Habib Bank AG Zurich

(Incorporated in Switzerland 1967)

Habib Bank AG Zurich

United Arab Emirates

Basel Pillar III Disclosures

for the year ended 31st December 2023

Table of Contents

<u>Introduction:</u>

Habib Bank AG Zurich, UAE Branches (the "Bank") operates in the Emirates of Abu Dhabi, Dubai and Sharjah under a full commercial banking license issued by the Central Bank of the United Arab Emirates. The Head Office of the Bank is Habib Bank AG Zurich (the "Head Office") incorporated in Switzerland. The registered address of the Bank is PO Box 3306, Dubai, United Arab Emirates.

1. Purpose and basis of preparation:

The Central Bank of the UAE ("CBUAE") supervises the Bank and therefore receives information on the capital adequacy of, and sets capital requirements for the Bank. The capital requirements are computed using the Basel III framework of the Basel Committee on Banking Supervision ("Basel Committee"), after applying the amendments advised by the CBUAE, within national discretion. The Basel framework is structured around three pillars as follows:

- Pillar I prescribes the minimum capital requirements;
- Pillar II addresses the associated supervisory review process; and
- Pillar III specifies further public disclosure requirements in respect of their capital and risk profile.

The disclosures have been prepared in line with the disclosure templates introduced by the CBUAE guidelines on disclosure requirements (CBUAE/BSD/N/2020/4980 and CBUAE CBUAE/BSD/N/2021/5508) published in November 2020 and November 21 respectively.

The annual Pillar III report of the Bank for the year ended 31 December 2023 comprises detailed information on the underlying drivers of risk-weighted assets (RWA), capital of the Bank. The report should be read in conjunction with the Bank's Audited Financial Statements as at 31 December 2023.

2. Overview of Pillar III:

The aim of the capital adequacy regime is to promote safety and soundness in the financial system. It is structured around three 'pillars': Pillar 1 on minimum capital requirements; Pillar 2 on the supervisory review process; and Pillar 3 on market discipline. Pillar 3 requires the Banks to publish a set of disclosures which allow market participants to assess the organization's key prudential metrics, risk exposures and risk assessment process.

The CBUAE issued Basel III capital regulations, which came into effect from February 1st, 2017 introducing minimum capital requirements at three levels, namely Common Equity Tier 1 ("CET1"), Additional Tier 1 ("AT1") and Total Capital. Additional capital buffers (Capital Conservation Buffer and Countercyclical Capital Buffer – maximum up to 2.5% for each buffer) introduced are over and above the minimum CET1 requirement of 7%.

Regulatory Changes

IFRS9 Transitional adjustments

The IFRS9 partial add-back transitional adjustments was introduced as a 'prudential filter' to smooth the impact of ECL accounting on capital by providing relief to any increases in Stage1 and 2 Expected Credit Losses (ECL), based on a 5-year transitional period as follows:

- 100% from 1st January 2020 to 31 December 2021
- 75% from 1st January 2021 to 31 December 2022
- 50% from 1st January 2022 to 31 December 2023
- 25% for 2024

Policy and verification

The Bank has operated within a framework of internal controls and procedures for accessing the appropriateness of this disclosure.

This Pillar III disclosure have been subject to review from internal auditors and appropriate senior management within the Bank.

We confirm that the Bank's Pillar III disclosures, to the best of our knowledge, comply with the revised CBUAE Pillar III market disclosures requirements and have been prepared in compliance with the Bank's internal control framework.

Implementation of Basel III standards and guidelines

The bank has adopted the standardized approach for Credit Risk, Counterparty Credit Risk and Market Risk and the basic indicator approach for Operational Risk (Pillar I) for regulatory reporting purposes. CVA capital became effective from 30 June 2022.

The Bank also assigns capital on other than Pillar I risk categories, for 'Interest rate risk on banking book' and for 'Business risk', within the Pillar II framework.

3. Highlights:

In line with Article 2.2. of Capital Adequacy Regulation, CBUAE requires banks to apply the following minimum requirement:

- CET1 must be at least 7% of risk weighted assets (RWA);
- Tier 1 Capital must be at least 8.5% of RWA;
- Total Capital, calculated as the sum of Tier 1 Capital and Tier 2 Capital, must be at least 10.5% of RWA.
- In addition to the minimum CET1 capital of 7% of RWA, banks must maintain a capital conservation buffer (CCB) and Countercyclical Capital Buffer (CCyB), maximum of 2.5% of RWAs on the form of CET1 capital.
- All banks must maintain a leverage ratio of at least 3.0%.

The Bank has complied with all the externally imposed capital requirements and is well capitalized with low leverage and high levels of loss-absorbing capacity. As at 31 December 2023:

- The Bank's Common Equity Tier 1 (CET1) ratio of 21.62%, Tier 1 capital Ratio of 21.62%, Capital Adequacy Ratio of 22.67%, are all well ahead of the regulatory requirements.
- The Bank's leverage ratio of 9.50% is well ahead of the current regulatory requirement.
- The Bank continues to manage its balance sheet proactively, with focus on sound RWA management.

