بنك دبي الإسلامي ش م ع
Dubai Islamic Bank PJSC

# Basel II – Pillar III Disclosures

**(For the year ended 31 December 2013)**

# 1. OVERVIEW AND INTRODUCTION

The Central Bank of the United Arab Emirates ("CBUAE") issued guidelines for implementation of Basel II Capital Accord for the banks in UAE in November 2009. The CBUAE Basel II framework clearly addresses the importance of developing and using better risk management techniques in monitoring and managing banks' risks.

The Basel II Accord is based on the following three pillars:

- **Pillar I -** defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by the banks' own regulatory funds.

- **Pillar II -** addresses a bank's Internal Capital Adequacy Assessment Program ("ICAAP") for assessing overall capital adequacy in relation to risks. Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which is used as a tool to assess the internal capital adequacy of any bank.

- **Pillar III -** complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy. The aim of these disclosures is to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess specified information in the scope of application of Basel II, capital, particular risk exposures and risk assessment processes, and the capital adequacy of the bank.

  In compliance with the above mentioned CBUAE guidelines and Basel II Accord; these disclosures were prepared and include information about Dubai Islamic Bank PJSC and its subsidiaries (collectively referred to as the "Bank") relating to the Bank's structure, capital structure, capital adequacy requirements, risk management objectives and policies, and various supporting quantitative and qualitative disclosures.

  Many of these disclosures requirements have already been disclosed in the audited consolidated financial statements for the year ended 31 December 2013, which covers in detail the risk and capital management processes of the Bank and its compliance with the Basel II Accord. The following Pillar III disclosures provides qualitative and quantitative information in addition to the consolidated financial statements for the year ended 31 December 2013 in order to meet the disclosure requirements of Pillar III.

## Future Developments

The regulation and supervision of financial institutions is currently undergoing a period of significant change in response to the global financial crisis. Increased capital requirements and regulatory focus on Liquidity Risk have been announced by the Basel Committee in December 2010, commonly known as Basel III. The discussion between UAE banks and CBUAE is in progress for smooth implementation of any new disclosure requirements.

## Implementation of Basel II guidelines

The Bank has been in compliance with Standardized Approach for Credit, Market and Operational Risk (Pillar I) since December 2007, as allowed by Basel 2 guidelines[1] issued by CBUAE.

[1] Further as per Basel Pillar II framework, the Bank assigns capital on risks other than Pillar I risk categories. Details on Pillar II methodologies are contained in section No. 4.10 "Capital Management policies and Stress Testing" of this report.

## 2. BANK STRUCTURE

The Bank consists of Dubai Islamic Bank P.J.S.C. and its subsidiaries. As of 31 December 2013, the Bank's interest held directly or indirectly in its subsidiaries is as follows:

| | Subsidiaries | Principal activity | Country of incorporation | Percentage of equity |
|---|---|---|---|---|
| 1. | DIB Capital Limited | Investments and financial Services | U.A.E. | 95.5% |
| 2. | Dubai Islamic Bank Pakistan Ltd. | Banking | Pakistan | 100.0% |
| 3. | Tamweel P.J.S.C. | Financing and investment | U.A.E | 86.5% |
| 4. | Dubai Islamic Financial Services L.L.C. | Brokerage services | U.A.E. | 95.5% |
| 5. | Deyaar Development P.J.S.C. | Real estate development | U.A.E | 44.9% |
| 6. | Dar al Shariah Financial & Legal Consultancy L.L.C. | Financial and legal advisory | U.A.E. | 60.0% |
| 7. | Al Tanmyah Services L.L.C. | Labour services | U.A.E. | 99.5% |
| 8. | Al Tatweer Al Hadith Real Estate | Real estate development | Egypt | 100.0% |
| 9. | Al Tameer Modern Real Estate Investment | Real estate development | Egypt | 100.0% |
| 10. | Al Tanmia Modern Real Estate Investment | Real estate development | Egypt | 100.0% |
| 11. | Naseej Fabric Manufacturing L.L.C. | Textile Manufacturing | U.A.E. | 99.0% |
| 12. | DIB Printing Press L.L.C. | Printing | U.A.E. | 99.5% |
| 13. | Levant One Investment Limited | Investments | U.A.E. | 100.0% |
| 14. | Petra Limited | Investments | Cayman Islands | 100.0% |
| 15. | Al Islami Real Estate Investments Ltd. | Investments | U.A.E. | 100.0% |
| 16. | Emirates Automotive Leasing Company | Trading in motor vehicles | U.A.E. | 100.0% |

In addition to the above subsidiaries, the following Special Purpose Vehicles ("SPV") were formed by the Bank to manage specific transactions, including funds, and are expected to be closed upon completion of transactions:

