PILLAR III DISCLOSURE REPORT

FOR THE PERIOD ENDING 31 DECEMBER 2022

بنك الإستثمار
Invest bank

Classification: Public | For Public Disclosure

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1. Introduction

This document presents the Pillar III disclosures of Invest Bank P.S.C (“the bank” or “Invest Bank”) on a consolidated basis as of 31 December 2022. The purpose of Pillar III disclosures is to allow market participants to assess key pieces of information on the firm's capital, risk exposures and risk assessment process.

The Bank is regulated by the Central Bank of UAE (CBUAE) and follows the Pillar III disclosure requirements as stated under the CBUAE guidelines on the implementation of Basel III standards. In December 2022, CBUAE issued revised standards and guidelines for Capital Adequacy in UAE. The new version to the Standards also includes additional Guidance on the topics of Credit Risk, Market Risk, Operational Risk and ICAAP.

This document details the Pillar III disclosures of Invest Bank P.S.C, commonly referred to as "the Bank" or "Invest Bank", for the period ending on 31 December 2022. These disclosures, presented on a consolidated basis, are pivotal for enabling market participants to gain a thorough understanding of essential aspects such as the Bank's capital structure, the spectrum of risk exposures it encounters, and the methodologies adopted for risk evaluation and management. Governed by the regulatory oversight of the Central Bank of the United Arab Emirates (CBUAE), Invest Bank rigorously aligns with the Pillar III disclosure mandates as outlined in the CBUAE's guidelines.

These guidelines, issued in December 2022, are part of the broader implementation framework of the Basel III standards within the UAE's banking sector.

The Pillar III disclosures provided in this document should be read and analyzed in conjunction with 31 December 2022 Invest Bank's Audited Financial Statements. This combined review offers a holistic view of the Bank's financial standing, risk management efficacy, and compliance with the evolving regulatory landscape.

In recent years, the Bank faced a substantial decrease in capital due to setting aside more provisions to cover the increase in the non-performing portfolio. This led to financial losses and reduced the Bank's overall capital. However, with the government of Sharjah support, the Bank successfully increased its capital through the capital solution in the third quarter of 2023, improving its financial position.

CBUAE recognized the unique situation of the Bank's capital in 2022. The CBUAE granted Invest Bank an exemption from the annual Internal Capital Adequacy Assessment Process (ICAAP) for the year 2022. This exemption also extended to the Central Bank's Bottom-up Stress Testing for the same period.

Despite this, the Bank proactively revamped its ICAAP framework in 2023, reflecting its commitment to maintaining robust capital management practices.

1.1 Regulatory Framework

The Bank assesses its capital adequacy based on the updated Basel III regulations the framework is structured around the following three Pillars:

- Pillar I on minimum capital requirements for credit, market, and operational risk
- Pillar II on the supervisory review process and the Internal Capital Adequacy Assessment Process (ICAAP)
- Pillar III on market discipline

In the Bank commitment to transparency and robust risk management, the Bank Pillar III disclosures outline the comprehensive mechanisms the Bank employs to communicate, enforce, and manage the Bank risk culture. These mechanisms are foundational to the Bank operational integrity and regulatory compliance:

Communication of Risk Culture: The Bank proactively communicates its risk culture through various channels, ensuring all members, from senior management to operational staff, understand and adhere to the Bank risk principles. This is achieved through the distribution of a detailed code of conduct and risk management guidelines, which encapsulate the Bank approach to risk-taking and the overarching principles guiding the Bank risk management practices.

Operational Limits and Procedures: To maintain a disciplined risk management approach, the Bank has established clear operational limits and detailed procedures. These guidelines serve to navigate the Bank daily operations, ensuring they align with the Bank risk appetite. The Bank manuals and internal documents meticulously outline these operational boundaries and provide comprehensive procedures for effective risk management and mitigation, reinforcing the Bank commitment to operational excellence and risk containment.

Treatment of Violations or Breaches: Recognizing the importance of swift and effective responses to any violations or breaches of operational/policy/regulatory limits, the Bank has instituted rigorous procedures for addressing such incidents. This includes immediate reporting mechanisms, thorough investigations, and corrective actions to mitigate any adverse impacts. The Bank approach emphasizes accountability and the importance of maintaining the integrity and stability of the Bank operations.

Raising and Sharing Risk Issues: Essential to the Bank risk management framework is the facilitation of open communication channels for raising and sharing risk-related issues across all business lines and risk functions. The Bank encourages a culture of transparency and collaboration, ensuring that risk considerations are integral to the Bank business decision-making processes. The Bank structured escalation processes and cross-functional collaboration mechanisms ensure a comprehensive and unified approach to risk management across the organization.

These practices underscore the Bank dedication to fostering a strong and effective risk culture, aligned with the Basel III framework's Pillar III disclosure requirements. Through these disclosures, the Bank aim to provide the Bank stakeholders and Market Participants with a clear insight into the Bank risk management capabilities and the rigorous processes that underpin the Bank commitment to financial stability and regulatory compliance.

1.2 Pillar I – Minimum Capital Requirement

The Bank is governed by CBUAE guidelines on regulatory capital requirements on a consolidated basis, including all its subsidiaries and overseas branches. In addition to capital management at bank level, the overseas branch is also supervised by their local regulator for operations carried out by those specific entities. Pillar I defines the total minimum capital requirements for credit, market and operational risk. Invest Bank currently uses standardized approach for assessment of Credit, Market and Operational Risk weighted assets (RWA). Under the standardized approach, regulatory prescribed risk weights and parameters are applied to calculate Pillar I capital requirements.

During 2011, Basel Committee on Banking Supervision (BCBS) officially announced the final set of revised regulatory capital rules known as "Basel III", which was implemented in phased manner globally. Subsequent to Basel III consultation paper issued by CBUAE in 2016, the UAE Central Bank published the "Regulations re Capital Adequacy" (the "Basel III Regulations"), which were effective from 1 February 2017. The Basel III Regulations are supported by the accompanying standards entitled "Standards for Capital Adequacy of Banks in the UAE" which were updated by the UAE Central Bank in November 2020 by virtue of Notice No. CBUAE/BSD/N/2020/4980 (the "Accompanying Standards"). The Accompanying Standards elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy requirements as well as the timeline of the phased implementation of the regulations from June 2021 to June 2022.

Invest Bank adheres to the regulatory capital requirements set by (CBUAE), which cover all the Bank's entities, including its subsidiaries and international branches.

Overseas branch is additionally regulated locally for its specific operations. Pillar I stipulates the basic capital needs to cover risks associated with credit, market, and operations. Invest Bank applies a standardized method to evaluate the risk-weighted assets (RWA) for Credit, Market Risk and basic indicator approach for Operational Risk. This involves using risk weights and parameters defined by the regulators to calculate the capital requirements under Pillar I.

These regulations are supported by the "Standards for Capital Adequacy of Banks in the UAE," updated in
The CBUAE has established the following minimum regulatory capital ratios:

- Common Equity Tier 1 (CET1) must be at least 7.0% of RWA.
- Tier 1 Capital must be at least 8.5% of RWA.
- Total Capital, combining Tier 1 and Tier 2 Capital, must be a minimum of 10.5% of RWA.

In addition to these minimum requirements, the CBUAE mandates Invest Bank to maintain a Capital Conservation Buffer (CCB) of 2.5%. However, the Countercyclical Buffer (CCyB) is currently set at zero.

These requirements are summarized in the table below:

Capital Element	Requirement
Minimum Common Equity Tier 1 Ratio	7.0%
Minimum Tier 1 Capital Ratio	8.5%
Minimum Capital Adequacy Ratio	10.5%
Capital Conservation Buffer	2.5%

The capital ratios for the Bank as of 31 Dec 2022 are given below.

Common Equity Tier 1 Ratio	1.58%
Tier 1 Capital Ratio	1.58%
Capital Adequacy Ratio	2.77%

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a) Credit Risk

The Bank uses the standardized approach to calculate RWA for credit risk. It uses risk weights to convert exposures into RWA as per the CBUAE guidelines for capital adequacy which can range between 0% for certain sovereign exposures to 952% for certain categories (akin to deduction). Where applicable, mainly for unfunded, exposures are adjusted for credit conversion factor (CCF) in accordance with the CBUAE guidelines.

The Bank uses the simple approach for credit risk mitigation to calculate its net exposure amount to a counterparty for capital adequacy purposes in order to take account of the effects of the collateral. The Bank adjusts the amount of the exposure to the counterparty and the value of any eligible collateral received in support of that counterparty to take account of possible future fluctuations in the value of either, occasioned by market movements.

The Bank is required to calculate RWA for Credit Valuation Adjustment (CVA) from Q2 2022 onwards vide notice no. CBUAE/BSD/N/2020/4980. Under the standardized approach, the calculation relies on regulatory measures of counterparty credit risk exposure, and recognizes the impact of differences in maturity, as well as adjustments to reflect certain common hedging activities that banks use to manage CVA risk.

In managing credit risk mitigation (CRM), Invest Bank applies the simple approach. This method calculates the net exposure to a counterparty for capital adequacy purposes, considering the effects of collateral. The Bank adjusts the exposure amount and the value of any eligible collateral received to account for potential market-driven fluctuations in value.

b) Market Risk

The Bank uses the standardized approach to calculate RWA for market risk as per the CBUAE guidelines. In calculating RWA for market risk, the Bank distinguishes between general and specific risk and between holdings in the trading book and holdings outside the trading book. The risk is quantified for positions for Interest rate risk, Foreign exchange risk, Equity investments risk, Commodities exposure risk and Options risk. Bank has overall very limited exposure to Market Risk given the limited treasury and related activities.

c) Operational Risk

The Bank applies the Basic Indicator approach for calculating capital requirement for operational risk. The calculation is based on average Net Interest Income and Net Non-Interest Income for the past 3 years. Capital requirement is calculated for each of the business lines as per their respective multipliers as per BIS viz. 15%. The RWA for operational risk are calculated by dividing the capital requirement by CBUAE capital requirement multiplier.

1.3 Pillar II – ICAAP and Supervisory Review Process

Because of the Bank capital position, the Bank received exemption from CBUAE ICAAP exercise. However, For Internal Purposes, the Bank conducted an ICAAP in December 2022.
This was to identify and measure various risks that aren't covered under Pillar I.

