Al Khaliji France S.A. –
UAE operations

Basel III Pillar 3 Disclosures
For the year ended
31 December 2022

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1. Introduction and overview

Legal status and activities

Al Khaliji France S.A, UAE operations (the "Bank" or "AKF UAE") is a branch of a foreign French registered bank with its Head Office in Paris, France (the "Head Office"). It commenced its operations in the United Arab Emirates in 1973 as a retail bank and currently has two branches, one each in the Emirate of Dubai and Abu Dhabi.

Masraf Al Rayan and Al Khalij Commercial Bank, the latter being 100% shareholder of Al Khaliji France S.A Paris, have completed a merger on 1 December 2021.

The Bank's regional office in Dubai is responsible for managing the operations of the United Arab Emirates Branches. The regional office's registered address is P.O. Box 4207, Dubai, United Arab Emirates.

The principal activities of the Bank include accepting deposits, investments in bonds, granting loans and advances and providing other banking services to customers in the United Arab Emirates.

Purpose and basis of preparation

The Bank is regulated by the Central Bank of United Arab Emirates ("CBUAE") and follows the Pillar 3 disclosure requirement guidelines issued by the CBUAE.

In February 2017, new Basel III capital regulations issued by CBUAE came into effect for all Banks in the UAE.

This document presents Pillar 3 disclosures which complements the Basel III minimum capital requirements and the supervisory review process of the Bank. These disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (vide Notice No. CBUAE/BSD/N/2020/4980, Notice No. CBUAE/BSD/N/2021/5508, Notice No. CBUAE/BSD/N/2022/1887, Notice No. CBUAE/BSD/N/2022/5280) published in 12 November 2020, 30 November 2021, 09 May 2022 and 30 December 2022 respectively.

These disclosures are being done on the financial figures of AKF UAE operations only.

1. Introduction and overview *(continued)*

Applicability of Pillar 3 disclosure templates

Below is the list of the CBUAE prescribed Pillar 3 disclosure templates which are applicable for quarterly publication and comparison to the disclosure included in this document.

Topic	Table	Information overview	Status
Overview of risk management and RWA	KM1	Key metrics	Included
	OVA	Bank risk management approach	Included
	OV1	Overview of Risk Weighted Assets	Included
Linkages between financial statements and regulatory exposures	LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Included
Composition of Capital	CC1	Composition of regulatory capital	Included
	CC2	Reconciliation of regulatory capital to balance sheet	Included
	CCA	Main features of regulatory capital instruments	Not applicable
Macro-prudential Supervisory measures	CCyB1	Geographical distribution of credit exposures used in the countercyclical buffer	Not applicable
Leverage Ratio	LR2	Leverage ratio common disclosure template	Included
Liquidity	LIQA	Liquidity risk management	Included
	LIQ1	Liquidity Coverage Ratio	Not applicable
	LIQ2	Net Stable Funding Ratio	Not applicable
	ELAR	Eligible Liquid Assets Ratio	Included
	ASRR	Advances to Stable Resources Ratio	Included
Credit risk	CRA	General qualitative information about credit risk	Included
	CR1	Credit quality of assets	Included
	CR2	Changes in the stock of defaulted loans and debt securities	Included
	CRB	Additional disclosure related to credit quality of assets	Included
	CR4	Standardised approach - credit risk exposure and CRM effects	Included
	CR5	Standardised approach - exposures by asset classes and risk weights	Included
Market Risk	MRA	General qualitative disclosure requirements related to market risk	Included
	MR1	Market risk under the standardised approach	Included
Interest rate risk in the banking book (IRRBB)	IRRBBA	IRRBB risk management objectives and policies	Included
	IRRBB1	Quantitative information on IRRBB	Included
Operational Risk	OR1	Qualitative disclosures on operational risk	Included
Remuneration policy	REMA	Remuneration policy	Included
	REM1	Remuneration awarded during the financial year	Included

For not applicable status, related templates have not been disclosed as part of the disclosure report.

2. Overview of risk management and RWA

2.1 Key metrics (KM1)

An overview of the bank's prudential regulatory metrics.

Sn.	Description	(a) 31-Dec-22	(b) 30-Sep-22	(c) 30-Jun-22	(d) 31-Mar-22	(e) 31-Dec-21
		AED'000	AED'000	AED'000	AED'000	AED'000
	Available capital (amounts)					
1	**Common Equity Tier 1 (CET1)**	**501,370**	**546,170**	**545,788**	**545,993**	**545,635**
1a	Fully loaded ECL accounting model	501,370	546,170	545,788	545,993	545,635
2	**Tier 1**	**501,370**	**546,170**	**545,788**	**545,993**	**545,635**
2a	Fully loaded ECL accounting model Tier 1	501,370	546,170	545,788	545,993	545,635
3	**Total capital**	**508,287**	**553,285**	**552,879**	**553,244**	**552,381**
3a	Fully loaded ECL accounting model total capital	508,287	553,285	552,879	553,244	552,381
	Risk-weighted assets (amounts)					
4	**Total risk-weighted assets (RWA)**	**647,812**	**677,917**	**675,760**	**689,706**	**647,696**
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	77.39%	80.57%	80.77%	79.16%	84.24%
5a	Fully loaded ECL accounting model CET1 (%)	77.39%	80.57%	80.77%	79.16%	84.24%
6	**Tier 1 ratio (%)**	**77.39%**	**80.57%**	**80.77%**	**79.16%**	**84.24%**
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	77.39%	80.57%	80.77%	79.16%	84.24%
7	**Total capital ratio (%)**	**78.46%**	**81.62%**	**81.82%**	**80.21%**	**85.28%**
7a	Fully loaded ECL accounting model total capital ratio (%)	78.46%	81.62%	81.82%	80.21%	85.28%
	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%
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 (%)	67.96%	71.12%	71.32%	69.71%	74.78%

2. Overview of risk management and RWA

2.1 Key metrics (KM1) *(continued)*

An overview of the bank's prudential regulatory metrics.

Sn.	Description	(a) 31-Dec-22	(b) 30-Sep-22	(c) 30-Jun-22	(d) 31-Mar-22	(e) 31-Dec-21
		AED'000	AED'000	AED'000	AED'000	AED'000
	Leverage Ratio					
13	Total leverage ratio measure	1,449,110	1,502,947	1,542,010	1,555,742	1,509,131
14	**Leverage ratio (%) (row 2/row 13)**	**34.60%**	**36.34%**	**35.39%**	**35.10%**	**36.16%**
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	34.60%	36.34%	35.39%	35.10%	36.16%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	34.60%	36.34%	35.39%	35.10%	36.16%
	Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
	Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
	ELAR					
21	Total HQLA	510,703	644,846	689,545	681,734	714,817
22	Total liabilities	820,973	791,901	813,502	820,991	805,024
23	**Eligible Liquid Assets Ratio (ELAR) (%)**	**62.21%**	**81.43%**	**84.76%**	**83.04%**	**88.79%**
	ASRR					
24	Total available stable funding	1,128,309	1,228,144	1,254,551	1,255,367	1,228,802
25	Total Advances	421,400	394,707	431,496	450,651	420,838
26	**Advances to Stable Resources Ratio (%)**	**37.35%**	**32.14%**	**34.39%**	**35.90%**	**34.25%**

[1] LCR and NSFR are not applicable (NA) for the Bank as per CB UAE regulations, instead the Bank in replacement is disclosing ELAR & ASRR;

The capital ratio as of 31 Dec 22 is well-buffered and above the total capital required under ICAAP of 19.44%;

The Bank has started to report leverage ratio requirements from 31 Dec 21 and remains comfortably above the minimum 3%;

Liquidity ratios (ELAR and ASRR) remain well-buffered and trend comfortably against the minimum requirements of 10% and 100% respectively.

2. Overview of risk management and RWA

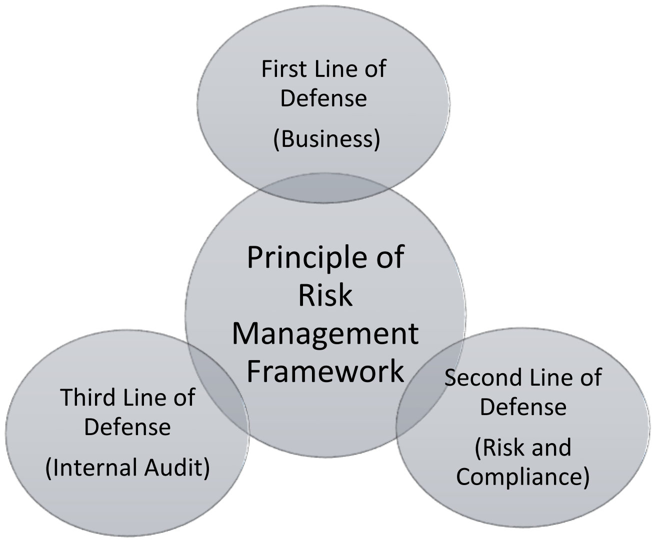
2.2 Bank risk management approach (OVA)

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Risk Governance Framework

Al Khaliji France risk governance framework includes set of policies approved by AKF Board, procedures, staff, and control systems through which AKF identifies, assesses, measures, monitors, and controls the risk across the UAE operations.

The Risk Management framework is based on the principle of **'Three lines of defense**".



The first line of defense consists of the business functions, which are accountable for the management and control of all risks at an operational level, and for implementing processes and controls in compliance with the approved delegation of authority, policies and procedures.

The second line of defense consists of the control functions, primary Risk Management and Compliance. These functions are responsible for ensuring that activities of the Bank are conducted with proper risk consideration, and within the Risk Management framework, tools and methodologies, as well as complying with applicable regulatory requirements. Regular monitoring and reporting to the Head Office and senior management committees are an integral part of these functions' remit.

The third line of defense is internal audit, which is responsible for independently evaluating the adequacy and effectiveness of key controls and assessing compliance with the approved policies and procedures.

The risk governance structure at Al Khaliji France consists of five layers:

Level 1: the Board of Directors

Level 2: General Manager and Deputy General Manager

2. Overview of risk management and RWA

2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Level 3: Senior Management Committees

Level 4: Risk Management

Level 5: Business Units

The Board of Al Khaliji France established specialized hybrid executive committee "AKF Credit and Investment Committee" that include members from the Board and the management of the Bank to consider and take decisions on credits and investments within its delegated authority.

In addition to above, The General Manager of Al Khaliji France has formed permanent management committees to assist him along with the Deputy General Manager to manage the Bank. These are as follows:

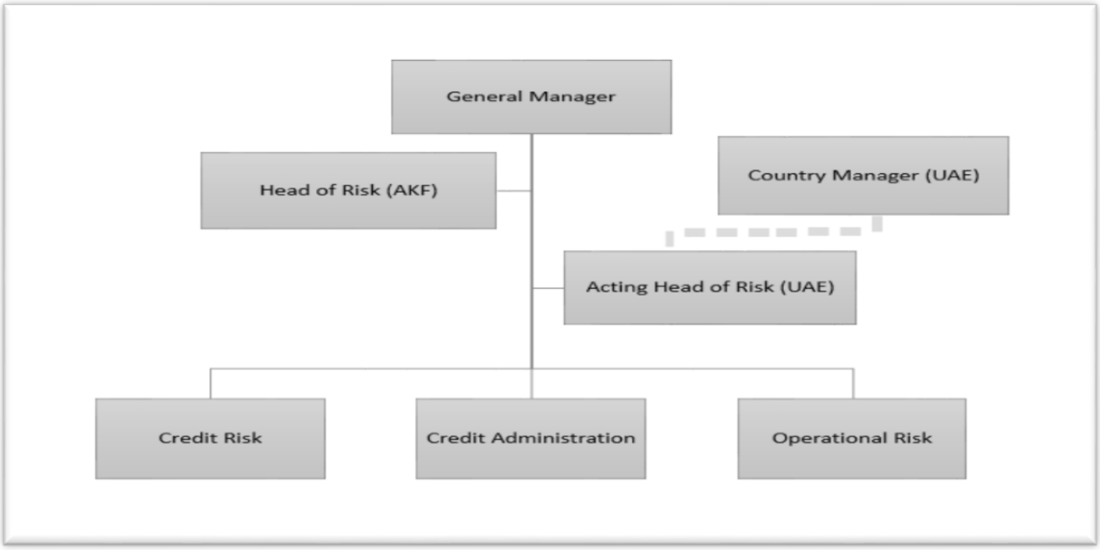
- Credit Committees with 3 tier levels
- AKF Management Committee (AKF MANCO)
- AKF Risk Committee (AKF RC)
- AKF Asset, Liability and Capital Committee (AKF ALCCO)

In addition to the above, a UAE Country Manger was appointed to assist the General Manager and the Deputy General Manager in the management of the UAE operations in the United Arab Emirates.

