بنك دبي الإسلامي
Dubai Islamic Bank

Basel III – Pillar III Disclosures

December 2021

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1. Overview and Introduction

This document presents Pillar III disclosures (enhanced from previous years Pillar III disclosures in line with CBUAE guidance) which complements the Basel III minimum capital requirements and the supervisory review process of Dubai Islamic Bank PJSC including its financial subsidiaries ("DIB" or the "Bank") and non-financial subsidiaries (collectively referred to as the "Group"). The disclosures include information on Group's reporting structure, regulatory capital structure, risk exposures, risk management objectives, policies and assessment processes. The disclosures consist of both quantitative and qualitative information and are provided at the Group consolidated level.

The Bank is regulated by the Central Bank of the United Arab Emirates ("CBUAE") and follows the Pillar III 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. Additional guidelines for Basel III were issued over the course of 2019/2020 in consultations with the UAE Banks. Some of the Pillar III requirements have been disclosed in the audited consolidated financial statement for the year ended 31 December 2021, which covers the risk and capital management processes of the Group and its compliance with the Basel Accords.

1.1 Basel Regulatory Framework

The Basel Accord framework consists of following three main 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 fund;
- **Pillar II** - addresses a Bank's Internal Capital Adequacy Assessment Process ("ICAAP") for assessing overall capital adequacy in relation to risks other than Pillar I. Pillar II also introduces the Supervisory Review and Evaluation Process ("SREP"), which is used as a tool to assess the internal capital adequacy of banks; and
- **Pillar III** - complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy which encourages market discipline and allows market participants to assess specific information.

1.2 Future Regulatory Developments

The regulation and supervision of financial institutions has undergone a significant change since the global financial crisis. CBUAE Basel III capital regulations have been implemented and are complied by the Bank.

All revised capital standards for 2021 as per Basel III guidelines on capital standards for Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Capital Buffers such as Capital Conservation Buffer (CCB) and Domestic Systemically Important Banks Buffer (DSIB) are implemented. There is close coordination between UAE Banks and CBUAE for the smooth implementation of any forthcoming new guidelines and disclosure requirements.

Implementation and Compliance of Basel Framework Guidelines

The Bank has been in compliance with Basel Accord guidelines since December 2007, in accordance with CBUAE directives on Standardised Approach for Credit, Market and Operational Risk.

In compliance with the CBUAE guidelines and Basel accords, these disclosures include information on the Bank's risk management objectives and policies, risk assessment processes and computation, capital management and capital adequacy.

Verification:

The Pillar III disclosures for the year ended 31 December 2021 have been appropriately verified internally.

2. Group Structure - Information on Subsidiaries and Significant Investments

The Group consists of Dubai Islamic Bank P.J.S.C. and its subsidiaries. As of 31 December 2021, the Group's interest held directly or indirectly in its financial and non-financial subsidiaries are as follows:

	Name of subsidiary	Principal activity	Place of incorporation and operation	Ownership interest and voting power	
				2021	2020
1.	Dubai Islamic Bank Pakistan Ltd.	Banking	Pakistan	**100.0%**	100.0%
2.	Noor Bank P.J.S.C.	Banking	U.A.E.	**100.0%**	100.0%
3.	Tamweel P.S.C	Financing	U.A.E.	**92.0%**	92.0%
4.	DIB Bank Kenya Ltd.	Banking	Kenya	**100.0%**	100.0%
5.	Dubai Islamic Financial Services L.L.C.	Brokerage services	U.A.E.	**99.0%**	99.0%
6.	Deyaar Development P.J.S.C.	Real estate development	U.A.E.	**44.9%**	44.9%
7.	Dar Al Sharia Islamic Finance Consultancy L.L.C.	Islamic finance advisory	U.A.E.	**100.0%**	60.0%
8.	Al Tanmyah Services L.L.C.	Labour services	U.A.E.	**99.0%**	99.0%
9.	Al Tatweer Al Hadith Real Estate	Real estate development	Egypt	**100.0%**	100.0%
10.	Al Tameer Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
11.	Al Tanmia Modern Real Estate Investment	Real estate development	Egypt	**100.0%**	100.0%
12.	Naseej Private Property Management Services	Property management	U.A.E.	**99.0%**	99.0%
13.	Dubai Islamic Bank Printing Press L.L.C.	Printing	U.A.E.	**99.5%**	99.5%
14.	Al Islami Real Estate Investments Ltd.	Investments	U.A.E.	**100.0%**	100.0%
15.	Dubai Islamic Trading Center L.L.C.	Trading in vehicles	U.A.E.	**100.0%**	100.0%
16.	Creek Union Limited FZ LLC	Investments	U.A.E.	**100.0%**	100.0%
17.	Madinat Bader Properties Co. L.L.C.	Real estate development	U.A.E.	**99.0%**	99.0%
18.	Premium Marketing Services L.L.C	Outsourcing and Marketing activities	U.A.E.	**100.0%**	100.0%
19.	Noor BPO L.L.C	Outsourcing and Consultancy services	U.A.E.	**100.0%**	100.0%
20.	Zawaya Realty L.L.C	Real estate Management Services	U.A.E.	**100.0%**	100.0%

In addition to the registered ownership described above, the remaining equity in the entities 5, 8, 12, 13 and 17 are also beneficially held by the Bank through nominee arrangements.

Below is the list of Special Purpose Vehicles (SPV) which were formed to manage specific transactions including funds, and are expected to be closed upon completion of the related transactions:

	Name of SPV	Principal activity	Place of incorporation and operation	Ownership interest and voting power	
				2021	2020
21.	HoldInvest Real Estate Sarl	Investments	Luxembourg	**100.0%**	100.0%
22.	France Invest Real Estate SAS	Investments	France	**100.0%**	100.0%
23.	SARL Barbanniers	Investments	France	**100.0%**	100.0%
24.	SCI le Sevine	Investments	France	**100.0%**	100.0%
25.	Al Islami Trade Finance FZ L.L.C.	Investments	U.A.E.	**100.0%**	100.0%
26.	MESC Investment Company	Investments	Jordan	**40.0%**	40.0%
27.	Levant One Investment Limited	Investments	U.A.E.	**100.0%**	100.0%
28.	Petra Limited	Investments	Cayman Islands	**100.0%**	100.0%

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2. Group Structure - Information on Subsidiaries and Significant Investments (continued)

	Name of SPV	Principal activity	Place of incorporation and operation	Ownership interest and voting power	
				2021	2020
29.	Deyaar Investments LLC	Investments	U.A.E.	**Controlling Interest**	Controlling Interest
30.	Deyaar Funds LLC	Investments	U.A.E.	**Controlling Interest**	Controlling Interest
31.	Sequia Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%
32.	Blue Nile Investments L.L.C.	Investments	U.A.E.	**99.0%**	99.0%
33.	DIB FM Ltd	Investments	Cayman Islands	**100.0%**	100.0%
34.	Noor Sukuk Company Limited	Investments	Cayman Islands	**100.0%**	100.0%
35.	Noor Tier 1 Sukuk Limited	Investments	Cayman Islands	**100.0%**	100.0%
36.	Noor Structured Certificates Ltd.	Investments	Cayman Islands	**100.0%**	100.0%
37.	Noor Derivatives Limited	Investments	Cayman Islands	**100.0%**	100.0%

In addition to the registered ownership described above, the remaining equity in the entities 29, 30, 31 and 32 are also beneficially held by the Bank through nominee arrangements.

3. Overview of Risk Management and RWA

Risk Management is core activity for Bank and encompasses all the activities that affect its risk profile. It involves identification, measurement, monitoring and controlling risks to ensure that:

- The individuals who take or manage risks clearly understands.
- The organization’s risk exposure is within the limits established by Board.
- Risk taking decisions are in line with the business strategy and objectives set by the Board.
- The expected payoffs compensate for the risks taken.
- Risk taking decisions are explicit and clear.
- Sufficient capital as a buffer is available to take various risks.

OVA: Bank risk management approach

The Bank maintains a pro-active risk management strategy and prudent culture as a foundation for achieving its mission and goals and shall ensure that the risks associated with the Bank’s strategy are identified, understood, quantified and mitigated in order to achieve Bank’s Mission and Value Proposition. Bank shall ensure compliance with the regulatory guidelines through effective and pro-active risk management practices. The Bank shall foster an atmosphere where constructive challenging is a natural part of discussions and decisions on risk-taking, risk awareness and risk culture. The risk appetite is embedded in the strategic and financial planning processes to ensure that risk management forms an integral part of the strategic objectives and decision-making process.

The Bank’s risk culture provides guiding principles for the behaviours expected from people when managing risk. The Board has approved a risk culture statement that encourages the following behaviours and outcomes:

- Bank wide ability to identify and assess current and future risks, openly discuss these and take prompt actions
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks
- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner
- Everyone to be accountable for their decisions and feel safe in using their judgement to make considered decisions

The Bank's approaches strategic risk management as follows:

- By conducting an impact analysis on the risk profile from growth plans, strategic initiatives and business model vulnerabilities, with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised as part of the strategy review process
- By confirming that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Board consideration as part of the strategy review process
- By validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board
- Country Risk management approach and Country Risk reviews are used to ensure the country limits and exposures are reasonable and in line with Group strategy, country strategy, and the operating environment, considering the identified risks

(a) Overall risk profile and risk tolerance

Risk appetite is articulated via a set of qualitative and quantitative measures or indicators, along with corresponding thresholds (which includes limits and tolerances), in relation to inherent risks such as Credit, Market, Operational, Liquidity, Strategic, Conduct, Reputational etc. Risk appetite cannot exceed risk capacity.

Risk capacity is the maximum level of risk the Bank can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies

The Board has set the highest standards to ensure that Bank's Corporate Governance environment that enshrines the principals of ethical behavior, transparency and commitment to protect the best interests of the Bank and its stakeholders. Successful risk governance is contingent on how effectively the Board and Management are able to work together in managing risks. The role of Management lies primarily in the design and execution of the risk management and internal controls system in accordance with the risk policies and direction set by the Board.

The Bank is exposed to various risks including but not limited to:

- Credit risk
- Liquidity risk
- Market risk
- Profit rate risk in the banking book
- Operational risk
- Reputational risk
- Regulatory / compliance risk
- Information Security
- Sharia compliance risk and
- Conduct risk

The Board has approved Risk Appetite Statement. The Bank's Risk Appetite is defined in accordance with risk management principles and the Bank's risk culture. The Bank follow the highest ethical standards and ensure a fair outcome for its clients, as well as facilitating the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. The Bank has defined Risk Appetite in a way to grow sustainably and to avoid shocks to earnings or general financial health, as well as manage Reputational Risk in a way that does not materially undermine the confidence of investors and all internal and external stakeholders.

The Bank will not compromise adherence to its Risk Appetite in order to pursue revenue growth or higher returns. The Bank Risk Appetite is supplemented by risk control tools such as granular level limits, policies, standards and other operational control parameters that are used to keep the Bank's risk profile within Risk Appetite. The Bank's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the relevant stakeholder within the Bank.

(b) Risk Governance Structure
(c) Channels to communications and enforcement of risk culture

The Board of Directors, supported by; the Board Risk Compliance and Governance Committee, Risk Management Committee and Group Risk Management Department, is ultimately responsible for identifying, monitoring and controlling risks. Additionally, there are other independent bodies / functions responsible for managing and monitoring risks.

The Bank implements the following three lines of defense approach under the Risk Governance Structure. Three lines of defense approach enables the Bank to ensure risks are properly understood at each level and controls and mitigations are executed at appropriate levels without any compromise due to conflict of interest and the same is monitored at different levels with more focus and precise MIS.

- The business units and other functions engaged in or supporting revenue generating activities that own and manage the risks are the first line of defense. which manage customer relationships and other activities. They are responsible for conducting their business to maximize the risk-return and new business strategies, whilst ensuring that they operate in line with the risk appetite and corresponding risk limits set by the Board. All Functions/ Departments shall be responsible for risk recognition /identification and development of controls in their respective areas. First line of defense is responsible for compliance with applicable laws and regulations and to make sure that they have processes / systems to meet risk data aggregation, risk reporting and data quality requirements set by the second line.
- The second line of defense is the control functions of Risk Management, Internal Sharia Control Department (ISSC), Legal Department and Compliance. They are responsible for establishing a robust risk management and control framework, conducting independent assessments, oversight and challenge to the first line of defense teams and activities. Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite and set risk data aggregation, risk reporting and data quality requirements. Ensure that there are appropriate controls to comply with applicable laws and regulations, and escalate significant non-compliance matters to senior management and the appropriate committees.
- The third line of defense contains the independent assurance functions, namely Internal Audit. They are responsible for checking and reporting compliance with regulatory requirements and internal policies, or identifying weaknesses in those internal policies or operating models.