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Invest Bank plans to perform ICAAP internally every quarter, in line with regulatory standards under the new ICAAP framework. The ICAAP focuses on

1. Corporate and Risk Governance.
2. Assessment of all types of material risks
2. Stress Testing.

Furthermore, the Bank's Risk Management team is actively refining the ICAAP framework, adding new methods to better assess different types of risks.

1.4 Pillar III – Market Discipline

The Bank discloses to its external stakeholders detailed qualitative and quantitative information on its risk management practice and capital adequacy in line with the CBUAE Pillar III guidelines. The 3 pillars together provide the necessary information to the market participants on the risk profile of the Bank. The disclosures are both qualitative and quantitative and have been prepared at the consolidated level. This report should be read in conjunction with the risk disclosures in audited consolidated financial statements.

2. Capital Restructuring Plan

The Bank's total equity reduced to AED 104 million as at 31 December 2022 (AED 621 million as at 31 December 2021) mainly due to provisions absorbed and currency translation impact of AED 69 million consequently, the Bank's Capital Adequacy Ratio ("CAR") reached 2.77% as at 31 December 2022 (CBUAE regulatory minimum of 13%).

The shareholders of the Bank in a General Meeting held on 27 April 2023 approved the proposed Capital. Restructuring Plan (the "Plan"). The relevant regulatory approvals for the Plan had already been obtained prior to the date of Board of Directors meeting held on 25 January 2023.

Key features of the Plan are summarized in the following:

- On 10 May 2023, the Bank entered into a guarantee agreement "the guarantee agreement" with the Government of Sharjah the "Guarantor" who is also the ultimate controlling party of the Bank. Pursuant to the terms of the guarantee agreement, the Guarantor has undertaken to protect the Bank against losses in the net book value of certain financial and non-financial assets.

- As a condition precedent to the guarantee agreement, once the general assembly was required to approve an increase in share capital through rights issue, the Guarantor should subscribe to its pro-rata share or all shares offered if not subscribed by other shareholders. The conditions precedent was fulfilled in September 2023 the "effective date" and the guarantee agreement became effective on that date.

- The Government of Sharjah subscribed for 230 billion shares and an amount of AED 2.3 billion which was payable to the Bank for the participation in the rights offer. The rights offer increased the shareholding of the Government of Sharjah from 50.07% to 88.11%. The Guarantor had executed the guarantee agreement as a private act and for commercial purposes at an agreed fee of AED 2.6 billion. The Bank has settled the fees payable of AED 2.6 billion by offsetting against the amount receivable from the Guarantor amounting to AED 2.3 billion arising from the issuance of shares and the outstanding balance of AED 0.3 billion is recognized within other liabilities.

- As per the agreement, the Government of Sharjah shall compensate Invest Bank on all Defaulted Amounts limited to coverage provided under Guarantee agreement (AED 3 Bn) which are caused by a Credit Event. Credit event is defined as an event that occurs when, the guaranteed asset is written off in accordance with the Bank policies or the Bank sells the guarantee obligation at a price below the initial net book value, or realization of the Lebanon operations related balances at the amount below the initial net book value. Further, the Government shall compensate the Bank on all value losses arising from the non-financial assets when the non-financial asset is disposed or impaired.

- The Guarantee shall be for a period of five years from the effective date of the Guarantee agreement.

- Under the Guarantee Agreement the GoS shall compensate Invest Bank all balance sheet relevant losses in relation to the initial net book value (cut-off date 30 September 2021). The above will allow relief to the Bank with respect to capital constraints and the Bank will be able to focus on future growth while addressing the legacy issues.

- The impact of rights issue on the Bank's equity position had the capital been injected as at 31 December 2022 is as follows:

	AED'000
Total equity as at 31 December 2022	104,257
Impact of rights issue	2,600,000
Total equity post rights issue	2,704,257

The shareholders resolved during the general assembly meeting and following receipt of all necessary regulatory. approvals to approve the three-step capital solution plan which comprises of:

a. Reduction of the share capital of AED 3,180,982,143 by AED 2,578,489,214 by writing off Invest Bank's accumulated losses of AED 2,100,632,071 and the existing reserve amount of AED 477,857,143, which shall be affected through reducing the nominal value of each share from AED1 to AED 0.1894046876, resulting in a total share capital of AED 602,492,929 (the "First Reduction");

b. After effecting the First Reduction, increasing the share capital of Invest Bank by AED 49,245,218,776 (the "Capital Increase"); by issuing 260,000,000,000 shares (the "New Shares") at an Issue Price of AED 0.01 (1 Fils) (the "Issue Price"), implying a discount of AED 0.1794046876 on the Subscription Price of each share. This discount would result in a negative share discount reserve on the 'shareholders' equity' in an amount of AED 46,645,218,776. The total share capital of the Bank will become AED 49,847,711,705 distributed over 263,180,982,143 shares; and

c. After effecting the First Reduction and the Capital Increase, a further reduction in the share capital of Invest Bank by writing off an amount equal to the losses incurred by Invest Bank arising out of the negative reserve of AED 46,645,218,776 referred to in the preceding Capital Increase step, resulting in a share capital of AED 3,202,492,929 at a nominal value of AED 0.012168406 (the "Second Reduction")

	As of December 2022,	Overall Impact of Capital Solution	Position Post Capital Solution
	AED'000	AED'000	AED'000
Share Capital	3,180,982	21,511	3,202,493
Share Discount	-477,857	477,857	0
Accumulated losses	-2,626,661	2,100,632	-526,029
Total	**76,464**	**2,600,000**	**2,676,464**

The Bank continues to focus on several initiatives to manage its liquidity and deposit balances including the attraction and retention of deposits. Given the liquidity support provided by the CBUAE and the Government of Sharjah's commitment to supporting the strengthening of the Bank's capital base, the Board and Management believe that the Bank will have the ability to meet its financial obligations as and when they fall due.

3. Overview of risk management and RWA

3.1 KM1: Key metrics

All numbers in AED 000s

		a	b	c	d	e
		T	T-1	T-2	T-3	T-4
		Dec'2022	Sept'2022	Jun'2022	Mar'2022	Dec'2021
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	116,076	350,146	422,113	618,939	665,524
1a	Fully loaded ECL accounting model	101,076	320,146	392,113	588,939	620,524
2	Tier 1	116,076	350,146	422,113	618,939	665,524
2a	Fully loaded ECL accounting model Tier 1	101,076	320,146	392,113	588,939	620,524
3	Total capital	202,816	433,642	505,134	707,865	758,805
3a	Fully loaded ECL accounting model total capital	187,816	403,642	475,134	677,865	713,805
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	7,323,776	7,101,334	7,122,909	7,618,842	8,163,860
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	1.58%	4.93%	5.93%	8.12%	8.15%
5a	Fully loaded ECL accounting model CET1 (%)	1.38%	4.51%	5.50%	7.73%	7.60%
6	Tier 1 ratio (%)	1.58%	4.93%	5.93%	8.12%	8.15%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	1.38%	4.51%	5.50%	7.73%	7.60%
7	Total capital ratio (%)	2.77%	6.11%	7.09%	9.29%	9.29%
7a	Fully loaded ECL accounting model total capital ratio (%)	2.56%	5.68%	6.67%	8.90%	8.74%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%

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10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	-7.73%	-4.82%	-3.41%	-1.21%	-1.21%
	Leverage Ratio					
13	Total leverage ratio measure	9,948,153	10,046,098	10,551,518	11,430,246	12,015,357
14	Leverage ratio (%) (row 2/row 13)	1.17%	3.49%	3.32%	3.69%	5.15%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	1.02%	3.19%	3.03%	3.43%	4.90%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	0.00%	0.00%	0.00%	0.00%	0.00%
	ELAR					
15	Total HQLA	933,290	867,880	861,088	1,535,926	1,746,230
16	Total liabilities	8,490,637	7,841,854	8,324,426	8,951,042	9,375,033
17	Eligible Liquid Assets Ratio (ELAR) (%)	10.99%	11.07%	10.34%	17.16%	18.63%
	ASRR					
18	Total available stable funding	6,476,660	6,543,858	7,258,667	7,743,473	7,884,169
19	Total Advances	5,591,785	5,264,316	5,230,821	5,549,374	6,024,182
20	Advances to Stable Resources Ratio (%)	86.34%	80.45%	72.06%	71.67%	76.41%

The ECL transition amount stands at AED 15 million, as per CBUAE Circular No 04/2020 issued in April 2020. This figure will be adjusted in items 1.a and 3.a.
The bank's total liquid assets are valued at AED 1.9 billion. After applying the threshold required by central bank regulations, the amount comes to AED 933 million. It's important to note that this high liquidity is primarily due to investments in the Government of Sharjah's AED Sukuk.

3.2 OVA: Bank Risk Management Approach

About the Bank

Invest bank P.S.C. ("Invest bank" or "the Bank") is a public shareholding company with limited liability which was incorporated in 1975 by an Emiri Decree issued by His Highness Dr. Sheikh Sultan Bin Mohammed Al Qassimi, Ruler of Sharjah. The registered address of the Bank is at Al Zahra Street, P.O.Box 1885, Sharjah, United Arab Emirates ("UAE").

Invest bank is licensed by the Central Bank of the UAE (the "CBUAE") to carry out banking activities and is principally engaged in the business of corporate and retail banking through its network of branches located in the Emirate of Sharjah, Dubai and Abu Dhabi. Invest bank also carries out banking activities through its branch ("the branch") in Beirut, Lebanon licensed by Banque Du Liban (the "CB Lebanon"). As a result of the prevailing financial and economic crisis in Lebanon, management have assessed the situation and is proceeding with the process of liquidation of the branch after the Bank has obtained CB Lebanon approval to liquidate the branch.

The Bank's shares are listed on the Abu Dhabi Securities Exchange ("ADX").

The Bank has a fully owned subsidiary, ALFA Financial Services FZE with limited liability status in the Sharjah Airport International Free Zone which provides support services to the Bank. ALFA Financial Services FZE is in the process of closure as per Board approval dated 27 June 2022. The consolidated financial statements as at and for the year ended 31 December 2022 comprise the Bank and its subsidiary (together referred to as "the Group").