| | SPV | Principal activity | Country of incorporation | Percentage of equity |
|---|---|---|---|---|
| 17. | HoldInvest Real Estate Sarl | Investments | Luxembourg | Controlling interest |
| 18. | France Invest Real Estate SAS | Investments | France | Controlling interest |
| 19. | SARL Barbanniers | Investments | France | Controlling interest |
| 20. | SCI le Sevine | Investments | France | Controlling interest |
| 21. | Findi Real Estate SAS | Investments | France | Controlling interest |
| 22. | PASR Einudzwanzigste Beteiligunsverwaltung GMBH | Investments | Austria | Controlling interest |
| 23. | Al Islami German Holding Co. GMBH | Investments | Germany | Controlling interest |
| 24. | Rhein Logistics GMBH | Investments | Germany | Controlling interest |
| 25. | Jef Holdings BV | Investments | Netherlands | Controlling interest |
| 26. | Zone Two Real Estate Management Co. | Investments | Cayman Islands | Controlling interest |
| 27. | Zone One Real Estate Management Co. | Investments | Cayman Islands | 100.0% |
| 28. | Al Islami Trade Finance FZ L.L.C. | Investments | U.A.E. | 100.0% |
| 29. | DIB Lease One Ltd. | Investments | Bahamas | 100.0% |
| 30. | DIB Lease One (Dublin) Ltd. | Investments | Ireland | 100.0% |
| 31. | Gulf Atlantic FZ L.L.C. | Investments | U.A.E. | 100.0% |
| 32. | Al Islami Oceanic Shipping Co FZ L.L.C. | Investments | U.A.E. | 100.0% |
| 33. | Sequia Investments L.L.C. | Investments | U.A.E. | 99.0% |
| 34. | Blue Nile Investments L.L.C. | Investments | U.A.E. | 99.0% |

The remaining equity in the entities 1, 4, 7, 11, 12, 33 and 34 are also beneficially held by the Bank through nominee arrangements.

## 3. CAPITAL STRUCTURE AND REQUIREMENTS

The Bank's regulatory capital is calculated as per the guidelines issued by CBUAE and it comprises of:

**Tier 1 Capital -** includes share capital, tier 1 sukuk, statutory reserve, donated land reserve, general reserve, additional paid in capital, treasury shares, retained earnings, exchange translation reserve and non-controlling interests.

**Tier 2 Capital** - includes collective impairment allowance and investment fair value reserve relating to unrealized gain/loss on equity instruments measured as fair value through other comprehensive income ("FVTOCI").

**Deductions from Tier 1 and Tier 2 -** significant minority investments in banking, securities and other financial entities, where control does not exist, are excluded from the capital.

The detailed breakdown of the capital structure of the Bank as of 31 December 2013 is as follows:

| | **AED'000** |
|---|---|
| **Tier 1 Capital** | |
| Share capital | **3,953,751** |
| Tier 1 sukuk | **3,673,000** |
| Other reserves | **5,508,795** |
| Retained earnings | **1,027,396** |
| Non-controlling interest | **317,373** |
| | **14,480,315** |
| **Less:** | |
| Treasury shares | **(13,099)** |
| Cumulative deferred exchange losses | **(280,833)** |
| **Total Tier 1 Capital** | **14,186,383** |
| **Tier 2 Capital** | |
| Collective impairment allowance | **902,348** |
| Investment fair value reserve | **(563,850)** |
| **Total Tier 2 Capital** | **338,498** |
| **Deductions from Tier 1 and Tier 2 Capital** | |
| Deductions for associates | **(570,260)** |
| **Total capital base** | **13,954,621** |

## 3. CAPITAL STRUCTURE AND REQUIREMENTS (continued)

### 3.1 Capital Adequacy

The Bank's capital adequacy ratios as of 31 December 2013 were calculated by using the standardized approach as follows:

| | AED'000 |
|---|---|
| **Risk weighted assets** | |
| Credit Risk | **70,199,816** |
| Market Risk | **1,804,650** |
| Operational Risk | **4,526,311** |
| | ---------------- |
| **Total risk weighted assets** | **76,530,777** |
| | ========= |

**Capital Adequacy Ratios:**

| | |
|---|---|
| Capital adequacy ratio | **18.2%** |
| Tier 1 capital adequacy ratio | **18.2%** |

The Bank's Capital Adequacy ratio as at 31 December 2013 is 18.2% and Tier 1 capital adequacy ratio is 18.2% against the regulatory requirement of minimum of 12% and 8%, respectively. The Bank ensures adherence to CBUAE requirements by implementing high internal limits.

The banking subsidiaries of the Bank are regulated by their local banking supervisors who set and monitor their capital adequacy requirements. CBUAE monitors the capital adequacy requirements of the Bank at a group level.

#### 3.1.1. Credit Risk Weighted Assets

The details of Credit Risk Weighted Assets as of 31 December 2013 are as follows:

| | Credit Converted Equivalent Exposure AED'000 | Risk Weighted Assets AED'000 |
|---|---|---|
| Claims on sovereigns | **29,146,119** | **304,874** |
| Claims on non-central government public sector entities | **7,635,849** | **4,108,284** |
| Claims on banks | **10,845,170** | **2,893,014** |
| Claims on corporates | **23,593,646** | **23,714,728** |
| Claims included in the regulatory retail portfolio | **15,194,620** | **11,787,608** |
| Claims secured by residential property | **10,673,564** | **6,438,618** |
| Claims secured by commercial real estate | **5,608,605** | **5,569,977** |
| Past due financing assets | **6,183,062** | **7,400,802** |
| Higher-risk categories | **1,170,229** | **1,755,343** |
| Other assets | **7,967,494** | **6,226,568** |
| | ------------------ | ------------------ |
| **Total** | **118,018,358** | **70,199,816** |
| | =========== | =========== |

## 3. CAPITAL STRUCTURE AND REQUIREMENTS (continued)

## 3.1. Capital Adequacy (continued)

### 3.1.2. Market Risk Weighted Assets

Market risk weighted assets subject to capital charge are based on the following risks:

- Profit rate risk;
- Equity exposure risk; and
- Foreign exchange risk.

The scope of capital charges on market risk weighted assets is restricted to 'trading book' only for the profit rate risk and equity positions. Foreign exchange risk is applicable to the Bank's overall positions.