Risk Management

The main responsibilities of the Bank's Risk Management are to manage credit & counterparty risk, market & liquidity risk, IT & physical security risk, operational risk, business continuity, and fraud risk and to ensure compliance with risk-related regulations.

The organizational chart of the Risk Management Department at the Bank:



2. Overview of risk management and RWA
2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Risk Appetite:

The Group has articulated a Risk Appetite Statement stating the level and types of risk the Group is willing to accept, or avoid, in order to achieve its objectives. Therefore, Al Khaliji France in UAE engages in the activities which generate risks consistent with the Group Risk Appetite Statement.

Risk Identification:

The Bank endeavors to identify all material risks that may affect. Identification is a continuous and pro-active process. It covers all the current activities of the Bank.

Material Risks:

Al Khaliji France S.A. has identified the following risks as material to its business:

a. **Credit & Counterparty risk;**
b. **Market risk;**
c. **Operational risk;**
d. **Liquidity risk;**
e. **Compliance risk;**
f. **Credit Concentration risk;**
g. **Interest rate risk in banking book;**
h. **Reputational risk;**
i. **Strategy risk;**
j. **Anti-Money Laundry (AML) risk;**
k. **IT / Cyber risk;**
l. **Regulatory risk.**

a. Credit Risk & Counterparty Risk:

Credit risk is the risk of losses arising from the inability of the Bank's customers, and other counterparties to meet their financial commitments.

The credit risk management process involves identification, assessment, control, and decision-making in relation to the credit risk incurred in the bank activities. The Business and Risk are both involved in the process as well as the senior management.

The credit risk arising from all exposures is mitigated through ensuring the Bank only enters into relationships adhering to the Credit Risk Policy and targets clients with inherently acceptable risk profile and showing ability to repay the loan. For each loan, consideration is given to the credit rating of the counterparty, and the potential recovery in the event of default. Collaterals are sought to reduce the risk of loss in the event of default but does not constitute the only condition for taking the risk.

As part of its responsibilities for second line of defense, the Risk department provides regular monitoring to ensure that all exposures are in line with the Group's risk appetite and regulatory limits. This includes monitoring of portfolio characteristics such as portfolio risk ratings, tenor, country risks, currency, and

2. Overview of risk management and RWA

2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Industry concentration which are examined by the Bank's Risk Committee and reported to Group Risk on a monthly basis. Non-performing exposures are monitored on an ongoing basis, and these, along with the

NPL ratios and liquidity coverage ratio for Al Khaliji France S.A. are reported to the AKF Risk Committee and to the Group.

The risk report presented to the AKF Board at least twice a year provides additional information related to regulatory large exposures and to forborne exposures.

The Bank has risk appetite for wholesale banking activities and retail banking activities targeting mainly HNWI (High Net-worth Individuals). Al Khaliji France S.A. seeks to diversify risk by controlling individual and sector concentration risk and to maintain an exposure to country risks that reflects the Group strategic selections in terms of its foreign operations.

b. Market Risk:

Market Risk is the risk of losses arising from movement in market-based prices. The Bank assesses the market risk exposure and sets aside capital charge using the standardized measurement method as prescribed under the capital adequacy guidelines by CBUAE;

Al Khaliji France, UAE has limited exposure to market risk.

Finance department performs regular stress tests of the Bank's positions subject to interest rate and FX (Foreign Exchange) risk and reports the results to AKF ALCCO (AKF Asset, Liability and Capital Committee).

The Bank's exposure to market risk is managed and monitored based on recommendations made by AKF ALCCO, and in line with the Group Market Risk appetite and policy.

c. Operational Risk:

Operational Risk is the risk of losses from inadequate or failed internal processes, people and systems or from external events which include but not limited to legal and information technology risk.

The Bank assesses the operational risk exposure and sets aside capital charge using the Basic Indicator Approach (BIA), as prescribed under the capital adequacy guidelines by CBUAE.

The Bank's Operational Risk is independently reviewed and assessed by Operational Risk Management under Risk Management Department.

The main sources of Operational Risk in the Bank are:

- People: (including insufficient staff, inaccuracy/delay in performance; also related with training quality, willful circumvention of regulation and responsibility);
- System (including failure, system limitations, bugs etc.);
- Workplace safety conditions (including electric cabling/building, etc.);
- External (Vendors/ Cards Fraud /Phishing/Skimming etc.).

2. Overview of risk management and RWA

2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Risk Department uses an operational risk management tool (Risk Nucleus) which is intranet-based enabling the Bank to manage the monitoring and reporting of operational incidents.

Fraud Risk Management:

The primary responsibility of the bank's management is to reduce the risk of fraud and misconduct occurring within the Bank which cover four principal elements: internal fraud, external fraud, documentary fraud and card fraud. The Group is responsible to facilitate fraud awareness through online training, Group Fraud risk management policies and procedures. The Bank's internal control system must be capable of preventing acts of major frauds.

Business Continuity Management (BCM):

BCM supports the Bank in the event of an emergency or business disruption and provides plans to recover key operations.

The critical systems used by the Bank are covered by a Disaster Recovery Plans, which consists of procedures to undertake recovery of critical information and communication technology systems.

In the event of disaster, the Bank operationally move critical staff to alternate site to recover and support the continuity of the main business processes.

The Bank has defined "BCM Champions" to perform rigorous test and exercise on annual basis to ensure seamless execution of the BCM plans and procedures.

d. Liquidity Risk:

Liquidity risk arises due to mismatch in the asset-liability maturity.

The cost of liquidity risk is in terms of either raising fresh liabilities at higher costs or liquidating assets with greater hair-cuts.

The Bank aims at maintaining an appropriate level of liquidity, allowing it to meet payment obligations and support its operations during periods of market disruption where funding becomes inaccessible.

AKF ALCCO is responsible for liquidity management and is monitoring the liquidity cash flows from all major currencies in which the Bank has assets and liabilities.

While the Bank understands that cash flows and not capital are the true mitigants for liquidity risk, quality capital and ability to generate liquidity from unencumbered assets (capital) is an important safeguard against liquidity risk.

2. Overview of risk management and RWA

2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

Being branch of a French entity and fully owned subsidiary, the Bank is backed by its head office and the Group to provide adequate liquidity cushion in case of a stressed situation.

The GALCCO is responsible of providing guidance and support to the AKF ALCCO who is responsible of managing the Bank’s liquidity needs in line with the Group Liquidity policy.

The Bank sets aside capital charge for liquidity risk under Pillar 2 based on the asset liability maturity mismatch profile analysis. The Bank computes the cumulative gap (assets minus liabilities) for each time bucket up to and including that bucket. The capital set aside for liquidity risk is estimated as 2% of the largest negative cumulative gap observed in the asset liability maturity mismatch profile.

e. **Compliance Risk:**

Compliance risk management is the process of identifying, assessing and mitigating potential losses that may arise due to non-compliance with laws, regulations, standards and both internal and external policies and procedures.

Management practices are intended to maintain compliance with various regulations and laws.

Compliance Risk Management is a continuous process that involves tracking changes in the regulatory environment to ensure an organization's compliance is up to date.

f. **Credit Concentration risk:**

Credit Concentration Risk represents the risk arising from an uneven distribution of counterparties in loans portfolio or any other business relationship or from concentration in business sectors or geographical regions;

For each single name/ group of borrowers and economic/business sector, the Bank sets aside capital charge and monitor limits based on a certain percentage from its loan portfolio.

g. **Interest rate risk in banking book:**

Interest rate risk in the banking book (IRRBB) refers to the risk of changes in market prices of assets and liabilities in the banking book due to changes in the interest rate term structure. Banks have a significant portion of their assets and liabilities portfolio not marked and carried on the books at their historical prices. The economic value of such assets and liabilities is generally not ascertained on a regular basis and can be a significant source of risk if the asset or liability is not held till maturity.

2. Overview of risk management and RWA

2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

The Bank is exposed to Interest rate risk as a result of mismatches in the re-pricing profile of various assets and liabilities of the Bank. The mismatch in the re-pricing profile is measured by computing the Rate Sensitive Assets (RSA) and the Rate Sensitive Liabilities (RSL) of the Bank.

The Bank estimates the capital charge by assessing the IRRBB associated with its business activities via scenario analysis that will measure the impact on market value of assets/liabilities as a result of a shift in the market reference rate. The Bank uses the method indicated in the BCBS (4) paper to compute the impact of interest rate shock on the economic value of equity (EVE).

h. <u>Reputational risk:</u>

Reputational Risk refers to the potential adverse effects that can arise from the Bank's reputation being adversely impacted due to factors such as unethical practices, regulatory actions, customer dissatisfaction and complaints, etc.

Reputational risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the Senior and Middle Management regarding current factors and past events impacting the reputation and potential scenarios and their impact on reputation. Capital charge for reputational risk can be modeled as a loss in the value of Market capitalization of the Bank after some reputation risk event has taken place. Such a proxy for reputation risk is still not a widely used approach.

i. <u>Strategy risk:</u>

Strategy risk refers to the risk of adverse impact on a Bank's earnings, Capital, Reputation or standing arising from changes in the environment the Bank operates in or from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to Industry standards developed for measuring it.

The Bank has used a scorecard approach for assessing the Strategy risk and sets aside capital charge.

j. <u>Anti-Money Laundry (AML) risk:</u>

An AML risk assessment helps identifying Bank's inherent risk and assesses the effectiveness of its preventative and detective controls.

AML risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the relevant unit regarding AML risk governance, document methodology and their impact on Bank's capital.

2. Overview of risk management and RWA
2.2 Bank risk management approach (OVA) *(continued)*

Description of the bank's strategy and how senior management and the board of directors assess and manage risks, enabling users to gain a clear understanding of the bank's risk tolerance/appetite in relation to its main activities and all significant risks.

k. IT/Cyber risk:

IT or Cyber risk represents a threat to business data, critical systems and business processes. It is the risk associated with the use, ownership, operation, involvement, influence and adoption of IT within an organization. IT risks have the potential to damage business value and often come from poor management of processes and events.

IT/Cyber risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the relevant unit regarding IT/Cyber risk governance, document methodology and their impact on Bank's capital.

l. Regulatory risk:

Regulatory risk is associated with a change in laws and regulations which materially may impact a Bank's Business, products offered or collateral/ securities held.

Regulatory risk has been assessed by the Bank using a scorecard approach and sets aside capital charge. The score was computed based on the response of the relevant unit regarding Regulatory risk governance, document methodology and their impact on Bank's capital.

Key Sensitivities and future Scenarios

The stress testing framework is in line with the size, nature & profile of the Bank. The framework that has been used for stressing the capital adequacy is based on guidelines provided by regulators across the globe. Since the Bank is small in size with limited data, the models that have been chosen for stress testing have been scaled down in complexity to suit the current needs.

The stress testing framework consists of scenario analysis and sensitivity analysis that are carried out for the major risks faced by the Banks, Viz. credit risk, credit concentration risk, operational risk, liquidity risk and interest rate risk.

The Bank faces minimal market risk and thus does not carry out any stress testing for market risk. The table below provides a summary of the stress testing scenarios applied by the Bank:

Stress tests at the Bank

Risk category	Scenario applied
Credit risk	▪ Significant conversion of contingent exposures (unfunded credit facilities) into direct exposure (funded facilities) ▪ Impact of ORR downgrade of the entire portfolio
Credit concentration risk	Default by any 3 out of top 10 key borrowers at the Bank with risk weight greater than 0%
Liquidity risk	Severe liquidity crunch leading to "bank run" situation for seven days after which management action takes place
Operational risk	Increase in operational losses at the Bank for three consecutive years.
Interest rate risk	Impact of shift in interest rates of 200 bps on rate sensitive assets and liabilities & the six interest rate shock scenarios for the Pillar 2 capital framework for IRRBB:(i) parallel shock up; (ii) parallel shock down; (iii) steepener shock (short rates down and long rates up); (iv) flattener shock (short rates up and long rates down); (v) short rates shock up; and (vi) short rates shock down.