4. Key Metrics (KM1)

Key prudential metrics related to regulatory capital have been included in the following table:

	AED'000 31 Dec 2023	AED'000 30 Sept 2023	AED'000 30 Jun 2023	AED'000 31 Mar 2023	AED'000 31 Dec 2022
Available capital (amounts)					
Common Equity Tier 1 (CET1)	1,454,436	1,373,523	1,384,916	1,385,085	1,392,012
Fully loaded ECL accounting model	1,454,436	1,373,523	1,384,916	1,385,085	1,392,012
Tier 1	1,454,436	1,373,523	1,384,916	1,385,085	1,392,012
Fully loaded ECL accounting model Tier 1	1,454,436	1,373,523	1,384,916	1,385,085	1,392,012
Total capital	1,525,327	1,446,539	1,459,969	1,458,417	1,469,072
Fully loaded ECL accounting model total capital	1,525,327	1,446,539	1,459,969	1,458,417	1,468,918
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	6,727,267	6,652,936	6,820,683	6,681,508	6,965,947
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	21.62%	20.65%	20.30%	20.73%	19.99%
Fully loaded ECL accounting model CET1 (%)	21.62%	20.65%	20.30%	20.73%	19.99%
Tier 1 ratio (%)	21.62%	20.65%	20.30%	20.73%	19.99%
Fully loaded ECL accounting model Tier 1 ratio (%)	21.62%	20.65%	20.30%	20.73%	19.99%
Total capital ratio (%)	22.67%	21.74%	21.41%	21.83%	21.09%
Fully loaded ECL accounting model total capital ratio (%)	22.67%	21.74%	21.41%	21.83%	21.09%
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
Countercyclical buffer requirement (%)	0.17%	0.00%	0.00%	0.00%	0.00%
Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Total of bank CET1 specific buffer requirements (%)	**2.67%**	**2.50%**	**2.50%**	**2.50%**	**2.50%**
CET1 available after meeting the bank's minimum capital requirements (%)	12.17%	11.24%	10.91%	11.33%	10.59%

	AED'000 31 Dec 2023	AED'000 30 Sept 2023	AED'000 30 Jun 2023	AED'000 31 Mar 2023	AED'000 31 Dec 2022
Leverage Ratio					
Total leverage ratio measure	15,305,830	14,765,411	14,426,094	14,456,997	14,254,971
Leverage ratio (%)	9.50%	9.30%	9.60%	9.58%	9.77%
Fully loaded ECL accounting model leverage ratio (%)	9.50%	9.30%	9.60%	9.58%	9.77%
Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	9.50%	9.30%	9.60%	9.58%	9.77%
Total HQLA	6,115,688	5,101,547	4,812,025	4,750,504	4,176,460
Total liabilities	12,837,877	12,371,572	12,171,418	12,194,326	12,140,477
Eligible Liquid Assets Ratio (ELAR) (%)	47.6%	41.2%	39.5%	39.0%	34.4%
ASRR					
Total available stable funding	12,417,571	11,902,818	11,683,454	11,800,707	11,654,998
Total Advances	3,851,504	3,925,482	4,276,627	4,070,448	4,128,799
Advances to Stable Resources Ratio (%)	31.0%	33.0%	36.6%	34.5%	35.4%

5. Overview of risk management and Risk Weighted Assets (OVA)

Business Model Determination and Risk Profile

The Bank is a Commercial Bank providing a range of Commercial Lending Products and Trade Finance Services to primarily SME clients. In addition, there is a limited Retail Offering for the Commercial customer's employees and owners. The Bank's commercial lending activities focus particularly on trade finance, providing banking services for the customer's import and export requirements. The customer lending is mainly to individuals and SME's (sole proprietors, partnerships and limited liability companies) with a few large-scale entities. The types of Business segments generally include General Trading, Textiles, Electronics, Foodstuff, Retail, Manufacturing, Transport, Real Estate and Construction and Building Materials. The Bank also participates in syndicated lending. Bank offers Shari'ah compliant products and services are provided through prudently separated window operations in all our branches, while keeping in view Shari'ah and regulatory requirements.

The bank identifies industries and segments based on its risk appetite statement (RAS) on a periodic basis and solicits its customers accordingly.

The Bank has a strong focus on secured as well as short-term self-liquidating credit facilities. Further, in line with its policy of maintaining high liquidity, the Bank has significant surplus funds, which are placed with the Central Bank of the UAE, top rated local and international banks, as well as invested in highly liquid and investment grade debt securities.

The Bank is exposed to all standard risk classes in the normal course of it business which comprises of Strategic & business risk, Liquidity risk, market risk, credit risk, operational risk, legal compliance, reputational and systemic risks. The Bank's risk management and control principles are implemented through the Risk & Control Framework. The Risk & Control Framework comprises qualitative elements of regulatory nature such as Regulations, Policies, Directives and Guidelines, and quantitative components including risk measurement methodologies and risk limits.