Governance and Risk Management Framework (RMF)

The Board of Directors (the "Board" or "BOD") has the ultimate responsibility for the establishment and oversight of the Group's Risk Management Framework. For that purpose, the Board has formulated, in line with international best practices, the following committees at Board level to help manage various risks the Bank faces:

a. Board Executive Credit Committee;
b. Board Risk Committee;
c. Board Audit & Compliance Committee;
d. Board Nomination and Remuneration Committee.

Brief overview of the responsibilities of various committees where Risk Management has interaction is articulated below:

1) Board Committees

1. Board Executive Credit Committee (BECC)

The Board Executive Credit Committee is responsible for review and approval of all credit lending and commitments within the limits set as per the Delegation of Authority (DoA). It is also responsible for overseeing all lending and investment activities that are in line with Bank’s strategy & risk appetite, and ensuring a well-diversified portfolio is maintained without any undue concentration. It is also responsible for reviewing credit-related policies.

2. Board Risk Committee (BRC)

The Board Risk Committee has the overall responsibility of oversight on Bank’s Risk appetite, Risk Strategy and Risk Policies. It is responsible for overseeing the implementation of all risk related frameworks, methodologies, tools, processes and establishing an Enterprise Risk Management Framework. BRC ensures compliance with not only the regulatory requirements but also works towards developing a risk culture within the organization. It is responsible for ensuring an effective controls framework covering all material activities of the Bank.

3. Board Audit and Compliance Committee

The Board Audit Committee is responsible for monitoring, reviewing, and ensuring the integrity of the financial reporting of the Bank. The committee provides oversight on the qualification, independence, and performance of the Bank’s external and internal audit functions. It is also responsible for reviewing the internal controls’ framework within the Bank.

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4. **Board Nomination and Remuneration Committee**

   The Board Nomination and Remuneration Committee is responsible for oversight on all matters related to nomination and remuneration of the Bank except for those matters which are restricted to the Board as per the legal provisions of the Bank's articles.

2) Risk Governance Framework

The bank is committed to maintaining the highest standards of transparency and risk management through a robust Enterprise Risk Management (ERM) approach.

This approach is integral to the Bank operational framework, ensuring a holistic and proactive management of all financial and operational risks.

The Board of Directors has strategically delegated responsibilities to specialized committees, each tasked with specific aspects of risk management to ensure comprehensive coverage and effective oversight. The Asset-Liability Committee (ALCO) is crucial in managing liquidity and market risks where CRO attend the Committee.

They are responsible for ensuring that the bank's asset and liability management strategies are in line with the Bank overall risk appetite, market conditions, and regulatory requirements.

ALCO's role includes monitoring interest rate movements, currency exchange fluctuations, and liquidity positions to safeguard the bank's financial stability.

The Risk Committee, a central pillar in the Bank governance structure, sets overarching risk policies, establishes risk thresholds, and reviews risk management practices.

They work closely with other departments to embed risk considerations into strategic decision-making processes.

The Management Credit Committee oversees the Bank credit risk management. Their mandate includes reviewing credit policies, assessing credit transactions, assessing borrower's credit worthiness, and ensuring that lending activities align with the bank's risk tolerance. This committee plays a pivotal role in mitigating credit risks associated with loans and investments.

Risk Management Department (RMD)

RMD is responsible for risk oversight of the Bank, development of frameworks, policy and methodology formulation, monitoring of key risks and reporting and ensuring an independent control process. It is the nerve center for collection of data, analysis of risk drivers, interpretation of outcome and dissemination of information to relevant committees for risk management. Under Chief Risk Officer (CRO),

various specialized units address different sides of risk:

1. Information Security: Dedicated to safeguarding the Bank digital infrastructure against cyber threats, data breaches, and ensuring the confidentiality of customer and bank data.

2. Fraud Risk Management: Focused on identifying, preventing, and mitigating fraudulent activities that could affect the Bank customers and the bank's reputation.

3. Operational Risk Management: Manages risks arising from internal processes, people, systems, or external events, implementing controls and measures to minimize losses.

4. Portfolio Management: This unit is responsible for the continuous monitoring and management of the Bank loan portfolios, ensuring diversification and compliance with risk limits.

5. Credit Risk Management: Focuses on managing exposure from lending and other credit-related activities, including assessment of material credit transactions and continuous monitoring of credit exposures.

6. Market Risk Management: Addresses risks arising from market fluctuations in interest rates, foreign exchange rates, and other market variables.

7. Risk Analytics: Employs advanced data analytics for risk assessment, predictive analysis, and decision-making support, enhancing the Bank risk identification and management capabilities.

8. Regulatory Reporting: Ensures compliance with all regulatory requirements, including accurate and timely reporting of the Bank risk positions and financial health.

This comprehensive ERM framework, supported by the Bank board and specialized committees, reflects the Bank unwavering commitment to upholding robust risk management practices, ensuring financial stability, and maintaining trust among the Bank stakeholders."

Compliance Department

The compliance department works towards ensuring maintenance of high standards and fair dealings in conducting business and to act with proper care, diligence and skills by complying with related laws, rules and regulations and with good practices to protect Invest banks reputation at all times.

Internal Audit Department

The Internal Audit department works as the third line of defense with the main objective of providing independent assurance to the Board that all the activities performed within the Bank are in line with the laid down policies, procedures and relevant regulations.

Risk Appetite Statement

Appetite Statement (RAS) is one of the key components of Bank's Risk Management framework, which enables the Bank to set appetite/tolerance i.e. what level of risk the Bank is ready to assume in its normal course of business and also assess / monitor the risks against the set targets. It also supports the optimum utilization of resources, while balancing the risk-return trade-off. Risk appetite is defined by considering the synergies of all business units, operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's long-term strategic objectives.

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Risk parameters, which form part of the RAS, are regularly monitored, and any breaches are escalated to relevant Management and Board committees and the directions thereon are implemented with integrity.

Risk Assessment & Reporting

Risk assessment and mitigation is performed through multiple tools including limit setting and monitoring, periodic reviews and discussions as well as through other available MIS. This is performed for all material risks both, at individual level as well as consolidated level. Certain risks are qualitatively assessed using heuristic approach. Regular updates are provided to the senior management and Board through monthly dashboards.
The Risk / MIS team work closely with the Information Technology Department to ensure availability of data /information to meet the requirements of management of risks as well as regulatory reporting.

Stress testing and scenario analyses

In line with international best practices, Bank has implemented a suitable stress testing framework. Bank uses stress tests for:

- Understanding its risk profile and communicating the same to the Board / Senior management for better planning and setting risk limits;
- Managing their risk exposures; and
- Putting in place appropriate contingency plans for meeting the situations that may arise under adverse circumstances.

The Bank conducts regular stress test exercises to assess the resilience of the bank to adverse market developments under stress scenarios. The risk factors are shocked using the assumptions made under the respective scenarios and the corresponding impact on the capital adequacy is determined. Given the composition of Bank's portfolio, credit risk is the most significant risk the Bank is exposed to and therefore is subject to enhanced scrutiny under the stress testing program.

Risk Mitigation

The Bank accepts credit risk mitigation as a means towards reducing credit risk in an exposure, at facility level, by a safety net of tangible and realizable securities including third-party guarantees etc. The types of Credit Risk Mitigation include collaterals, guarantees, credit derivatives etc. The Bank ensures that all documentation used in collateralized transactions is binding on all parties and is legally enforceable in all relevant jurisdictions.

3.3 OV1: Overview of RWA

All numbers in AED 000s

		RWA		Minimum capital requirements
		31/12/2022	31/12/2021	
1	Credit risk (excluding counterparty credit risk)	6,939,189	7,462,506	728,615
2	Of which: standardized approach (SA)	6,939,189	7,462,506	728,615
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: standardized 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 - fallback approach	-	-	-
15	Settlement risk	-	-	-
16	Securitization exposures in the banking book	-	-	-
17	Of which: securitization internal ratings-based approach (SEC-IRBA)	-	-	-
18	Of which: securitization external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitization standardized approach (SEC-SA)	-	-	-
20	Market risk	81,999	75,991	8,610
21	Of which: standardized approach (SA)	81,999	75,991	8,610
22	Of which: internal models' approach (IMA)	-	-	-
23	Operational risk	302,588	625,363	31,772
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)**	**7,323,776**	**7,462,506**	**768,996**

Base capital requirement as per CBUAE guidelines is 10.5% for total capital adequacy ratio and after including the CCB of 2.5% the requirements increase to 13%

4. Linkages between financial statements and regulatory exposures

In enhancing the Bank Pillar III disclosures, it is important to clarify the composition and management of the Bank investment portfolio. The Bank at this stage has a limited investment portfolio with majority held at amortized cost. The primary security within this portfolio is the Sharjah Government Sukuk in AED, which is held at amortized cost and utilized for managing the regulatory liquidity ratios.

For valuation purpose the Bank applies **a mark-to-model valuation methods** this approach is utilized for the valuation of investments, including those instances where market prices are not readily available or when the investments are not actively traded. This method allows us to estimate fair value based on projected future cash flows and market data, ensuring that the Bank valuations are reflective of current market conditions and investment prospects across the Bank portfolio to ensure the accuracy and integrity of the Bank investment valuations.

Mark-to-Market Valuation utilized for investments that are actively traded in the financial markets, the Bank employ the mark -to-market (MTM) valuation method. This approach ensures that the Bank investment valuations reflect current market conditions and prices, providing an active price in the marker (as provided by reliable 3rd party to source the prices).