As of 31 December 2013, the capital requirement for market risk as per standardized approach was as follows:

| | **AED'000** |
|---|---|
| Profit rate risk | **1,306** |
| Equity exposure risk | **126** |
| Foreign exchange risk | **142,940** |
| | --------------- |
| **Total capital requirement for market risk** | **144,372** |
| | ======== |

### 3.1.3. Operational Risk Weighted Assets

In accordance with Basel II guidelines operational risk charge is computed by multiplying three years average gross income by beta factor, as required by the Basic Indicator Approach. The total capital requirement for Operational Risk as at 31 December 2013 is AED 543 million.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

### 4.1. Risk management framework

The complexity in the Bank's business operations and diversity of geographical locations requires identification, measurement, aggregation and effective management of risk. The Bank manages its risks through a comprehensive risk management framework which incorporates organizational structure, risk measurement and monitoring processes.

### 4.2. Risk management structure

The Board of Directors, supported by the Risk Management Committees and Risk Management Department, is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

### 4.2.1 Board of Directors

The Board of Directors is responsible for the overall risk management approach and for approving the risk management strategies and policies.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.2. Risk management structure (continued)

### 4.2.2 Board Risk Management Committee

The Board Risk Management Committee (BRMC) has the responsibility for the development and implementation of the risk management strategies, frameworks, policies and ensuring adherence to limits, and for recommending these strategies and policies to the Board of Directors. BRMC is supported by Risk Management Committee and Risk Management Department for maintaining risk within acceptable levels. That includes identification, measurement, monitoring and risk reporting. It is responsible for the fundamental risk issues, manages and monitors relevant risk decisions.

### 4.2.3 Risk Management Committee

Risk Management Committee comprises of senior executives from Risk Management, business and operations. Execution of risk management practices is assigned to the Risk Management Department. Implementation of strategies, frameworks, policies and adherence to limits is ensured by the Risk Management Committee.

Risk Management Committee has an overall responsibility to support the BRMC for the development, formulation, implemention and monitoring of the risk strategies, frameworks, policies and limits; ensuring compliance with the regulatory guidelines issued by CBUAE.

### 4.2.4 Risk Management Department

The Risk Management Department is responsible for implementing and maintaining risk related procedures to ensure risk remains within the acceptable range as approved by the Board Risk Management Committee and the Board of Directors. The department is responsible for credit approval, credit administration, portfolio management, credit risk, market risk, operational risk, capital adequacy and overall risk control.

### 4.2.5 Asset and Liability Management Committee

Asset and Liability Management Committee (“ALCO”) is responsible for managing the Bank’s assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Bank.

### 4.2.6 Bank Internal Audit Department

Risk management processes throughout the Bank are audited periodically by the Bank Internal Audit Department which examines both the adequacy of the procedures and the Bank’s compliance with the procedures. Bank Internal Audit Department comments the results of their assessments with management, and reports its findings and recommendations to the Bank’s Audit Committee.

## 4.3. Risk Measurement and Reporting Systems

The Bank measures risks using conventional qualitative methods for credit, market liquidity and operational risks. Further, the Bank also uses quantitative analysis and methods to support revisions in business and risk strategies as and when required. These analysis and methods reflect both the expected loss likely to arise in normal course of business or unexpected losses in an unforeseen event based on simple statistical techniques and probabilities derived from historical experience. The Bank also runs stress scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Board of Directors and management. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 4.3. Risk Measurement and Reporting Systems (continued)

Information compiled from all the businesses is examined and processed in order to analyse the risk profile and identify early risks. This information is presented and explained to the management, management committees, and Board Risk Management Committee. Specialized reports are presented to the pertinent heads of business and are delivered with a frequency suited to the volatility of the risk. The report includes aggregate credit exposure, limit exceptions, liquidity, operational loss incidents and other risk profile changes. On a monthly basis, detailed reporting of industry, customer and geographic risks takes place. Senior management assesses the appropriateness of the provision for impairment losses on a quarterly basis.

### 4.4. Risk Mitigation

As part of its overall risk management, the Bank uses various methods to manage exposures resulting from changes in credit risks, liquidity risks, market risks (including profit rate risk, foreign exchange risk, and equity price risk), and operational risks.

The Bank uses active collateral management and credit diversification of financing and investing activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. Also, the Bank actively uses collaterals to reduce its credit risk.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall Bank liquidity in consideration maintaining a healthy balance of liquid assets.

The market risks are managed on the basis of predetermined asset allocation across various asset categories and continuous appraisal of market conditions for movement and expectation of foreign currencies rate, benchmark profit rates and equity houses.

To mitigate operational and operations related risks, the Bank does have in place insurance policy to transfer these risks.

### 4.5. Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank’s performance to developments affecting a particular industry or geographical location.

### 4.6. Credit Risk Management

In order to avoid excessive concentrations of risk, the Bank’s policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

#### 4.6.1 Credit Risk Measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools and models tailored to the various categories of counterparties.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.2 Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for facilities provided, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for Islamic financing and investing assets are:

- Mortgages over residential and commercial properties;
- Corporate guarantees;
- Charges over business assets such as premises, machinery, vehicles and inventory; and
- Charges over financial instruments such as deposits and equity investments.

### 4.6.3 Islamic derivative financial instruments

Credit risk arising from Islamic derivative financial instruments is, at any time, dependent upon its positive fair values, as recorded in the consolidated financial position and their Potential Future Exposure ("PFE") as per Basel guidelines.