Moreover, the following general principles support the Bank's effort to maintain an appropriate balance between risk and return:

- We protect the financial strength of the Bank by controlling our risk exposures and avoiding potential risk concentrations at individual exposure levels, at specific portfolio levels and at an aggregate Bank wide level across all risk types.
- We protect our reputation through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles.
- We systematically identify, classify and measure risks applying best practice.
- We ensure management accountability, whereby Business Line Management, as opposed to risk control, owns all risks assumed throughout the Bank and is responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced.
- We set up independent risk control functions or units, which monitor effectiveness of business's risk management and oversee risk-taking activities.
- We disclose risks to EXCO of the Bank, regulators, and other stakeholders with an appropriate level of comprehensiveness and transparency.

Governance Structure

The Governance Documents of The Bank are derived from legal, regulatory and supervisory requirements (including those issued by the Swiss Financial Market Supervisory Authority «FINMA» and Central Bank of UAE «CBUAE» as well as from business considerations. The Governance Documents are essential management and monitoring tools that contribute to transparency and improve efficiency and risk mitigation of banking operations.

Committee structure and description

HBZ–UAE has two (2) specialized committees at Senior Management level *(i.e EXCO and ISSC)* and five (5) committees as a part of its local governance structure. Committee meetings are held only if the quorum is present. The structures of HBZ-UAE's committees is set forth as follows:

Committee	**Frequency / roles**	**CEO**	**CRO**	**COO**	**CCO**	**CFO**	**ZCO**	**Head of HR**	**Head of Treasury**	**Head of Corp. Banking**	**Others**
EXCO	Bi-monthly*	**Chair**	Member	Member	Member	Member	Member	Member	Member	Member	Head of Distribution - Invitee GIA – Invitee BMs - Invitee
CRCC	Quarterly	Member	**Chair**	Member	Member	Member	Member				
CLCC	Quarterly	Member	Member	Member			**Chair**			Member	Head of GLC
CALC	Quarterly	Member	Member		Member	Member			**Chair**		Head of Distribution - Invitee
CHRC	Quarterly	Member		Member		Member	Member	**Chair**			
CCMC	Ad-hoc	**Chair**		Member	Member						Head of Distribution - Member BMs - Member
ISSC	Quarterly	ISSC members and Key members of HBZ-UAE Senior Management.									

(*) Since the entry into force of the Corporate Governance Regulation (July 2022).

- **Chief Executive Officer**

CEO is assisted in his duties by a specialized and highly qualified team of Senior Executive Management, who are responsible and accountable for the sound and prudent day-to-day management of the Bank. The team, generally includes, but not limited to, the CEO, COO, CFO, CRO, ZCO and Internal Audit function. HBZ-UAE also considers its Branch Managers and selected departmental heads as Senior Management.

The CEO relies on a number of internal committees in the execution of his functions.

- **Country Executive Committee**

The EXCO comprises of the Senior Management of the UAE Operations and functions similar to the BoD, as mandated by the CBUAE under the Corporate Governance regulations.

The EXCO addresses topics / areas of management, structure, organization, communication and implementation of current and future strategies.

The purpose of the EXCO is to develop and implement strategies, operational plans, technology and Information Security related policies, procedures and budgets; monitor operational and financial performance; assessment and control of risk; prioritize and allocate resources; and monitor competition in each area of operation.

- **Country Risk Control Committee**

The CRMC's objective is to oversee the risk management framework, systems, practices and procedures to ensure that the inherent enterprise risk is in line with the risk appetite statement. Moreover, the Committee shall consider any matters relating to the identification, assessment, measurement, monitoring and control or management of risks associated with the operations of the Bank.

Country Asset and Liabilities Committee

The CALC is responsible for monitoring all treasury activities, interest rate risk, liquidity, and foreign exchange risks across HBZ and reviews and recommends strategies, policies and procedures relating to assets & liabilities management across HBZ, including reporting to the EXCO, as and when required. The Committee is also responsible for ensuring compliance with treasury limits and ratios approved by the EXCO and required by the CBUAE.

- **Country Legal and Compliance Committee**

The CLCC is primarily a decision-making body for executing the Compliance strategies of the Bank and managing the inherent risks within the defined risk appetite thresholds. Compliance Committee reviews all matters relating to the identification, assessment, measurement, monitoring and control or management of Compliance risks associated with the Bank, with a special focus on Money Laundering, Terrorist Financing and Financial Crime risk.

- **County Credit Management Committee**

The CCMC is primarily the decision-making body within the Country to review and approve types of credit facilities for single and group counterparties and includes all matters with regards to non-performing loans. The Committee has the authority to decide local policies, processes, guidelines, controls, system changes, staffing needs or actions needed to manage Credit Risk at the country level. At present there are three Credit Committees in the UAE, which are:

- Area Credit Committee
- Zonal Credit Committee -1
- Zonal Credit Committee -2

These Credit Committees function through the electronic work flow on HBZ-UAE's operating platform. For the electronic workflow, comments of the relevant member will count as the quorum requirement.

- **Country Human Resource Committee**

The CHRC is responsible for employee hiring, career development, retention plan, HR Budget, employment policies, comply with the statutory and regulatory requirements, including Emiratization and staff training & development.

- **Internal Shari'ah Supervision Committee**

ISSC comprises of scholars specialized in Islamic financial transactions, which independently supervises transactions, activities, and products of the Bank. ISSC also ensures that the Bank is in overall compliance with Islamic Shari'ah laws and regulations in all its relevant objectives, activities, operations and code of conduct.