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

All numbers in AED 000s

	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 securitization framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and deposits with central banks	615,346	615,346	615,346	-	-	-	-
Due from banks	140,540	140,540	140,540	-	-	-	-
Investment securities	2,136,084	2,136,084	2,136,084	-	-	-	-
Loans and advances to customers	5,136,760	5,136,760	5,136,760	-	-	-	-
Other assets	538,981	538,981	538,981	-	-	-	-
Total assets	**8,567,711**	**8,567,711**	**8,567,711**	**-**	**-**	**-**	**-**
Liabilities							
Due to banks	651,653	-	-	-	-	-	651,653
Deposits from customers	7,587,174	-	-	-	-	-	7,587,174

Other liabilities	224,627	-	-	-	-	-	224,627
Total liabilities	**8,463,454**	**-**	**-**	**-**	**-**	**-**	**8,463,454**

4.2 I2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements.

All numbers in AED 000s

		a	b	c	d	e
			Items subject to:			
		Total	Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	8,567,711	8,567,711	-	-	-
2	**Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)**	-	-	-	-	-
3	**Total net amount under regulatory scope of consolidation**	8,567,711	8,567,711	-	-	-
4	**Off-balance sheet amounts**	2,234,297	2,234,297	-	-	-
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***	7,104,822	7,104,822	-	-	-
8	***Differences due to prudential filters***	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	17,906,831	17,906,831	-	-	-

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

Credit risk exposures reported under Pillar III disclosures differ in respect of the following vis-à-vis financial statements:

- The financial statements are prepared based on the Accounting Standards requirement whereas the Pillar III disclosures are prepared based on the Basel III requirements.
- The capital position is based on CBUAE Basel III requirements.
- Loans and advances are assessed at gross level. As per CBUAE Basel III framework, off balance sheet exposures are converted, by applying a credit conversion factor (CCF), into equivalent credit exposures in accordance with the CBUAE Capital Adequacy Standards on Credit Risk
- Credit Risk mitigation is assessed as per the simple approach under the standardized Approach for Credit Risk RWA estimation.

5. Composition of capital

5.1 CC1: Composition of regulatory capital

All numbers in AED 000s

		a	b
		Amounts	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	2,703,125	Same as (a) + (b) from CC2 template
2	Retained earnings	(2,611,661)	
3	Accumulated other comprehensive income (and other reserves)	24,612	
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**	**116,076**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-	
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	Securitization 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)	-	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	-	
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	-	
24	**Total regulatory adjustments to Common Equity Tier 1**	-	
25	**Common Equity Tier 1 capital (CET1)**	**116,076**	
	Additional Tier 1 capital: instruments		
		Amounts	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	
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)**	**116,076**	
	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	86,740	
45	**Tier 2 capital before regulatory adjustments**	**86,740**	

	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)**	86,740	
52	**Total regulatory capital (TC = T1 + T2)**	202,816	
53	**Total risk-weighted assets**	7,323,776	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	1.58%	
55	**Tier 1 (as a percentage of risk-weighted assets)**	1.58%	
56	**Total capital (as a percentage of risk-weighted assets)**	2.77%	
		Amounts	**Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation**
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.**	-7.73%	
	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)		
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	
66	Significant investments in common stock of financial entities	-	
67	Mortgage servicing rights (net of related tax liability)	-	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-	
	Applicable caps on the inclusion of provisions in Tier 2		
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardized approach (prior to application of cap)	-	
70	Cap on inclusion of provisions in Tier 2 under standardized approach	-	
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	-	
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	-	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)		
73	*Current cap on CET1 instruments subject to phase-out arrangements*	-	
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	-	

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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)*	-	

5.2 CC2: Reconciliation of regulatory capital to balance sheet

All numbers in AED 000s

	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
Assets			
Cash and deposits with central banks	615,346	615,346	
Due from banks	140,540	140,540	
Investment securities	2,136,084	2,136,084	
Loans and advances to customers	5,136,760	5,136,760	
Property and Equipment	64,957	64,957	
Other Assets	474,024	474,024	
Total assets	8,567,711	8,567,711	
Liabilities			
Due to banks	651,653	651,653	
Deposits from customers	7,587,174	7,587,174	
Other Liabilities	224,627	224,627	
Total liabilities	8,463,454	8,463,454	
Shareholders' equity			
Paid-in share capital	3,180,982	3,180,982	
Of which: amount eligible for CET1	3,180,982	3,180,982	(a)
Shares at Discount	(477,857)	(477,857)	(b)
Fair value reserve	(40,879)	(40,879)	
Accumulated losses	68,672	68,672	
Total shareholders' equity	(2,626,661)	(2,626,661)	

Total liabilities and equity	8,567,711	8,567,711	

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5.3 CCA: Main features of regulatory capital instruments

The bank's capital structure consists solely of common equity as capital instruments, with an authorized capital of 6.3 billion shares, each valued at 1 AED. The issued and fully paid-up capital amounts to 3.18 billion shares, with each share also valued at 1 AED.

6. Leverage ratio

6.1 LR1: Summary comparison of accounting assets vs leverage ratio exposure

All numbers in AED 000s

		Amount
1	Total consolidated assets as per published financial statements	8,567,711
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 securitized 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 recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	-
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1,429,779
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(49,337)
13	**Leverage ratio exposure measure**	9,948,153

6.2 LR2: Leverage ratio common disclosure template

All numbers in AED 000s

		a	b
		Dec'22	Dec'21
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	8,518,374	10,404,605
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 recognized 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)**	8,518,374	**10,404,605**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	-	-
9	Add-on amounts for PFE associated with *all* derivatives transactions	-	-
10	(Exempted CCP leg of client-cleared trade exposures)	-	-
11	Adjusted effective notional amount of written credit derivatives	-	-
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
13	**Total derivative exposures (sum of rows 8 to 12)**	**-**	-
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	3,521,521	4,412,267
20	(Adjustments for conversion to credit equivalent amounts)	(2,091,742)	(2,801,516)
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)**	1,429,779	1,610,752
Capital and total exposures			
23	**Tier 1 capital**	116,076	665,523
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	9,948,153	12,015,357
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	1.17%	5.54%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	N/A	N/A
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	**Applicable leverage buffers**		

7. Liquidity

7.1 LIQA: Liquidity risk management

- **Overview and Governance of liquidity risk management.**

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities as they become due and at a reasonable cost. Liquidity risk can be segregated into three categories:

(i) Mismatch or structural liquidity risk: the risk in the Group's current consolidated statement of financial position structure due to maturity transformation in the cash flows of individual positions;
(ii) Contingency liquidity risk: the risk that future events may require a significantly larger amount of cash than what the Group's projections allow. This can arise due to unusual deviations of timing of cash flows (term liquidity risk), e.g., non-contractual prolongation of loans, or unexpected draw downs on committed loan facilities (call/ withdrawal liquidity risk); and
(iii) Market liquidity risk: the risk that the Group cannot easily offset or eliminate a position at the market price because of market disruption or inadequate market depth.

The Bank's Board of Directors (BOD) has the overall responsibility for ensuring that the liquidity risk of the Bank is effectively managed. The Board Risk Committee (BRC) is responsible to provide effective oversight and control of liquidity risk. At management level, the Asset Liability Committee (ALCO) is responsible for ongoing liquidity risk management. The risk management department is responsible for day-to-day monitoring of the liquidity position of the Bank and monitoring the risk appetite and limits.

- **Management of liquidity risk**

Liquidity risk management has remained at the helm of risk management and receives close attention of the Board of Directors. The Group's approach to managing liquidity is to ensure, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. All liquidity policies and procedures are subject to review and approval by Board & ALCO. The group is strengthening its Liquidity and Market Risk framework including setting up a limits management framework and monitoring of Financial Institutions Limits. The key elements of the Group's liquidity strategy are as follows:

(i) Maintaining a diversified funding base consisting of customer deposits (both retail and corporate), wholesale market deposits, maintaining contingency facilities, annual budgeting and planning exercise forms the basis for developing the Bank's funding strategy.
(ii) Carrying a portfolio of high-quality liquid assets, diversified by counterparty and maturity.
(iii) Monitoring liquidity ratios (ELAR, ASRR, LTD), maturity mismatches, behavioral characteristics of the Group's financial assets and liabilities, and the extent to which the Group's assets are encumbered and hence not available as potential collateral for obtaining funding.
(iv) Carrying out stress testing of the Group's liquidity position.
(v) Maintaining adequate liquidity buffers.
(vi) Active communication with the CBUAE regarding liquidity requirements and requesting liquidity support with respect to those requirements.

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- **Stress testing**

Stress testing is an integral part of Bank's liquidity risk management framework. Bank conducts stress testing using plausible scenarios including deposit run-offs, fall in the valuation of assets etc. to assess the viability of its liquidity position. The stress tests are performed regularly and the results to management.

- **Contingency Planning**

Bank has in place a liquidity contingency plan meant to address severe liquidity disruptions within the Bank as well as across the system. The CFP includes a set of triggers which will require pre-agreed action from the relevant stakeholders.

- **Maturity Gap Analysis**

	Less than 3 months AED'000	3 months to 1 year AED'000	1 year and above AED'000	Total AED'000
At 31 December 2022				
Assets				
Cash and deposits with central banks	446,403	168,581	362	615,346
Due from banks	103,610	36,930	-	140,540
Investment securities	2,000,000	-	136,084	2,136,084
Loans and advances to customers	316,831	2,268,788	2,551,141	5,136,760
Customers' indebtedness for acceptances	29,949	19,388	-	49,337
Other assets	20,529	24,480	444,635	489,644
Total assets	**2,917,322**	**2,518,167**	**3,132,222**	**8,567,711**
Liabilities and equity				
Due to banks	651,653	-	-	651,653
Deposits from customers	4,692,628	2,744,025	150,521	7,587,174
Liabilities under acceptances	29,949	19,388	-	49,337
Other liabilities	63,377	75,900	36,013	175,290
Total liabilities	**5,437,607**	**2,839,313**	**186,534**	**8,463,454**
Net liquidity positions	**(2,520,285)**	**(321,146)**	**2,945,688**	**104,257**

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At 31 December 2021				
Assets				
Cash and deposits with central banks	1,362,387	74,913	9,182	1,446,482
Due from banks	116,836	-	-	116,836
Investment securities	2,011,778	-	-	2,011,778
Loans and advances to customers	272,603	2,311,010	3,346,754	5,930,367
Customers' indebtedness for acceptances	12,766	23,817	341	36,924
Other assets	13,006	20,110	484,471	517,587
Total assets	3,789,376	2,429,850	3,840,748	10,059,974
Liabilities and equity				
Due to banks	754,511	-	-	754,511
Deposits from customers	4,742,958	3,683,186	44,425	8,470,569
Liabilities under acceptances	12,766	23,817	341	36,924
Other liabilities	88,960	43,601	44,885	177,446
Total liabilities	**5,599,195**	**3,750,604**	**89,651**	**9,439,450**
Net liquidity positions	**(1,809,819)**	**(1,320,754)**	**3,751,097**	**620,524**