Board of Directors

The overall responsibility of risk management rests with the Board which will be executed via respective committees and risk management function. Board recognize the risks to which the Bank is exposed and ensure:

- Promoting risk culture and strong control environment is established and maintained.
- Approve and ensure implementation of policies and ensuring availability of framework to monitor risks including sharia non-compliance risk.
- Approve the annual risk plan comprised of the top risks, risk appetite statement, tolerance / limits, and contingency plans for capital and liquidity.
- Adequate capital is available for carrying out business activities under various business lines and products, and maintaining this capital; thereby defining the overall risk appetite of the Bank.
- Reviewing regularly any significant risk issues highlighted by the Board risk committee.

Board Risk Compliance and Governance Committees

The Board Risk Compliance and Governance Committee (BRCGC) shall be constituted by Board has the overall responsibility for the development of the risk strategies, frameworks, policies and limits, and for recommending these strategies and policies to the Board of Directors. It is responsible for the fundamental risk issues, and manages and monitors relevant risk decisions.

- Support the Board in promoting a strong risk culture. In doing so, create expectations that all business is conducted in an ethical manner and in compliance with laws, regulations, internal rules and limits.
- Oversee the design, implementation and monitoring of the governance, risk management, compliance and internal control framework ensuring these are approved by the Board, fit for purpose and effective.
- Oversee compliance with applicable external obligations, significant internal policies relating to the operation of Bank's business and resolutions, fatwas, regulations and standards issued by the Higher Sharia Authority or the ISSC.

- Maintain a thorough understanding of the nature and complexity of the internal (inherent in the Bank's products, services and activities) and external sources of material risk impacting the Bank and the group and assist Board in determining the strategic direction of Bank by advising on risk perspectives.
- On an annual basis, review and recommend annual risk plan comprised of the top 10 risks, risk appetite statement, tolerance / limits, and contingency plans for capital and liquidity. In doing so, take account of the current and prospective macroeconomic, regulatory and financial environment and alignment with the Bank's strategy and strategic objectives.
- Review material policies and guidelines to manage and monitor the Bank's material risks (including but not limited to credit, operational, market, liquidity, information security, Sharia non-compliance, reputation, conduct and compliance risk) and recommend these to the Board for approval.
- Review, monitor and set controls for all relevant material risks ensuring adherence to the Bank's risk appetite and tolerance limits and monitor the adequacy of the Bank's capital. In respect of Sharia non-compliance risk, supervise, monitor and set controls, in consultation with Internal Sharia Supervisory Committee (ISSC) (through the Internal Sharia Control Department).
- Regularly report to the Board on Bank's risk profile and any significant changes and make recommendations to the Board on matters relating to risk management.

Risk Management Committee

The Risk Management Committee (RMC) shall be formed by Chairman of the Board to provide oversight in the area of risk management and assist BRCGC in oversight implementation of Risk Management framework and related policies approved by the Board at a functional level. The day-to-day monitoring of risk has been delegated to Risk Management Committee of the management.

The Risk Management Committee has the overall responsibility to support the BRCGC for the development and formulation of the risk strategies, frameworks, policies and limits. It is responsible for ensuring the compliance with all risk limits, monitoring risk exposures and implementing the regulatory guidelines issued by the regulatory bodies (e.g. The Central Bank of the U.A.E.).

- RMC ensure implementation of risk culture which support the embedding of the risk management framework, policies and processes within the Bank's daily operations and ensuring that business is conducted in an ethical manner
- Review, monitor and set controls for all relevant material risks ensuring adherence to the Bank's risk appetite and tolerance limits and monitor the adequacy of the Bank's capital.
- Review analysis of customer complaints in the context of understanding and addressing any current or developing market conduct or reputational risk issues.
- Monitoring compliance with legal and regulatory requirements and policies approved by the Board
- Monitor risk profile and any risk trends, concentrations or exposures, material breaches against risk tolerance/ limits and the external environment, and recommend adjustments.

Asset and Liability Management Committee

Asset and Liability Management Committee (ALCO) has been established to provide oversight of asset and liability management within the Bank, ensuring the following:

- Better positioning of Bank's balance sheet in the light of current market trends, opportunities and challenges
- Adequate planning, directing and controlling of the flow, level, mix, cost and yield of Bank's assets and liabilities to ensure liquidity and profit rate risk remain within the approved risk appetite
- Prudent and proactive management of Bank's balance sheet to safeguard from any adverse market movements including liquidity constraints, shift in credit scenarios and capital adequacy

IFRS 9 Committee

The Committee is established to assist management in fulfilling their responsibilities with respect to ensure following:

- Compliance with IFRS 9 standards, related CBUAE, other applicable regulatory rules, and the Bank's policies.
- That the Bank prudently recognizes significant deterioration in credit quality and non-performance and carries appropriate level of expected credit loss.
- Committee approves macroeconomic scenarios and their probabilities in consultation with Risk management and Finance.

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Compliance Committee

The Committee is established to assist management in fulfilling their responsibilities with respect to compliance, particularly:

- Promoting a culture of compliance within Bank, its subsidiaries and affiliates.
- Ensuring that the policies and approach to compliance within the Bank are adequate and effective.
- Review and monitor adherence to, Bank's Compliance strategy, policies and program ensuring appropriate controls and systems are in place.
- Review and recommend Compliance policies to the Risk Management Committee (RMC) and monitor their implementation.
- Deliberate the implications of new regulations and, through Bank's Group Head of Compliance, escalate material observations and concerns to the Central Bank of the UAE/UBF Compliance Committee for clarification.

Group 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 administration, portfolio management, credit risk, liquidity risk, market risk, operational risk, conduct risk and overall risk control.

Internal Audit Department

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

Sharia Non-Compliance Risk

The Internal Sharia Supervision Committee (ISSC) issues Sharia fatwas and resolutions and shall monitor compliance with Islamic Sharia through Internal Sharia Control Department and Internal Sharia Audit Department ensuring that the Bank's approach to Sharia risk management incorporates appropriate measures to comply with Sharia guidance and addresses potential exposure against failure to adhere to Sharia guidance issued by the ISSC and HSA (Higher Sharia Authority) from time to time.

Internal Sharia Control Department (ISCD)

The ISCD supports the ISSC and undertakes the following functions:

- Provide consultation based on the ISSC's fatwas and resolutions in regards to contracts and documents.
- Follow up with resolution implementation required by ISSC.
- Review promotional / advertising materials and publications.
- Review customer complaints (related to the compliance with Sharia) and other Sharia issues, especially the ones related to structuring and products.
- Conducting training for employees on the aspects of their duties related to compliance with Islamic Sharia.
- Reporting incidents related to non-sharia compliance to Operational Risk Management Department for onward assessment and reporting.

Internal Sharia Audit Department

The internal Sharia Audit Department ISAD undertakes Sharia audit and monitors compliance with Sharia and ensures the adequacy of internal procedures and Sharia governance frameworks.

The ISAD shall carry out the following duties:

- Undertake assessment of businesses and activities to ensure compliance with Sharia.
- Assess effectiveness of the internal Sharia supervision to ensure compliance with Sharia.
- Conduct regular field audits of departments, and branches (if any) and ensure that the products, services forms, contracts, agreements, activities and transaction execution procedures, and other related matters are approved by ISSC. Report

observations related to Sharia non- compliance to the Board Audit Committee and the ISSC and also share the same with Operational Risk management for assessment and reporting.

Sharia Compliance Unit

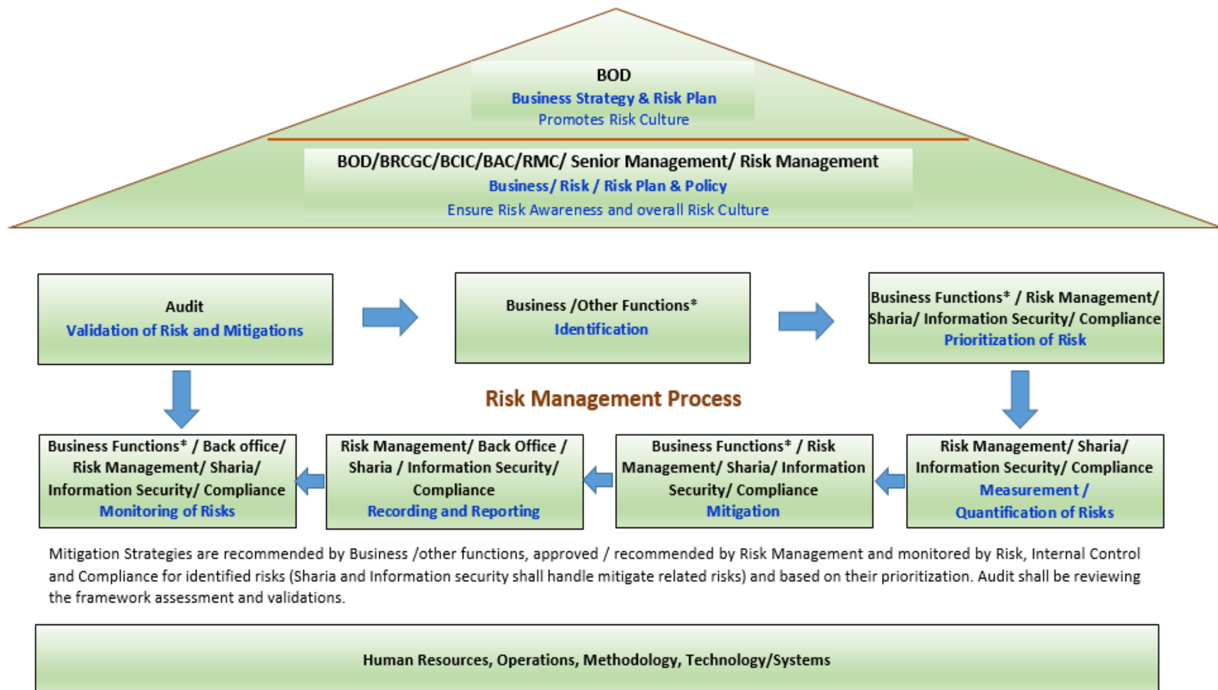
Moreover, there is a Sharia Compliance Unit under Internal Sharia Control Department of the Bank which constantly monitors Sharia Risk and Sharia compliance level of the Bank and submits its quarterly reports to the ISSC and the management.

(d) The scope and main features of risk measurement systems

The Bank measures risks using qualitative as well as quantitative methods for credit, market, liquidity, profit rate, reputational, regulatory/compliance, information security, sharia compliance, conduct 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 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 but plausible, do in fact, occur.

(e) The process of risk information reporting provided to the board and senior management

The architecture of the Bank's risk management process is briefly explained as per the below pictogram:



Risk Management activities of different levels simultaneously take place at the following levels:

Strategic level: To encompass risk management functions performed by the Board, BRCGC, RMC and Senior Management including instituting a risk management framework, ensuring provision of all resources, i.e. human resources, systems, etc., and support required for effective risk management on a Bank-wide basis.

Macro Level: To encompass risk management within a business area or across business lines. The risk management activities performed by middle management or units devoted to risk reviews fall into this category.

Micro Level: To involve 'On-the-line' risk management where risks are actually created. These are the risk management activities performed by individuals who take risk on the Bank's behalf such as front office and facility origination functions etc. The risk management in those areas is confined to following operational policies, procedures and guidelines set by management.

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(f) Qualitative information on stress testing

Stress testing is an integral part of the ICAAP reporting and is an important tool to analyse the Bank's risk profile since it gives management a better understanding of how the Bank's portfolios are affected by macroeconomic changes under normal and stress scenarios, including any adverse effects on the Bank's capital adequacy.

The approach employed at the Bank consists of sensitivity and scenario analyses, which is carried out for the major risks that are faced by the Bank.

The scenarios are based on the possible risks that may occur in the normal course of business activity as well as under mild and stressed macroeconomic conditions. Some of them are Bank specific while others are based on the external events that could have a direct or indirect impact on the Bank's financial position and capital adequacy.