### 4.6.4 Credit-related commitments risks

The Bank makes available to its customers guarantees and letters of credit which require that the Bank makes payment in the event that the customer fails to fulfil certain obligations to other parties. This exposes the Bank to credit risk and these are mitigated by the same control processes and policies.

### 4.6.5 Gross Credit Risk Exposures

The table below shows the maximum exposure to credit risk by class of financial asset, including Islamic derivatives, as of 31 December 2013. The maximum exposure is shown gross, before the effect of mitigation through the use of master netting and collateral agreements.

| **AED'000** | **Gross maximum Exposure** |
|---|---|
| Balances with central banks | **20,971,972** |
| Due from banks and financial institutions | **9,606,168** |
| Islamic financing and investing assets | **60,643,911** |
| Investment in Islamic sukuk measured at amortised cost | **11,642,553** |
| Other investments | **2,029,657** |
| Receivables and other assets | **5,527,422** |
| **Total on-balance sheet exposure** | **110,421,683** |
| Contingent liabilities | **10,299,246** |
| Commitments | **14,753,643** |
| **Total** | **135,474,572** |

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.6 Risk concentrations of the maximum exposure to credit risk

Concentration of risk is managed by customer/counterparty, by geographical region and by industry sector. The Bank's financial assets as of 31 December 2013, before taking into account any collateral held or other credit enhancements can be analysed by the following geographical regions:

| AED'000 | Retail and business banking | Wholesale banking | Total |
|---|---|---|---|
| The U.A.E. | **30,168,218** | **97,997,518** | **128,165,736** |
| Other Gulf Cooperation Council (GCC) countries | **-** | **1,378,244** | **1,378,244** |
| South Asia | **434,739** | **2,497,223** | **2,931,962** |
| Europe | **-** | **2,370,057** | **2,370,057** |
| Africa | **-** | **304,512** | **304,512** |
| Other | | **324,061** | **324,061** |
| **Total** | **30,602,957** | **104,871,615** | **135,474,572** |

An industry sector analysis of the Bank's financial assets as of 31 December 2013, before taking into account collateral held or other credit enhancement is as follows:

| AED'000 | Gross maximum exposure |
|---|---|
| Financial Institutions | **39,534,274** |
| Real estate | **31,308,079** |
| Manufacturing and services | **21,296,628** |
| Consumer financing | **16,666,774** |
| Consumer home finance | **11,702,178** |
| Government | **5,287,423** |
| Trade | **9,679,216** |
| **Total** | **135,474,572** |

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.7 Gross Credit Risk Exposures as per Standardized Approach

The gross credit exposure as per standardized approach with the effect of CRM as of 31 December 2013 is detailed below:

| | | | | Credit Risk Mitigation (CRM) | | |
|---|---|---|---|---|---|---|
| **AED'000** | **On Balance Sheet Gross Outstanding** | **Off Balance Sheet Net Exposure after Credit Conversion Factors (CCF)** | **Total exposure after CCF** | **Exposure Before Credit Risk Mitigation (CRM)** | **After CRM** | **Risk Weighted Assets** |
| Claims on sovereigns | **29,146,102** | **17** | **29,146,119** | **29,146,119** | **29,146,119** | **304,874** |
| Claims on non-central government public sector entities | **7,641,891** | **23,958** | **7,665,849** | **7,635,849** | **7,635,849** | **4,108,284** |
| Claims on banks | **10,633,960** | **211,211** | **10,845,170** | **10,845,170** | **10,845,170** | **2,893,014** |
| Claims on corporates | **16,663,848** | **6,938,537** | **23,602,385** | **23,593,646** | **23,593,646** | **23,714,728** |
| Claims included in the regulatory retail portfolio | **14,076,000** | **1,119,748** | **15,195,748** | **15,194,620** | **15,194,620** | **11,787,608** |
| Claims secured by residential property | **10,474,354** | **199,209** | **10,673,564** | **10,673,564** | **10,673,564** | **6,438,618** |
| Claims secured by commercial real estate | **5,814,893** | **18,490** | **5,833,383** | **5,608,605** | **5,608,605** | **5,569,977** |
| Past due financing assets | **9,741,914** | **-** | **9,741,914** | **6,183,062** | **6,183,062** | **7,400,802** |
| Higher-risk categories | **1,170,229** | **-** | **1,170,229** | **1,170,229** | **1,170,229** | **1,755,343** |
| Other assets | **7,785,742** | **181,753** | **7,967,494** | **7,967,494** | **7,967,494** | **6,226,568** |
| **Total** | **113,148,933** | **8,692,922** | **121,841,855** | **118,018,358** | **118,018,358** | **70,199,816** |

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.7 Gross Credit Risk Exposures as per Standardized Approach (continued)

The gross credit exposures as per standardized approach in terms of rated/unrated assets as of 31 December 2013 is detailed below:

| AED'000 | Rated | Unrated | Total exposure after CCF &before CRM | Exposure Before CRM | After CRM[2] | Risk Weighted Assets |
|---|---|---|---|---|---|---|
| Claims on sovereigns | **1,038,835** | **28,107,284** | **29,146,119** | **29,146,119** | **29,146,119** | **304,874** |
| Claims on non-central government public sector entities | **370,112** | **7,265,737** | **7,635,849** | **7,635,849** | **7,635,849** | **4,108,284** |
| Claims on banks | **9,110,753** | **1,734,417** | **10,845,170** | **10,845,170** | **10,845,170** | **2,893,014** |
| Claims on corporates | **2,624,351** | **20,969,295** | **23,593,646** | **23,593,646** | **23,593,646** | **23,714,728** |
| Claims included in the regulatory retail portfolio | **-** | **15,194,620** | **15,194,620** | **15,194,620** | **15,194,620** | **11,787,608** |
| Claims secured by residential property | **-** | **10,673,564** | **10,673,564** | **10,673,564** | **10,673,564** | **6,438,618** |
| Claims secured by commercial real estate | **-** | **5,608,605** | **5,608,605** | **5,608,605** | **5,608,605** | **5,569,977** |
| Past due financing assets, Higher-risk categories and Other assets | **-** | **15,320,785** | **15,320,785** | **15,320,785** | **15,320,785** | **15,382,713** |
| **Total** | **13,144,051** | **104,874,307** | **118,018,358** | **118,018,358** | **118,018,358** | **70,199,816** |