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7.2 ELAR: Eligible Liquid Assets Ratio

All numbers in AED 000s

1	High Quality Liquid Assets	Nominal amount	Eligible Liquid Asset
1.1	Physical cash in hand at the bank + balances with the CBUAE	613,692	
1.2	UAE Federal Government Bonds and Sukuks	100,000	
	Sub Total (1.1 to 1.2)	**713,692**	**713,692**
1.3	UAE local governments publicly traded debt securities	1,201,000	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub Total (1.3 to 1.4)	**1,201,000**	**219,598**
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	0	0
1.6	**Total**	**1,914,692**	**933,290**
2	Total liabilities		8,490,637
3	**Eligible Liquid Assets Ratio (ELAR)**		**0.11**

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7.3 Advances to Stables Resource Ratio

All numbers in AED 000s

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	5,098,104
	1.2	Lending to non-banking financial institutions	172,589
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	284,162
	1.4	Interbank Placements	36,930
	1.5	**Total Advances**	5,591,785
2		**Calculation of Net Stable Resources**	
	2.1	Total capital + general provisions	238,190
		Deduct:	
	2.1.1	Goodwill and other intangible assets	3,181
	2.1.2	Fixed Assets	427,813
	2.1.3	Funds allocated to branches abroad	83,124
	2.1.5	Unquoted Investments	1,080
	2.1.6	Investment in subsidiaries, associates and affiliates	0
	2.1.7	**Total deduction**	515,198
	2.2	**Net Free Capital Funds**	-277,008
	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	343,225
	2.3.5	Customer Deposits	6,410,443
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	**Total other stable resources**	6,753,668
	2.4	**Total Stable Resources (2.2+2.3.7)**	6,476,660
3		**Advances to Stable Resources Ratio (1.6/ 2.4*100)**	86.34

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8. Credit risk

The business model adopted by the bank is governed by the risk appetite statement approved by the board. This ensures that the activities related to credit risk, particularly those involving business units acquiring assets, are regulated in accordance with the risk appetite statements. Additionally, the credit review carried out by the control unit further oversees these activities to ensure compliance and manage risk effectively.

8.1 CRA: General qualitative information about credit risk

Definition

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers, other banks and investment securities.

It is also the risk of loss, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties, and any debtors to whom the Group is exposed to in the form of counterparty default risk, or (credit) spread risk, or market risk concentrations.

Credit Risk Management

Bank is primarily engaged in business of corporate banking. Credit risk represents the single largest risk element to the bank and hence is the area of main focus of risk management. The credit policy has been formulated in consultation with all relevant stakeholders including business units, credit, risk and internal audit. The policy covers all aspects related to credit assessment, collateral requirements, risk grading and reporting, classification & provisioning requirements etc., and in compliance with regulatory requirements.

The policies cover the entire spectrum of business lines and products. Bank has taken strict measures to define its credit underwriting standards. Timely review of accounts with detailed analysis of financial and non-financial risks are carried out.

Bank has an internal rating system in place to grade / rate the client, which is part of the credit review process. Based on the minimum requirements, Management steers its lending decisions maintaining desired levels of risk.

The minimum requirements for this process will be related to credit quality and meeting the risk appetite requirements. Specifically, this entails ensuring that any potential credit exposures align with the organization credit risk guidelines and that they do not exceed the predefined risk tolerance levels set by the Bank. These requirements are crucial for maintaining the financial health and stability of the organization while also managing potential risks associated with credit lending or other credit-related activities.

Adequacy of documentation is also reviewed. Renewals and reviews of facilities are also subject to the same rigorous review process.

Credit Department is entrusted with the responsibility of underwriting and engaging in credit reviews. Credit Administration (CAD) ensures the documentation and limits entered to the system are in-line with the credit approvals for the said granted facilities.

Risk Management Department is separate from the Credit Department. They are responsible for monitoring and reviewing the performance of the portfolio post disbursement as well as other aspects including classification & provisioning, early warning indicators monitoring etc.

The Compliance function is responsible for ensuring adherence to the regulations and guidelines. They also perform due diligence around the KYC and AML requirements as well as insider trading. Internal Audit is responsible for providing independent assurance to the Board as the third line of defense.

All the four functions viz. Credit Risk, Risk Management, Compliance, and Internal Audit, are independent functions. The CRO Officer report to the Board Risk Committee whereas the Head of Internal Audit reports to the Board Audit Committee. The Chief Compliance Officer has indirect reporting for the BRC.

The Board is in ultimate control of the Bank and bears ultimate responsibility for ensuring that there is a comprehensive risk governance framework appropriate to the risk profile, nature, size and complexity of the Banks business and structure.

They define the overall risk appetite which is cascaded to the business units. Credit approval authorities are governed by Delegation of Authority as approved by the Board which provides risk-based delegation to various levels of management starting from Business Unit to Credit Department to Management Credit Committee and all the way up to the Board Executive Credit Committee.

As a part of credit risk monitoring and control framework, regular risk monitoring at both individual and portfolio levels carried out along several parameters. This includes portfolio quality, level of provisions, and limit management, account conduct, adequacy of collaterals, adherence to sanction terms and covenants, portfolio rating performance as well as sanctity of the systems and software used to include rating model, IFRS 9 models etc.

Management, Board Risk Committee and Board of Directors are regularly updated with the credit risk exposure and management function on monthly basis vide dashboard/presentations; detailing the quality of portfolio, provisions, recoveries, collateral and breaches etc. Concentration (sectoral, individual group etc.) is monitored through Risk appetite.

Review of risk management policies and systems is a continuous activity to reflect changes in market conditions, products and services offered by the Bank. The process ensures a comprehensive view of risk from a strategic, operational and control perspective which in turn promotes proactive management of risks arising from various activities of the Bank

Classification: Public | For Public Disclosure

8.2 CR1: Credit quality of assets

All numbers in AED 000s

		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	8,550,902	3,355,183	6,769,325	6,769,325	-	5,136,760
2	Debt securities	-	2,124,832	-	-	-	2,124,832
3	Off-balance sheet exposures	447,179	1,787,118	-	-	-	2,234,297
4	**Total**	**8,998,081**	**7,267,133**	**6,769,325**	**6,769,325**	**-**	**9,495,889**

The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

- Quantitative criteria: The obligor is more than 90 days past due on its contractual obligation to the Bank.
- Qualitative criteria: The Bank considers a default to have occurred with regard to particular obligors when either one of the following events have taken place:

    - The Bank considers that the obligor is unlikely to pay its credit obligation in full without recourse by the Bank to actions like realizing security (if held).
    - The Bank puts the credit obligation on a non-accrual status.
    - The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality after the Bank taking on the exposure.
    - The Bank sells the credit obligation at a material credit-related economic loss.
    - The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
    - The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Bank.
    - The criteria above have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria and curing period as per regulation.

Classification: Public | For Public Disclosure

8.3 CR2: Changes in stock of defaulted loans and debt securities

All numbers in AED 000s

		Amount
1	**Defaulted loans and debt securities at the end of the previous reporting period**	8,633,484
2	Loans and debt securities that have defaulted since the last reporting period	-
3	Returned to non-default status	15,045
4	Amounts written off	67,538
5	Other changes	-
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	8,550,901

8.4 CRB: Additional disclosure related to the credit quality of assets

Definitions of 'past due' and 'impaired' exposures for accounting purposes

Bank follows CBUAE guidelines as enumerated in their circular 28/2010, for classification of assets. Bank has a well-defined approved process based on which loans are classified.

Past due exposures and impaired loans are those which are delinquent for more than 90 days and are put on non-accrual. While the definition is applied consistently across accounting and regulatory reporting, Bank may rebut this under IFRS 9 accounting requirements on a case to case basis with adequate justification. Also, for the corporate non-impaired portfolio bank may not “classify” an account which is delinquent for more than 90 days. The term “classify” refers to CBUAE classification of Sub-Standard, Doubtful or Loss classification.

Impairment of Financial Assets

Financial assets that are measured at amortized cost are assessed for impairment and Expected Credit Loss (ECL) requirement at each reporting date.

In lines with IFRS 9 requirements, Bank applies a three-stage expected loss-based approach to measure allowance for credit losses, for the following categories of financial instruments that are measured at amortized cost:

- Loans and Advances to the customers,
- Investments in Debt Securities in Amortized Cost,
- Due from Banks,
- Balances with Central Banks,
- Financial guarantees,
- Off balance sheet instruments,
- Loan Commitments

Staging

Stage 1 – Where there has not been a Significant Increase in Credit Risk (SICR) since initial recognition of a financial instrument, an amount equal to 12 months expected credit loss is recorded. The expected credit loss is computed using the probability of default occurring over the next 12 months. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2 – When a financial instrument experiences a SICR after origination but is not considered to be defaulted / impaired, it is considered in Stage 2. The ECL is estimated based on the probability of default over the remaining estimated life of the financial instrument.

Stage 3 – Financial instruments that are defaulted / impaired are included in this stage.

The bank incorporates forward-looking information into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Loss (ECL). The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

Significant increase in credit risk (SICR)

The Bank considers a financial asset to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

<u>Quantitative criteria</u>

Corporate Loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- A credit risk rating (CRR) downgrade of 2 or more notches is considered significant in case the origination rating is below BBB+, hence the related facility shall be classified at Stage 2. Facilities with rating movement between AAA+ and A- are not subject to these criteria on account of low credit risk.
- If the origination rating is B+ (6+) and below (inclusive), a CRR downgrade of 1 or more notches is considered significant, hence the related facility shall be classified at Stage 2 since the movement of related PD is higher.
- Loan facilities restructured in the last 12 months;
- Loan facilities that are past due for 30 days and above but less than 90 days;
- Any facility of a performing customer being Stage 3.

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Loan rescheduling before 30 days past due;
- Accounts overdue between 30 and 90 days.

Treasury:

- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the financial instruments' expected performance and behavior of borrower.