(g) The strategies and processes to manage, hedge, and mitigate risks

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 seeks to manage its credit risk exposures through diversification of financing and investing activities to avoid undue concentration of risk with individuals and groups of customers in specific locations or businesses. The Bank actively uses collateral to mitigate its credit risks.

In order to guard against liquidity risk, management has diversified funding sources and assets are managed with overall liquidity in consideration maintaining a healthy quality of liquid assets (i.e. cash and cash equivalents).

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, bench mark profit rates and equity prices. To manage all other risks, the Bank has developed a detailed risk management framework to identify and apply resources to mitigate the risks.

OV1: Overview of RWA

		RWA		Minimum capital requirements*
		Q4 21	Q3 21	Q4 21
1	Credit risk (excluding counterparty credit risk)	205,547,993	208,655,525	21,582,539
2	Of which: standardised approach (SA)	205,547,993	208,655,525	21,582,539
3				
4				
5				
6	Counterparty credit risk (CCR)	1,862,918	0	195,606
7	Of which: standardised approach for counterparty credit risk	1,862,918	0	195,606
8				
9				
10				
11				
12	Equity investments in funds - look-through approach	94,610	0	9,934
13	Equity investments in funds - mandate-based approach	793,979	0	83,368
14	Equity investments in funds - fallback approach	430,174	0	45,168
15	Settlement risk	0	0	0
16	Securitisation exposures in the banking book	0	0	0
17				
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0	0	0
19	Of which: securitisation standardised approach (SEC-SA)	0	0	0
20	Market risk	3,099,642	4,645,632	325,462
21	Of which: standardised approach (SA)	3,099,642	4,645,632	325,462
22				
23	Operational risk	16,990,931	17,268,006	1,784,048
24				
25				
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**228,820,246**	**230,569,163**	**24,026,126**

**The minimum capital requirements applied is 10.5%*

Note: The numbers presented in all the tables are in AED '000s unless otherwise specified.

KM1: Key metrics (at consolidated group level)

		Q4 21	Q3 21	Q2 21	Q1 21	Q4 20
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	28,265,092	29,442,660	28,432,578	27,678,369	26,928,161
1a	Fully loaded ECL accounting model	0	0	0	0	0
2	Tier 1	36,529,342	37,706,910	36,696,828	35,942,619	38,865,411
2a	Fully loaded ECL accounting model Tier 1	0	0	0	0	0
3	Total capital	39,138,463	40,315,104	39,307,806	38,517,968	41,427,082
3a	Fully loaded ECL accounting model total capital	0	0	0	0	0
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	228,820,246	230,569,163	230,640,452	225,389,874	224,080,330
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	12.4%	12.8%	12.3%	12.3%	12.0%
5a	Fully loaded ECL accounting model CET1 (%)	0	0	0	0	0
6	Tier 1 ratio (%)	16.0%	16.4%	15.9%	15.9%	17.3%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)					
7	Total capital ratio (%)	17.1%	17.5%	17.0%	17.1%	18.5%
7a	Fully loaded ECL accounting model total capital ratio (%)	0	0	0	0	0
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank D-SIB additional requirements (%)	0.5%	0.5%	0.5%	0.5%	0.5%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	3.0%	3.0%	3.0%	3.0%	3.0%
12	CET1 available after meeting the bank's minimum capital requirements (%)	5.4%	5.8%	5.3%	5.3%	5.0%
	Leverage Ratio					
13	Total leverage ratio measure	291,419,143	300,224,727	305,841,604	299,634,727	300,966,621
14	Leverage ratio (%) (row 2/row 13)	12.5%	12.6%	12.0%	12.0%	12.9%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2a/row 13)	0	0	0	0	0
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	0	0	0	0	0
	Liquidity Coverage Ratio					
15	Total HQLA	49,002,374	54,122,326	52,226,132	49,688,136	42,372,762
16	Total net cash outflow	35,923,392	33,729,386	34,350,631	39,198,820	32,802,484
17	LCR ratio (%)	136.4%	160.5%	152.0%	126.8%	129.2%
	Net Stable Funding Ratio					
18	Total available stable funding	187,935,313	193,226,218	202,307,845	190,808,477	189,655,076
19	Total required stable funding	184,134,134	185,979,995	188,437,867	178,654,530	184,044,688
20	NSFR ratio (%)	102.1%	103.9%	107.4%	106.8%	103.1%
	ELAR					
21	Total HQLA					
22	Total liabilities					
23	Eligible Liquid Assets Ratio (ELAR) (%)					
	ASRR					
24	Total available stable funding					
25	Total Advances					
26	Advances to Stable Resources Ratio (%)					

**ELAR and ASRR are not applicable*

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4. Linkages between financial statements and regulatory exposures

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

	Carrying values as reported in published financial statements (a)	Carrying values under scope of regulatory consolidation (b)	Carrying values of items:				
			Subject to credit risk framework (c)	Subject to counterparty credit risk framework (d)	Subject to the securitisation framework (e)	Subject to market risk framework (f)	Not subject to capital requirements or subject to deduction from capital (g)
Assets							
Cash and balances with the Central Bank	28,079,740	28,078,759	28,078,759	0	0	0	0
Due from banks and financial institutions	3,303,412	3,019,197	3,019,197	0	0	0	0
Islamic financing and investing assets, net	186,690,551	186,915,982	186,915,982	0	0	0	0
Investments in Islamic Sukuk	41,794,357	41,794,357	41,794,357	0	0	0	0
Other investments measured at fair value	1,229,469	1,307,526	1,307,526	0	0	0	0
Investments in associates and joint ventures	1,944,838	2,791,039	2,791,039	0	0	0	0
Properties held for development and sale	1,571,508	42,393	42,393	0	0	0	0
Investment properties	5,499,123	3,061,007	3,061,007	0	0	0	0
Receivables and other assets	7,474,484	8,129,765	6,631,601	1,498,164	0	1,498,164	0
Property and equipment	1,494,088	902,686	902,686	0	0	0	0
Total Assets	**279,081,570**	**276,042,710**	**274,544,546**	**1,498,164**	**0**	**1,498,164**	**0**
Liabilities							
Customer's deposits	205,845,090	0	0	0	0	0	0
Due to banks and financial institutions	2,583,743	0	0	0	0	0	0
Sukuk issued	20,562,734	0	0	0	0	0	0
Payables and other liabilities	8,250,762	1,422,042	0	1,422,042	0	1,422,042	0
Zakat payable	374,615	0	0	0	0	0	0
Total Liabilities	**237,616,944**	**1,422,042**	**0**	**1,422,042**	**0**	**1,422,042**	**0**

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

	Total	Items subject to:			
		Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	276,042,710	274,544,546	0	1,498,164	1,498,164
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	1,422,042	0	0	1,422,042	1,422,042
Total net amount under regulatory scope of consolidation	274,620,668	274,544,546	0	76,122	76,122
Off-balance sheet amounts	12,201,676	0	0	0	0
Differences in valuations	0				
Differences due to different netting rules, other than those already included in row 2	1,518,186	0	0	0	0
Differences due to consideration of provisions	0	0	0	0	0
Differences due to prudential filters	0	0	0	0	0
Exposure amounts considered for regulatory purposes	**288,340,531**	**274,544,546**	**0**	**76,122**	**76,122**

LIA: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

(a) Banks must explain the origins of any significant differences between the amounts in columns (a) and (b) in LI1

The variance is due to the difference in scope of consolidation for accounting and regulatory purposes. For regulatory purposes, only financial entities are being considered for consolidation and hence the line items exclude the balances held with non-financial subsidiaries.

(b) Banks must explain the origins of differences between carrying values and amounts considered for regulatory purposes shown in LI2

Differences arise due to fact that balances are shown net of provisions in accounting consolidation whereas they are shown gross in regulatory consolidation.

(c) In accordance with the implementation of the guidance on prudent valuation, banks must describe systems and controls to ensure that the valuation estimates are prudent and reliable.

- Valuation methodologies, including an explanation of how far mark-to-market and mark-to-model methodologies are used
- Description of the independent price verification process
- Procedures for valuation adjustments or reserves (including a description of the process and the methodology for valuing trading positions by type of instrument)

Not applicable.

(d) Banks with insurance subsidiaries must disclose:
The CBUAE regulatory approach used with respect to insurance entities in determining a bank's reported capital positions

Not applicable.

5. Prudential valuation adjustments

PV1: Prudential valuation adjustments (PVA)

Not applicable.

6. Composition of capital

CC1: Composition of regulatory capital

	Common Equity Tier 1 capital: instruments and reserves	Amounts
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	
2	Retained earnings	9,756,512
3	Accumulated other comprehensive income (and other reserves)	11,500,540
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)	7,240,744
6	**Common Equity Tier 1 capital before regulatory deductions**	**28,497,797**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	
8	Goodwill (net of related tax liability)	
9	Other intangibles other than mortgage servicing rights (net of related tax liability)	151,409
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	49,980
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)	31,315
16	Reciprocal cross-holdings in common equity	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	
20	Amount exceeding 15% threshold	
21	Of which: significant investments in the common stock of financials	
22	Of which: deferred tax assets arising from temporary differences	
23	CBUAE specific regulatory adjustments	
24	**Total regulatory adjustments to Common Equity Tier 1**	232,704
25	**Common Equity Tier 1 capital (CET1)**	**28,265,092**
	Additional Tier 1 capital: instruments	
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	
27	OF which: classified as equity under applicable accounting standards	8,264,250
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)**	8,264,250
39	**Tier 1 capital (T1= CET1 + AT1)**	36,529,342
	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 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	

43	Of which: instruments issued by subsidiaries subject to phase-out	
44	Provisions	2,609,121
45	**Tier 2 capital before regulatory adjustments**	
	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 and other TLAC liabilities of banking, 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)**	2,609,121
52	**Total regulatory capital (TC = T1 + T2)**	39,138,463
53	**Total risk-weighted assets**	228,820,246
	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	12.4%
55	**Tier 1 (as a percentage of risk-weighted assets)**	16.0%
56	**Total capital (as a percentage of risk-weighted assets)**	17.1%
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)**	3.0%
58	**Of which: capital conservation buffer requirement**	2.5%
59	**Of which: bank-specific countercyclical buffer requirement**	0.0%
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	0.5%
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	5.4%
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	7.0%
63	Tier 1 minimum ratio	8.5%
64	Total capital minimum ratio	10.5%
	Amounts below the thresholds for deduction (before risk weighting)	
66	Significant investments in common stock of financial entities	489,937
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)	
70	Cap on inclusion of provisions in Tier 2 under standardised 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)	

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CC2: Reconciliation of regulatory capital to balance sheet

	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	As at Q4 21	As at Q4 21
Assets		
Cash and balances with the Central Bank	28,079,740	28,078,759
Due from banks and financial institutions	3,303,412	3,019,197
Islamic financing and investing assets, net	186,690,551	186,915,982
Investments in Islamic Sukuk	41,794,357	41,794,357
Other investments measured at fair value	1,229,469	1,307,526
Investments in associates and joint ventures	1,944,838	2,791,039
Properties held for development and sale	1,571,508	42,393
Investment properties	5,499,123	3,061,007
Receivables and other assets	7,474,484	8,129,765
Property and equipment	1,494,088	902,686
Total assets	**279,081,570**	**276,042,710**
Liabilities		
Customer's deposits	205,845,090	206,392,024
Due to banks and financial institutions	2,583,743	2,583,743
Sukuk issued	20,562,734	20,411,317
Payables and other liabilities	8,250,762	7,227,203
Zakat payable	374,615	374,615
Total liabilities	**237,616,944**	**236,988,902**
Shareholders' equity		
Share capital	7,240,744	7,240,744
Tier 1 sukuk	8,264,250	8,264,250
Other reserves and treasury shares	14,084,668	14,084,668
Investments fair value reserve	(972,955)	(972,955)
Exchange translation reserve	(1,313,911)	(1,313,911)
Retained earnings	11,563,298	11,563,298
Non-controlling interests	2,598,532	187,714
Total shareholders' equity	**41,464,626**	**39,053,809**

