

## Basel II, Basel III Developments and ERM Frameworks

In accordance with the Central Bank of UAE guidelines, Invest Bank has determined its regulatory capital per new Basel II capital accord. Having initiated the implementation process earlier, Invest Bank is now Standardized Approach compliant for Credit Risk and Market Risk and Basic Indicator Approach for Operational Risk.

Bank believes in being proactive and as a result has made substantial progress with the implementation of various risk management frameworks in a measured mode commensurate to its size and products, since 2007. Bank adopts new initiatives and is progressively developing evolving concepts in a phased manner. Bank's forethought and proactive actions are visible with its substantial investment in software solution to revamp and enhance its credit risk management and mitigation capabilities. This solution viz Invest Risk Application (IRA) has provided the bank the means to risk map exposures, deploy collateral mitigation techniques, and generate internal customer ratings. IRA will assist in migrating towards calculating Risk Adjusted Return on Capital (RAROC) for individual counterparties and borrowers and allocate capital accordingly. Bank has also completed significant work towards developing advanced Basel II approaches and is now testing the robustness of the system, with four years data build up and are now validating the models for credit risk. The development of models for advanced operational risk systems are also completed and once rolled out to Bank will be geared to embracing advanced measurements and analytical techniques.

Bank's objective is not just aiming to satisfy regulators but develop initiatives as good practice in the spirit of the Bank's strategy and look at optimizing on the regulatory initiatives.

In order to ensure that the Bank is in sync with Basel II requirements and international best practices, and derive long term value it has also engaged the services of international risk management consultancy firms for implementation support and validate various models.

Consultants have conducted knowledge transfer sessions, created common understanding of evolving risk concepts, methodologies & techniques and validated approaches. Back-testing and validation of models is an ongoing activity.

Under Central Bank of UAE guidelines, the Bank has completed Internal Capital Adequacy Assessment Process to cover risks not covered under Pillar I. ICAAP document is being reviewed by the Steering Committee at least half yearly and is submitted to Central Bank annually. ICAAP review/assessment has reaffirmed Bank's financial strength and adequacy in that the bank is sufficiently capitalized to cope with extreme market conditions.

Bank's policy for Risk Management emanates from the concept of Enterprise Risk Management & Capital Management that is being embedded within the Bank including the extent and use of modeling, stress testing and accordingly determine focus for new businesses and strategies.

The introduction of Basel III, which aims to strengthen the capital and liquidity risk management rules, with a goal to promote a more resilient banking sector, Bank too is cognizant of the developments in the region and is gearing for readiness to implement the new concepts. The objective is to improve the Bank's ability to absorb shocks arising from financial and economic stress and have diversified funding means.

Bank's fostering of proactive measures are demonstrated by the building and the development of Risk Data Mart an initiative that will facilitate a real time dash board, with a drill down capability, which will aid the decision making for Executive Management and the Executive Committee. These initiatives have placed the Bank in good stead and will also support in our readiness to adopt new Basel guidelines (risk data aggregation rules – Jan 2013 - and Basel III), as and when these get rolled out by the UAE Central Bank.

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