<u>Qualitative criteria</u>

Corporate Loans:
For corporate loans, if the borrower experiences a significant increase in probability of default, which can be triggered by the following qualitative factors:

- Net worth erosion
- Fraudulent activity
- Distressed restructure
- Financial covenants breach
- Significant operations disruption
- Bad news in public domain
- Significant reputation damage
- Subject to material litigation

<u>Backstop:</u>

A backstop is applied and the financial asset considered to have experienced a significant increase in credit risk if the borrower is more than 30 days past due on its contractual payments.

Rescheduling and Restructuring of Credit facilities

A restructured loan refers to a loan whose terms have been altered due to the financial situation of the borrower. In such cases, the bank may need to account for a decrease in either interest or principal. This restructuring can lead to an economic loss for the bank, as it involves granting concessions to the clients. If there is no economic loss incurred, the process is considered as rescheduling.

8.4.1.1 Gross Credit Exposure by Geographical Distribution

			AED'000
	Loans and advances	**Debt securities**	**Due from banks**
United Arab Emirates	11,711,865	2,124,832	39,824
Other G.C.C.	70,049	-	5,146
Other Arab countries	113,821	-	405
Western Europe and others	10,351	-	95,453
Total	**11,906,086**	**2,124,832**	**140,828**

8.4.1.2 Gross Credit Exposure by Industry Segment

			AED'000
Industry	**Loans and advances**	**Debt securities**	**Due from banks**
Agriculture, fishing and related activities	-	-	-
Mining and quarrying	93	-	-
Manufacturing	2,366,057	-	-
Construction	3,771,404	25,711	-
Real estate	1,706,812	-	-
Trade	1,080,942	-	-
Transport, storage, and communication	94,376	-	-
Financial institutions	971,860	-	140,828
Other services	666,348	-	-
Government	738,164	2,099,121	-
Individuals	25,825	-	-
Loans to high-net-worth individuals	431,776	-	-
Others	52,429	-	-
Total	**11,906,086**	**2,124,832**	**140,828**

8.4.1.3 Net Exposure by Residual Contract Maturity (Including Loans & Facilities, Investment and Due from Banks)

				AED'000
	Less than 3 months	**3 months to 1 year**	**1 year and above**	**Total**
Due from banks	103,610	36,930	-	140,540
Investment securities	2,000,000	-	136,084	2,136,084
Loans and advances to customers	316,831	2,268,788	2,551,141	5,136,760

8.4.1.4 Impaired Loans by Industry Segment

All numbers in AED 000s

Industry Segment	Overdue/Impaired Amount
Agriculture and allied activities	-
Mining and quarrying	93
Manufacturing	2,447,643
Electricity, gas & water	-
Construction & real estate	4,832,206
Trade	936,279
Transport, storage and communication	77,716
Financial Institutions	106,049
Other services	263,781
Government	-
Loans to individuals	16,813
Loans to HNIs	356,212
All others	60,480
Total	**9,097,272**

8.4.1.5 Impaired Loans by Geographical Distribution

All numbers in AED 000s

Geographical Region	Overdue/Impaired Amount
United Arab Emirates	9,092,129
Other Countries	5,143
Total	**9,097,272**

8.4.1.6 Aging Analysis of past-due exposures not impaired

All numbers in AED 000s

Aging	Overdue/ Not Impaired Amount
90-120 Days	21,148
120-180 Days	6,044
180 Days & Above	436,893
Total	**464,085**

8.4.1.7 Breakdown of restructured exposures

All numbers in AED 000s

Performing/Non-Performing	Total
Performing Loans	164,580
Non-Performing Loans	245,325
Total	**409,905**

8.5 CRC: Qualitative disclosure requirements related to credit risk mitigation techniques.

Credit Risk Mitigation

Effective “Collateral Management” is an integral part of Credit Risk Management. Credit Risk Mitigation (CRM) is a method of reducing credit risk in an exposure, at facility level, by a safety net of realizable securities including third-party guarantees etc. Such mitigates would compensate Bank in the event of credit risk related loss.

Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools. Additional support in the form of collateral and guarantee is obtained where required. The reliance that can be placed on these credit mitigation resources is carefully assessed in light of issues such as legal enforceability, market value and counterparty risk of the guarantor. Collateral types which are eligible for risk mitigation include: cash; residential, commercial and industrial property; fixed assets such as motor vehicles, plant and machinery; marketable securities and bank guarantees etc. Risk mitigation policies control the approval of collateral types.

For Counterparty Credit Risk The bank engages in netting practices only when permitted by the Central Bank. The Central Bank Standards mandate that netting should be applied by a bank only after demonstrating to the Central Bank that such practices are appropriate, based on specific criteria outlined in the Standards. It's crucial to acknowledge that meeting these requirements might be challenging, especially for trades within jurisdictions where netting does not have clear legal recognition. Currently, this is the situation in the UAE.

Should netting not be recognized, it is still necessary to utilize netting sets for exposure calculations. However, given that each netting set can only include transactions eligible for netting, it's likely that many netting sets will comprise only a single transaction. Despite this, the calculation of Exposure at Default (EAD) is still feasible, albeit simplified.

Furthermore, it's possible to have multiple netting sets for a single counterparty. In such instances, Credit Counterparty Risk (calculations must be carried out for each netting set separately. These individual calculations may then be consolidated at the counterparty level for reporting purposes or other requirements.

Collateral Framework vis-à-vis Basel III Approaches

Under the Basel framework, collaterals are segregated into Eligible Collateral & Ineligible Collateral and there are two approaches for recognizing Collateral Mitigation viz. Simple Approach and Comprehensive Approach.
The bank follows simple approach to reach for Final credit risk weight. The following are the Eligible Financial Collaterals under Simple Approach.

- Cash
- Gold
- Debt Securities rated / unrated (details are available in Basel III Guidelines)
- Equities included on a main index and Mutual Funds.

Bank currently uses the Simple Approach for credit risk mitigation under the Standardized Approach for Credit Risk RWA calculation. The treatment under the regulatory assessment under Basel will be different from the collateral recognition under ECL assessment for IFRS 9.

Under Simple Approach all Eligible Collaterals carry a risk weight, except cash which is “0” risk weight. Accordingly, the Risk Weight of exposures covered by eligible Collaterals will be substituted with the Risk Weight of Collaterals. However, there is a minimum applicable floor rate of 20% for all Collaterals except for cash held in the home currency. Exposures supported with collaterals having relatively lesser risk weights than the risk weight of exposures, will attract lower risk weights, resulting in reduced capital charge.

Collateral Management Module

Bank has implemented a Collateral Management module which aids in recording and maintenance of collateral details as well as for integration of collateral data in the process for calculation of risk weighted assets. This module assists in uniformity and standardization and has eliminated the manual process, whilst facilitating effective control and ongoing monitoring by the Credit Administration department. The module is constantly reviewed for enhancements and improvements.

Concentration in CRMs

Concentration in credit risk arise when a number of customers are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Bank currently has concentration in the construction sector, which is also reflected in the collaterals that the Bank holds.

8.6 CR3: Credit risk mitigation techniques

All numbers in AED 000s

		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	4,036,091	1,555,938	854,592	-	-	-	-
2	Debt securities	1,124,832	1,000,000	1,000,000	-	-	-	-
3	**Total**	**5,160,923**	**2,555,938**	**1,854,592**	**-**	**-**	**-**	**-**
4	Of which defaulted	2,119,526	129,956	25,067	-	-	-	-

8.7 CRD: Qualitative disclosures on banks' use of external credit ratings under the standardized approach for credit risk

In accordance with CBUAE Basel III guidelines under standard credit risk approach, the Bank uses only median rating based on Credit Ratings assigned by Fitch, Moody's and Standard and Poor's (S&P) for determining the risk weights of Sovereigns, Public Sector Entities, Multilateral Development Banks, Banks and Securities Firms. In cases where external rating is not available the exposure is considered as "unrated".

Bank is using its internal rating model for rating all exposures based on scorecard to rate its customers into Financial, Industry, Delinquent, Management and Collateral risks. Furthermore, for Loans and Advances portfolio internal rating models are used which are mapped to Moody's rating scale. wherever external rating is available, Bank uses the rating for all internal and regulatory purposes.

The Bank is primarily a corporate bank, with principal lending strategies focused towards the corporate sector and the small and medium enterprises (SME) segment. The Bank only offers a generic suite of products to both corporates and individuals and does not have any complex or securitized products. Exposure to retail customers is limited

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8.8 CR4: Standardized approach - credit risk exposure and Credit Risk Mitigation (CRM) effects

All numbers in AED 000s

		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	3,433,495	-	3,433,495	-	1,372,471	40%
2	Public Sector Entities	-	-	-	-	-	0%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	140,433	14,717	140,433	12,364	77,338	51%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	2,537,783	1,711,139	1,739,718	444,907	2,150,651	98%
7	Regulatory retail portfolios	50,131	107,599	24,587	16,667	32,181	78%
8	Secured by residential property	4,004	-	4,004	-	2,927	73%
9	Secured by commercial real estate	38,149	3,000	32,362	600	32,962	100%
10	Equity Investment in Funds (EIF)	2,249,482	229,368	2,224,415	188,154	2,580,423	107%
11	Past-due loans	366,037	-	366,037	-	549,056	150%
12	Higher-risk categories	166,679	-	166,679	-	141,180	85%
13	Other assets	-	-	-	-	-	0%
14	**Total**	8,986,193	2,065,823	8,131,730	662,692	6,939,189	79%

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8.9 CR5: Standardized approach - exposures by asset classes and risk weights

All numbers in AED 000s

	Risk weight / Asset classes	a	b	c	d	e	f	g	h	i
		0%	20%	35%	50%	75%	100%	150%	*Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	3,338,213	-	-	-	-	1,368,316	2,770	-	4,709,299
2	Public Sector Entities	-	-	-	-	-	-	-	-	-
3	Multilateral development banks	-	-	-	-	-	-	-	-	-
4	Banks	-	24,489	-	111,735	-	16,573	-	-	152,797
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	-	-	-	-	-	1,806,176	25,711	352,735	2,184,622
7	Regulatory retail portfolios	-	-	-	-	41,254	-	-	-	41,254
8	Secured by residential property	-	-	-	-	3,903	-	-	-	3,903
9	Secured by commercial real estate	-	-	-	-	-	32,962	-	-	32,962
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	2,077,039	335,530	-	2,412,569
12	Higher-risk categories	-	-	-	-	-	-	366,037	-	366,037
13	Other assets	26,039	-	-	-	-	139,560	1,080	-	166,678
14	**Total**	**3,364,252**	**24,489**	**-**	**111,735**	**45,157**	**5,440,626**	**731,127**	**352,735**	**10,070,122**

*Corporate SME Risk Weighted at 85% updated under others column

Regarding Sovereign Credit Risk weight, in cases where it exceeds 100% in relation to local government holdings beyond the required regulatory capital, the Central Bank of the UAE allows for the application of a 100% risk weight instead of deducting any excess from the regulatory capital on a one-to-one basis (1 to 1 surcharge).