2.3 Overview of Risk Weighted Assets (OV1)

Provide an overview of total RWA forming the denominator of the risk-based capital requirements. Further breakdowns of RWA are presented in subsequent parts.

Sn.	Description	(a) RWA	(b) RWA	(c) Minimum capital requirements
		31-Dec-22	31-Dec-21	31-Dec-22
		AED'000	AED'000	AED'000
1	Credit risk (excluding counterparty credit risk)	553,394	539,715	58,106
2	Of which: standardised approach (SA)	**553,394**	539,715	**58,106**
3				
4				
5				
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
8				
9				
10				
11				
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	3,640	176	382
21	Of which: standardised approach (SA)	**3,640**	176	**382**
22				
23	Operational risk	**90,778**	107,805	**9,532**
24				
25				
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**647,812**	647,696	**68,021**

The Credit Risk weighted assets (CRWA) remains very low compared to the existing CET1 of the Bank which gives an ample potential growth in total assets;

Market Risk Weighted assets (MRWA) increased due to change in CBUAE instructions in relation to GCC currencies releasing their pegging to US dollars and apply the same conditions as other currencies in calculating the FX open position;

Operational Risk Weighted Assets (ORWA) continue to be a function of annual revenue as per Standardized Approach, dropped this year due to the drop in the last 3 years average revenue.

3. Linkages between financial statements and regulatory exposures

3.1 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (LI2)

Provide information on the main sources of differences (other than due to different scopes of consolidation which are shown in LI1) between the financial statements' carrying value amounts and the exposure amounts used for regulatory purposes.

AED'000

		a	b	c	d	e
Sn.	**Description**	**Total**	**Items subject to:**			
	31-Dec-22		**Credit risk framework**	**Securitisation framework**	**Counterparty credit risk framework**	**Market risk framework**
1	**Asset carrying value amount under scope of regulatory consolidation**	**1,375,656**	**1,375,656**	**-**	**-**	**-**
2	Liabilities carrying value amount under regulatory scope of consolidation	(822,806)	(148,083)	-	-	-
3	**Total net amount under regulatory scope of consolidation**	**552,850**	**1,227,573**	**-**	**-**	**-**
4	Off-balance sheet amounts	220,079	82,205	-	-	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
9	**Exposure amounts considered for regulatory purposes**	**772,929**	**1,309,778**	**-**	**-**	**-**

AED'000

		a	b	c	d	e
Sn.	Description	Total	Items subject to:			
	31-Dec-21		Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	Asset carrying value amount under scope of regulatory consolidation	1,355,586	1,248,771	-	106,815	-
2	Liabilities carrying value amount under regulatory scope of consolidation	(809,434)	(161,621)	-	-	-
3	Total net amount under regulatory scope of consolidation	545,152	1,087,150	-	106,815	-
4	Off-balance sheet amounts	262,804	92,590	-	-	-
5	*Differences in valuations*	-	-	-	-	-
6	*Differences due to different netting rules, other than those already included in row 2*	-	-	-	-	-
7	*Differences due to consideration of provisions*	-	-	-	-	-
8	*Differences due to prudential filters*	-	-	-	-	-
9	Exposure amounts considered for regulatory purposes	808,956	1,179,740	-	106,815	-

4. Composition of Capital

Provide a description of the main features of the bank's regulatory capital instruments

Capital management

The Bank's lead regulator, Central Bank of U.A.E., sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern and to increase returns for shareholders; and
- To comply with regulatory capital requirements set by the Central Bank of U.A.E.

In implementing current capital requirements, the Bank calculates its capital adequacy ratio in accordance with the guidelines issued by the Central Bank of U.A.E. that essentially prescribe that this is a ratio of capital to risk weighted assets.

Regulatory capital

The Central Bank of U.A.E. sets and monitors capital requirements for the Bank as a whole.

Effective from 2018, the capital is computed using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the Central Bank of U.A.E., within national discretion. The Basel III framework, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

Total regulatory capital will consist of the sum of the following items:

1. Tier 1 capital, composed of:
   a. Common Equity Tier 1 ("CET1"):
      i. Common shares issued by a bank which are eligible for inclusion in CET1 (or the equivalent for non-joint stock companies);
      ii. Share premium resulting from the issue of instruments included in CET1;
      iii. Retained earnings;
      iv. Legal reserves;
      v. Statutory reserves;
      vi. Accumulated other comprehensive income and other disclosed reserves;
      vii. Regulatory adjustments applied in the calculation of CET1 such as the deduction of goodwill, intangibles and deferred tax assets, etc.

   b. Additional Tier 1 ("AT1"):
      i. Instruments issued by a bank which are eligible for inclusion in AT1 and are not included in CET1 (e.g. perpetual equity instruments, not included in CET1);
      ii. Stock surplus, or share premium, resulting from the issue of instruments included in AT1;
      iii. Instruments issued by consolidated subsidiaries of the bank and held by third parties which are eligible for inclusion in AT1 and are not included in CET1;
      iv. iv. Regulatory adjustments applied in the calculation of AT1.

4. Composition of Capital *(continued)*

Provide a description of the main features of the bank's regulatory capital instruments

2. Tier 2 capital, composed of:
    i. Banks using the standardized approach for credit risk: general provisions or general loan loss reserves, up to maximum of 1.25% of credit RWA;
    ii. Instruments issued by the bank that meet the criteria for inclusion in Tier 2 capital, and are not included in Tier 1 capital;
    iii. Share premium resulting from the issue of instruments included in Tier 2 capital;
    iv. Instruments which are eligible for inclusion of Tier 2 where the treatment of instruments issued out of consolidated subsidiaries of the bank and the regulatory deductions applied in the calculation of Tier 2 capital are addressed in the Tier Capital Instrument Standard;
    v. Instruments issued by consolidated subsidiaries of the bank and held by third parties that meet the criteria for inclusion in Tier 2 capital, and are not included in Tier 1 capital;
    vi. Regulatory adjustments applied in the calculation of Tier 2.

4. Composition of Capital

4.1 Composition of Regulatory Capital (CC1)

This provides a breakdown of the constituent elements of the bank's capital.

Sn.	Description	(a) 31-Dec-22 AED'000	(b) 31-Dec-21 AED'000	(c) CC2 Reference
	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	375,000	375,000	Same as (h) from CC2 template
2.	Retained earnings	68,684	113,896	
3.	Accumulated other comprehensive income (and other reserves)	58,013	57,294	
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**	**501,697**	546,190	
	Common Equity Tier 1 capital regulatory adjustments			
7.	Prudent valuation adjustments	-	-	
8.	Goodwill (net of related tax liability)	-	-	CC2 (a) minus (d)
9.	Other intangibles including mortgage servicing rights (net of related tax liability)	(327)	(555)	CC2 (b) minus (e)
10.	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-	-	
11.	Cash flow hedge reserve	-	-	
12.	Securitisation gain on sale	-	-	
13.	Gains and losses due to changes in own credit risk on fair valued liabilities	-	-	
14.	Defined benefit pension fund net assets	-	-	
15.	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	-	
16.	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	-	
17.	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	-	
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	-	-	

4. Composition of Capital

4.1 Composition of Regulatory Capital (CC1) *(continued)*

This provides a breakdown of the constituent elements of the bank's capital.

Sn.	Description	(a) 31-Dec-22 AED'000	(b) 31-Dec-21 AED'000	(c) CC2 Reference
22.	Of which: deferred tax assets arising from temporary differences	-	-	
23.	CBUAE specific regulatory adjustments	-	-	
24.	**Total regulatory adjustments to Common Equity Tier 1**	**(327)**	(555)	
25.	**Common Equity Tier 1 capital (CET1)**	**501,370**	545,635	
	Additional Tier 1 capital: instruments			
26.	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	-	-	CC2 (i)
27.	OF which: classified as equity under applicable accounting standards	-	-	
28.	Of which: classified as liabilities under applicable accounting standards	-	-	
29.	Directly issued capital instruments subject to phase-out from additional Tier 1	-	-	
30.	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-	-	
31.	Of which: instruments issued by subsidiaries subject to phase-out	-	-	
32.	Additional Tier 1 capital before regulatory adjustments	-	-	
	Additional Tier 1 capital: regulatory adjustments			
33.	Investments in own additional Tier 1 instruments	-	-	
34.	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	
35.	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-	-	
36.	CBUAE specific regulatory adjustments	-	-	
37.	Total regulatory adjustments to additional Tier 1 capital	-	-	
38.	Additional Tier 1 capital (AT1)	-	-	
39.	**Tier 1 capital (T1= CET1 + AT1)**	**501,370**	545,635	
	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)*	-	-	

4. Composition of Capital

4.1 Composition of Regulatory Capital (CC1) *(continued)*

This provides a breakdown of the constituent elements of the bank's capital.

Sn.	Description	(a) 31-Dec-22 AED'000	(b) 31-Dec-21 AED'000	(c) CC2 Reference
43.	*Of which: instruments issued by subsidiaries subject to phase-out*	-	-	
44.	Provisions	6,917	6,746	
45.	**Tier 2 capital before regulatory adjustments**	**6,917**	6,746	
	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)**	**6,917**	6,746	
52.	**Total regulatory capital (TC = T1 + T2)**	**508,287**	552,381	
53.	**Total risk-weighted assets**	**647,812**	647,696	
	Capital ratios and buffers			
54.	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**77.39%**	84.24%	
55.	**Tier 1 (as a percentage of risk-weighted assets)**	**77.39%**	84.24%	
56.	**Total capital (as a percentage of risk-weighted assets)**	**78.46%**	85.28%	
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)**	**2.50%**	2.50%	
58.	*Of which: capital conservation buffer requirement*	*2.50%*	*2.50%*	
59.	*Of which: bank-specific countercyclical buffer requirement*	*0.00%*	*0.00%*	
60.	*Of which: higher loss absorbency requirement (e.g. DSIB)*	*0.00%*	*0.00%*	
61.	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	**67.96%**	74.78%	
62.	Common Equity Tier 1 minimum ratio	7.00%	7.00%	
63.	Tier 1 minimum ratio	8.50%	8.50%	
64.	Total capital minimum ratio	10.50%	10.50%	

4. Composition of Capital

4.1 Composition of Regulatory Capital (CC1) *(continued)*

This provides a breakdown of the constituent elements of the bank's capital.

Sn.	Description	(a) 31-Dec-22 AED'000	(b) 31-Dec-21 AED'000	(c) CC2 Reference
	Amounts below the thresholds for deduction (before risk weighting)			
65.	Non-significant investments in the capital and other TLAC liabilities of other financial entities	-	-	
66.	Significant investments in common stock of financial entities	-	-	
67.	Mortgage servicing rights (net of related tax liability)			
68.	Deferred tax assets arising from temporary differences (net of related tax liability)	-	-	
	Applicable caps on the inclusion of provisions in Tier 2			
69.	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	20,273	21,481	
70.	Cap on inclusion of provisions in Tier 2 under standardised approach	6,917	6,746	
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)*	-	-	
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)*	-	-	

4. Composition of Capital

4.2 Reconciliation of Regulatory Capital to Balance Sheet (CC2)

This table enables users to identify the differences between the scope of accounting and regulatory consolidation, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1.

Description	(a) Balance sheet as in published financial statements	(b) Under regulatory scope of consolidation	(c) Reference
	31-Dec-22	31-Dec-22	
	AED'000	AED'000	
Assets			
Cash and balances at central banks	510,703	504,679	
Items in the course of collection from other banks	-	-	
Trading portfolio assets	-	-	
Financial assets designated at fair value	54,320	54,478	
Derivative financial instruments	-	-	
Loans and advances to banks	373,717	377,923	
Loans and advances to customers	299,552	349,574	*Note 1*
Reverse repurchase agreements and other similar secured lending	-	-	
Available for sale financial investments (Includes FVOCI)	70,757	70,757	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	13,841	16,076	*Note 2*
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	327	-	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	327	-	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	2,169	2,169	
Total assets	**1,325,386**	**1,375,656**	
Liabilities			
Deposits from banks	82,313	82,313	
Items in the course of collection due to other banks	-	-	
Customer accounts	710,632	710,632	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	-	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	20,491	16,702	*Note 1*
Current and deferred tax liabilities	-	-	
Of which: DTLs related to goodwill	-	-	(d)
Of which: DTLs related to intangible assets (excluding MSRs)	-	-	(e)
Of which: DTLs related to MSRs	-	-	(f)
Subordinated liabilities	-	-	
Provisions	1,834	56,220	*Note 1*
Retirement benefit liabilities	7,536	7,536	
Total liabilities	**822,806**	**873,403**	

4. Composition of Capital

4.2 Reconciliation of Regulatory Capital to Balance Sheet (CC2) *(continued)*

This table enables users to identify the differences between the scope of accounting and regulatory consolidation, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1.