[2] Currently using the substitution approach for Credit Risk Mitigation where the risk weight of the exposure is substituted by the risk weight of the collateral.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.8 Credit Quality and Impairment assessment

The main considerations for the impairment assessment include whether any payments of principal or profit are overdue by more than 90 days (in line with the CBUAE guidelines) or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

#### 4.6.8.1 Individually assessed allowances

The Bank determines the allowances appropriate for each individually significant Islamic financing or investing asset on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected dividend payout should bankruptcy ensue, the availability of other financial support and the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

#### 4.6.8.2 Collectively assessed allowances

Allowances are assessed collectively for losses on Islamic financing and investing assets that are not individually significant (including Islamic credit cards, vehicles murabahas, and unsecured retail financing and investing assets) where there is not yet objective evidence of individual impairment. Allowances are evaluated on each reporting date with each portfolio receiving a separate review.

The collective assessment takes account of impairment that is likely to be present in the portfolio even though there is not yet objective evidence of the impairment in an individual assessment. Impairment losses are estimated by taking into consideration the following information: historical losses on the portfolio, current economic conditions, the approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance, and expected receipts and recoveries once impaired. The impairment allowance is reviewed by credit management to ensure alignment with the Bank's overall policy.

Acceptances and contingent liabilities are assessed and provisions made in a similar manner as for Islamic financing and investing assets.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.9 Credit quality per class of financial assets

| AED'000 | Balances with central banks and due from banks and financial institutions | Islamic financing and investing assets | Investments in Islamic sukuk and other investments | Receivables and other assets | Contingent liabilities and commitments | Total |
|---|---|---|---|---|---|---|
| **Individually impaired** | | | | | | |
| Gross amount | - | 5,654,003 | - | 1,365,316 | - | 7,019,319 |
| **Non-impaired exposures** | | | | | | |
| Neither past due nor impaired | 30,578,140 | 49,068,511 | 13,672,210 | 4,085,942 | 25,052,889 | 122,457,692 |
| Past due by less than 30 days | - | 2,930,687 | - | 76,164 | - | 3,006,851 |
| Past due by more than 30 days but less than 90 days | - | 1,502,313 | - | - | - | 1,502,313 |
| Past due by more than 90 days | - | 1,488,397 | - | - | - | 1,488,397 |
| | 30,578,140 | 49,068,511 | 13,672,210 | 4,085,942 | 25,052,889 | 122,457,692 |
| **Gross amount** | 30,578,140 | 54,989,908 | 13,672,210 | 4,162,106 | 25,052,889 | 128,455,253 |
| **Total gross maximum exposure** | 30,578,140 | 60,643,911 | 13,672,210 | 5,527,422 | 25,052,889 | 135,474,572 |
| **Allowances for impairment** | - | (4,573,273) | - | (703,419) | - | (5,276,692) |
| **Net carrying amount** | 30,578,140 | 56,070,638 | 13,672,210 | 4,824,003 | 25,052,889 | 130,197,880 |

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.9 Credit quality per class of financial assets (continued)

Analysis of credit risk exposure of the Bank's financial assets for each internal risk rating as of 31 December 2013 is as follows:

| | Moody's equivalent grades | Total AED'000 |
|---|---|---|
| **Low risk** | | |
| Risk rating class 1 | Aaa | **24,150,145** |
| Risk rating classes 2 and 3 | Aa1-A3 | **25,849,242** |
| **Fair risk** | | |
| Risk rating class 4 | Baa1-Baa3 | **27,434,591** |
| Risk rating classes 5 and 6 | Ba1-B3 | **38,973,653** |
| Risk rating class 7 | Caa1-Caa3 | **11,429,696** |
| **High risk** | | |
| Risk rating classes 8 to11 | | **7,637,245** |
| | | **135,474,572** |

It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of financing exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Bank's rating policy. The attributable risk ratings are assessed and updated regularly. The Moody's equivalent grades are relevant only for certain of the exposures in each risk rating class.