ISSC - Constitution:

Name	Function
Professor Jassim Al Shamsi	Chairman
Dr. Mohammed al-Hashimi	Member
Mufti Talha Saleem	Executive Member

Internal Audit Committee

The BoD of HBZ has established an Audit Committee at the Head Office to study and review accounting procedures, financial reporting, internal audit and internal controls. The Audit Committee receives and considers internal and external audit reports, findings and recommendations for all group entities including the HBZ UAE branches (the Bank).

The Audit Committee comprises of three Independent, Non-Executive Directors and meets at least twice in a year:

Name	Function
Roland Müller-Ineichen	Chairman
Urs W. Seiler	Member
Michael Schneebeli	Member

Overview of Risk Management

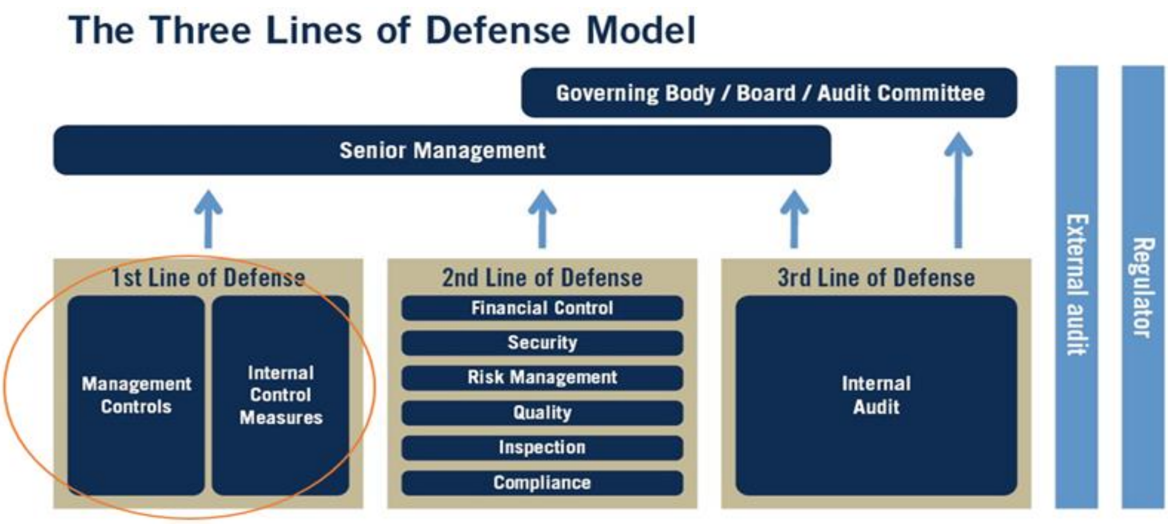
This section sets out some of the key governance and compliance requirements that the Bank abides by at all times. These include but are not limited to; -

1. An independent Group CEO is appointed by the Board, reporting to the Board and the Chairman.
2. The Bank has standard policies, procedures, directives, guidelines, process flows, business rules, and discretionary powers setting out authorities, responsibilities and behavioural standards.
3. Group Risk Control Committee (GRCC) forms an independent second line of defense reporting to the Board for all of the risk classes. GRCC defines group level policies, directives and guidelines and monitors group wide adherence. GRCC provides a formal annual report to the BOD.
4. Group Internal Audit (GIA) Department forms an independent third line of defense reporting to the Board, with the responsibility of risk based audits of all functions. In addition GIA has the responsibility to monitor overlapping work functions (if any), conflicts of interest, significant losses, and wrong-doing (including cases of fraud / embezzlement).
5. The country structure mirrors that of the group, with the CEO appointed by the Group CEO and the Board. The Chief Risk Officer (CRO) is responsible for setting the country policies, directives and guidelines related to all risk classes. The CRO has a reporting line to the Group Risk function.
6. The Risk Management Committee (RMC) reports on all risk classes to the country management and Group Risk Control

The Country CEO and the senior team has a clear understanding of the Governance structure as well an in-depth understanding of the jurisdictional requirements of the bank's operations (Abu Dhabi, Dubai and Sharjah). They are able to exercise sound judgement about the affairs of the Bank and ensure implementation of an effective Corporate Governance Framework within the Bank.

The Senior Management is fully involved in overseeing the Bank's strategic objectives. They have set out and enforce clear lines of responsibility and accountability across the board.