9. Market risk

9.1 MRA: General qualitative disclosure requirements related to market risk

Market Risk is the risk that changes in market prices - such as interest rates, equity prices and foreign exchange rates will affect the Bank's profit or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters to ensure the Bank's solvency while optimizing the return on risk.

The bank does not pursue trading activities, prioritizing a cautious approach towards market risk, which primarily stems from fluctuations in interest rates and their potential impact on the bank's financial position. Despite this conservative stance towards trading, the bank has instituted a robust investment and market risk policy that delineates predefined limits for various asset classes, ensuring a structured approach to managing market risks.

A key component of the Bank risk management framework is the independent Market Risk unit, dedicated to meticulously monitoring all facets of market risk against established limits. This vigilance is crucial for maintaining the integrity of the Bank risk exposure. The Asset-Liability Committee (ALCO) plays a significant role in this ecosystem, receiving comprehensive reports on market risks and advising on necessary actions to mitigate these risks effectively.

When it comes to hedging strategies, the bank engages in straightforward ('plain vanilla') products either to hedge its own book or to provide hedging advice to clients. The selection and approval of these hedging products involve a collaborative process with all stakeholders to ensure the alignment of interests and risk mitigation. Moreover, the valuation of these products is performed independently and validated by the Market Risk unit to ensure accuracy and reliability.

Any financial impact from these activities, whether beneficial or adverse, is carefully assessed and reflected in the Profit & Loss (P&L) statement or Other Comprehensive Income, in line with the appropriate accounting classification. For hedging related to the bank's own book, the bank conducts hedge effectiveness testing in compliance with IFRS 9 requirements and industry best practices. It's worth noting that, as of December 2022, the bank has not engaged in any hedge for the bank own book.

The Market Risk unit diligently updates all business units every day on all open FX risk positions. Additionally, a comprehensive monthly report detailing open investment positions and other relevant factors is sent to the ALCO for discussion and to determine any necessary actions as well as all Market Risk components presented to BRC. This holistic approach to market risk management underscores the Bank dedication to safeguarding the bank's assets while adhering to regulatory requirements and best practices.

Market Risk Governance Framework:

Market Risk is governed by overall risk management framework, risk appetite and related policies and procedures. As part of the overall responsibility of managing risk, the Board is the highest authority in managing market risk. The Board is supported by the BRC as Board sub-committees overseeing the implementation of market risk management framework. Risk Management, Treasury and Finance departments are involved in the day-to-day management of the risk with the ALCO being management level committee overseeing all the activities.

The risk management framework for Market Risk encompasses the following activities.

- Risk Identification
- Risk Measurement
- Risk Monitoring & Management
- Risk Reporting & MIS

Bank's overall exposure to market risk is very limited since the Bank conducts very limited trading activities. As bank has no exposure to commodities, the definition is limited to foreign exchange risk, interest rate risk and equity price risk.

9.2 MR1: Market risk under the standardized approach (SA)

		All numbers in AED 000s
		RWA
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	2,797
3	Foreign exchange risk	79,202
4	Commodity risk	-
	Options	**-**
5	Simplified approach	-
6	Delta-plus method	-
7	Scenario approach	-
8	Securitization	-
9	**Total**	**81,999**

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

Interest rate risk defined as the potential negative impact on a bank's financial stability due to fluctuations in market interest rates. Such changes primarily affect the bank's Net Interest Income (NII) in the short term, while the long-term effect is seen in the variation of the economic value of the bank's assets, liabilities, and off-balance sheet items.

This variation in market interest rates can significantly influence the bank's net worth. At the Bank, Interest Rate Risk in the Banking Book (IRRBB) is predominantly managed through the application of interest rate gap analysis, also known as re-pricing gap analysis, alongside established limits.

These limits are regularly reviewed and presented to the management and the Asset-Liability Committee (ALCO) monthly, as well as to the Board Risk Committee (BRC) at periodic intervals.

Currently, the Bank is initiating the implementation of a standardized approach to better assess the interest rate risk in the banking book. Due to this ongoing transition, the quantitative disclosures the Bank provides at this stage are based on basic assumptions regarding the assessment process, including categorization, scenario analysis, and other factors.

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Interest rate risk in the Banking Book (IRRBB) encompasses the potential impact on a bank's financials due to changes in interest rates. While the Bank primary focus has been on the effect of a 200-basis point shift, other scenarios are also considered to ensure a comprehensive risk assessment.

Steepening or Flattening of Yield Curve: This scenario examines the impact of a changing shape of the yield curve, where short and long-term interest rates move in opposite directions. A steepening curve can affect the returns on longer-term investments differently compared to short-term liabilities, and vice versa for a flattening curve.

Non-Parallel Shifts in the Interest Rate Curve: Instead of a uniform shift, this scenario considers non-parallel movements in the interest rate curve, where different maturities may experience varying degrees of change.

In managing IRRBB, the bank not only relies on gap analysis but also employs simulation models and stress testing to evaluate these different scenarios. These tools help in understanding the potential impact on earnings and economic value, ensuring a well-rounded risk management strategy. As the Bank transition to a standardized approach for IRRBB assessment, the Bank methods and disclosures will evolve to capture these varied scenarios more accurately.

The bank utilizes Internal spreadsheet tools for applying IRRBB measures. The bank undertakes IRRBB testing on a monthly basis, a rigorous schedule that allows for timely identification and management of interest rate risk exposures.

The setting of limits plays a crucial role in the Bank risk management strategy. These limits are carefully established for both interest rate gaps (cash flows) and changes in the economic value of the Bank positions, providing a comprehensive framework for monitoring and controlling interest rate risk. This dual-limited system ensures a balanced and effective approach to managing the potential impact of interest rate fluctuations on the bank's financial stability.

Hedging activities for the banking book are meticulously assessed by the front office and the risk management team before being presented to ALCO. This collaborative approach ensures that hedging strategies are not only effective in mitigating risks but also aligned with the bank's overall risk appetite and strategic objectives.

Moreover, the bank is committed to adhering to best practices and accounting requirements when conducting hedge effectiveness testing. This commitment underscores the Bank dedication to maintaining the highest standards of financial integrity and transparency. By applying these rigorous standards, the bank ensures that its hedging strategies are both effective in managing risks and compliant with the relevant accounting and regulatory requirements, thereby safeguarding the bank's financial health and upholding its responsibilities to stakeholders.

Classification: Public | For Public Disclosure

	All figures in AED000s	
In reporting currency (AED)	**ΔEVE**	**ΔNII**
Period	**31/12/2022**	**31/12/2022**
Parallel up	18,381	22,687
Parallel down	(18,381)	(22,687)
Steepened	(9,477)	
Flattener	5,711	
Short rate up	14,112	
Short rate down	(14,683)	
Maximum in Absolute value	18,381	
Tier 1 Capital	116,076	

11. Operational Risk

11.1 OR1: General qualitative information on a bank's operational risk framework

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

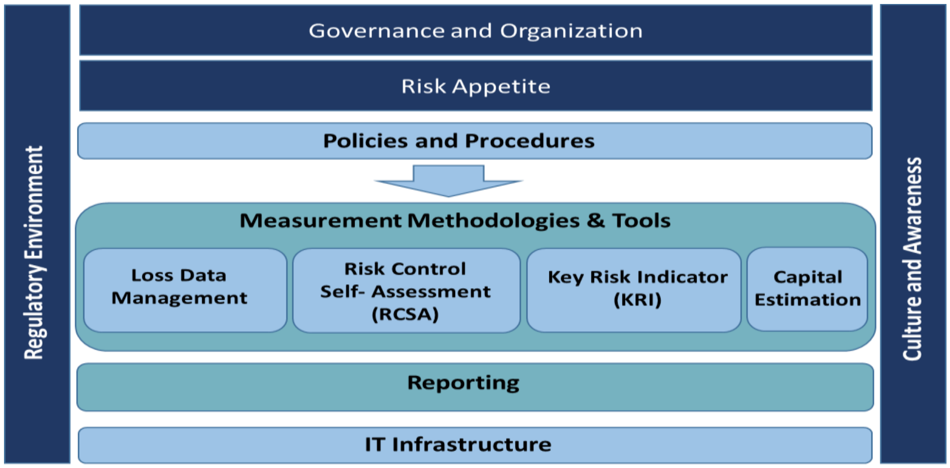
Operational Risk Governance

At the apex level, Operational Risk Management (ORM) starts with the Board of Directors, who have assigned the responsibility to BRC. The BRC approves the operational risk management policy as well as the risk appetite for operational risk. The risk management department is responsible for the implementation of ORM framework across the Bank. They are also responsible for monitoring adherence to the policies and risk appetite and escalation of breaches to the right authority for necessary actions. The First Line of Defense, which consists of all Business Functions and their Enabling Function are primarily responsible for managing operational risks inherent in the products, activities, processes, and systems for which they are accountable. The risk management department has a dedicated operational risk unit under it, providing oversight for Operational risk management of the bank.

Each BU has a Business Operational Risk Manager (BORM) who are responsible for the implementation of operational risk in the respective BU, including escalating issues to ORM for immediate action as well as, identifying and providing Risk information to ORM on periodic bases.

ORM Framework

Effectively managing risks requires a framework designed to turn raw operational risk data into information that supports managerial decision-making. Therefore, IB has adopted a structured ORM Framework in line with its nature, size, complexity, and risk profile as below:



The ORM framework includes the tools used for OR assessment across the Bank to support identification, measurement, and monitoring of inherent operational risk exposures of the business at all levels. ORM components provide the foundation to capture all OR contributors paving way for root cause and control effectiveness analysis, which plays an important role in inherent and residual risk evaluation.