CCA: Main features of regulatory capital instruments

		Quantitative / qualitative information			
1	Issuer	Dubai Islamic Bank & Subsidiaries			
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)		BBG 00N131Y69	BBG 00Y609NC5	BBG 01016BHX7
3	Governing law(s) of the instrument	The instrument is governed by the laws of United Arab Emirates			
	Regulatory treatment				
4	Transitional arrangement rules (i.e. grandfathering)	NA	NA	NA	NA
5	Post-transitional arrangement rules (i.e. grandfathering)	NA	NA	NA	NA
6	Eligible at solo/group/group and solo	Group	Group	Group	Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares	Sukuk	Sukuk	Sukuk
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	7,240,744	2,754,750	3,673,000	1,836,500
9	Nominal amount of instrument	7,240,744	2,754,750	3,673,000	1,836,500
9a	Issue price	7,240,744	2,754,750	3,673,000	1,836,500
9b	Redemption price	as per Market Value	2,754,750	3,673,000	1,836,500
10	Accounting classification	Shareholder's equity	Tier 1 sukuk	Tier 1 sukuk	Tier 1 sukuk
11	Original date of issuance	NA	Jan-19	Nov-20	Apr-21
12	Perpetual or dated	NA	Perpetual	Perpetual	Perpetual
13	Original maturity date	NA	NA	NA	NA
14	Issuer call subject to prior supervisory approval	NA	NA	NA	NA
15	Optional call date, contingent call dates and redemption amount		On or after Jan-25	On or after May-26	On or after Oct-26
16	Subsequent call dates, if applicable	NA	Yes	Yes	Yes
	Coupons / dividends				
17	Fixed or floating dividend/coupon	NA	Fixed	Fixed	Fixed
19	Coupon rate and any related index	Variable	6.25%	4.63%	3.38%
19	Existence of a dividend stopper	NA	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Full discretionary	Full discretionary	Full discretionary	Full discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Full discretionary	Full discretionary	Full discretionary	Full discretionary
21	Existence of step-up or other incentive to redeem	NA	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	NA	Convertible	Convertible	Convertible
24	Writedown feature	NA	NA	NA	NA
25	If writedown, writedown trigger(s)	NA	NA	NA	NA
26	If writedown, full or partial	NA	NA	NA	NA
27	If writedown, permanent or temporary	NA	NA	NA	NA
28	If temporary write-own, description of writeup mechanism	NA	NA	NA	NA
28a	Type of subordination	NA	Structural subordination	Structural subordination	Structural subordination
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	NA	Senior only to Share Capital	Senior only to Share Capital	Senior only to Share Capital
30	Non-compliant transitioned features	NA	No	No	No
31	If yes, specify non-compliant features	NA	NA	NA	NA

7. Macroprudential Supervisory measures

CCyB1: Geographical distribution of credit exposures used in the countercyclical buffer

Not applicable. There are no private sector credit exposures relevant for the calculation of the countercyclical buffer.

8. Leverage ratio

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

		Q4 21
1	Total consolidated assets as per published financial statements	279,081,570
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(3,038,860)
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	0
4	Adjustments for temporary exemption of central bank reserves (if applicable)	0
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	0
7	Adjustments for eligible cash pooling transactions	0
8	Adjustments for derivative financial instruments	2,303,916
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	(957,603)
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	13,225,378
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	0
12	Other adjustments	804,743
13	**Leverage ratio exposure measure**	**291,419,143**

LR2: Leverage ratio common disclosure template

		Q4 21	Q3 21
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	283,967,123	295,332,666
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)	(1,077,372)	(4,803,017)
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)	(7,119,670)	(6,889,765)
6	(Asset amounts deducted in determining Tier 1 capital)		
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	275,770,081	283,639,884
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	753,374	1,020,620
9	Add-on amounts for PFE associated with *all* derivatives transactions	892,280	1,019,831
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)**	2,303,916	2,856,631
Securities financing transactions			
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	1,077,372	4,803,017
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	(957,603)	(3,857,603)
16	CCR exposure for SFT assets		
17	Agent transaction exposures		
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	119,768	945,413
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	31,913,752	32,763,965
20	(Adjustments for conversion to credit equivalent amounts)	(18,688,374)	(19,981,168)
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)**	13,225,378	12,782,798
Capital and total exposures			
23	**Tier 1 capital**	36,529,342	37,706,910
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	291,419,143	300,224,727
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	12.5%	12.6%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		
26	CBUAE minimum leverage ratio requirement	3.5%	3.5%
27	**Applicable leverage buffers**		

9. Liquidity Risk

LIQA: Liquidity risk management

(a) Governance of liquidity risk management, including: risk tolerance; structure and responsibilities for liquidity risk management; internal liquidity risk strategy, policies and practices across business lines and with the board of directors

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 (funding liquidity risk) and that liquidity in financial markets, such as the market for debt securities, may reduce significantly (market liquidity risk).

Liquidity Risk Management in the Bank is governed by the Liquidity Risk Management policy and the Risk Appetite Framework approved by the Bank's Board of Directors. The Board has delegated the responsibility of managing the liquidity risk of the Bank to the Board Risk Compliance and Governance Committee (BRCGC). BRCGC & Risk Management Committee (RMC) review liquidity risk policy, liquidity risk appetite and tolerance limits proposed by Group Risk Management for the Bank in line with the Bank's objectives, strategy and overall risk appetite. RMC reviews annually the risk policies to manage and monitor liquidity risk in the Bank and recommend them to the BRCGC for approval. The Risk Limits are recommended by the Asset and Liability Committee (ALCO), which are subsequently approved by the BRCGC. Treasury ALM is primarily responsible for managing liquidity for the Bank. Accordingly, it is important to consolidate all commercial banks funding activities in Treasury enabling it to monitor, plan and execute effectively. Risk Management and Finance teams are responsible for the measurement and monitoring of liquidity metrics stipulated in the policy and updating ALCO, RMC and BRCGC on issues pertaining to liquidity risk. Consolidation of commercial banking funding/lending creates a consolidated position that enables better liquidity and spread management.

The key measurement tools for liquidity Risk monitoring in the Bank are Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio, which are regulatory requirement as per the Central Bank of UAE. These regulatory metrics are complemented by internal metrics like stock liquidity ratios, concentration and cumulative maturity mismatch analyses.

Liquidity Risk policy includes the Contingency Funding Plan ("CFP") which can be triggered in the event of a major liquidity problem, either due to bank specific or market wide/systematic triggers.

The Bank recognizes that each subsidiary is an independent legal entity with distinct accountability to their respective regulator(s) and that liquidity is not considered fungible across borders, particularly in the event of market stress. Therefore, as a Bank, it is expected that each subsidiary, particularly those operating in different jurisdictions, operate in a self-sufficient manner. Hence, except to the extent required under applicable regulations, liquidity measurement and monitoring to carried out on a standalone basis.

(b) Funding strategy, including policies on diversification in the sources of funding (both products and counterparties)

The Bank has adopted a conservative strategy to manage its liquidity and funding positions - maintaining a higher than required level of liquidity as measured by the regulatory liquidity ratios of LCR, NSFR and CBUAE Ratios. Group Treasury in coordination with the annual business planning / budgeting exercise, analyzes overall funding requirements for the coming year(s) and provides funding strategy / fund raising plans to the ALCO before the beginning of each year. The funding strategy considers normal projected flows as well as the potential buffers for alternative scenarios, funding diversification, growth of operating accounts, CASA accounts & management of upcoming sukuk issuance.

(c) Liquidity risk mitigation techniques

The Bank has adopted a pro-active approach in identifying and assessing, measuring and monitoring liquidity risks. Group Risk Management conducts regular and ad-hoc risk analyses (such as stress tests) and reports, findings and recommendations, to Bank ALCO.

Following are some of the key controls and risk management strategies for Liquidity Risk:

- Comprehensive Risk Appetite Framework and Policy.
- Comprehensive Funding Strategy and Funding Plan, updated on an annual basis.
- Maintaining a diverse, yet stable pool of potential funding sources across different currencies, geographies, entities and products.
- Maintaining sufficient liquidity buffers, pool of readily saleable and repo-eligible liquid assets regular monitoring of liquidity risk exposures including regulatory LCR and NSFR, internal liquidity ratios as well as early warning indicators.

An explanation of how stress testing is used

Liquidity Stress Testing is a core part of the Bank's Liquidity Risk Management process, which helps identify sources of potential liquidity strain under different scenarios and potential adequacy of Bank's liquidity buffer under such scenarios. Based on Stress Test results, ALCO and the BRCGC assess if any adjustment is required to liquidity risk management strategies, policies, and positions and the contingency funding plans. Liquidity stress testing is primarily represented by stressed cash flow mismatches (also referred to as stressed liquidity gaps). Stress Test Results are measured under Idiosyncratic & Systemic (Market Wide and Combined) stress scenarios.

Group Risk Management ("GRM") department conducts Liquidity stress tests and reports results to secretary of ALCO, who circulates the same to ALCO members. Based on the results of stress tests, GRM provides its feedback on the following:

- if there are any vulnerabilities in the liquidity structure of the Bank
- if any revision is required to the Bank's liquidity strategy and/or risk tolerance limits
- if the Contingency Funding Plan (CFP) should be invoked and
- if any revision is required in stress scenario design to ensure that the nature and severity of the tested scenarios remain appropriate and relevant to the Bank

(d) An outline of the bank's contingency funding plans

The Bank has a robust and comprehensive contingency funding plan ("CFP") in place to deal with extra-ordinary or crisis liquidity situations. The Bank's CFP provides a comprehensive framework which links the activation of CFP to monitoring of a list of Bank-Specific and Market-Wide (or Systemic) Early Warning Indicators ("EWIs") such as; deterioration of key ratios below their regulatory limits, significant deposit withdrawals, significant deterioration in key financial metrics, deterioration of macro-economic variables etc. to name a few. In addition, ALCO Committee may identify and consider any additional situation or circumstance (whether specific to Bank or systemic), which, in their opinion, may result in a liquidity contingency event.

Upon advice from ALCO, GCEO can decide to invoke CFP and form a Liquidity Crisis Management Team ("LCMT"). There is clear articulation of roles and responsibilities, communication plan and related protocols in a CFP situation. The CFP plan is reviewed and tested on a yearly basis.

LIQ1: Liquidity Coverage Ratio (LCR)

		Total unweighted value (average)	Total weighted value (average)
High-quality liquid assets			
1	Total HQLA		**56,205,396**
Cash outflows			
2	**Retail deposits and deposits from small business customers, of which:**	52,879,535	4,318,957
3	Stable deposits	19,379,938	968,997
4	Less stable deposits	33,499,597	3,349,960
5	**Unsecured wholesale funding, of which:**	**73,981,462**	**32,028,207**
6	Operational deposits (all counterparties) and deposits in networks of cooperative banks	16,911,685	4,227,921
7	Non-operational deposits (all counterparties)	57,069,778	27,800,285
8	Unsecured debt		0
9	**Secured wholesale funding**		0
10	**Additional requirements, of which:**	34,962,716	3,531,274
11	Outflows related to derivative exposures and other collateral requirements	3,438,884	687,777
12	Outflows related to loss of funding of debt products		
13	Credit and liquidity facilities	31,523,832	2,843,497
14	**Other contractual funding obligations**		
15	**Other contingent funding obligations**		
16	**TOTAL CASH OUTFLOWS**		**39,878,437**
			Cash inflows
17	**Secured lending (eg reverse repo)**	0	0
18	**Inflows from fully performing exposures**	4,684,479	2,342,239
19	**Other cash inflows**	2,006,539	2,006,539
20	**TOTAL CASH INFLOWS**	6,691,017	4,348,778
			Total adjusted value
21	**Total HQLA**		56,205,396
22	**Total net cash outflows**		35,529,659
23	**Liquidity coverage ratio (%)**		158.2%

LIQ2: Net Stable Funding Ratio (NSFR)

		Unweighted value by residual maturity				Weighted value
		No maturity	<6 months	6 months to <1 year	≥1 year	
Available stable funding (ASF) item						
1	Capital:					
2	*Regulatory capital*	39,164,411				39,164,411
3	*Other capital instruments*	0	3,673,000	0	16,712,150	16,712,150
4	Retail deposits and deposits from small business customers:					
5	*Stable deposits*	19,825,843	429,464	43,796	296,363	19,580,511
6	*Less stable deposits*	29,211,327	3,429,179	1,290,016	20,047,691	50,585,160
7	Wholesale funding:					
8	*Operational deposits*	23,792,287	152,637	0	0	11,972,462
9	*Other wholesale funding*	16,823,739	68,762,351	22,420,228	3,288,042	47,827,539
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in the above categories*	0	6,553,232	948,571	1,618,796	2,093,082
14	**Total ASF**					**187,935,314**
Required stable funding (RSF) item						
15	Total NSFR high-quality liquid assets (HQLA)	11,789,693	17,606,947	1,271,392	22,058,630	4,906,887
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18	*Performing loans to financial institutions secured by Level 1 HQLA*					
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*	0	1,644,621	2,367,321	220,380	1,650,734
20	*Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*	0	19,345,626	12,471,028	125,199,815	122,328,170
21	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	0	0	0	10,473,857	6,808,007
22	*Performing residential mortgages, of which:*					
23	*With a risk weight of less than or equal to 35% under the Basel II standardised approach for credit risk*	0	0	0	9,967,267	6,478,723
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*	0	2,764,381	778,352	14,677,726	14,280,646
25	Assets with matching interdependent liabilities					
26	Other assets:					
27	*Physical traded commodities, including gold*					
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*					
29	*NSFR derivative assets*					
30	*NSFR derivative liabilities before deduction of variation margin posted*					
31	*All other assets not included in the above categories*	25,814,767	0	0	31,315	25,846,082
32	Off-balance sheet items					1,834,885
33	***Total RSF***					**184,134,134**
34	***Net Stable Funding Ratio (%)***					**102.1%**

Eligible Liquid Assets Ratio (ELAR)

Not Applicable.