In the UAE the bank has a well-trained first line of defence, complemented by support functions as the second line. The clear segregation of roles and the risk based monitoring ensures compliance to country and global regulatory requirements. The structure is outlined below



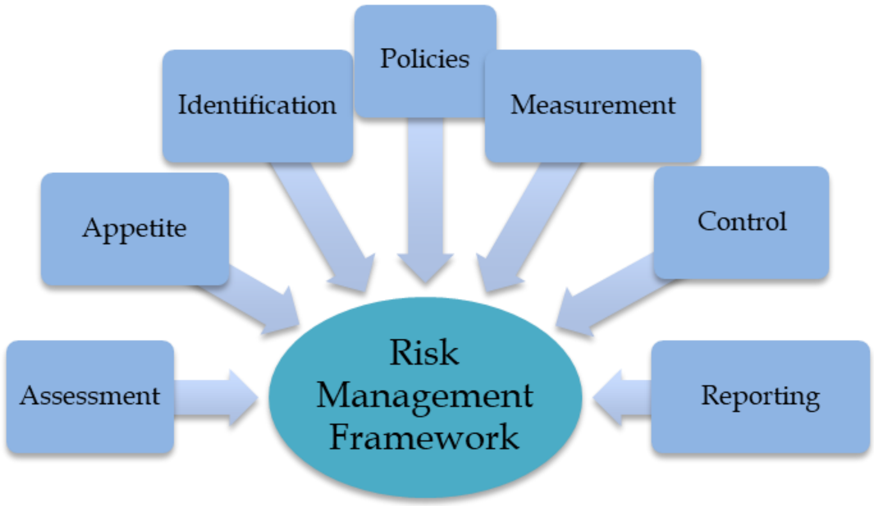
Adequacy of the Bank's Risk Management Processes

Effective risk management is a key component of estimation of capital requirements preservation of assets and long-term profitability of the Bank. Clear guidelines, thresholds and limits are defined, which are reviewed regularly, and are backed up by a comprehensive system of internal controls and management inspections. Habib Bank AG Zurich, UAE has a robust risk management framework integrated into its culture and documents.

1. **Risk Assessment**
   In-depth review and monitoring of System level controls, User groups, Transaction authorizations, Alert reviews, etc. is performed by the Risk department on a continual basis.

2. **Risk Appetite**
   The risk appetite will incorporate a balanced mix of both quantitative and qualitative measures. Quantitative measures include financial targets e.g. capital adequacy, earnings volatility, credit or other external ratings. Qualitative measures refer to reputational impact, management effort and regulatory compliance. A Risk appetite statement in this regard is already approved and Implemented.

3. **Risk Identification**
   The Bank endeavours to identify all material risks that may affect it. Identification is a continuous and pro-active process. It covers all the current activities of the Bank, any new products or initiatives follow a Change Risk Assessment (CRA) methodology.



4. **Risk Policies**
   Policies, directives and guidelines are in place in line with the Risk Assessment and Risk Appetite of the bank.

5. **Risk Measurement**
   The Bank spends considerable resources on maintaining a modern IT platform. The Bank employs various models to dimension risk clearly.

6. **Risk Controls**
   The Bank has an independent control environment to monitor and enforce approved policies and limits for which the Internal Controls System (ICS) is effective since 2017.

7. **Risk Reporting**

The Bank has a well-established process for reporting risk factors to the various stakeholders of the Bank.

The above-mentioned elements for Habib Bank AG Zurich, UAE are in line with the Regulations, Policies, Directives and Guidelines, as approved by the EXCO Board of Directors / General Management in the Head Office in Switzerland and are in compliance with the regulations of the Central Bank of the UAE as well as the Swiss Banking Regulator (FINMA).

The Risk and Control Framework set forward, clearly outlines the regulations for operation of the Bank's business globally, with an emphasis on the following areas; -

- Strategic and Business Risk
- Liquidity Risk
- Market Risk
- Credit Risk
- Operational Risk
- Legal, Compliance and Tax Risk
- Reputation Risk
- Systemic Risk

Further, the Bank utilises the following as governing tools for the Banks management; -

- Policy: Risk Limits and Competencies
- Policy: Liquidity Risk

- Policy: Market Risk
- Policy: Credit Risk
- Policy: Operational Risk
- Policy: Legal, Compliance and Tax Risk
- Policy: Information Security
- Strategic Plan which describes the business development strategies in the medium to long term.
- Senior Executives Summit Meetings held twice yearly.
- Annual Group Financial Controllers, Group Compliance, Group Risk Managers Meetings.

Credit Risk

The Bank's exposures are classified as per the **Standard Portfolio approach** to Credit Risk under Pillar I of Basel II. The majority of our Credit Risk is well diversified within Corporate / Commercial and SME Customers. Besides, Bank has also exposure with Institutional Counter Parties (Sovereigns, Other Financial Institutions and Banks). The core values and main procedures governing the provision of credit are laid down in the Group Credit Risk Policy and related Directives.

The Bank's credit risk management system operates through a hierarchy of exposure discretion. This mandate and scale also comprises a range of additional limits to ensure that no concentrations exist in the portfolio.

All exposures over a certain level require the approval of the Area Credit Committee, Country Credit Committee and Group Credit Management Committee. These Credit Committees are composed of Business Managers, Senior Executives, Chief Credit Officer, as well as SEVP, Country Head and President of the Bank.