Description	(a) Balance sheet as in published financial statements	(b) Under regulatory scope of consolidation	(c) Reference
	31-Dec-22	31-Dec-22	
	AED'000	AED'000	
Shareholders' equity			
Paid-in share capital	375,000	375,000	
Of which: amount eligible for CET1	375,000	375,000	(h)
Of which: amount eligible for AT1	-	-	(i)
Retained earnings	66,663	68,684	
Accumulated other comprehensive income (and other reserves)	60,917	58,013	
Total shareholders' equity	**502,580**	**501,697**	

Notes:

1. *Difference in balances under regulatory scope for financial assets designated at fair value, Loans and advances to banks/customers and available for sale financial investments are gross of provisions (specific and general);*
2. *Difference in balances consists of cash in hand balances added to other assets under regulatory scope;*
3. *Difference in balances consists of Total retained earnings and accumulated other comprehensive income is the 10% allocated legal reserves from 2022 year-end profit under regulatory scope.*

4. Composition of Capital

4.2 Reconciliation of Regulatory Capital to Balance Sheet (CC2) *(continued)*

This table enables users to identify the differences between the scope of accounting and regulatory consolidation, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1.

Description	(a) Balance sheet as in published financial statements	(b) Under regulatory scope of consolidation	(c) Reference
	31-Dec-21	31-Dec-21	
	AED'000	AED'000	
Assets			
Cash and balances at central banks	714,817	706,697	
Items in the course of collection from other banks	-	-	
Trading portfolio assets	-	-	
Financial assets designated at fair value	90,797	93,128	
Derivative financial instruments	-	-	
Loans and advances to banks	115,416	115,649	
Loans and advances to customers	349,201	403,456	*Note 1*
Reverse repurchase agreements and other similar secured lending	-	-	
Available for sale financial investments (Includes FVOCI)	76,511	76,511	
Current and deferred tax assets	-	-	
Prepayments, accrued income and other assets	6,890	13,218	*Note 2*
Investments in associates and joint ventures	-	-	
Goodwill and other intangible assets	555	-	
Of which: goodwill	-	-	(a)
Of which: intangibles (excluding MSRs)	555	-	(b)
Of which: MSRs	-	-	(c)
Property, plant and equipment	1,954	1,954	
Total assets	1,356,141	1,410,613	
Liabilities			
Deposits from banks	7,092	7,092	
Items in the course of collection due to other banks	-	-	
Customer accounts	775,662	775,662	
Repurchase agreements and other similar secured borrowing	-	-	
Trading portfolio liabilities	-	-	
Financial liabilities designated at fair value	-	-	
Derivative financial instruments	-	-	
Debt securities in issue	-	-	
Accruals, deferred income and other liabilities	19,428	15,018	*Note 1*
Current and deferred tax liabilities	-	-	
Of which: DTLs related to goodwill	-	-	(d)
Of which: DTLs related to intangible assets (excluding MSRs)	-	-	(e)
Of which: DTLs related to MSRs	-	-	(f)
Subordinated liabilities	-	-	
Provisions	-	61,230	*Note 1*
Retirement benefit liabilities	7,252	7,252	
Total liabilities	809,434	866,254	

4. Composition of Capital

4.2 Reconciliation of Regulatory Capital to Balance Sheet (CC2) *(continued)*

This table enables users to identify the differences between the scope of accounting and regulatory consolidation, and to show the link between the bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template set out in Template CC1.

Description	(a) Balance sheet as in published financial statements	(b) Under regulatory scope of consolidation	(c) Reference
	31-Dec-21	31-Dec-21	
	AED'000	AED'000	
Shareholders' equity			
Paid-in share capital	375,000	375,000	
Of which: amount eligible for CET1	375,000	375,000	(h)
Of which: amount eligible for AT1	-	-	(i)
Retained earnings	113,478	113,896	
Accumulated other comprehensive income (and other reserves)	58,229	57,294	
Total shareholders' equity	546,707	546,190	

Notes:

1. *Difference in balances under regulatory scope for financial assets designated at fair value, Loans and advances to banks/customers and available for sale financial investments are gross of provisions (specific and general);*
2. *Difference in balances consists of cash in hand balances added to other assets under regulatory scope;*
3. *Difference in balances consists of Total retained earnings and accumulated other comprehensive income is the 10% allocated legal reserves from 2022 year-end profit under regulatory scope.*

5. Leverage Ratio (LR2)

To provide a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

Sn.	Description	(a) 31-Dec-22	(b) 31-Dec-21
	On-balance sheet exposures	**AED'000**	AED'000
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	1,319,764	1,349,939
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)	(327)	(555)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**1,319,437**	1,349,384
	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	829	1,450
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)**	**829**	1,450
	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	219,250	259,498
20	(Adjustments for conversion to credit equivalent amounts)	(90,406)	(101,201)
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)**	**128,844**	158,297
	Capital and total exposures		
23	**Tier 1 capital**	**501,370**	545,635
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**1,449,110**	1,509,131
	Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	**34.60%**	36.16%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	34.60%	36.16%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable leverage buffers**	**0.00%**	0.00%

6. Liquidity (LIQA)

Enable users of Pillar 3 data to make an informed judgment about the soundness of a bank's liquidity risk management framework and liquidity position.

Overview and Governance

Liquidity risk arises due to mismatch in the asset-liability maturity. The cost of liquidity risk is in terms of either raising fresh liabilities at higher costs or liquidating assets with greater hair-cuts.

The Bank maintains and manages its local liquidity requirements according to its business needs within the overall Group Liquidity Risk Framework that includes a Group Liquidity Risk Policy. The Bank monitors a number of key risk indicators to help in the anticipation of liquidity stress and has in place contingency funding plans consisting of actions that management can rely upon should liquidity level fall below minimum liquidity requirement.

Liquidity is monitored by AKF Management and by AKF ALCCO to ensure the Bank has liquidity to cover its liquidity requirements, with an appropriate buffer in line with its risk appetite. Head of Finance (AKF) is responsible for regular reporting analyses and recommendations to AKF ALCCO. These cover the maturity profile of all assets and liabilities by currency, in addition to conducting stress tests based on internal and regulatory requirements to complement regular liquidity analysis and provide insight into the potential impact of adverse scenarios.

Management

The GALCCO is responsible of providing guidance and support to the AKF ALCCO who is responsible of managing the Bank's liquidity needs in line with the Group Liquidity policy.

The Bank sets aside capital for liquidity risk under Pillar 2 based on the asset liability maturity mismatch profile analysis. The Bank computes the cumulative gap (assets minus liabilities) for each time bucket up to and including that bucket. The capital set aside for liquidity risk is estimated as 2% of the largest negative cumulative gap observed in the asset liability maturity mismatch profile.

Stress Testing

Given the liquidity related stress in the current market conditions, the Bank considered a hypothetical stress situation in which severe cash outflows were considered and liquid sources to meet the liquid liabilities were identified. The liquidity stress testing covered the scenario similar to "bank run". In this stress scenario, the Bank considers a bank run lasting for seven days after which the Bank expects management action to remedy the situation. The Bank exercises zero tolerance in funding position for the duration of the stress.

In addition a contingency plan agreed upon within AKF Assets and Liability Capital Committee and under the guidance of the Group, is the back-up of the head office and Group liquidity to create additional liquidity, bridging the gap pending the inflow of additional deposits.

Note:
LCR and NSFR are not applicable (NA) for the Bank as per CB UAE regulations, instead the Bank in replacement is disclosing ELAR & ASRR;

6. Liquidity (LIQA) *(continued)*

Enable users of Pillar 3 data to make an informed judgment about the soundness of a bank's liquidity risk management framework and liquidity position.

The following table summarizes the maturity profile of the Banks' assets and liabilities based on contractual repayment arrangements.

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2022				
Assets				
Cash and balances with the Central Bank of the U.A.E.	**471,123**	**-**	**39,580**	**510,703**
Due from related parties	**134,673**	**-**	**-**	**134,673**
Deposit and balance due from banks and financial institutions	**131,271**	**53,328**	**54,445**	**239,044**
Investments securities	**-**	**-**	**125,077**	**125,077**
Loans and advances to customers	**93,975**	**10,947**	**194,630**	**299,552**
Other assets	**11,044**	**444**	**2,353**	**13,841**
Property and equipment	**-**	**-**	**2,169**	**2,169**
Intangibles	**-**	**-**	**327**	**327**
Total assets	**842,086**	**64,719**	**418,581**	**1,325,386**
Liabilities and equity				
Due to banks and financial institutions	**1,552**	**-**	**-**	**1,552**
Customer deposits	**668,366**	**42,266**	**-**	**710,632**
Due to related parties	**80,761**	**-**	**-**	**80,761**
Other liabilities	**21,988**	**213**	**7,660**	**29,861**
Equity	**-**	**-**	**502,580**	**502,580**
Total liabilities and equity	**772,667**	**42,479**	**510,240**	**1,325,386**

The following table summarizes the maturity profile of the Banks' off-balance sheet items based on contractual repayment arrangements.

	Within 3 months AED'000	*From 3 to 6 months AED'000*	*From 6 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
2022					
Off-balance sheet items					
Guarantees and letters of credit	159,160	28,150	21,115	7,037	**215,462**

6. Liquidity (LIQA) *(continued)*

Enable users of Pillar 3 data to make an informed judgment about the soundness of a bank's liquidity risk management framework and liquidity position.

	Less than 3 months AED'000	*3 months to 1 year AED'000*	*Over 1 year AED'000*	*Total AED'000*
2021				
Assets				
Cash and balances with the Central Bank of the U.A.E.	680,475	-	34,342	714,817
Due from related parties	42,190	-	-	42,190
Deposit and balance due from banks and financial institutions	18,138	55,088	-	73,226
Investments securities	18,090	18,358	130,860	167,308
Loans and advances to customers	72,661	19,065	257,475	349,201
Other assets	4,978	551	1,361	6,890
Property and equipment	-	-	1,954	1,954
Intangibles	-	-	555	555
Total assets	836,532	93,062	426,547	1,356,141
Liabilities and equity				
Due to banks and financial institutions	1,207	-	-	1,207
Customer deposits	720,143	55,519	-	775,662
Due to related parties	5,885	-	-	5,885
Other liabilities	14,698	248	11,734	26,680
Equity	-	-	546,707	546,707
Total liabilities and equity	741,933	55,767	558,441	1,356,141

The following table summarizes the maturity profile of the Banks' off-balance sheet items based on contractual repayment arrangements.

	Within 3 months AED'000	*From 3 to 6 months AED'000*	*From 6 to 12 months AED'000*	*Over 1 year AED'000*	*Total AED'000*
2021					
Off-balance sheet items					
Guarantees and letters of credit	203,647	17,009	27,721	9,328	257,705

6. Liquidity

6.1 Eligible Liquid Assets Ratio (ELAR)

Breakdown of bank's available high-quality liquid assets (HQLA) according to the CBUAE Liquidity Regulations.

Sn.	Description	31-Dec-22	31-Dec-22	31-Dec-21	31-Dec-21
1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**	Nominal amount	Eligible Liquid Asset
		AED'000	**AED'000**	AED'000	AED'000
1.1	Physical cash in hand at the bank + balances with the CBUAE	510,703		714,817	
1.2	UAE Federal Government Bonds and Sukuks	-		-	
	Sub Total (1.1 to 1.2)	510,703	510,703	714,817	714,817
1.3	UAE local governments publicly traded debt securities	-		-	
1.4	UAE Public sector publicly traded debt securities	-		-	
	Subtotal (1.3 to 1.4)	-	-	-	-
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-	-	-
1.6	**Total**	**510,703**	**510,703**	714,817	714,817
2	Total liabilities		820,973		805,024
3	**Eligible Liquid Assets Ratio (ELAR)**		**62.21%**		88.79%

ELAR of the Bank continues to operate at levels comfortably above the 10% minimum requirement as currently prescribed by the CBUAE.