Advances to Stables Resource Ratio (ASRR)

Not Applicable.

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10. Credit Risk

CRA: General qualitative information about credit risk

(a) How the business model translates into the components of the bank's credit risk profile

Credit risk is considered to be the most significant and pervasive risk for the Bank. The Bank takes on exposure to credit risk, which is the risk that the counterparty to a financial transaction will fail to discharge an obligation causing the Bank to incur a financial loss. Credit risk monitoring and control is performed by the Credit & Risk Management Group (CRM) which sets parameters and thresholds for the Bank's financing activities

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. The Risk Appetite Statement of the Bank which is approved by the Board Risk Committee reflects the Risk Strategy translated to the Business Strategy to manage growth and profile of the portfolio within acceptable tolerances.

(b) Criteria and approach used for defining credit risk management policy and for setting credit risk limits

Approval, disbursements, administration, classification, recoveries and write-offs for Corporate & SME and Retail credits are governed by the Bank's Corporate Credit Policy, SME Credit Policy and Retail Credit Policy respectively. The policy is drafted by RMG and approved by the BRCGC. The policy covers all lines of business that the Bank engages in. The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual customers and groups, and to industries and countries. The underwriting standards also define the minimum quality (ascertained by the obligor credit risk rating) for new on-boarding of customers.

The policies, guidelines and processes outlined in the Credit Policy Manual (CPM) cover the entire spectrum of Bank's credit/assets portfolio i.e. small to medium enterprise (SME), corporate financing activities including financial institutions and monitoring of cross border exposure. The policy applies to all Business Units/Departments which are engaged in the process of originating; maintaining, managing and/or reviewing the related credit portfolio(s).

Identifying the credit approval authorities and the scope of delegated authorities for approval of credits, is based on a matrix approach; dependent on the obligor risk rating and the size of the exposure.

(c) Structure and organization of the credit risk management and control function

All Corporate, SME (Small and Medium Enterprise) and FI (Financial Institutions) credit proposals are independently reviewed by Credit Approval Department and recommended to appropriate approval authority as defined in the Credit Policies of the Bank. For Retail, the Bank has in place comprehensive product program manuals highlighting requirements of every aspect of retail lending.

The underwriting and risk control functions are separated from each other. Risk management is responsible for credit risk policy and portfolio management, together with credit administration. These functions together with special assets management report to the GCRO. The GCRO reports to the BRCGC.

Underwriting, engaged in credit approval, is headed by the CCO, who reports independently to the GCEO.

(d) Relationships between the credit risk management, risk control, compliance and internal audit functions

All Corporate Credit proposals submitted by Corporate Banking Group, are independently reviewed by Credit Risk Managers in the Credit Approval Dept., before they are approved by the department or escalated with a recommendation to the appropriate level committee for final approval.

Compliance team ensures that guidelines are complied with, in the due diligence process for KYC and AML among others, such as dealing with PEPs and related parties or insider trading. This is done by following the strict guidelines in-place for all these aspects.

Only after final approval and fulfillment of documentation and conditions precedent, that Credit Administration makes the limits available for utilization by the customer. At this point, transactions can be executed by the customer through operations.

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As part of Internal Audit plan, Internal Audit team acting as the verification unit (third line of defense) reviews the Credit Approval Process and submits its findings to Board Audit Committee for its review.

Although they work very closely with Risk Management, Compliance and Internal Audit are both independent from Risk Management and report to the Board Risk Committee and Board Audit Committee respectively.

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the executive management and to the board of directors

Comprehensive Portfolio reports include but are not limited to: financing, sukuk and investment book size trends, risk rating based trends, sector and geographic concentrations, retail product-wise exposures and performance, large exposure concentrations, top watch list exposures, top NPL exposures, write-offs etc. This is presented to the Management Risk Committee, Board Risk Committee and the Board of Directors on a regular basis. The report highlights the status of the exposure, recoveries, if any, collaterals, provisions held against these accounts and the action plan to regularize/recover the dues from these accounts.

At the Board level, the Board Risk Committee has oversight of Risk Management function across the Bank.

The Risk Management Committee, Early Alert Committee, Collection & Remedial Management Committee and IFRS-9 Committee ensures the smooth working between Business, Underwriting and Risk Control functions.

CR1: Credit quality of assets

		Gross carrying values of		Allowances/ Impairments (c)	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures (a)	Non-defaulted exposures (b)		Allocated in regulatory category of Specific (d)	Allocated in regulatory category of General (e)	
1	Loans	13,783,812	182,657,550	9,525,380	6,942,537	2,582,843	186,915,982
2	Debt securities	285,820	41,737,624	229,087	150,764	78,323	41,794,357
3	Off-balance sheet exposures	907,436	33,310,232	52,430	0	52,430	34,165,237
4	**Total**	14,977,068	257,705,406	9,806,897	7,093,301	2,713,596	262,875,577

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

		Q4 21
1	**Defaulted loans and debt securities at the end of the previous reporting period**	13,171,117
2	Loans and debt securities that have defaulted since the last reporting period	2,203,880
3	Returned to non-default status	0
4	Amounts written off	769,554
5	Other changes	535,811
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4-5)**	**14,069,632**

CRB: Additional disclosure related to the credit quality of assets

(a) The scope and definitions of 'past due' and 'impaired' exposures for accounting purposes and the differences, if any, between the definition of past due and default for accounting and regulatory purposes.

Once an account / relationship hits 90 DPD it is considered as a ‘Default’ as per the definition stated in the Credit Policy (Chapter 10 on Credit Risk Rating), which is in-line with the Basel (and the CB UAE) definition requiring recognition of default. All customers which are in default i.e. the principal payment or accrued profit is in arrears for a period of 90 days or more should be classified as ‘Default’ rated and considered non-performing. Business can also submit a case to downgrade (and immediately transfer to SAM) in the event of a drastic deterioration in quality due to financial or non-financial reasons even before reaching 90 dpd.

The term ‘classified asset’ refers to an exposure rated Substandard, Doubtful or Loss.

(b) The extent of past-due exposures (>90 days) that are not considered to be impaired and the reasons for this.

There are no such exposures. Bank considers the past due exposures for more than 90 days as impaired.

(c) Description of methods used for determining accounting provisions for credit losses. In addition, banks that have adopted an ECL accounting model must provide information on the rationale for categorisation of ECL accounting provisions in general and specific categories for standardised approach exposures

Impairment of Financial Assets

Financial assets that are measured at amortized cost are assessed for impairment at each reporting date.

The Bank applies a three-stage approach to measure allowance for credit losses, using an expected credit loss approach as required under IFRS 9, for the following categories of financial instruments that are measured at amortized cost:

- Islamic financing and investing assets and investment in Islamic Sukuks;
- Off-balance sheet instruments issued;
- Financial guarantee contracts issued;
- Due from banks and financial institutions;
- Balances with Central Banks; and
- Other financial assets

Financial assets migrate through three stages based on the change in Credit Risk since initial recognition. No impairment loss is recognized on equity investments.

Excepted Credit Loss impairment model

The Expected Credit Loss (ECL) model contains a three-stage approach which is based on the change in credit quality of financial assets since initial recognition. Expected credit losses reflect the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial instrument depending on credit deterioration from inception.

- Under Stage 1, where there has not been a significant increase in credit Risk since initial recognition, an amount equal to 12 months ECL will be recorded. The 12 months ECL is calculated as the portion of life time ECL that represents the ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12 months ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12 month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original effective profit rate;
- Under Stage 2, where there has been a significant increase in credit Risk since initial recognition but the financial instruments are not considered credit impaired, an amount equal to the default probability weighted lifetime ECL will be recorded. The PD and LGD are estimated over the lifetime of the instrument and the expected cash shortfalls are discounted by an approximation to the original effective profit rate; and
- Under the Stage 3, where there is objective evidence of impairment at the reporting date these financial instruments will be classified as credit impaired and an amount equal to the lifetime ECL will be recorded for the financial assets, with the PD set at 100%.

When estimating ECL for undrawn commitments, the Bank estimates the expected portion of the commitment that will be drawn down over its expected life.

The ECL is then based on the present value of the expected shortfalls in cash flows if the financing is drawn down. The expected cash shortfalls are discounted at an approximation to the expected effective profit rate on the financing.

The Bank's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the income statement, and the ECL provision. For this purpose, the Bank estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the Risk-adjusted rate relevant to the exposure.

The ECL model is forward looking and requires the use of reasonable and supportable forecasts of future economic conditions in the determination of significant increase in credit risk and measurement of ECL.

COVID-19 and Expected Credit Loss (ECL)

Governments and banks in many jurisdictions have introduced extraordinary measures to alleviate the financial and economic impact of COVID-19. The relief measures include a range of different payment moratoriums to customer, liquidity support and capital relief by regulators.

The Bank has considered the extraordinary conditions and environment due to COVID 19, along with measures provided by the Central Bank of UAE under Targeted Economic Support Scheme (TESS) for determining ECL requirements as on the reporting date, as applicable. These “TESS” related disclosures are discussed and are set out in the Bank’s 2021 Annual Report and Note 49 refers to TESS disclosure of the audited consolidated financial statement.

The Bank has also considered guidelines issued by the International Accounting Standards Board (IASB) on 27 March 2020 and Basel Committee issued on 4 April 2020 on determination of expected credit losses. In accordance with the Basel committee guidelines, the extraordinary support measures should be taken into account by banks when calculating ECLs. It also agreed on amendments to the transitional arrangements for the regulatory capital treatment of ECL.

The Bank calculates ECL based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the effective profit rate. A cash shortfall is the difference between the cash flows that are due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The Bank has developed methodologies and models taking into account the relative size, quality and complexity of the portfolios. These parameters are generally derived from internally developed statistical models and other historical data and are adjusted to reflect forward-looking information. Details of these statistical parameters/inputs are as follows:

- The probability of default (PD) is an estimate of the likelihood of default over a given time horizon;
- The exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and

Macroeconomic factors, forward looking information and multiple scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

When estimating the ECLs, the Bank considers three scenarios (a base case, an upside and a downside) with a weightage of 40%, 30% and 30% respectively. Each of these is associated with different PDs.

When relevant, the assessment of multiple scenarios also incorporates how defaulted financing are expected to be recovered, including the probability that the financing will cure and the value of collateral or the amount that might be received for selling the asset.

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, such as:

- Real house prices – Abu Dhabi and Dubai
- Money supply
- Effective exchange rate – real broad index
- General government finance - expenditure
- Commodity prices
- Consumer price index
- National accounts – compensation of employees
- National accounts – real import of goods and services

Macroeconomic factors and forward-looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in Credit Risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments, when such differences are significantly material.