The details of non performing financing and investing assets as of 31 December 2013 by economic activity and geography are as below:

**By economic activity**

| AED'000 | Overdue by less than 90 days | Overdue by 90 days and above | Total | Specific provision | Total Impaired Assets |
|---|---|---|---|---|---|
| Manufacturing and services | - | 89,271 | 89,271 | (89,271) | - |
| Real estate | 1,938,818 | 1,726,264 | 3,665,082 | (2,180,376) | 1,484,706 |
| Trade | 64,103 | 144,207 | 208,310 | (112,134) | 96,176 |
| Financial institutions | 133,049 | 1,109,820 | 1,242,869 | (224,103) | 1,018,766 |
| Retail and consumer Financing | 41,453 | 545,319 | 586,772 | (585,921) | 851 |
| Consumer home finance | - | 1,350,096 | 1,350,096 | (479,120) | 870,976 |
| **Total** | 2,177,423 | 4,964,977 | 7,142,400 | (3,670,925) | 3,471,475 |
| **General and collective provision** | | | | | (902,348) |
| | | | | | 2,569,127 |

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

## 4.6. Credit Risk Management (continued)

### 4.6.9 Credit quality per class of financial assets (continued)

**By geography**

| AED'000 | Overdue by less than 90 days | Overdue by 90 days and above | Total | Specific provision | Total Impaired Assets |
|---|---|---|---|---|---|
| United Arab Emirates | 2,091,297 | 4,857,757 | 6,949,054 | (3,601,317) | 3,347,737 |
| GCC excluding UAE | 86,126 | - | 86,126 | (15,328) | 70,798 |
| Asia | - | 96,693 | 96,693 | (44,296) | 52,397 |
| Others | - | 10,527 | 10,527 | (9,984) | 543 |
| **Total** | 2,177,423 | 4,964,977 | 7,142,400 | (3,670,925) | 3,471,475 |
| **General and collective provision** | | | | | (902,348) |
| | | | | | 2,569,127 |

### 4.6.10 Movements in the provision for impairment during the years ended 31 December 2013

| | AED'000 |
|---|---|
| **Balance at 1 January 2013** | 3,699,422 |
| Charge for the year | 1,153,085 |
| Release to the profit or loss | (301,455) |
| Write-back during the year | 6,802 |
| Foreign exchange effect | (3,799) |
| Other movements | 19,218 |
| **Balance at 31 December 2013** | 4,573,273 |

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 4.7. Market risk management

#### 4.7.1. Profit margin risk

The Bank is not significantly exposed to risk in terms of repricing of its customer deposits since, in accordance with Islamic Sharia'a, the Bank does not provide contractual rates of return to its depositors or investment account holders. The return payable to depositors and investment account holders is based on the principle of the Mudaraba by which the depositors and investment account holders agree to share the profit or loss made by the Bank's Mudaraba asset pool over a given period.

#### 4.7.2. Profit Rate Risk in Banking Book

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or re-price in a given period. The Bank manages this risk through risk management strategies.

The effective profit rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current rate for a floating rate instrument or an instrument carried at fair value.

The sensitivity of the consolidated income statement is the effect of the assumed changes in profit rates on the net profit for one year, based on the variable profit rate non-trading financial assets and financial liabilities held at 31 December 2013.

The following table demonstrates the sensitivity to a reasonable possible change in profit rates, with all other variables held constant, of the Bank's consolidated income statement.

| **Currency** | **Increase in basis points** | **Sensitivity of profit on Islamic financing and investing assets 2013 AED'000** |
|---|---|---|
| AED | **50** | **49,168** |
| USD | **50** | **10,283** |

#### 4.7.3. Foreign exchange risk

The Bank has significant income recorded in its overseas subsidiaries and associates and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2013. Included in the table are the Bank's financial instruments at their carrying amounts, categorised by currency.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## 4.7. Market risk management (continued)

### 4.7.3. Foreign exchange risk (continued)

| AED'000 | AED | USD | Other G.C.C. | GBP | Euro | Other | Total |
|---|---|---|---|---|---|---|---|
| **Financial Assets:** | | | | | | | |
| Cash and balances with central banks | 22,162,134 | 419,130 | - | - | - | 131,700 | 22,712,964 |
| Due from banks and financial institutions | 2,341,955 | 6,738,868 | 435,328 | 21,974 | 36,119 | 31,924 | 9,606,168 |
| Islamic financing and investing assets, net | 49,629,618 | 4,978,111 | 17 | 168 | 4,152 | 1,458,572 | 56,070,638 |
| Investment in Islamic sukuk measured at amortised cost | 574,802 | 10,309,443 | - | - | - | 758,308 | 11,642,553 |
| Other investments | 717,229 | 1,035,893 | 178,389 | 3,881 | 29,831 | 64,434 | 2,029,657 |
| Receivables and other assets | 4,770,382 | 21,911 | 965 | - | 13,270 | 17,475 | 4,824,003 |
| **Total** | 80,196,120 | 23,503,356 | 614,699 | 26,023 | 83,372 | 2,462,413 | 106,885,983 |
| **Financial Liabilities:** | | | | | | | |
| Customers' deposits | 72,248,919 | 4,028,724 | 491,400 | 45,628 | 179,512 | 2,066,358 | 79,060,541 |
| Due to banks and other financial institutions | 1,448,016 | 1,038,067 | - | 35 | 76 | 143,812 | 2,630,006 |
| Sukuk financing instruments | - | 2,807,603 | - | - | - | - | 2,807,603 |
| Payables and other liabilities | 4,484,240 | 7,413,698 | 90,582 | 315 | 1,637 | 64,594 | 12,055,066 |
| **Total** | 78,181,175 | 15,288,092 | 581,982 | 45,978 | 181,225 | 2,274,764 | 96,553,216 |
| Net on balance sheet | 2,014,945 | 8,215,264 | 32,717 | (19,955) | (97,853) | 187,649 | 10,332,767 |
| Unilateral promise to buy/sell currencies | 5,318,606 | (5,501,055) | 73,467 | 15,387 | 23,388 | 70,207 | - |
| **Currency position - long/(short)** | 7,333,551 | 2,714,209 | 106,184 | (4,568) | (74,465) | 257,856 | 10,332,767 |

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## 4.7. Market risk management (continued)