6. Liquidity

6.2 Advances to Stable Resources Ratio (ASRR)

Breakdown of the bank's advances to Stables Resource ratio as per the Liquidity regulations.

Sn.		Description	31-Dec-22	31-Dec-21
			Amount	Amount
1		**Computation of Advances**	**AED'000**	AED'000
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	313,627	365,750
	1.2	Lending to non-banking financial institutions	-	-
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	-	-
	1.4	Interbank Placements	107,773	55,088
	1.5	**Total Advances**	**421,400**	420,838
2		**Calculation of Net Stable Resources**		
	2.1	Total capital + general provisions	522,694	567,900
		Deduct:		
	2.1.1	Goodwill and other intangible assets	327	555
	2.1.2	Fixed Assets	2,169	1,954
	2.1.3	Funds allocated to branches abroad	-	-
	2.1.5	Unquoted Investments	-	-
	2.1.6	Investment in subsidiaries, associates and affiliates	-	-
	2.1.7	**Total deduction**	**2,496**	2,509
	2.2	**Net Free Capital Funds**	**520,198**	565,391
	2.3	**Other stable resources:**		
	2.3.1	Funds from the head office	-	-
	2.3.2	Interbank deposits with remaining life of more than 6 months	-	-
	2.3.3	Refinancing of Housing Loans	-	-
	2.3.4	Borrowing from non-Banking Financial Institutions	16,101	16,009
	2.3.5	Customer Deposits	592,010	647,402
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	-	-
	2.3.7	**Total other stable resources**	**608,111**	663,411
	2.4	**Total Stable Resources (2.2+2.3.7)**	**1,128,309**	1,228,802
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**37.35**	34.25

ASRR of the Bank continues to operate at levels comfortably below the 100% ceiling as currently prescribed by CBUAE.

7. Credit Risk (CRA)

Describe the main characteristics and elements of credit risk management (business model and credit risk profile, organisation and functions involved in credit risk management, risk management reporting).

Overview and Governance

Credit Risk is defined as the potential risk that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The Bank is exposed to Credit Risk due to its investments, its corporate, SME & retail exposures. The Bank sets aside capital charge for Credit Risk using the Standardized Approach as prescribed under the capital adequacy guidelines by CBUAE.

Apart from setting aside capital charge for Credit Risk exposures, the Bank has also established a robust and prudent Credit Risk management framework to evaluate, measure, monitor and control Credit Risk exposures of the Bank. AKF Credit Committee & AKF Risk Committee regularly review the UAE credit portfolio quality by implementing the Credit Risk policies and procedures and the lending criteria set by the Group Risk Committee.

The Bank assesses the regulatory capital under Pillar I for both on-balance sheet and off-balance sheet credit exposures as prescribed under the standardized approach. Credit risk mitigation techniques are used using "simple approach" as prescribed under capital adequacy standards by CBUAE.

Objectives and Policies:

The goal of the risk management process is to provide a structured, practical and easily understood set of five steps:

1. Identify the risks;
2. Analyze the likelihood and impact of each;
3. Prioritize risk based on enterprise objectives;
4. Treat (or respond to) the risk conditions;
5. Monitor results and use those to adjust, as necessary.

That enables management to identify and assess risks, determine the appropriate risk response and then monitor the effectiveness of the risk response and changes to the risk profile.

The granting of credit is one the Bank's major sources of income and, as a Principal Risk, considerable resources are dedicated to its control.

The credit risk that the Bank faces arises mainly from wholesale and retail loans together with the counterparty credit risk arising from derivative contracts with clients.

Other sources of credit risk arise from trading activities, including debt securities; settlement balances with market counterparties and available for sale assets.

Credit risk management objectives are to:

- To establish a framework of controls to ensure credit risk-taking is based on sound credit risk management principles;
- To identify, assess and measure credit risk clearly and accurately across the Bank and within each separate business from the level of individual facilities, up to the total portfolio;

7. Credit Risk (CRA) *(continued)*

Describe the main characteristics and elements of credit risk management (business model and credit risk profile, organization and functions involved in credit risk management, risk management reporting).

- To control and plan credit risk-taking in line with external stakeholder expectations and avoiding undesirable concentrations;
- To monitor credit risk and adherence to agreed controls;
- To ensure that the risk reward benefits are met.

Going forward, the Bank has no plans in the near future to adopt advanced approaches for the measurement and quantification of Credit Risk capital requirements. The Bank understands that the advanced approaches to credit risk will provide a more accurate estimate of capital requirement for credit exposures and will undertake steps towards their implementation in due course as it is subject to the availability of data, setting up of adequate risk IT infrastructure, internal risk measurement methodologies and regulatory approval.

7. Credit Risk

7.1 Credit quality of assets (CR1)

The table provides a comprehensive picture of the credit quality of a bank's (on- and off-balance sheet) assets.

							AED'000
		a	b	c	d	e	f
Sn.	Description	Gross carrying values		Allowances/ Impairments	Of which ECL accounting provisions for credit losses		Net values (a+b-c)
	31-Dec-22	Defaulted exposures	Non-Defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1.	Loans	35,947	313,627	50,022	28,754	14,075	299,552
2.	Debt securities	-	125,235	158	-	158	125,077
3.	Off-balance sheet exposures	2,149	217,930	1,834	1,477	357	218,245
4.	**Total**	38,096	656,792	52,014	30,231	14,590	642,874

							AED'000
		a	b	c	d	e	f
Sn.	Description	Gross carrying values		Allowances/ Impairments	Of which ECL accounting provisions for credit losses		Net values (a+b-c)
	31-Dec-21	Defaulted exposures	Non-Defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1.	Loans	37,706	365,750	54,255	31,781	16,549	349,201
2.	Debt securities	2,042	167,597	2,331	2,042	289	167,308
3.	Off-balance sheet exposures	4,703	258,101	4,410	4,017	393	258,394
4.	Total	44,451	791,448	60,996	37,840	17,231	774,903

Notes:

1. *For defaulted exposures: comprises balances of impaired loans and past due loans for more than 90 days;*
2. *For off-balance exposures: comprises balances of customers acceptances, letters of credit and guarantees for banks and customers and derivatives;*
3. *Derivatives are taken after considering the PFE calculation;*
4. *For allowances/impairments: comprises balances of interests in suspense, specific and general provisions.*

7. Credit Risk

7.2 Changes in the stock of defaulted loans and debt securities (CR2)

The table identifies the changes in a bank's stock of defaulted exposures, the flows between non-defaulted and defaulted exposure categories and reductions in the stock of defaulted exposures due to write-offs.

Sn.	Description	31-Dec-22
		AED'000
1.	**Defaulted loans and debt securities at the end of the previous reporting period**	**39,748**
2.	Loans and debt securities that have defaulted since the last reporting period	10,510
3.	Returned to non-default status	-
4.	Amounts written off	(15,526)
5.	Other changes	1,215
6.	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**35,947**

Sn.	Description	31-Dec-21
		AED'000
1.	Defaulted loans and debt securities at the end of the previous reporting period	259,773
2.	Loans and debt securities that have defaulted since the last reporting period	-
3.	Returned to non-default status	-
4.	Amounts written off	(223,842)
5.	Other changes	3,817
6.	Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)	39,748

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB)

Supplement the quantitative templates with information on the credit quality of the bank's assets.

Credit review procedures and loan classification

The Banks' Credit Risk Team (the 'CRT'), subjects risk assets to an independent quality evaluation on a regular basis in conformity with the guidelines of the Central Bank of U.A.E. and Bank's internal policies in order to assist in the early identification of accrual and potential performance problems.

The CRT validates the risk ratings of all commercial clients, provides an assessment of portfolio risk by product and segment for retail customers and monitors observance of all approved credit policies, guidelines and operating procedures across the Bank.

Specific allowance for impairment of classified assets is made based on recoverability of outstanding, available collateral and risk ratings of the assets.

The Bank also comply with IFRSs, in accordance with which it assesses the need for any impairment losses on its loan portfolio by calculating the net present value of the expected future cash flows for each loan or its recoverability based either on collateral value or the market value of the asset where such price is available.

Impaired loans and advances

Impaired loans and advances are loans and advances for which the Bank determine that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/advances agreement(s). These loans are graded fair, OLEM, substandard, doubtful or loss in the Bank's internal credit risk grading system.

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the Bank believe that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Allowances for impairment

The Bank establish an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for the Bank on homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

Write-off policy

The Bank write off a loan (and any related allowances for impairment losses) when Bank's Credit Committee determines that the loan is uncollectible in whole or in part.
This determination is reached after all avenues for recovery have failed.
For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

The Bank applies a three-stage approach to measuring expected credit losses (ECL) on financial assets carried at amortized cost and debt instruments classified as FVOCI.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk (SICR) since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognized;

Stage 2: Lifetime ECL – not credit impaired

For exposures where there has been an SICR since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset) is recognized.

Stage 3: Lifetime ECL – credit impaired

Exposures are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized. The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired.

Measuring ECL

The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), defined as follows:

•Two types of PDs are used for calculating ECL

- 12 month PDs – This is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate 12 month ECL for Stage 1 exposures;

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

- Lifetime PDs – This is the estimated probability of a default occurring over the remaining life of the financial instrument. This is used to calculate lifetime ECL for Stage 2 and Stage 3 exposures.

•EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months or over the remaining lifetime. It varies for the types of financial assets defined in the section above.

•LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. LGD is expressed as a percentage loss per unit of exposure at the time of default.

Weighted average ECL is calculated considering base case, upside and downside scenarios multiplied by the associated scenario weightings, at the contract level for reflection of the ECL impact in the books of accounts. The most significant period-end assumptions used for ECL estimate as at 31 December 2022 are set out below. The scenarios base case, upside and downside were used for all portfolios keeping in view the principal macroeconomic variables, including GDP in the range of 2 to 7% for different scenario.

The weightings assigned to each economic scenario at 31 December 2022 were as follows:

	Base	**Upside**	**Downside**
All portfolios	65%	11.2%	23.8%

The weightings assigned to each economic scenario at 31 December 2021 were as follows:

	Base	Upside	Downside
All portfolios	65%	11.2%	23.8%

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

Management overlays and other exceptions to model outputs are applied only if consistent with the objective of identifying significant increases in credit risk.

Forward-looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information.

The Bank has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

The Bank employs statistical models to incorporate macro-economic factors on historical default rates. In the case that none of the macro-economic parameters are statistically significant or the results of forecasted PDs are too deviated from the present forecast of the economic conditions, qualitative PD overlay is used by management based on portfolio analysis.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the ECL applicable to the stage 1 and stage 2 exposures. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are based on available information and include mean reversion approaches for long-term forecasts. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The scenarios base case at 65%, upside at 11.2% and downside at 23.8% each were used for all portfolios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank; or
- the borrower is rated 9 or 10 equivalent to doubtful or loss.

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

In assessing whether a borrower is in default, the Bank also considers indicators that are:

- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Branches; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporating forward looking information increases the level of judgement as to how changes in these macroeconomic factors will affect the Expected Credit Loss (ECL) applicable to the stage 1 and stage 2 exposures which are considered as performing. The methodologies and assumptions involved, including any forecasts of future economic conditions, are reviewed periodically.

Renegotiated financial assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value. Where possible, the Bank seeks to restructure loans rather than to take possession of collateral, if available. This may involve extending the payment arrangements and documenting the agreement of new loan conditions.

Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The accounts which are restructured due to the borrower's financial difficulties in past 12 months are classified under Stage 2.