The three major tools underpinning the identification and assessment of OR in the ORM framework are as follows:

- Loss/Incident Data Collection (LDC)
- Operational Risk and Control Assessment (ORCA)
- Risk and Control Self-Assessment (RCSA)
- Key Risk Indicators (KRIs)

Loss/Incident Data Collection (LDC):

Operational loss event is an incident leading to alteration in the expected outcome(s) of a business activity or process due to inadequate or failed processes, people, system, or external events. Operational loss events are further classified into:

- Actual Loss Event: An incident that has resulted in financial loss for the bank.
- Near Miss Event - Event(s) that did not result in loss but had the potential to do so.
- Potential Loss Event: An incident that has been detected and may ultimately translate into financial loss or near miss for the Bank.

Reporting of loss events is an important component of the risk management program. The objective of LDC is to provide a consistent and structured approach to identify, capture, analyze and report on operational losses for assessing the bank's exposure to OR, the effectiveness of internal controls, causes of large losses and information on whether control failures are isolated or systematic.

Operational Risk Control Self-Assessment (ORCA):

ORCA is a high-level scenario-based risk assessment of risks within the financial sector of the UAE which are non-materialized but plausible, are identified and assessed for their likelihood of occurrence and severity and to ensure control adequacy to mitigate those risks.

Risk Control Self-Assessment (RCSA):

In RCSA, the bank assesses the processes, which are central to its operations, against a library of potential threats and vulnerabilities and evaluating their potential impact.

It consistently evaluates risks with the following key considerations:

- Inherent Risk i.e., risk exposure status before controls is considered.
- Residual Risk i.e., risk exposure status after controls is considered.

The RCSAs are used on an enterprise-wide basis, including for control functions such as risk management, compliance, internal audit, etc.

Key Risk Indicators (KRIs):

KRIs are an important component of the operational risk management framework. It is defined as a measure that attempts to identify potential risks in the operating environment before they crystalized. Key risk indicators (KRIs) are metrics used to monitor risk exposures within IB at a particular instance or over a period, thereby enabling the bank to monitor and mitigate risk exposure and at the same time act as an early warning mechanism for potential risk exposures.

Risk Mitigation Techniques:

Apart from the regular monitoring and review, the Bank utilizes specific measures to mitigate operational risk. The measures include but not limited to the following:

Control Effectiveness Review: After each risk assessment, ORM function reviews existing control effectiveness and coordinates with other departments for new control implementation based on risk priority.

Operational Resilience and Business Continuity Planning (BCP): Banks are exposed to disruptive events which may be severe and can disrupt core functions and bank's normal business operations. To address this, IB has established Business Continuity arrangements. This includes a physical Work Area Recovery site for continuity of its processes. IB also has a well-planned Disaster Recovery program for its Information Technology and Systems. These processes are tested periodically for the bank's readiness to respond to short-term and long-term disruptions.

Insurance: Insurance is one of the ways to transfer the risk and insure the bank against certain Operational Risk losses. Based on the nature and risk criticality, RMD coordinates with the related department to ensure adequate insurance coverage is available and recourses are ensured.

Risk Escalation

Risk Escalation is a critical component of the ORM framework to ensure that any operational risk incident is recognized, understood, and managed at the appropriate level of seniority within the Bank.

Risk Appetite And Threshold

The Strategy for managing OR is targeted towards calibration of identified risks against the Bank's Risk Appetite Statement as well as thresholds or limits for inherent and residual risks ensuring consistency of risk identification and assessment on a bank-wide basis. Operational Risk appetite is maintained and tracked on a continuous basis.

Operational Risk Capital Charge:

Central Bank of UAE (CBUAE) communicated their decision that all banks in the UAE can adopt any of the following three approaches:

- Basic Indicator Approach (BIA)
- The Standardized Approach (TSA)/Alternative Standardized Approach (ASA)
- Advanced Measurement Approach (AMA)

Given IB's simplistic product nature, business complexity and size, the bank follows Basic Indicator Approach for calculating regulatory capital requirements for OR.

12. Remuneration Policy

12.1 REMA: Remuneration policy

The Bank's Board Nomination and Compensation Committee – HRC (BNCC) is responsible for developing and governing the Bank's remuneration framework including but not limited to review and approval of the Bank's remuneration policy alongside overseeing all compensation matters. The HRC (BNCC) is comprised of three Board Members:

1. Mr. Ummer Said Mohamed Beeran Ummer (Chairman of BNCC)
2. Mr. Abdalla Ibrahim Abdalla Deaifis Al Mheiri (Member)
3. Ms. Halima Humaid Ali AlOwais (Member)

The key mandate of the BNCC is described below:

- Appropriate composition of the Board,
- Nomination of appropriate directors to the Board and its committees,
- Assessment of the Board performance and of individual directors and senior management,
- Succession plans for Board members and senior management,
- Bank's public reporting on renumeration matters, and
- Bank's HR strategy (including Emiratization)

CEO and Executive Management is responsible for other staff remuneration framework, policy and its execution. On several compensation-related matters such as grading and salary structure (including benchmarking), standard organization design framework (including job evaluation) advice of Korn Ferry, an external Consultant are sought in 2019 and Executive Management has vision to implement it.

The Bank's remuneration policy is equally applicable to all employees of the Bank including the CEO, Senior Management and all staff across functions.
Senior Management includes the CEO and his direct reports such as Chief Financial Officer, Head of Human Resources, Chief Risk Officer, Chief Compliance Officer, Head of Special Assets Officer, Head of Credit and Chief Internal Auditor.

CEO and Senior Management are responsible for oversight of the Bank's key business lines. Material Risk Takers are those categories of employees that have or may have a material impact on the Bank's risk profile. The classification of Material Risk Takers is based on several criteria such as the job role, approving authority on matters that may have a material impact on the Bank's risk profile and the responsibilities within the organization. These include but are not limited to:

- Staff, individually or as part of a committee, with authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels.
- Staff whose duties involve the assumption of risk or the taking on of exposures on behalf of the Bank.

The Bank's remuneration policy reflects the aspirations of its business strategy and growth plans. Some of the key features and objectives of the policy are:

- To align with the Bank strategy, risk appetite, objectives, corporate values, and long-term interests of the Bank while operating under clear and transparent governance through efficient corporate governance structure.
- To ensure Total Rewards remains competitive within the market by adopting best practices in the UAE in banking sectors while relating the pay to the job and recognizing differences in skill levels and job value.
- To link Total Rewards to individual performance by annually setting KPI and achievement of annual appraisals scores and appropriate to the goals of the company.
- To uphold the principles of equity, comply with all legal and regulatory requirements and maintain high standards of corporate governance.

HRC (BNCC) reviewed the firm's remuneration policy this year. A summary of changes is enumerated below.

1. Grading structure is revised from grades to broad bands.
2. National Allowance has been introduced for UAE National.
3. Promotion & Increment policy guidelines have been amended to enhance fairness in the process.
4. Air Ticket allowance payment is shifted to start of the year for the current service year.
5. Components of remuneration is revised to 65% basic from 60% basic and 35% consolidated allowance from 40% consolidated allowance.

The remuneration arrangements have been designed in a manner that is consistent with and promotes sound and effective risk management. The Bank has a robust performance management process and systems in place by which Employees can understand what is expected of them in their roles and how their performance relates to the success of the unit and the organization.

The performance metrics for the Corporate and Commercial Team is based on Balanced Scorecard and divided into five distinct perspectives and competencies metrics.

- Financial metrics that focus on key financial targets under one's control or influence and generally include total income, return on assets, net profit etc.
- Internal Business metrics that focus on contribution to overall growth of the business through execution of excellent business methods such as completion of KYC and internal governance.
- Customer metrics that focus on activities that deliver a high-quality service to both internal and external customers such as customer satisfaction rate, customer retention rate, new customer acquisition, market share, net promoter score, turnover time on customer complaints, average handling time of customer complaints etc.
- Innovation & Learning metrics that focus on adherence to on job learning and eagerness to learn with external training.
- Competencies metrics that focus on behavior, Customer Happiness, Execution Excellence, Problem Solving, Accountability, Multi-Tasking, Teamwork, Effective communication.

The performance metrics for the rest of the staff are broken into two distinct perspectives: OKR and competencies metrics.

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- OKR focuses on key targets and objective setting each year at the start of the year and measured bi-annually.
- Competencies metrics that focus on behavior, Customer Happiness, Execution Excellence, Problem Solving, Accountability, Multi-Tasking, Teamwork, Effective communication.

The total compensation offered to Employees includes only fixed compensation. Basic Salary and Fixed Allowances are the two major components of the Bank compensation. The fixed compensation is a non-discretionary payment made to Employee based on their job role and responsibilities and is independent of the Bank's performance.

The Bank's Performance Management System ensures there is a transparent and objective link between performance and rewards. At the end of each performance cycle, all employees are rated against a five-point rating scale based on the KPIs achieved by the employee. Employees who are rated 'Unsatisfactory' for the performance year under consideration are not eligible to receive a bonus.
Qualitative measures are in the form of non-sales parameters such as disciplinary action, complaints/errors, KYC completion etc. The Bank does not have a policy on deferral and variable remuneration.

12.2 REM1: Remuneration awarded during the financial year.

All numbers in AED 000s

			a	B
	Remuneration Amount		Senior Management	Other Material Risk-takers
1	Fixed Remuneration	Number of employees	15	-
2		Total fixed remuneration (3 + 5 + 7)	14,542	-
3		Of which: cash-based	14,138	-
4		Of which: deferred	-	-
5		Of which: shares or other share-linked instruments	-	-
6		Of which: deferred	-	-
7		Of which: other forms	403	-
8		Of which: deferred	-	-
9	Variable Remuneration	Number of employees	-	-
10		Total variable remuneration (11 + 13 + 15)	-	-
11		Of which: cash-based	-	-
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total Remuneration (2+10)**		**14,542**	**-**

12.3 REM2: Special payments

All numbers in AED 000s

Special Payments	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	-	-	-	-	3	114.8
Other material risk-takers	-	-	-	-	-	-

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