Assessment of significant increase in Credit Risk

The assessment of a significant increase in Credit Risk is done on a relative basis. To assess whether the Credit Risk on a financial asset has increased significantly since origination, the Bank compares the Risk of default occurring over the expected life of the financial assets at the reporting date to the corresponding Risk of default at origination, using key Risk indicators that are used in the Bank's existing Risk management processes. At each reporting date, the assessment of a change in Credit Risk will be individually assessed for those considered individually significant and at the segment level for retail exposures.

The exposure will be moved from stage 1 to stage 2 if:

- the probability of default changes beyond the Bank's established threshold related to the initial recognition;
- an instrument is past due beyond 30 days; and
- An instrument's Credit Risk is considered higher based on qualitative criteria of the Bank.

The instruments moved to stage 2 from stage 1 remain in the stage until they perform for a sustained period as per Bank's policy. Movement from stage 2 to stage 3 are based on whether the financial assets are Credit impaired at the reporting date.

Experienced Credit judgment

The Bank's ECL allowance methodology requires the use of experienced Credit judgment to incorporate the estimated impact of factors not captured in the modelled ECL results, in all reporting periods.

Default definition followed by the Bank for impairment assessment remains in line with the guidelines of IFRS 9, without any recourse to the assumptions, and consistent with regulatory requirements.

Expected life

When measuring expected credit loss, the Bank considers the maximum contractual period over which the Bank is exposed to Credit Risk. All contractual terms are considered when determining the expected life, including prepayment, and extension and rollover options.

Renegotiated financing facilities

The Bank sometimes makes concessions or modifications to the original terms of financing as a response to the customer's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. The Bank considers a financing forborne when such concessions or modifications are provided as a result of the customer's present or expected financial difficulties and the Bank would not have agreed to them if the Customer had been financially healthy. Indicators of financial difficulties include defaults on covenants or that a customer may not be in a position to honor contractual commitments. Forbearance may involve extending the payment arrangements and the agreement of new financing conditions.

Once the terms have been renegotiated, any impairment is measured using the original effective profit rate as calculated before the modification of terms. It is the Bank's policy to monitor financing to help ensure that future payments continue to be likely to occur. Classification between Stage 2 and Stage 3 are determined on a case-by-case basis. If these procedures identify a loss in relation to a financing, it is disclosed and managed as an impaired Stage 3 asset until it is collected or written off.

When the financing has been renegotiated or modified but not derecognized, the Bank also reassesses whether there has been a significant increase in Credit Risk. The Bank also considers whether the assets should be classified as Stage 3. Once an asset has been classified, it will remain in the same stage for a minimum 12-month probation period.

In order for the financing to be reclassified, the customer has to meet all of the following criteria:

- All of its facilities have to be considered performing;
- The probation period of one year has passed from the date the forborne contract was considered performing; and
- Regular payments of more than an insignificant amount of principal or profit have been made during the probation period.

Acquired financing

All acquired financing is initially measured at fair value on the date of acquisition. As a result, no allowance for expected credit losses is recorded in the consolidated statement of financial position on the date of acquisition.

Acquired financing may fit into either of the two categories: performing financing or Purchased or Originated Credit Impaired (POCI) financing.

Purchased performing financing follow the same accounting as originated performing financing and are reflected in Stage 1 on the date of the acquisition. They will be subject to a 12 month ECL which is recorded as a provision for expected credit losses in the consolidated statement of profit or loss when the carrying value of these assets exceed the nominal values of acquired exposure. The fair value adjustment set up for these financing on the date of acquisition is amortized into profit income over the life of these financing.

POCI financing are separately presented and are always subject to lifetime allowance for credit losses. Any changes in the expected cash flows since the date of acquisition are recorded as a charge / recovery in the provision for credit losses in the consolidated statement of profit or loss at the end of all reporting periods subsequent to the date of acquisition

(d) The bank's own definition of a restructured approach

Rescheduling & Restructuring: Debt rescheduling or restructuring is a process used by companies, individuals, and even countries to avoid the risk of defaulting on their existing debts, such as by negotiating lower profit rates or lowering installments by extending tenor. Debt restructuring provides a less expensive alternative to bankruptcy when a debtor is in financial turmoil, and it can work to the benefit of both borrower and lender.

Rescheduled are facilities with renegotiated terms that do not result in NPV loss to the Bank as compared to the original facility.

Restructured are facilities with renegotiated terms that result in NPV loss to the Bank as compared to the original facility. This NPV loss can occur due to various reasons, such as: a haircut of the principal, reduction in the interest/profit rate, extension in the tenor or such other consequential terms and conditions.

(e) Breakdown of exposures by geographical areas, industry and residual maturity.

Please refer to Note # 44 and 47.3.3 in the published Financial Statements.

(f) Amounts of impaired exposures (according to the definition used by the bank for accounting purposes) and related allowances and write-offs, broken down by geographical areas and industry.

Please refer to Note # 9.5 in the published Financial Statements.

(g) Ageing analysis of accounting past-due exposures.

Segment*	Impaired	Ageing of Past Due Loans (days)			Total
		90-180	180-360	360 and above	
Corporate Banking	925,198	77,183	458,662	5,664,792	7,125,835
Consumer Banking	84,912	200,859	485,344	1,073,815	1,844,930
Contracting Finance	1,559,654	51,245	50,330	119,050	1,780,279
Real Estate Finance	231,153	0	500,573	627,042	1,358,767
Home Finance	144,114	97,667	165,153	469,972	876,906
Treasury	269,014	0	0	0	269,014
Investment Banking & Others	46,101	579,903	19,626	168,270	813,900
Total	**3,260,146**	**1,006,857**	**1,679,688**	**8,122,941**	**14,069,632**

**Loans and Sukuk's exposure as per CR2 table*

(h) Breakdown of restructured exposures between impaired and not impaired exposures.

Restructured accounts are totaling of AED 19.3BN, of which impaired is 5.9BN and performing is 13.4BN. The total restructured amount is 6.9% of total gross financing.

CRC: Qualitative disclosure requirements related to credit risk mitigation techniques

(a) Core features of policies and processes for, and indication of the extent to which the bank makes use of, on- and off-balance sheet netting

Financial assets and liabilities are offset and reported net in the consolidated financial position only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on a gross basis.

Islamic derivative financial instruments

Credit Risk arising from Islamic derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the consolidated financial position.

Credit – Related Commitments Risks

The Bank provide its customers guarantees and letters of credit which require that the Bank makes payments in the event of default that the customer fails to fulfil certain obligations to other parties.

This exposes the Bank to a similar Risk to Islamic financing and investing assets and these are mitigated by the same control processes and policies.

(b) Core features of policies and processes for collateral evaluation and management

Security is defined as all cash or near cash items, such as cash margin, fixed deposits under lien, unconditional financial guarantees from acceptable banks, negotiable instruments like bankers' check, demand draft, bills of exchange issued by prime banks and certain government securities/bonds.

Collateral means additional security, which secures the bank's exposure in case the primary source of repayment and liquidity of security stated above is not sufficient to settle in full the bank's exposure. Example of such collaterals is mortgage of property, pledge of blue-chip quoted and listed company shares, mortgage of plant, machinery and vehicles etc. Policy clearly defines the acceptable practice for valuation and frequency based on the type of asset. A list of approved valuation firms is maintained to conduct such valuation.

(c) Information about market or credit risk concentrations under the credit risk mitigation instruments used (ie by guarantor type, collateral and credit derivative providers)

Concentrations of credit risks arise when a number of customers are engaged in similar business activities, 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 of credit risks indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

The Bank seeks to manage its credit risk exposure through diversification of its financing to ensure there is no undue concentration of risks with to individuals or groups of customers in specific geographical locations or economic sectors, which is achieved through Risk Appetite thresholds, Target Market Criteria and Risk Acceptance Criteria.

The Bank manages credit risk by placing limits on the amount of risk accepted in relation to individual customers and groups, and to geographic and economic segments. It also does so by credit risk mitigation through guarantees and tangible collaterals. Credit derivatives is however not an avenue available, being an Islamic Bank. Group cross-corporate or parent company guarantees provide a good secondary recourse comfort.

CR3: Credit risk mitigation techniques - overview

	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
Loans	131,707,356	55,208,626	54,324,727	883,900	0	0	0
Debt securities	41,794,357	0	0	0	0	0	0
Total	**173,501,713**	**55,208,626**	**54,324,727**	**883,900**	**0**	**0**	**0**
Of which defaulted	5,278,354	1,697,977	1,697,977	0	0	0	0

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

(a) Names of the external credit assessment institutions (ECAIs) and export credit agencies (ECAs) used by the bank, and the reasons for any changes over the reporting period

CBUAE recognized credit assessment institutions (ECAIs). There is no change over the reporting period.

(b) The asset classes for which ECAI and ECA is used

Externally rated Corporate, Banks and Securities Firms. Where external ratings are available, these can be used internally. The external ratings are mapped to the internal scale using PDs.

(c) A description of the process used to transfer the issuer to issue credit ratings onto comparable assets in the banking book

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. These segments include: Corporate, Contracting, Middle Market, SME, FI, Real estate and Sukuks.

Models are developed with the external support of accredited consultants and are subject to external and internal validation. Models are calibrated to the Bank's internal rating scale, and are housed within the Moody's CreditLens platform. The rating tools are under review and shall be upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

(d) The alignment of the alphanumerical scale of each agency used with the risk buckets (except where the relevant supervisor publishes a standard mapping with which the bank has to comply).

The Bank's internal ratings scale is mapped to Moody's rating scale:

Moody's equivalent grades	
Low Risk	
Risk rating classes 1 to 4c	Aaa – Baa3
Moderate Risk	
Risk rating classes 5a to 6c	Ba1 – B3
High Risk	
Risk rating classes 7a to 7c	Caa1 - Caa3
Watchlist	
Risk rating class 7d	Ca - C
Default	
Risk rating classes 8 to10	Below C

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. All internal Risk Ratings are tailored to the various categories and are derived in accordance with the Bank Rating policy. The attributable Risk Ratings are assessed and updated regularly.

CR4: Standardised approach - credit risk exposure and CRM effects

	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
Sovereigns and their central banks	71,591,149	609,248	71,591,107	0	18,745,789	26.2%
Public Sector Entities	33,791,455	3,418,870	32,982,938	1,048,296	31,570,155	92.8%
Multilateral development banks	0	0	0	0	0	0.0%
Banks	6,715,260	825,271	6,706,499	812,548	2,947,073	39.2%
Securities firms	0	0	0	0	0	0.0%
Corporates	84,018,773	24,203,782	81,396,051	9,188,058	89,583,475	98.9%
Regulatory retail portfolios	26,870,769	3,954,392	26,007,754	185,604	19,962,200	76.2%
Secured by residential property	20,624,453	0	20,539,199	0	11,712,277	57.0%
Secured by commercial real estate	9,240,463	34,831	8,658,091	6,966	8,611,028	99.4%
Equity Investment in Funds (EIF)	669,097	0	669,097	0	1,318,762	197.1%
Past-due loans	16,534,660	907,436	8,605,995	907,436	10,802,600	113.6%
Higher-risk categories	983,995	263,839	983,995	52,768	1,555,144	150.0%
Other assets	13,596,145	0	13,536,871	0	11,921,169	88.1%
Total	**284,636,220**	**34,217,668**	**271,677,597**	**12,201,676**	**208,729,673**	**73.5%**

** Including derivatives*

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

Risk weight / Asset Classes **	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
Sovereigns	47,934,969	5,463,921	0	1,078,423	0	17,113,793	0	0	71,591,107
PSEs	0	0	0	4,922,157	0	29,109,077	0	0	34,031,234
MDBs	0	0	0	0	0	0	0	0	0
Banks	0	4,525,147	0	1,903,713	0	1,090,185	1	0	7,519,047
Securities	0	0	0	0	0	0	0	0	0
Corporates	0	0	0	2,466,938	0	87,651,501	465,670	0	90,584,109
Retail	0	0	0	0	24,924,634	1,268,725	0	0	26,193,359
Residential property	0	0	11,851,718	0	4,493,222	4,194,259	0	0	20,539,199
Commercial Real estate	0	0	0	108,060	0	8,556,998	0	0	8,665,058
EIFs	0	0	0	0	0	94,610	529,319	45,168	669,097
Past dues	0	0	0	0	0	6,935,091	2,578,339	0	9,513,431
Higher-risk	0	0	0	0	0	0	1,036,763	0	1,036,763
Other assets	2,535,759	0	0	0	0	10,140,871	370,304	489,937	13,536,871
Total	**50,470,729**	**9,989,068**	**11,851,718**	**10,479,291**	**29,417,856**	**166,155,109**	**4,980,397**	**535,105**	**283,879,273**

*** Total credit exposure amount (post CCF and post CRM)*

11. Counterparty credit risk (CCR)

CCRA: Qualitative disclosure related to counterparty credit risk

(a) The method used to assign operating limits defined in terms of internal capital for counterparty credit exposures and for CCP exposures

Counterparty credit risk (CCR) is the risk that a counterparty in a foreign exchange, interest/profit rate, commodity, equity or credit derivative or repo contract defaults prior to the maturity date of the contract, and that the Group at the time has a claim on the counterparty. CCR arises predominantly in the trading book, but also arises in the non-trading book when hedging with external counterparties is required.