### 4.7.3. Foreign exchange risk (continued)

The tables below indicate the extent to which the Bank was exposed to currency risk at 31 December 2013 on its non-trading monetary assets and liabilities, and forecast cash flows. The analysis is performed for a reasonable possible movement of the currency rate against the AED with all other variables held constant on the consolidated income statement (due to the changes in the fair values of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of foreign currency denominated available-for-sale equity instruments). A negative amount in the table reflects a potential net reduction in consolidated income statement and equity, while a positive amount reflects a net potential increase. The sensitivity analysis does not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

| **Currency** | **Increase in currency rate in %** | **Effect on profit before tax AED'000** |
|---|---|---|
| **GBP** | **+2** | **(92)** |
| **EURO** | **+2** | **(1,489)** |

| **Currency** | **Decrease in currency rate in %** | **Effect on profit before tax AED'000** |
|---|---|---|
| **GBP** | **-2** | **92** |
| **EURO** | **-2** | **1,489** |

### 4.7.4. Foreign investment

The Bank has significant income recorded in its overseas subsidiaries and is therefore exposed to movements in the foreign currency rates used to convert income into the Bank's presentation currency, the U.A.E. Dirham.

The table below indicates the change in recorded profit before tax and equity had the result for the year ended 31 December 2013 been translated at exchange rates against the AED adjusted, with all other variables held constant, by the assumed changes below. The sensitivity analyses do not take account of actions by the Bank that might be taken to mitigate the effect of such changes.

| **Currency** | **Increase in currency rate in %** | **Effect on profit before tax** | **Effect on equity** |
|---|---|---|---|
| | | **AED'000** | **AED'000** |
| Pak Rupees | **+5** | **(1,005)** | **(25,034)** |
| Egypt Sterling | **+5** | **373** | **8,406** |

| **Currency** | **Decrease in currency rate in %** | **Effect on profit before tax** | **Effect on equity** |
|---|---|---|---|
| | | **AED'000** | **AED'000** |
| Pak Rupees | **-5** | **(2,277)** | **(47,316)** |
| Egypt Sterling | **-5** | **(338)** | **(7,609)** |

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 4.7. Market risk management (continued)

#### 4.7.5. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as fair value through other comprehensive income (FVTOCI) at 31 December 2013 ) due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

| | Change in market Indices % | Effect on consolidated income statement 2013 AED'000 | Effect on equity 2013 AED'000 |
|---|---|---|---|
| **Market indices** | | | |
| Dubai Financial Market | **± 5%** | **39** | **18,916** |
| Abu Dhabi Exchange | **± 5%** | **-** | **5,191** |
| Bahrain Stock Exchange | **± 5%** | **-** | **3,132** |
| Saudi Stock Exchange | **± 5%** | **-** | **3,757** |
| Doha Stock Exchange | **± 5%** | **-** | **2,013** |
| Egypt Stock Exchange | **± 5%** | **-** | **1,328** |
| Other | **± 5%** | **-** | **1,263** |

### 4.8. Operational Risk Management

Operational risk is the potential exposure to financial or other damage arising from inadequate or failed internal processes, people or systems.

The Bank has developed a detailed operational risk framework. The framework clearly defines roles and responsibilities of individuals/units across different functions of the Bank that are involved in performing various operational risk management tasks. Operational Risk Management Framework will ensure that operational risks within the Bank are properly identified, monitored, managed and reported. Key elements of the framework include process mapping, setting up loss data base, setting up of Key Risk Indicators ("KRIs"), risk analysis and risk management reporting.

The Bank is currently using operational risk tracking system, i.e. ORMIS to track operational risk events across the Bank. The system houses more than three years of operational loss data. The subject system is currently enhanced to automate KRI, Risk Control Self-Assessment ("RCSA") and scenario based fraud risk self-assessment modules.

Each new product introduced is subject to a risk review and signoff process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products are also subject to a similar process. Business and support units are responsible for managing operations risk in their respective functional areas. They operate within the Bank's operational risk management framework and ensure that risk is being managed within their respective business units. The day-to-day management of operations risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedure to monitor transaction positions and documentation, as well as maintenance of key backup procedures and business contingency planning.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## 4.9. Liquidity and Funding Risk Management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. The Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank maintains statutory deposits with the central banks. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank.

The high quality of the asset portfolio ensures its liquidity and coupled with the Bank's own funds and "evergreen" customer deposits help form a stable funding source. Even under adverse conditions, the Bank has access to the funds necessary to cover customer needs and meet its funding requirements.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

### 4.9.1. Liquidity risk management process

The Bank's liquidity risk management process, as carried out within the Bank and monitored by a separate team in Bank's Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are financed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of Islamic financing and investing exposures maturities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year were as follows:

| | **March** | **June** | **September** | **December** |
|---|---|---|---|---|
| **2013** | **42%** | **35%** | **29%** | **36%** |

### 4.9.2. Funding approach

Sources of liquidity are regularly reviewed by management to maintain a wide diversification by currency, geography, provider, product and term.

During the year ended 31 December 2013, the Bank issued Tier 1 sukuk AED 3,673 million (USD 1,000 million) sukuk to diversify sources of funding and to support business growth going forward.