The Credit Committees structure in Habib Bank AG Zurich, UAE is set out below; -

- Zonal Credit Committee -1 (ZCC -1)
- Zonal Credit Committee -2 (ZCC-2)
- Area Credit Committee (ACC)

A detailed credit review is performed on each new business case. The Bank uses a risk rating system to evaluate the financial and repayment risk of proposed advances and to ensure appropriate returns for assuming risks. Credit analysts undertake a detailed review of each client prior to approval of advances. An annual financial review is conducted for all credit line customers. Besides, the senior management also reviews the 100 largest exposures and all relationships with 6.5 or above rating periodically. The Bank determines its Credit Risk largely under the following categories; -

- Claims on Sovereigns
- Claims on Corporates
- Claims included in the Regulatory Retail Portfolios
- Claims Secured by Residential Property
- Claims Secured by Commercial Real Estate

Market and Liquidity Risk

The Bank has adopted **Standardized Approach** for Market Risks; whereas, for Interest Rate Risk, the Bank has adopted the 'Duration' method. The Bank has formulated Liquidity Risk Management Framework in lines with the regulations and guidelines provided by CBUAE.

Market Risk Management structure is centralized in the Risk Management Department of the Bank. However, governance is distributed across different committees. Assets and Liability Management Committee (ALCO) and Risk Management Committee (RMC) are primarily responsible for key decisions related to Market and Liquidity Risk.

Operational Risk

The Bank's Operational Risks are classified as per the **Basic Indicator Approach** to Operational risk under Pillar I of Basel II. The Bank's Operational Risk is initially managed at Business/support units that take risk on behalf of Bank. The Bank's Operational Risk is also independently reviewed and assessed by Operational Risk Management (Risk Management Department). Other owners include Information Security, Compliance, Financial Control Department, etc with GIA (Being 3rd Line of Defense). The Bank uses the following loss event types, in line with the guidelines stipulated in Basel II and Basel III Accords (as per guidelines issued by Central Bank of UAE); -

- Internal Fraud
- External Fraud
- Employment Practices and Workplace Safety
- Clients, Products and Business Practices
- Damage to Physical Assets
- Business Disruption and System Failures
- Execution, Delivery and Process Management

These risks are assessed under an Operational Risk Framework

Outline of Stress Testing Approach

A range of quantitative techniques that could assess potential vulnerabilities / risks to the individual institutions as well as financial system, is widely known as 'Stress Testing'.

Stress testing is a process, which provides information on the behaviour of the financial system under a set of exceptional, but plausible assumptions.

These tests help in managing risk within the Bank to ensure optimum allocation of capital across its risk profile. At the system level, stress tests are primarily designed to quantify the impact of possible changes in economic environment on the financial system. Stress testing is a vital diagnostic tool to better understand a Bank's risk profile. The Bank is using following techniques for Stress Testing; -

Simple Sensitivity Analysis measures the change in the value of portfolio for shocks of various degrees to different independent risk factors while the underlying relationships among the risk factors are not considered. For example, the shock might be the adverse movement of interest rate by 100 basis points and 200 basis points. Its impact will be measured only on the dependent variable i.e. capital in this case, while the impact of this change in interest rate on NPLs or exchange rate or any other risk factor is not considered.

Macro-Economic Scenario Analysis encompasses the situation where a change in one risk factor affects a number of other risk factors or there is a simultaneous move in a group of risk factors. Scenarios can be designed to encompass both movements in a group of risk factors and the changes in the underlying relationships between these variables (for example correlations and volatilities). Stress testing can be based on the historical scenarios, a backward-looking approach, or the hypothetical scenario, a forward-looking approach.

Extreme Value / Maximum Shock scenario measures the change in the risk factor in the worst-case scenario, i.e. the level of shock, which entirely wipes out the capital.

The scope of the stress test for HBZ is limited to Simple Sensitivity Analysis. The following key risk factors have been identified and used for the stress testing; -

- Interest Rate Risk / Pricing Risk
  - Increase in Interest Rate
  - Adverse Change in Yield on Advances
- Credit Risk
  - Increase in Non-Performing Loans (NPLs)
  - Downgrade Shift in NPLs Categories
  - Fall in Forced Sale Value of Collateral
  - Fall in Forced Sale Value of Mortgage Collateral
- Concentration Risk
- Operational Risk
  - Unauthorized Withdrawal from Account
  - Fraudulent Withdrawal from ATM / Debit Card
  - Insurance Company Default / Rejected Claim for Unauthorized Withdrawal
  - Internal Fraud
- Market Risk
  - Adverse Movement in Foreign Exchange Rate
  - Equity Price
  - Fall in Stock Market Prices
- Liquidity Risk
  - Drop in Securities Price
  - FX Rates Adverse Movement
  - Behavioural deposit outflow
- Liquidity Stress Test (LST 1 and LST 2)

This stress testing is carried out assuming following three different hypothetical scenarios; -

- Minor Level Shocks: These represent small shocks to risk factors. Level for different risk factors can, however, vary.
- Moderate Level Shocks: It envisages medium level of shocks and the level is defined in each risk factor separately.
- Major Level Shocks: It involves big shocks to all the risk factors and is also defined separately for each risk factor.

Each of the risk factors has been given shocks of three different levels. The magnitude of shock has been defined separately for each risk factor for all the three levels of shocks. Capital Adequacy for the Bank has been stress tested for Worst Case Scenarios.