(b) Policies relating to guarantees and other risk mitigants and assessments concerning counterparty credit risk, including exposures towards CCPs'

CCR is managed within the overall traded risk appetite for corporate and financial institutions. CCR limits are set for individual counterparties, including central clearing counterparties, and for specific portfolios. Individual limits are calibrated to the credit grade and business model of the counterparties, and are set on Potential Future Exposure (PFE).

Portfolio limits are set to contain concentration risk across multiple dimensions and are set on PFE or other equivalent measures.

There is currently no exposure to CCPs'.

(c) Policies with respect to wrong-way risk exposures

The Bank employs various policies and procedures to ensure that wrong-way risk exposures are recognised upfront, monitored, and where required, contained by limits on country, tenor, collateral type and counterparty.

(d) The impact in terms of the amount of collateral that the bank would be required to provide given a credit rating downgrade.

Not applicable.

CCR1: Analysis of counterparty credit risk (CCR) exposure by approach

		Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	753,374	892,280		1.40	2,303,916	1,862,918
2	Internal Model Method (for derivatives and SFTs)			0	0	0	0
3	Simple Approach for credit risk mitigation (for SFTs)					0	0
4	Comprehensive Approach for credit risk mitigation (for SFTs)					0	0
5	VaR for SFTs					0	0
6	**Total**						**1,862,918**

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

Risk weight / Regulatory portfolio	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	0	0	0	0	0	0	0	0
Public Sector Entities (PSEs)	0	0	4,127	0	277,208	0	0	281,336
Multilateral development banks (MDBs)	0	0	0	0	0	0	0	0
Banks	0	190,476	573,107	0	4,077	0	0	767,660
Securities firms	0	0	0	0	0	0	0	0
Corporates	0	0	0	0	1,254,920	0	0	1,254,920
Regulatory retail portfolios	0	0	0	0	0	0	0	0
Secured by residential property	0	0	0	0	0	0	0	0
Secured by commercial real estate	0	0	0	0	0	0	0	0
Equity Investment in Funds (EIF)	0	0	0	0	0	0	0	0
Past-due loans	0	0	0	0	0	0	0	0
Higher-risk categories	0	0	0	0	0	0	0	0
Other assets	0	0	0	0	0	0	0	0
Total	**0**	**190,476**	**577,235**	**0**	**1,536,206**	**0**	**0**	**2,303,916**

CCR5: Composition of collateral for CCR exposure

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash - domestic currency	0	0	0	0	0	0
Cash – other currencies	0	0	347,016	0	0	0
Domestic sovereign debt	0	0	0	0	0	0
Government agency debt	0	0	0	0	0	0
Corporate bonds	0	0	0	0	0	0
Equity securities	0	0	0	0	0	0
Other collateral	0	0	0	0	0	0
Total	**0**	**0**	**347,016**	**0**	**0**	**0**

CCR6: Credit derivative exposures

Not applicable. There are no Credit derivate exposures.

CCR8: Exposures to central counterparties

Not applicable. There are no exposures to Central Counterparties.

12. Securitisation

Not applicable reports:

SECA, SEC1, SEC2, SEC3 and SEC4

13. Market risk

MRA: General qualitative disclosure requirements related to market risk

(a) Strategies and processes of the bank: this must include an explanation of management's strategic objectives in undertaking trading activities, as well as the processes implemented to identify, measure, monitor and control the bank's market risks, including policies for hedging risk and strategies/processes for monitoring the continuing effectiveness of hedges.

Market Risk is the risk that the Bank’s earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as foreign exchange rates, profit rates, credit spreads, equity and sukuk market prices etc.

Since the Bank is an Islamic Financial institution, hence it does not encourage proprietary trading activities. The Bank has a low appetite for market risk exposure(s) guided by approved tolerances. The Bank provides hedging solutions to its customers to mitigate their market risk on their underlying commitments and not for any speculative purposes. The Bank allows limited products for hedging purposes. These positions are monitored and reported on a regular basis. The Bank squares off its customer deals with the interbank counterparties in order to not carry any significant market risk on these positions.

(b) Structure and organization of the market risk management function: description of the market risk governance structure established to implement the strategies and processes of the bank discussed in the above point, and describing the relationships and the communication mechanisms between the different parties involved in market risk management.

Market Risk Management in the Bank is governed by the Group Risk Management Framework and Risk Appetite Framework approved by the Bank’s Board of Directors. The Board has delegated the responsibility of managing Market risk of the Bank to the Board Risk Compliance and Governance Committee (BRCGC). BRCGC & Risk Management Committee (RMC) reviews Market risk policy, Market risk appetite and tolerance limits proposed by Group Risk Management for the Bank in line with the Bank’s objectives, strategy and overall risk appetite.

RMC reviews annually the Risk framework to manage and monitor Market risk in the Bank and makes recommendations to BRCGC for approval. Risk Limits are approved by the Asset and Liability Committee (ALCO) of the Bank based on the recommendation of the Risk Management Department, which are subsequently ratified by the RMC and BRCGC.

The Bank has an independent Market & Liquidity Risk Management Department (MLRM) with in its Group Risk Management Division which is responsible for identification, measurement, monitoring and reporting of market risk. The function closely monitors and reports inherent market risks in all trading and non-trading activities of the Bank. All FX, Equity and Sukuk positions are subject to Value-at-Risk and exposures against limits are monitored and reported on a regular basis.

(c) The scope and nature of risk reporting and/or measurement systems

Market risk management in the Bank is administered on the basis of clearly delegated authorities and responsibilities that reflect the appropriate segregation of duties, trading environments with enabling technology and competent personnel with the relevant skill and experience.

Following are the key types of market risks for the Bank:

- **Profit rate risk:** results from exposures to changes in the level, slope and curvature of yield curves, the volatilities of profit rates, prepayment speeds/optionality and credit spreads;
- **Currency rate risk:** results from exposures to changes in spot prices, forward prices and volatilities of currency rates;
- **Equity price risk:** results from exposures to changes in prices and volatilities of individual equities, baskets of equities and equity funds (Traded and Non-Traded), the equity investment portfolio represents a very small percentage of the Bank’s overall investments. Furthermore, it is being maintained on a rundown basis.

Quantitative and qualitative information is used to identify, assess and respond to market risk. The actual format and frequency of risk disclosure depends on the audience and purpose. For example, front office and risk functions receive a full range of daily control and activity, valuation, sensitivity and risk measurement reports and dashboards, while ALCO, RMC and BRCGC receive monthly reporting and updates.

MR1: Market risk under the standardised approach

		RWA
1	General Interest/profit rate risk (General and Specific)	1,284,874
2	Equity risk (General and Specific)	0
3	Foreign exchange risk	1,814,768
4	Commodity risk	0
	Options	**0**
5	Simplified approach	0
6	Delta-plus method	0
7		
8	Securitisation	0
9	**Total**	**3,099,642**

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14. Profit rate risk in the banking book (PRRBB)

IRRBB/PRRBB: IRRBB/PRRBB risk management objectives and policies

(a) A description of how the bank defines IRRBB/PRRBB for purposes of risk control and measurement

Profit Rate Risk in the Banking Book ("PRRBB") refers to the current or prospective risk to the Bank's capital and earnings arising from adverse movements in profit rates that affect the Bank's banking book positions. Key constituents of PRRBB include repricing risk, basis risk, yield curve risk and optionality (wherever applicable). Bank monitors these PRRBB risk components at both an aggregate (portfolio) level as well as for each significant currency.

(b) A description of the bank's overall IRRBB/PRRBB management and mitigation strategies. Examples are: monitoring of economic value of equity (EVE) and the net profit income (NPI) in relation to established limits, hedging practices, conduct of stress testing, outcome analysis, the role of independent audit, the role and practices of the ALCO, the bank's practices to ensure appropriate model validation, and timely updates in response to changing market conditions.

(c) A high-level description of how the bank hedges its IRRBB/PRRBB, as well as the associated accounting treatment.

(d) Where significant modelling assumptions used in the bank's internal measurement systems (IMS) (ie the EVE metric generated by the bank for purposes other than disclosure, eg for internal assessment of capital adequacy) are different from the modelling assumptions prescribed for the disclosure Template IRRBB/PRRBB1, the bank should provide a description of those assumptions and their directional implications and explain its rationale for making those assumptions (eg historical data, published research, management judgment and analysis).

The Bank has adopted a comprehensive and proactive approach in managing IRRBB/PRRBB. The key elements of this approach comprise the following core elements:

- Governance, Policies and Procedures.
- Risk Identification, Assessment, Measurement and Monitoring.
- Risk Management and Mitigation.
- Comprehensive IRRBB/PRRBB Reporting and Disclosure.

Governance, Policies and Procedures

The overall governance of PRRBB is integrated with the overall risk governance structure of the Bank. Board, BRCGC, Risk Management Committee along with Asset and Liability Management Committee ("ALCO") are responsible for defining and establishing policies around prudent management of PRRBB based on risk appetite of the Bank. Furthermore, the Bank has recently adopted PRRBB policy which sets out key principles, articulates key roles and responsibilities to effectively manage PRRBB across the Bank.

Risk Identification, Assessment, Measurement and Monitoring

The Bank has adopted a pro-active approach in identifying and assessing, measuring and monitoring IRRBB/PRRBB. The Bank employs the following key tools por measurement of IRRBB/PRRBB:

- Net-repricing GAP positions - Total and by Currency.
- EVE Monitoring at both DIB Standalone and Consolidated levels.
- Earning sensitivity monitoring.
- PV01 Monitoring.

Behavioural modelling of applicable Balance Sheet items such as analysis of Non-maturing products, loan pre-payments, rollover and early termination of deposits etc. is a core part of the above-mentioned risk assessment and measurement process. Furthermore, Group Risk Management conducts regular and ad-hoc risk analyses (such as scenario analysis and stress tests) and reports findings and recommendations to RMC and Group ALCO.

All new product structures and any changes to existing products in terms of re-pricing tenors, benchmarks, rate floors offered, maturity and pricing is reviewed from a PRRBB perspective by Group Risk Management department for its impact on earnings and economic value sensitivities. Business line wise measurement of profit rate risk and gaps is captured on a regular basis and appropriate measures taken to mitigate any excess risks.

Risk Management and Mitigation

The objective of managing IRRBB/PRRBB is to manage the exposure to profit rate risk in the Banking Book within acceptable limits. Prime responsibility of Managing IRRBB/PRRBB is with Treasury as per the Directive of ALCO. Where possible, risks are managed via On-Balance sheet matching of assets and liabilities. The limit management framework of the Bank sets out IRRBB/PRRBB limits for earnings as well as economic value approach in line with Basel Standards and IRRBB/PRRBB risk appetite statement.

As per the directives of the Bank's Sharia Supervisory Board, Bank cannot engage in hedging due to lack of available qualifying Islamic derivatives.

Comprehensive IRRBB/PRRBB Reporting and Disclosure

IRRBB/PRRBB measures are reported on a quarterly basis to ALCO, RMC and BRCGC. The impact of profit rate shocks is also factored as part of the Bank's formal Stress Test and within ICAAP and the results are presented to senior management. These numbers are also reported on the same basis as part of the Bank's Pillar III disclosures.

(e) The periodicity of the calculation of the bank's IRRBB/PRRBB measures, and a description of the specific measures that the bank uses to gauge its sensitivity to IRRBB/PRRBB.