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorized by geographical regions:

	31 December 2022			*31 December 2021*		
	Assets	***Liabilities and equity***	***Off balance sheet items***	*Assets*	*Liabilities and equity*	*Off balance sheet items*
	AED'000	***AED'000***	***AED'000***	*AED'000*	*AED'000*	*AED'000*
Geographic regions						
U.A.E.	**949,987**	**1,203,791**	**212,462**	1,104,045	1,320,895	254,655
Other Middle East countries	**139,119**	**106,226**	**3,000**	117,803	27,058	3,050
O.E.C.D.	**199,265**	**13,637**	**-**	115,790	7,831	-
Other	**37,015**	**1,732**	**-**	18,503	357	-
Total	**1,325,386**	**1,325,386**	**215,462**	1,356,141	1,356,141	257,705

The following table breaks down the Bank's main credit exposure at their gross carrying amounts, as categorized by industry sector:

	31 December 2022			*31 December 2021*		
	Assets	***Liabilities and equity***	***Off balance sheet items***	*Assets*	*Liabilities and equity*	*Off balance sheet items*
	AED'000	***AED'000***	***AED'000***	*AED'000*	*AED'000*	*AED'000*
Industry Sector						
Government and public sector	**631,142**	**410**	**-**	838,809	429	-
Commercial and business	**215,755**	**504,531**	**212,341**	211,889	559,239	254,534
Personal	**88,841**	**191,276**	**21**	140,550	218,548	21
Financial institutions	**379,486**	**101,851**	**3,100**	152,738	7,650	3,150
Other	**10,162**	**527,318**	**-**	12,155	570,275	-
Total	**1,325,386**	**1,325,386**	**215,462**	1,356,141	1,356,141	257,705

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

The following table breaks down the Bank's gross loans and advances to customers by class:

	2022 AED'000	2021 AED'000
Corporate lending	**131,653**	152,994
Retail lending	**126,957**	142,204
Small business lending	**90,964**	108,258
	349,574	403,456

The following table breaks down the Bank's gross loans and advances to customers by industry:

	2022 AED'000	2021 AED'000
Real estate	**168,671**	203,310
Services	**117,497**	121,580
Transport and communication	**-**	-
Wholesale and retail trade	**17,513**	25,188
Manufacturing	**22,926**	36,798
Construction	**20,182**	13,297
Personal loans	**2,785**	3,283
	349,574	403,456

The following table breaks down the Bank's gross loans and advances to customers by credit risk:

	EAD 2022 AED'000	EAD 2021 AED'000
Normal	**294,537**	330,391
OLEM	**19,090**	35,359
Substandard	**2**	-
Doubtful	**10,509**	-
Loss	**25,436**	37,706
	349,574	403,456

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

The following table breaks down the analysis of the gross and net amounts of impaired assets by risk grade.

	Loans and advances to customer	
	2022	*2021*
	AED'000	*AED'000*
Impaired		
Impaired	**35,947**	37,706
Gross amount	**35,947**	37,706
Interest suspended	**(7,193)**	(5,925)
Specific allowance for impairment	**(28,754)**	(31,781)
	-	-
Past due but not impaired		
90 to 180 days	**-**	1,139
Past due loans less than 30 days	**384**	3,059
	384	4,198
Neither past due nor impaired		
Gross amount	**313,243**	361,552
IFRS 9 allowance for impairment	**(14,075)**	(16,549)
	299,168	345,003
Carrying amount	**299,552**	349,201

7. Credit Risk

7.3 Additional disclosure related to the credit quality of assets (CRB) *(continued)*

Supplement the quantitative templates with information on the credit quality of the bank's assets.

The distribution by geographical concentration of impaired loans and advances and impairment allowance for credit losses are as follows:

	UAE	***Middle East Countries***	***O.E.C.D.***	***Other Countries***	***Total***
	AED'000	***AED'000***	***AED'000***	***AED'000***	***AED'000***
2022					
Non-performing loans	35,947	-	-	-	**35,947**
Impairment allowance for credit losses	(28,754)	-	-	-	**(28,754)**
Interest in suspense	(7,193)	**-**	**-**	**-**	**(7,193)**
Total exposure	**-**	**-**	**-**	**-**	**-**

	UAE	*Middle East Countries*	*O.E.C.D.*	*Other Countries*	*Total*
	AED'000	*AED'000*	*AED'000*	*AED'000*	*AED'000*
2021					
Non-performing loans	37,706	-	-	-	37,706
Impairment allowance for credit losses	(31,781)	-	-	-	(31,781)
Interest in suspense	(5,925)	-	-	-	(5,925)
Total exposure	-	-	-	-	-

Total restructured portfolio:

		As at 31-12-2022		
Total restructured portfolio	***Stage 1 AED'000***	***Stage 2 AED'000***	***Stage 3 AED'000***	***Total AED'000***
Outstanding balance	**0**	**189,495**	**0**	**189,495**
Allowances for impairment (ECL)	**0**	**(13,867)**	**0**	**(13,867)**
Carrying amount	**0**	**175,628**	**0**	**175,628**

		As at 31-12-2021		
Total restructured portfolio	*Stage 1 AED'000*	*Stage 2 AED'000*	*Stage 3 AED'000*	*Total AED'000*
Outstanding balance	0	243,852	0	243,852
Allowances for impairment (ECL)	0	(14,072)	0	(14,072)
Carrying amount	0	229,780	0	229,780

7. Credit Risk

7.4 Credit Risk exposure and Credit Risk Mitigation (CRM) effects (CR4)

This table illustrates the effect of CRM on capital requirements' calculations. RWA density provides a synthetic metric on riskiness of each portfolio.

Sn.	31-Dec-22	(a) AED'000	(b) AED'000	(c) AED'000	(d) AED'000	(e) AED'000	(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	559,157	-	559,157	-	54,478	9.74%
2.	Public Sector Entities	70,757	-	70,757	-	35,379	50.00%
3.	Multilateral development banks	-	-	-	-	-	0.00%
4.	Banks	377,922	3,929	377,922	3,929	163,781	42.89%
5.	Securities firms	-	-	-	-	-	0.00%
6.	Corporates	215,564	173,051	215,564	98,039	214,353	68.35%
7.	Regulatory retail portfolios	5,814	40,950	5,814	24,164	9,483	31.63%
8.	Secured by residential property	12,701	-	12,701	-	10,537	82.96%
9.	Secured by commercial real estate	79,548	-	79,548	-	51,271	64.45%
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	0.00%
11.	Past-due loans	35,947	2,149	-	2,149	1,477	68.73%
12.	Higher-risk categories	-	-	-	-	-	0.00%
13.	Other assets	18,246	-	18,246	-	12,222	66.98%
14.	**Total**	**1,375,656**	**220,079**	**1,339,709**	**128,280**	**552,980**	**37.67%**

Sn.	31-Dec-21	(a) AED'000	(b) AED'000	(c) AED'000	(d) AED'000	(e) AED'000	(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	763,090	-	761,048	-	35,987	4.73%
2.	Public Sector Entities	76,511	-	76,511	-	38,256	50.00%
3.	Multilateral development banks	-	-	-	-	-	0.00%
4.	Banks	152,385	6,456	152,385	6,456	97,975	61.68%
5.	Securities firms	-	-	-	-	-	0.00%
6.	Corporates	210,523	206,393	210,523	121,973	242,280	72.87%
7.	Regulatory retail portfolios	9,193	45,252	9,193	28,471	8,859	23.52%
8.	Secured by residential property	23,534	-	23,534	-	9,698	41.21%
9.	Secured by commercial real estate	122,500	-	122,500	-	95,593	78.03%
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	0.00%
11.	Past-due loans	37,706	4,703	-	4,703	4,017	85.41%
12.	Higher-risk categories	-	-	-	-	-	0.00%
13.	Other assets	15,171	-	15,171	-	7,051	46.48%
14.	Total	1,410,613	262,804	1,370,865	161,603	539,715	35.22%

7. Credit Risk

7.5 Exposures by asset classes and risk weights (CR5)

This table presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardized approach).

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	AED'000
Sn.	**31-Dec-22** / **Risk weight** / **Asset classes**	**0%**	**20%**	**35%**	**50%**	**75%**	**85%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF & CRM)**
1.	Sovereigns and their central banks	504,679	-	-	-	-	-	54,478	-	-	559,157
2.	Public Sector Entities	-	-	-	70,757	-	-	-	-	-	70,757
3.	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4.	Banks	-	270,103	-	3,975	-	-	107,773	-	-	381,851
5.	Securities firms	-	-	-	-	-	-	-	-	-	-
6.	Corporates	60,738	-	-	57,000	-	66,745	129,120	-	-	313,603
7.	Regulatory retail portfolios	20,411	-	-	-	334	-	9,233	-	-	29,978
8.	Secured by residential property	-	-	3,329	-	-	-	9,372	-	-	12,701
9.	Secured by commercial real estate	1,000	-	-	54,555	-	-	23,993	-	-	79,548
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
11.	Past-due loans	672	-	-	-	-	-	1,477	-	-	2,149
12.	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13.	Other assets	6,024	-	-	-	-	-	12,222	-	-	18,246
14.	**Total**	**593,524**	**270,103**	**3,329**	**186,287**	**334**	**66,745**	**347,667**	**-**	**-**	**1,467,989**

7. Credit Risk

7.5 Exposures by asset classes and risk weights (CR5) *(continued)*

This table presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight (corresponding to the riskiness attributed to the exposure according to standardized approach).

		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	AED'000
Sn.	31-Dec-21 / Risk weight / Asset classes	0%	20%	35%	50%	75%	85%	100%	150%	Others	Total credit exposures amount (post CCF & CRM)
1.	Sovereigns and their central banks	725,061	-	-	-	-	-	35,987	-	-	761,048
2.	Public Sector Entities	-	-	-	76,511	-	-	-	-	-	76,511
3.	Multilateral development banks	-	-	-	-	-	-	-	-	-	-
4.	Banks	-	60,561	-	24,834	-	-	73,446	-	-	158,841
5.	Securities firms	-	-	-	-	-	-	-	-	-	-
6.	Corporates	50,927	-	-	55,000	-	78,596	147,973	-	-	332,496
7.	Regulatory retail portfolios	28,641	-	-	-	656	-	8,367	-	-	37,664
8.	Secured by residential property	-	-	21,286	-	-	-	2,248	-	-	23,534
9.	Secured by commercial real estate	1,000	-	-	51,815	-	-	69,685	-	-	122,500
10.	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-	-
11.	Past-due loans	686	-	-	-	-	-	4,017	-	-	4,703
12.	Higher-risk categories	-	-	-	-	-	-	-	-	-	-
13.	Other assets	8,120	-	-	-	-	-	7,051	-	-	15,171
14.	Total	814,435	60,561	21,286	208,160	656	78,596	348,774	-	-	1,532,468

8. Market Risk (MRA)

Provide a description of the risk management objectives and policies for market risk

Overview

Market Risk is the risk of losses arising from movement in market based prices. The Bank assesses the market risk exposure and sets aside capital charge using the standardized measurement method as prescribed under the capital adequacy guidelines by CBUAE.

AKF ALCCO is responsible for managing the investment portfolio. All investments are recommended by AKF ALCCO within the regulators guidelines and then authorized by the AKF Credit and Investment Committee (AKF CIC) in line with the Group risk policies.

All foreign exchange exposures held by the Bank are to fulfill the client requirements. The Bank does not plan to deal in any derivative instruments other than very limited forward deals as part of its trading book exposures.

Market risk faced by the Bank is primarily due to the exposures in the foreign currency with a major concentration (99.9%) in USD. As the USD is pegged against the AED, the volatility is minimal.

In addition to that, the Bank is also facing risk resulting from changes in interest rates and their volatility on the value of financial instruments sensitive to interest rates such as bonds and interest rate swaps.

However, as prescribed by CBUAE recently, open positions in USD pegged to AED, are permitted to be treated as open positions in AED. Other GCC currencies to be treated as open positions in their own related currencies.

Finance department performs on a monthly basis stress tests of the Bank’s positions subject to interest rate and FX (Foreign Exchange) risk and reports the results to AKF ALCCO. The Bank’s exposure to market risk is managed and monitored based on recommendations made by AKF ALCCO, and in line with the Group Market Risk appetite and policy.

Capital Charge under Market Risk

Given the low exposure to Market Risk (only FX exposure) and strategic decision to refrain from open positions in the trading book, the Bank considers market risk as low.

In case, the Bank changes its strategy and increases its exposure to trading book products, it will comply with the Group Market Risk policy to ensure that the treasury and investments decisions do not expose the Bank to undue or unauthorized levels of Market Risk.

8. Market Risk

8.1 Market risk under the standardised approach (MR1)

This table provides the components of the capital requirement under the standardised approach for market risk.