## 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### 4.9. Liquidity and Funding Risk Management (continued)

#### 4.9.3. Non-derivative cash flows

The table below summarises the maturity profile of the gross cash flows of the Bank's financial assets and liabilities as at 31 December 2013. The amounts disclosed in the table are the contractual gross cash flows, whereas the Bank manages the inherent liquidity risk based on expected gross cash flows.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the management expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

| AED'000 | On demand | Less than 3 months | 3 months to 1 year | 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| Balances with central banks | **2,570,699** | **5,860,116** | **9,997,346** | **-** | **-** | **18,428,161** |
| Due from banks and financial institutions | **4,729,651** | **8,864,985** | **-** | **-** | **-** | **13,594,636** |
| Islamic financing and investing assets, net | **4,282,666** | **6,941,699** | **9,398,187** | **31,854,046** | **19,160,096** | **71,636,694** |
| Investment in Islamic sukuk | **17,866** | **23,752** | **1,658,968** | **9,594,802** | **2,280,515** | **13,575,903** |
| Other investments | **-** | **-** | **1,062,508** | **997,269** | **-** | **2,059,777** |
| Receivables and other assets | **76,164** | **664,119** | **1,141,272** | **3,645,867** | **-** | **5,527,422** |
| **Total assets** | **11,677,046** | **22,354,671** | **23,258,281** | **46,091,984** | **21,440,611** | **124,822,593** |
| Customers' deposits | **14,437,148** | **11,241,126** | **34,935,859** | **22,035,867** | **70,895** | **82,720,895** |
| Due to banks and other financial institutions | **1,498,918** | **558,018** | **90,082** | **-** | **-** | **2,147,018** |
| Sukuk financing instruments | **-** | **-** | **28,411** | **3,494,270** | **-** | **3,522,681** |
| Medium term wakala finance | - | - | - | - | - | - |
| Payables and other liabilities | **7,437,205** | **1,429,319** | **2,660,428** | **548,205** | **-** | **12,075,157** |
| Zakat payable | **-** | **-** | **165,588** | **-** | **-** | **165,588** |
| **Total liabilities** | **23,373,271** | **13,228,463** | **37,880,368** | **26,078,342** | **70,895** | **100,631,339** |

Assets available to meet all of the liabilities and to cover outstanding commitments include cash and balances with central banks, Islamic investing and financing assets, other investments at fair value and items in the course of collection.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## 4.10. Capital Management Policies and Stress Testing

The Bank is governed by the Central Bank of UAE guidelines on regulatory capital requirements for the group and the overseas branches and subsidiaries of the bank are directly supervised by their local regulators.

The main objective of the bank's capital management policies is to ensure that it has sufficient capital to cover the risks associated with its activities. The assessment of the various risks across the bank and their likely impact is carried out annually in conjunction with ICAAP. As part of ICAAP process, risk management division identifies various risks the bank is exposed to as part of its day-to-day operations. The Bank establish policies and procedures, frameworks and methodologies, contingency plans and other processes to measure, manage and mitigate the impact of such risks. Based on this the bank determines the risks which should be covered by capital.

The key objectives of the bank's capital management process are:

- Maintain sufficient capital to meet minimum capital requirement set by the Central Bank of UAE as well as to ensure smooth transition to Basel III in terms of capital ratios.
- Maintain sufficient capital to support bank's risk appetite in line with the strategic objectives as per the medium term strategic plan.
- Maintain adequate capital to withstand stress scenarios including increased capital requirements determined through ICAAP.
- To support the Bank's credit rating.

The capital management process of the bank is aligned with the overall business strategy to ensure that capital is adequate for the level of inherent risk in the business. The bank conducts capital planning in conjunction with the strategic business and financial planning exercise. The Bank develops medium-term strategic plan on a rolling basis which is updated annually. Detailed business plan and budget for the year is prepared based on the medium-term plan. The overall strategic plan and budget are approved by the Board of Directors of the bank. The business plan and budget for the year are cascaded down to the individual businesses. The detailed business plan and budget provides the foundation for financial risk management and planning exercise.

The bank conducts stress test exercise over five year horizon by considering risk factors based on macroeconomic variables at various levels of stress scenarios to determine its impact on the level of capital adequacy of the bank. The tests are considered as an important tool for internal capital planning. The results of the stress test conducted during 2013 shows that the Bank has adequate capital in the event of adverse scenarios for the next 3 year period.

# 4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

## 4.11. Regulatory/Compliance Risk

Regulatory risk is defined as the risk of regulatory sanctions, material financial or reputational loss, as a result of failure to comply with laws, regulations, supervisory or industry codes requirements etc.

The Bank has mainly two operational centers - UAE & Pakistan. Therefore, the Bank's primary regulators in these jurisdictions are:

- UAE Central Bank;
- Securities & Commodities Authority;
- Dubai Financial Services Authority; and
- State Bank of Pakistan.

Given the dimensions of bank's business and its operations, the regulatory requirements are significant. Any failure in policy, internal control systems and processes may result in non-compliance with regulatory requirements which may impact the bank adversely.

The bank has develop a detail monitoring process to ensure compliance of regulatory requirements, internal policies and procedures with a dedicated team responsible for monitoring.

## 4.12. Reputation Risk

Reputational risk is defined as a damage or loss to the Bank's reputation due to one or more events such as negative publicity on bank's practices, conduct and financial conditions. The Bank has clearly identified the areas as sources of reputational events, such as:

- Compliance with legal and regulatory obligations;
- Business practices followed;
- Standard of products and service quality;
- Information technology security and data integrity;
- Association with customers, suppliers and partners;
- Crises management;
- External communication;
- Achievements of financial targets.

The bank actively manages the identified business risks that may lead to reputational events.

During the period of severe adverse changes in the economic environment, the bank has consistently been able to maintain brand image with considerable success. The risk assessment therefore, can be considered as modest.