The Bank has instituted Economic Value of Equity (EVE) and Net Profit Income (NPI) related measures for IRRBB/PRRBB being prescribed as primary measures for PRRBB by Basel's BCBS 368 guidelines. Bank measures EVE and NPI on a monthly basis. NPI is being used to gauge the Bank's sensitivity to IRRBB/PRRBB.

(f) A description of the interest/profit rate shock and stress scenarios that the bank uses to estimate changes in the economic value of earnings.

The Bank uses profit rate shocks as prescribed by CBUAE and Basel's BCBS 368, for assessing impacts on EVE (6 regulatory Shocks are applied) and NPI (2 Regulatory Shocks are applied).

(g) A high-level description of key modelling and parametric assumptions used in calculating ΔEVE and ΔNPI in Table B, which includes:

- **For ΔEVE, whether commercial margins and other spread components have been included in the cash flows used in the computation and discount rate used.**
- **How the average repricing maturity of non-maturity deposits has been determined (including any unique product characteristics that affect assessment of repricing behaviour).**
- **The methodology used to estimate the prepayment rates of customer loans, and/or the early withdrawal rates for time deposits, and other significant assumptions.**
- **Any other assumptions (including for instruments with behavioural optionalities that have been excluded) that have a material impact on the disclosed ΔEVE and ΔNPI in Table B, including an explanation of why these are material.**
- **Any methods of aggregation across currencies and any significant interest/profit rate correlations between different currencies.**

- The approach to modelling assumptions for the purpose of evaluating ΔEVE and ΔNPI in consistent with the guidelines set out by the CBUAE/Basel. Currently ΔEVE figures are being reported for three sensitive currencies AED, USD and SAR.
- The average repricing maturity of non-maturity deposits has been determined based on behavioural analysis, using Bank's historical data.
- We assumed that profit rates cannot fall below 0% for all products (floor of zero). If after applying a -200bp shock, a customer rate was supposed to fall below 0%, it was floored at the level of 0% instead.
- Within the NPI context, any downward shock on current profit rates is not applicable to the commercial spread proportion of the earning profile.

IRRBB/PRRBB1: Quantitative information on IRRBB/PRRBB

In reporting currency	ΔEVE		ΔNPI	
Period	**Dec 21**	**Dec 20**	**Dec 21**	**Dec 20**
Parallel up	(2,196,324)		427,464	
Parallel down	2,731,246		(171,988)	
Steepener	(1,073,685)			
Flattener	749,485			
Short rate up	(305,735)			
Short rate down	567,643			
Maximum	(2,196,324)			
Period	**Dec 21**		**Dec 20**	
Tier 1 capital	**36,529,342**			

- Average repricing maturity assigned to NMDs 0.61 years
- Longest repricing maturity assigned to NMDs 6 years

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15. Operational risk

OR1: Qualitative disclosures on operational risk

a) Bank's policies, frameworks and guidelines for the management of operational risk

Operational risk is "the risk of loss resulting from inadequate or failed internal processes, people and system or from external events". This definition includes legal risk but excludes strategic and reputational risk. Operational risk events mainly include internal fraud, external fraud, employment practices and workplace safety, clients, products and business practices, damage to physical assets, business disruption and system failure, execution, delivery and process management. Key elements of the framework include:

- Risk Control Self-Assessment
- Incident Management where all loss events and relevant incidents are captured in an incident database
- Risk identification and setting up of Key Risk Indicators for new or enhanced processes and
- Risk reporting to the senior management and Board

The day-to-day management of operational risk is through the maintenance of a comprehensive system of internal controls, supported by robust systems and procedures to monitor transaction positions and documentation, as well as business continuity planning and disaster recovery process.

b) The structure and organisation of their operational risk management and control function

The Bank's Operational Risk Framework follows the three lines of defense methodology. The framework clearly defines roles and responsibilities of individuals/units (across the three lines) that are involved in identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk. Operational risk management department reports to Group Risk Management, independent of business and operations and ensures that practices remain compliant with approved framework.

c) Their operational risk measurement system.

To support measurement of operational risks, Bank has put in place a dedicated operational risk system that allows maintenance of incident database and risk assessment tools like Risk Control Self-Assessment and Key Risk Indicators. Bank presently follows the Basel II Standardised Approach in calculating operational risk capital requirements.

d) The scope and main context of their reporting framework on operational risk to executive management and to the board of directors.

Operational risk reports are shared with relevant Business lines / function and Senior Management on a monthly basis. Additionally, quarterly reporting to senior management and board of directors includes a detailed analysis of the Bank's operational risk profile.

e) The risk mitigation and risk transfer used in the management of operational risk.

To mitigate fraud risk, the Bank uses tools available to strengthen its anti-fraud activities and to proactively detect and minimize the impact of emerging fraud trends. Bank is also committed to increase fraud awareness and educate customers against potential frauds. Moreover, Bank manages and mitigates information security and cyber risk while adopting industry's best practices and standards, where required testing is performed on critical banking channels and systems to ensure that system vulnerabilities (if any) are promptly identified and mitigated. While the Bank is committed to have effective Risk management practices in place it also maintains an effective risk transfer methodology by procuring Takaful policies. The Bank actively engages with the Takaful provider for timely policy renewal and claim management.

16. Remuneration Policy

Banks must describe the main elements of their remuneration system and how they develop this system. In particular, the following elements, where relevant, should be described:

Information relating to the bodies that oversee remuneration. Disclosures should include:

(a) Name, composition and mandate of the main body overseeing remuneration.

Name: Board Nomination & Remuneration Committee
Composition: Chairman, 3 Members
Mandate:

- Review, approve and oversee the implementation of the overall compensation framework and system ensuring alignment with Bank's long-term interests, sustainability and financial soundness.
- Review the rewards plans, processes and outcomes at least annually, ensuring an independent assessment by an external third party at least once every five years.
- Make recommendations to the Board concerning the specific remuneration packages for the Directors and Board committees' Chairman and members.
- Review and approve the compensation for the Managing Director, (other than Board remuneration) Group Chief Executive Officer, Senior Management, Board Secretary and any other roles reporting to committees of the Board.
- Annually review and approve the strategic human resources policy.

(b) External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process.

Korn Ferry and McLagan

(c) A description of the scope of the bank's remuneration policy (eg by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches.

Full time employees of the Bank and it's subsidiaries.

(d) A description of the types of employees considered as material risk-takers and as senior managers.

Senior Management: The executive management of the bank, who is responsible and accountable to the board for the sound and prudent day-to-day management of the bank.
Material Risk Takers: All staff in grade "G" and above.

Information relating to the design and structure of remuneration processes. Disclosures should include:

(e) An overview of the key features and objectives of remuneration policy.

- The banks reward policies are built on the "Pay for Performance" theme and is linked to a robust Performance Management system based on the Balance Scorecard focusing on four key areas i.e. Financials, Customers, Processes and Learning & Growth. This enables the bank to achieve and sustain high standards of performance.
- The Bank's reward policies are prudently governed by the Board Nomination & Remuneration Committee who ensure that the bank adopts market driven remunerations practices. The committee also plays a key role in safeguarding the bank by ensuring adherence to the regulatory requirements and encouraging sound remuneration practices.

(f) Whether the remuneration committee reviewed the firm's remuneration policy during the past year, and if so, an overview of any changes that were made, the reasons for those changes and their impact on remuneration.

The following topics of the HR policy which includes the remuneration policy were reviewed:

Annual Leave carryforward: The leave balance carryforward to the next anniversary year has been revoked.
Special Adjustment & Periodical salary review: As per Financial Audit Authority (FAA), to have a comprehensive process governing salary adjustment reviews as there is no financial metrics used to determine the amount or percentage of increases resulting from special salary adjustment reviews and need to introduce parameters governing the frequency of conducting periodical salary reviews.

(g) A discussion of how the bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee.

We are in process of implementing a revised pay structure for control functions in the Bank to align with Central Bank's requirements. However, the Bank currently adopts a pay for performance methodology. A balanced scorecard approach is followed to assess the individual performance of the staff. This ensures that we are not rewarding for financial achievements only, but all other areas (process, customer, learning & growth) which are important for the bank. Hence, the overall rating derived from the Performance Management (PM) process, using the balanced scorecard, is a balanced assessment of the individual's performance across the key result areas. This performance rating is then linked to the rewards applicable.

(h) Description of the ways in which current and future risks are taken into account in the remuneration processes. Disclosures should include an overview of the key risks, their measurement and how these measures affect remuneration.

Currently not applicable.

Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration. Disclosures should include:

(i) An overview of main performance metrics for bank, top-level business lines and individuals.

- The PM team works with each of the senior management staff in preparing their scorecard in line with the strategy that the GCEO has set for the performance cycle. Each of the scorecards is designed into 4 quadrants i.e., finance, process, customer and learning and growth. Each stakeholder has been assigned a minimum of 2 and maximum of 4 KPIs that are assigned to him by his manager and each of these are designed to meet the objectives of that department which is in turn aligned to meet the overall goals set by our GCEO for the bank. Once the scorecard for each key stakeholder is finalized, the same is cascaded to their teams by the relevant people managers and in line with the planning phase guidelines.
- The overall rating derived from the PM process, using the balanced scorecard, is a balanced assessment of the individual's performance across the key result areas. This performance rating is then linked to the rewards applicable.

(j) A discussion of how amounts of individual remuneration are linked to bank-wide and individual performance.

- The overall banks corporate plan is discussed and made at the management level.
- Based on these corporate plans, business plans are made.
- Business plans are cascaded down to department plans then to team goals and to individual goals.
- The individual goals or KPI are transformed into the 4 quadrants of performance management.
- The assessment of KPI through performance management results in performance ratings and the individual employee is rewarded based on the performance ratings.

(k) A discussion of the measures the bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the bank's criteria for determining "weak" performance metrics.

- Employees with a performance rating of 1 and 2 on a performance rating scale of 5 will be generally not qualified for a performance bonus. However, the management may exceptionally consider employees with rating 2 for a performance bonus.
- In a 5-point rating scale, rating 2 and 1 is considered as "poor" performance.

Description of the ways in which the bank seeks to adjust remuneration to take account of longer-term performance. Disclosures should include:

(l) A discussion of the bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance.

(m) A discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements.

Currently there is no deferrals policy. We are in process of reviewing the HR policy through which we will incorporate the Central Banks regulations pertaining to deferral of variable remuneration.

Description of the different forms of variable remuneration that the bank utilizes and the rationale for using these different forms. Disclosures should include:

(n) An overview of the forms of variable remuneration offered (i.e. cash, shares and share-linked instruments and other forms).

Cash only variable pay (performance bonus)

(o) A discussion of the use of the different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or groups of employees), a description the factors that determine the mix and their relative importance.

Cash only variable pay (performance bonus) based on the rating scale and employee level.

REM1: Remuneration awarded during the financial year

	Remuneration Amount		Senior Management	Other Material Risk-takers
1	Fixed Remuneration	Number of employees	20	330
2		Total fixed remuneration (3 + 5 + 7)	37,385	227,385
3		Of which: cash-based	37,385	227,385
4		Of which: deferred	0	0
5		Of which: shares or other share-linked instruments	0	0
6		Of which: deferred	0	0
7		Of which: other forms	0	0
8		Of which: deferred	0	0
9	Variable Remuneration	Number of employees	20	330
10		Total variable remuneration (11 + 13 + 15)	37,473	82,032
11		Of which: cash-based	37,473	82,032
12		Of which: deferred	0	0
13		Of which: shares or other share-linked instruments	0	0
14		Of which: deferred	0	0
15		Of which: other forms	0	0
16		Of which: deferred	0	0
17	**Total Remuneration (2+10)**		**74,858**	**309,417**

REM2: Special payments

Special Payments	Guaranteed Bonuses		Sign on Awards		Severance Payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Senior Management	20	3,722	0	0	0	0
Other material risk-takers	330	12,476	0	0	0	0

REM3: Deferred remuneration

Deferred and retained remuneration	Total amount of outstanding deferred remuneration	Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of amendment during the year due to ex post implicit adjustments	Total amount of deferred remuneration paid out in the financial year
Senior management	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Other material risk-takers	0	0	0	0	0
Cash	0	0	0	0	0
Shares	0	0	0	0	0
Cash-linked instruments	0	0	0	0	0
Other	0	0	0	0	0
Total	0	0	0	0	0

Dubai Islamic Bank Public Joint Stock Company, licensed and regulated by the Central Bank of the UAE