Sn.	Description	(a) 31-Dec-22	(b) 31-Dec-21
		AED'000	AED'000
1.	General Interest rate risk (General and Specific)	-	-
2.	Equity risk (General and Specific)	-	-
3.	Foreign exchange risk	3,640	176
4.	Commodity risk	-	-
	Options		
5.	Simplified approach	-	-
6.	Delta-plus method	-	-
7.	[redacted]	-	-
8.	Securitisation	-	-
9.	**Total**	**3,640**	176

9. Interest rate risk in the banking book (IRRBBA)

To provide a description of the risk management objectives and policies concerning IRRBB.

Overview

Interest rate risk in the banking book (IRRBB) refers to the risk of changes in market prices of assets and liabilities in the banking book due to changes in the interest rate term structure. Banks have a significant portion of their assets and liabilities portfolio not marked and carried on the books at their historical prices. The economic value of such assets and liabilities is generally not ascertained on a regular basis and can be a significant source of risk if the asset or liability is not held till maturity.

Management

The Bank is exposed to interest rate risk as a result of mismatches in the re-pricing profile of various assets and liabilities of the Bank. The mismatch in the re-pricing profile is measured by computing the Rate Sensitive Assets (RSA) and the Rate Sensitive Liabilities (RSL) of the Bank.

The Bank estimates the capital charge by assessing the IRRBB associated with its business activities via scenario analysis that will measure the impact on market value of assets/liabilities as a result of a shift in the market reference rate. The Bank uses the method indicated in the BCBS paper to compute the impact of interest rate shock on the market value of equity (MVE).

a) All assets and liabilities belonging to the banking book are slotted into a maturity ladder comprising of a number of time bands big enough to sufficiently capture the nature of interest rate risk;
b) Fixed-rate instruments are allocated as per the residual term to maturity and floating rate instruments according to the residual term to the repricing date;
c) For each time band, long and short positions are off-setted resulting in a net long or short position in each time band;
d) The resulting net positions are weighted by a factor that is designed to reflect the sensitivity of the positions in the different time bands to an assumed change in market interest rates of 200bps;
e) The weighted positions from each time band are summed to calculate the weighted position of the whole banking book;
f) Customer non maturing deposits (CASA) are considered within the below calculation under overnight bucket;
g) Multiple shock scenarios are used to capture parallel as well as non-parallel gap risk measured in terms of EVE.
   In order for shock scenarios to reflect local economic environments, a limited number of related shock scenarios that span the relevant spectrum of yield curves, together with a methodology for prescribing the level of absolute shocks in each currency, have been developed.
   Under this approach, capital requirements for IRRBB are measured by the scenario that results in the largest decline in EVE.
   The six interest rate shock scenarios for the Pillar 2 capital framework for IRRBB are: (i) parallel shock up; (ii) parallel shock down; (iii) steepener shock (short rates down and long rates up); (iv) flattener shock (short rates up and long rates down); (v) short rates shock up; and (vi) short rates shock down.

The Basel III approach expects banks to set aside capital charge of the allocated capital for IRRBB where it should not be lower than the maximum of the absolute EVE impact and the absolute NII impact, Max(abs(EVE impact), abs(NII impact) as maximum.

9. Interest rate risk in the banking book (IRRBBA) *(continued)*

To provide a description of the risk management objectives and policies concerning IRRBB.

Repricing maturity assigned to non-maturity deposits (NMDs)

Sr.	Description	Assumption
1	Average repricing maturity assigned to NMDs	No specific assumptions were applied on NMD's. All interest sensitive NMD's are assigned to overnight bucket
2	Longest repricing maturity assigned to NMDs	No specific assumptions were applied on NMD's. All interest sensitive NMD's are assigned to overnight bucket

Stress Test

In order to assess the impact of interest rate risk due to a severe shift in interest rate term structure, the Bank considers a parallel downward shift in interest rates of 300 bps and assesses the impact on earnings of the Bank and capital charge for IRRBB.

9.1 Interest rate risk in the banking book (IRRBB1)

The below table provides information on the bank's changes in economic value of equity and net interest income under the prescribed interest rate shock scenarios.

Quantitative Disclosure

In reporting currency (AED)	**ΔEVE AED'000**	**ΔNII AED'000**
Period	**31-12-2022**	**31-12-2022**
Parallel up	(15,001)	12,650
Parallel down	16,609	(12,650)
Steepener	(1,861)	
Flattener	(1,555)	
Short rate up	(7,769)	
Short rate down	8,034	
Maximum	**(15,001)**	
Period	**31-12-2022**	
Tier 1 capital	**501,370**	

In reporting currency (AED)	ΔEVE AED'000	ΔNII AED'000
Period	31-12-2021	31-12-2021
Parallel up	(20,239)	15,061
Parallel down	23,029	(15,061)
Steepener	(5,622)	
Flattener	1,064	
Short rate up	(7,794)	
Short rate down	7,732	
Maximum	(20,239)	
Period	31-12-2021	
Tier 1 capital	545,635	

10. Operational Risk (ORA)

To describe the main characteristics and elements of the bank's operational risk management framework.

Overview

Operational Risk is the risk of losses from inadequate or failed internal processes, people & systems or from external events which include but not limited to legal and information technology risk.

The Bank assesses the operational risk exposure and sets aside capital charge using the Basic Indicator Approach (BIA), as prescribed under the capital adequacy guidelines by CBUAE.

Identification of Operational Risk

The main sources of Operational Risk in the Bank are:

- People: (including insufficient staff, inaccuracy/delay in performance; also related with training quality, willful circumvention of regulation and responsibility);
- System (including failure, system limitations, bugs etc.);
- Workplace safety conditions (including electric cabling/building, etc.);
- External (Vendors/ Cards Fraud /Phishing/Skimming).

The Bank's operational risk management framework considers operational risk arising from all the business and support units of the Bank. The framework considers the operational risks arising from processes, people, systems, and internal or/and external events.

Assessment of process, people, systems and external events impact

Source of risk	Current position of the Bank
Process	After successful migration to the new core banking system (T24), revision of related processes tested successfully and all processes in place.
People	The Bank is making conscious efforts to increase risk management awareness and risk culture across the bank.
Systems	System driven validations and controls are being reviewed & implemented. Adequate monitoring mechanism is in place to enhance detective controls. Furthermore, consultants are available to facilitate quick support in case of technical issues.
External events	The Bank is exposed to external stress events and market conditions that may impact adversely. External incidents are being logged through Operational Risk system (Risk Nucleus) and being maintained in the risk library.

10. Operational Risk (ORA) *(continued)*

To describe the main characteristics and elements of the bank's operational risk management framework.

Assessment of Operational Risk

The Bank annually performs a Risk and Control Self-Assessment (RCSA) at Bank-wide level to determine the inherent risks residing in the functioning of the various departments and the efficacy of the controls in place to mitigate those risks.

The Bank has implemented an operational risk reporting and management system 'Risk Nucleus' which streamlines the process of operational risk management in meeting organization's functional and regulatory requirements.

The tool is capable of capturing, collecting, managing, tracking and generating reports of operational risks events based on which assessments are being performed across the Bank. The Bank arrives at a residual risk value based on the above assessments.

Management of Operational Risk

The Bank has established an extensive operational risk management framework which is broadly classified into the following main components:

- Governance;
- Risk Transfer Mechanism;
- ORM Tools;
- Business Continuity Management;
- Fraud Risk Management;
- Monitoring & reporting.

i. Governance

The Bank, in line with the Group, seeks to minimize actual or potential losses from operational failures through a framework of policies and procedures that identify, asses, control, manage and report those risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education/awareness and assessment processes. Following are the roles and responsibilities performed by the Board of Directors and the Senior Management to ensure effective operational risk management:

The Group Risk Committee (GRC) reviews and recommends the Operational Risk policy and place it to the Group Board Compliance & risk Committee (CRC) for its approval, reviews and recommends the operational risk appetite for the Group to the CRC for its approval, and adjudicates on Operational Risk matters (as escalated by GORM), concerning the Group's business. Additionally, the GRC approves limits, deductibles, exclusions and other conditions pertaining to Bankers blanket bond (BBB), Professional indemnity (PI) and Directors and Officers liability (D&O) and other relevant insurance contracts, reviews reports escalated by GORM and approves financial/other resources to implement control actions.

The GORM defines group-wide policies for Operational Risk Management (ORM) , including operational risk governance, coordinates risk transfer mechanisms including insurance across the Group, escalates risk acceptance matters (where material risks are accepted) to the GCRC, and enforces the implementation of this policy. The policy recognizes for practicality purpose, enforcement may be in the form of escalation to members of the GRC rather than direct intervention.

10. Operational Risk (ORA) *(continued)*

To describe the main characteristics and elements of the bank's operational risk management framework.

ii. Risk Transfer Mechanism

Risk Transfer is a mechanism whereby the risk of loss is transferred to another party and the other party assumes (or pays for) the consequences of the risk should it occur. Traditional risk transfer methods include entering into an insurance contract with a reputable insurer who assumes the risk on behalf of the Bank, in return for a premium payable by the Bank.

The Bank's Risk Transfer framework is an integral part of the Operational Risk Management framework and benefits the bank by improving risk coverage in the insurance contracts. Annual reviews are conducted to map the operational risks faced by the Bank to the applicable insurance contracts, in order to ascertain levels of coverage, should risk materialize.

iii. ORM Tools

The Bank has embedded operational risk management elements into its day-to-day activities and processes, through a strategic adoption of ORM tools across all business units and branches. The Bank annually develops an ORM calendar, which details the ORM programs (such as RCSAs, KRIs, etc.) that provides the assurance of required ORM activities for the year. The Bank's ORM function has been using a comprehensive operational risk management system – 'Risk Nucleus' since 2011. The system is intranet-based and work-flow driven, enabling the Bank to proactively manage the measurement, monitoring and reporting of operational risks using the Incident Management, Loss Data Collection, Risk and Control Self-Assessment (RCSA) and Key Risk Indicator (KRI's) modules. The Bank has developed various ORM tools, which cover processes, products, systems and the entire gamut of activities which may give rise to operational risks. The ORM tools are summarized below:

1- Risk and Control Self-Assessment (RCSA):

This is the bottom up risk identification and assessment exercise carried out at the department level. The RCSA process consists of two stages - Inherent Risk Self-Assessment and Control Self-Assessments.

a. Inherent Risk Self-Assessment:

Departments identify their inherent operational risks and maintain a customized risk register on the operational risk system, pertaining to the products/ services offered by their units and aligned with the processes for their departments. Identified inherent operational risks are assessed at least annually.

10. Operational Risk (ORA) *(continued)*

To describe the main characteristics and elements of the bank's operational risk management framework.

b. <u>Control Self-Assessment:</u>

A Control Self-Assessment (CSA) is a "line of business" is defined as a process by which a department examines and improves existing internal controls and/or implements new internal controls to mitigate risks associated with a process or function. The CSA process entails documentation of the process or function, identification of all risks related to that process or function, and identification and evaluation of all internal controls that should be in place to mitigate the risks to an acceptable level. Each CSA will have its own goals and objectives; however, every CSA will also have the following three global objectives:

- Communication and understanding of each department's roles and responsibilities within the selected process or function, including the roles and responsibilities of each individual that is part of the process or function;
- Determination of acceptable levels of risk;
- Determination of the correct cost-benefit trade-off for establishing new internal controls.

- **Operational Loss Database (OLD):**

The data on operational losses is captured in the OLD to enable further analysis on it to understand the true cause of the operational loss incident. Based on the analysis steps are taken to prevent any further occurrences of loss incidents of similar kind. Captured incidents in the OLD are in form of direct losses, indirect losses & near misses, on the basis of the incident reporting mechanism.

- **Key Risk Indicators (KRIs):**

GORM has introduced a structured approach to enable the development of KRIs by all business units. A reporting structure has been established for the KRIs and the business units are responsible for tracking KRI threshold breaches on a timely basis, and taking appropriate corrective actions. The validity of KRIs are reviewed on a periodic basis and the GORM is notified of changes to the same.

iv. Business Continuity Management

The Bank has a well-documented, effective and tested Business Continuity Management Program and detailed manual of the same have been made available to the employees. The employees are regularly updated on the same through ongoing training, education and system updates.

v. Fraud Risk Management

The Bank has a comprehensive Fraud Risk Management framework and policy that has been rolled out across by the Group. This covers the responsibilities of all departments, and outlines the governance framework, including the Group Special Investigations Committee, that is convened to supervise and monitor investigations into events of potential impropriety when necessary.

