 CCR1 – Analysis of counterparty credit risk (CCR) by approach

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	1,046	66,535		1.4	94,613	25,856
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)						-
5	VaR for SFTs					-	-

6	**Total**						**25,856**

The Risk weighted assets increased to AED 25.9 million as at 30 June 2023 from AED 9.9 million as at 31 December 2022 due to increase in the underlying exposures.

7.2 CCR2 – Credit valuation adjustment (CVA) capital charge

		EAD post-CRM	**RWA**
1	All portfolios subject to the Standardised CVA capital charge*	-	-
2	All portfolios subject to the Simple alternative CVA capital charge	94,613	25,856

The Risk weighted assets increased to AED 25.9 million as at 30 June 2023 from AED 9.9 million as at 31 December 2022 due to increase in the underlying exposures.

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

Risk weight / **Regulatory portfolio**	**0%**	**20%**	**50%**	**75 %**	**100 %**	**150 %**	**Others**	**Total credit exposure**
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	71,500	23,113	-	-	-	-	94,613
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**71,500**	**23,113**	**-**	**-**	**-**	**-**	**94,613**

The exposure increased to AED 94.6 million as at 30 June 2023 from AED 35.5 million as at 31 December 2022 due to increase in underlying exposures.

7.4 CCR8 – Exposures to central counterparties

		EAD (post-CRM)	**RWA**
1	**Exposures to QCCPs (total)**		**-**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:	-	-
3	(i) OTC derivatives	-	-
4	(ii) Exchange-traded derivatives	-	-
5	(iii) Securities financing transactions	-	-

6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	-	-
9	Pre-funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total**		**25,856**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contribution); of which:	-	-
13	(i) OTC derivatives	94,613	25,856
14	(ii) Exchange-traded derivatives	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	-	-
19	Pre-funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The Risk weighted assets increased to AED 25.9 million as at 30 June 2023 from AED 9.9 million as at 31 December 2022 due to increase in the underlying exposures to AED 94.6 million as at 30 June 2023 from AED 35.5 million as at 31 December 2022.

8. Market risk

8.1 MR1 - Market risk under the standardised approach

		RWA
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	3,450
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitisation	-
9	**Total**	**3,450**

There was a drop in Market risk weighted assets during the period as compared to 31 December 2022 on the back of reduced underlying exposures.