Overview of RWAs (OV1)

		AED'000	AED'000	AED'000
		RWA		Minimum capital requirements
		31 Dec 2023	30 Sep 2023	31 Dec 2023
1	Credit risk (excluding counterparty credit risk)	5,669,320	5,838,748	595,279
2	Of which: standardised approach (SA)	5,669,320	5,838,748	595,279
6	Counterparty credit risk (CCR)	-	-	-
7	Of which: standardised approach for counterparty credit risk	-	-	-
10	Credit valuation adjustment (CVA)	1,945	2,534	204
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
18	Of which: securitisation external ratings-based approach (SEC-ERBA)			
19	Of which: securitisation standardised approach (SEC-SA)			
20	Market risk	6,403	8,386	672
21	Of which: standardised approach (SA)	6,403	8,386	672
23	Operational risk	1,049,599	803,268	110,208
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**6,727,267**	**6,652,936**	**706,363**

Total capital requirement is defined as the sum of Pillar I and Pillar II capital requirements set by the CBUAE for Capital Adequacy. The minimum requirements represents the total capital requirement to be met by CET1.

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories (Ll1)

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with relevant laws of the U.A.E.

31 Dec 2023 (AED'000)	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Assets							
Cash and balances with UAE Central Bank	3,011,569	3,011,569	3,011,569				
Due from banks	2,078,502	2,078,502	2,078,502				
Due from related parties	44,716	44,716	44,716				
Loans and Islamic financing receivables	3,472,949	3,472,949	3,472,949				
Investments	5,612,126	5,612,126	5,612,126				
Property and equipment	38,539	38,539	38,539				
Right of use of assets	73,929	73,929	73,929				
Customers' indebtedness for acceptances	66,455	66,455	66,455				
Deferred tax assets	73,667	73,667	73,667				
Other assets	224,539	224,539	224,539			70	
Total Assets	**14,696,992**	**14,696,992**	**14,696,992**		**-**	**70**	**-**

31 Dec 2023 (AED'000)	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
Liabilities							
Deposits from customers	12,244,234	12,244,234					12,244,234
Due to banks	167,661	167,661					167,661
Due to related parties	12,749	12,749					12,749
Liabilities under acceptances	66,455	66,455					66,455
Other liabilities	316,398	316,398				162	316,236
Lease liabilities	47,385	47,385					47,385
Deffered tax liability	-	-					-
Total Liabilities	**12,854,882**	**12,854,882**		**-**	**-**	**162**	**12,854,720**

Main sources of differences between regulatory exposure amounts and carrying values in financial statements (Ll2)

	31 Dec 2023 (AED'000)	Total	Items subject to:			
			Credit risk framework	Securitisation framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount under scope of regulatory consolidation (as per template LI1)**	14,696,992	14,696,992			70
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	162				162
3	Total net amount under regulatory scope of consolidation	14,696,830	14,696,992	-		(92)
4	Off-balance sheet amounts	729,880	729,880			
5	*Differences in valuations*					
6	*Differences due to different netting rules, other than those already included in row 2*					
7	*Differences due to consideration of provisions*					
8	*Differences due to prudential filters*					
9	**Exposure amounts considered for regulatory purposes**	**15,426,710**	**15,426,872**			**(92)**

6. **Regulatory Capital**

Capital Management

The Bank's regulator, the Central Bank of the UAE ('CBUAE'), sets and monitors regulatory capital requirements.

The Bank's objectives when managing capital are as follows:

- Safeguard the Bank's ability to continue as a going concern and optimize returns for shareholders;
- Comply with regulatory capital requirements set by the Central Bank of the UAE.

The Bank's policy is to maintain a strong capital base so as to maintain investors, creditors and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank also assesses its capital requirements internally taking into consideration growth requirements and business plans, and quantifies its Regulatory and Risk / Economic Capital requirements within its ICAAP.

Risks such as Interest Rate Risk in the Banking Book, Credit Concentration Risk, Legal Risk, Compliance Risk, Liquidity Risk, Business Risk, Residual Risk, Counterparty Credit Risk and Reputational Risk are all part of the ICAAP.

The CBUAE supervises the Bank on a consolidated basis, and therefore receives information on the capital adequacy of, and sets capital requirements for, the Bank as a whole. Effective from 2017, the capital is computed at a Bank level using the Basel III framework of the Basel Committee on Banking Supervision ('Basel Committee'), after applying the amendments advised by the CBUAE, within national discretion. The Basel III framework, like Basel II, is structured around three 'pillars': minimum capital requirements, supervisory review process and market discipline.

The capital management section of the 2023 audited Financial Statements sets out the Bank's capital resources and adequacy (page 101).

The Bank has complied with all the externally imposed capital requirements.