Further, the fraud incidents are investigated and root cause is analyzed following Group Fraud Risk policy. As fraud remains a category of Operational risk, related incidents are captured in OLD under the subcategory of Internal/External Fraud.

10. Operational Risk (ORA) *(continued)*

To describe the main characteristics and elements of the bank's operational risk management framework.

vi. Monitoring and Reporting

Ongoing monitoring and reporting on operational risk is crucial to ensure the continued adequacy and effectiveness of ORM activities. All relevant units monitor and measure their operational risk exposure through the use of Key Indicators [performance (KPIs), risk (KRIs) and/or controls (KCIs)]. Key Indicators is used by the department as a means of control to track changes in their exposure to operational risk.

Monthly Operational risk report is issued and assessed in the monthly AKF Risk Committee & Group Risk Committee in order to:

- Study the Past - Incidents reported, trends;
- The Future - New Risks and Near term risk reduction measures;
- Action Plans tracking for control improvement and to fix control failure;
- Detailed incidents above threshold;
- Detailed commentary on indicators that have shown deterioration YTD.

Significant issues will be escalated to GRC, as GORM is authorized to follow-up departments regarding non-delivery of agreed action plans and to escalate to GRC.

Going forward the Bank has no plans in the near future to use more advanced approaches and will follow by all means CBUAE guidelines in this regard.

11. Remuneration policy

To describe the bank's remuneration policy as well as key features of the remuneration system to allow meaningful assessments by users of Pillar 3 data of banks' compensation practices

Overview

The HR policy for Al Khaliji France is formed through the Group HR policy at Masraf AL Rayan (MAR) and is a compilation of employment policies, employment status and records policies, employee's benefits, remunerations, workplace guidelines and employees' conduct, plus other policies which guide the hiring practices related to Talent Acquisition, Remuneration and performance management.

This Policy supports the development of an efficient, transparent and accountable organization. The manpower planning, recruitment, performance management, development and promotion policies are focused on hiring and developing a balanced mix of UAE nationals and expatriate workers based on their objectively measured performance and capacity to grow.

The HR policy is tailored in each region to be aligned with the market practices and subject to compliance with the Labor Laws in relevant operating jurisdictions of the Bank.

Within Al Khaliji France, the base of remuneration is fixed. Variable pay in the form of cash recognized as annual bonus could be awarded based on the global performance of the Bank and on the individual performance. The payment of bonus is linked to the previous performance period.

To ensure a comprehensive link between remuneration and performance, individual objectives are fixed by the employees at the beginning of each year and consist of a set of financial and non-financial objectives to be achieved partly or completely over the same year. The payment of a bonus is not guaranteed, and performance management processes ensures that bad performers are not rewarded.

11. Remuneration policy

11.1 Remuneration awarded during the financial year (REM1)

Includes information on fixed and variable remuneration for the financial year.

31 December 2022
AED'000

Sn.	Description		(a) Senior Management	(b) Other Material Risk-takers
1.	Fixed Remuneration	**Number of employees**	**5**	**-**
2.		**Total fixed remuneration (3 + 5 + 7)**	**3,075**	**-**
3.		Of which: cash-based	3,075	-
4.		Of which: deferred	-	-
5.		Of which: shares or other share-linked instruments	-	-
6.		Of which: deferred	-	-
7.		Of which: other forms	-	-
8.		Of which: deferred	-	-
9.	Variable Remuneration	**Number of employees**	**5**	**-**
10.		**Total variable remuneration (11 + 13 + 15)**	**252**	**-**
11.		Of which: cash-based	252	-
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)**		**3,327**	**-**

31 December 2021
AED'000

Sn.	Description		(a) Senior Management	(b) Other Material Risk-takers
18.	Fixed Remuneration	Number of employees	5	-
19.		Total fixed remuneration (3 + 5 + 7)	3,087	-
20.		Of which: cash-based	3,087	-
21.		Of which: deferred	-	-
22.		Of which: shares or other share-linked instruments	-	-
23.		Of which: deferred	-	-
24.		Of which: other forms	-	-
25.		Of which: deferred	-	-
26.	Variable Remuneration	Number of employees	5	-
27.		Total variable remuneration (11 + 13 + 15)	205	-
28.		Of which: cash-based	205	-
29.		Of which: deferred	-	-
30.		Of which: shares or other share-linked instruments	-	-
31.		Of which: deferred	-	-
32.		Of which: other forms	-	-
33.		Of which: deferred	-	-
34.	Total Remuneration (2+10)		3,292	-

12. Acronyms

Sn.	Abbreviations	Description
1.	AKF	Al Khaliji France S.A. (Head office in France and its Branches in the UAE)
2.	ALCCO	Asset, Liability and Capital Committee
3.	AML	Anti-Money Laundry
4.	ASRR	Advances to Stable Resources Ratio
5.	AT1	Additional Tier 1
6.	BBB	Bankers Blanket Bond
7.	BCBS	Basel Committee on Banking Supervision
8.	BCM	Business Continuity Management
9.	BIA	Business Indicator Approach
10.	CB UAE	Central Bank of U.A.E.
11.	CCF	Credit Conversion Factor
12.	CCP	Central Counterparty
13.	CCR	Counterparty Credit Risk
14.	CET1	Common Equity Tier 1
15.	CIC	Credit and Investment Committee
16.	CRM	Credit Risk Mitigation
17.	CSA	Control Self-Assessment
18.	D&O	Directors & Officers
19.	D-SIB	Domestic Systemically Important Banks
20.	EAD	Exposure At Default
21.	ECL	Expected Credit Losses
22.	ELAR	Eligible Liquid Asset Ratio
23.	EVE	Economic Value of Equity
24.	FVOCI	Fair Value through Other Comprehensive Income
25.	GALCCO	Group Asset, Liability and Capital Committee
26.	GCRC	Group Compliance & Risk Committee
27.	GDP	Gross Domestic Product
28.	GORM	Group Operational Risk Manager
29.	GRC	Group Risk Committee
30.	Group	Masraf Al Rayan Doha (MAR Doha or Qatar)
31.	HNWI	High Net-Worth Individuals
32.	H.O	Al Khaliji France Paris (AKF Paris or France)
33.	HQLA	High Quality Liquid Assets
34.	ICAAP	Internal Capital Adequacy Assessment Process
35.	IFRS	International Financial Reporting Standards
36.	KCI	Key Control Indicators
37.	KPI	Key Performance Indicators
38.	KRI	Key Risk Indicators
39.	LC	Letter of Credit
40.	LCR	Liquidity Coverage Ratio
41.	LGD	Loss Given Default
42.	LR	Leverage Ratio
43.	MRA	Moody's Risk Advisor
44.	MVE	Market Value of Equity
45.	NPL	Non-Performing Loans
46.	NSFR	Net Stable Funding Ratio

12. Acronyms

Sn.	Abbreviations	Description
47.	**O.E.C.D.**	**O**rganization for **E**conomic **C**o-operation and **D**evelopment
48.	**OLD**	**O**perational **L**oss **D**atabase
49.	**OLEM**	**O**ther **L**oans **E**specially **M**entioned
50.	**ORM**	**O**perational **R**isk **M**anagement
51.	**PD**	**P**robability of **D**efault
52.	**PFE**	**P**otential **F**uture **E**xposure
53.	**PI**	**P**rofessional **I**ndemnity
54.	**RCSA**	**R**isk and **C**ontrol **S**elf-**A**ssessment
55.	**RSA**	**R**ate **S**ensitive **A**ssets
56.	**RSL**	**R**ate **S**ensitive **L**iabilities
57.	**RWA**	**R**isk **W**eighted **A**ssets
58.	**SA**	**S**tandardized **A**pproach
59.	**SFT**	**S**ecurities **F**inancing **T**ransactions
60.	**SICR**	**S**ignificant **I**ncrease in **C**redit **R**isk

13. Glossary

1. **Capital conservation buffer**
   A capital buffer prescribed by BCBS and CBUAE under Basel III and designed to ensure banks build up capital buffers outside periods of stress which can be drawn down as losses are incurred. Should the bank's CET1 capital fall within the capital conservation buffer range, capital distributions will be constrained by the regulators.

2. **Countercyclical capital buffer (CCyB)**
   The countercyclical capital buffer is part of a set of macro prudential instruments, designed to help counter pro-cyclicality in the financial system. CCyB as defined in the Basel III standard provides for an additional capital requirement of up to 2.5 per cent of risk-weighted assets.

3. **Counterparty credit risk (CCR)**
   The risk that a counterparty defaults before satisfying its obligations under a derivative, a securities financing transaction (SFT) or a similar contract.

4. **Credit Conversion Factor (CCF)**
   As prescribed by CBUAE, an estimate of the amount the Group expects a customer to have drawn further on a facility limit at the point of default.

5. **Credit risk adjustment (CRA)**
   This includes impairment allowances or provisions balances, and changes in ECL.

6. **Credit risk mitigation (CRM)**
   Credit risk mitigation is a process to mitigate potential credit losses from any given account, customer or portfolio by using a range of tools such as collateral, netting agreements, credit insurance, credit derivatives and guarantees.

7. **Domestic systemically important banks (D-SIB)**
   Domestic systemically important banks are deemed systemically relevant for the domestic financial system in which they operate. The CBUAE and the BCBS have developed a framework for identifying and dealing with D-SIBs. The Central Bank of the UAE annually assesses national banks at their consolidated group level and foreign banks at their UAE branch level; to designate banks whose failure could escalate to systemic risk for the UAE banking sector and eventually impact the economy.

8. **Economic Value of Equity (EVE)**
   The economic value of equity (EVE) is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. Unlike earnings at risk and value at risk (VAR), a bank uses the economic value of equity to manage its assets and liabilities. This is a long-term economic measure used to assess the degree of interest rate risk exposure—as opposed to net-interest income (NII), which reflects short-term interest rate risk.

13. Glossary *(continued)*

9. Fully Loaded ECL
Means Bank's regulatory capital compared with a situation where the transitional arrangement for IFRS 9 had not been applied. CBUAE introduced transitional arrangements as per circular no. 04/2020 "Regulation Regarding Accounting Provisions and Capital Requirements - Transitional Arrangements".

10. Internal Capital Adequacy Assessment Process (ICAAP)
A requirement under Pillar 2 of the Basel framework to undertake a comprehensive assessment of their risks and to determine the appropriate amounts of capital to be held against these risks.

11. Key Control Indicators (KCI's)
Key Control Indicators or KCIs also referred to as Control Effectiveness Indicators are metrics that provide information on the extent to which a given control is meeting its intended objectives in terms of loss prevention, reduction, etc.

12. Key Performance Indicators (KPIs)
Key Performance Indicators refer to a set of quantifiable measurements used to gauge a Bank's overall long-term performance. KPIs specifically help determine a Bank's strategic, financial, and operational achievements, especially compared to those of other businesses within the same sector.

13. Key Risk Indicators (KRIs)
Key Risk Indicators are used by financial firms to measure their exposure to a given risk at a particular time. By comparing an appropriate set of key risk indicators with internal limits and thresholds, banks can determine whether their operational risk exposures are within their risk appetite.

14. Leverage ratio
A ratio introduced under Basel III/CRD that compares Tier 1 capital to total exposures, including certain exposures held off-balance sheet as adjusted by stipulated credit conversion factors. Intended to be a simple, non-risk based backstop measure.

15. Liquidity Coverage Ratio (LCR)
The ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible.

16. Net stable funding ratio (NSFR)
The ratio of available stable funding (ASF) to required stable funding (RSF) over a one-year time horizon, assuming a stressed scenario. It is a longer-term liquidity measure designed to restrain the amount of wholesale borrowing and encourage stable funding over a one year time horizon.

17. Securities Financing Transactions (SFT)
Securities Financing Transactions are secured (i.e. collateralized) transactions that involve the temporary exchange of cash against securities, or securities against other securities, e.g. stock lending or stock borrowing or the lending or borrowing of other financial instruments, a repurchase or reverse repurchase transaction, or a buy-sell back or sell-buy back transaction.

13. Glossary *(continued)*

18. Standardized Approach (SA)

In relation to credit risk, a method for calculating credit risk capital requirements using External Credit Assessment Institutions (ECAI) ratings and supervisory risk-weights. In relation to operational risk, a method of calculating the operational risk capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.