Composition of Regulatory Capital (CC1)

		(AED 000s) 31 December 2023
	Common Equity Tier 1 capital: instruments and reserves	
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	500,000
2	Retained earnings	973,955
3	Accumulated other comprehensive income (and other reserves)	(19,519)
4	*Directly issued capital subject to phase-out from CET1 (only applicable to non-joint stock companies)*	
5	Common share capital issued by third parties (amount allowed in group CET1)	-
6	**Common Equity Tier 1 capital before regulatory deductions**	**1,454,436**
	Common Equity Tier 1 capital regulatory adjustments	
7	Prudent valuation adjustments	-
8	Goodwill (net of related tax liability)	-
9	Other intangibles including mortgage servicing rights (net of related tax liability)	-
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	-
11	Cash flow hedge reserve	-
12	Securitisation gain on sale	-
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-
14	Defined benefit pension fund net assets	-
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-

	Common Equity Tier 1 capital regulatory adjustment	(AED 000s) December 31, 2023
20	Amount exceeding 15% threshold	-
21	Of which: significant investments in the common stock of financials	-
22	Of which: deferred tax assets arising from temporary differences	-
23	CBUAE specific regulatory adjustments	-
24	**Total regulatory adjustments to Common Equity Tier 1**	-
25	**Common Equity Tier 1 capital (CET1)**	**1,454,436**
	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	-
28	Of which: classified as liabilities under applicable accounting standards	-
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	-
30	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in AT1)	-
31	*Of which: instruments issued by subsidiaries subject to phase-out*	-
32	Additional Tier 1 capital before regulatory adjustments	-
	Additional Tier 1 capital: regulatory adjustments	
33	Investments in own additional Tier 1 instruments	-
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	-
36	CBUAE specific regulatory adjustments	-
37	Total regulatory adjustments to additional Tier 1 capital	-
38	**Additional Tier 1 capital (AT1)**	-
39	**Tier 1 capital (T1= CET1 + AT1)**	**1,454,436**
	Tier 2 capital: instruments and provisions	
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41	*Directly issued capital instruments subject to phase-out from Tier 2*	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-

	Tier 2 capital: instruments and provision	**(AED 000s) December 31, 2023**
43	*Of which: instruments issued by subsidiaries subject to phase-out*	-
44	Provisions	70,891
45	**Tier 2 capital before regulatory adjustments**	70,891
	Tier 2 capital: regulatory adjustments	
46	Investments in own Tier 2 instruments	-
47	Investments in capital, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	-
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
49	CBUAE specific regulatory adjustments	-
50	**Total regulatory adjustments to Tier 2 capital**	-
51	**Tier 2 capital (T2)**	70,891
52	**Total regulatory capital (TC = T1 + T2)**	**1,525,327**
53	**Total risk-weighted assets**	6,727,267
	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	21.62%
55	**Tier 1 (as a percentage of risk-weighted assets)**	21.62%
56	**Total capital (as a percentage of risk-weighted assets)**	22.67%
57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	2.67%
58	**Of which: capital conservation buffer requirement**	2.50%
59	**Of which: bank-specific countercyclical buffer requirement**	0.17%
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	0.00%
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	12.17%
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	7.00%
63	Tier 1 minimum ratio	8.50%
64	Total capital minimum ratio	10.50%

		(AED 000s) December 31, 2023
	Amounts below the thresholds for deduction (before risk weighting)	
[redacted]		
66	Significant investments in common stock of financial entities	-
[redacted]		
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)	185,973
70	Cap on inclusion of provisions in Tier 2 under standardised approach	70,891
[redacted]		
	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)*	-

Reconciliation of regulatory capital to balance sheet (CC2)

The table also presents the link between the Bank's balance sheet in its published financial statements and the numbers that are used in the composition of capital disclosure template (CC1).

31 Dec 2023	Balance sheet as in published financial statements	Under regulatory scope of consolidation
	AED'000	AED'000
Assets		
Cash and balances with UAE Central Bank	3,011,569	3,011,569
Due from banks	2,078,502	2,078,502
Due from related parties	44,716	44,716
Loans and Islamic financing receivables	3,472,949	3,472,949
Investments	5,612,126	5,612,126
Property and equipment	38,539	38,539
Right of use of assets	73,929	73,929
Customers' indebtedness for acceptances	66,455	66,455
Deferred tax assets	73,667	73,667
Other assets	224,540	224,540
Total assets	**14,696,992**	**14,696,992**
Liabilities		
Deposits from customers	12,244,234	12,244,234
Due to banks	167,661	167,661
Due to related parties	12,749	12,749
Liabilities under acceptances	66,455	66,455
Other liabilities	316,398	316,398
Lease liabilities	47,385	47,385
Deffered tax liability	-	-
Total liabilities	**12,854,882**	**12,854,882**
Shareholders' equity		
Allocated capital	500,000	500,000
Legal reserve	50,000	50,000
Retained earnings	1,360,610	1,360,610
Revaluation Reserves	(68,500)	(68,500)
Impairment Reserves	-	-
Total shareholders' equity	**1,842,110**	**1,842,110**

Countercyclical Buffer

The table also presents Geographical distribution of credit exposures used in the countercyclical capital buffer

Geographical breakdown	31st Dec 2023 (AED'000)				
	Countercyclical capital buffer rate	Exposure values and/or risk-weighted assets used in the computation of the countercyclical capital buffer		Bank-specific countercyclical capital buffer rate	Countercyclical buffer amount
		Exposure values	Risk-weighted assets		
UAE	0%	10,682,478	3,548,822		
Other Countries	0%	4,211,620	1,885,327		
United Kingdom	0.12%	204,414	96,213		
France	0.025%	136,772	68,361		
Australia	0.015%	102,922	61,093		
Netherlands	0.01%	19,008	9,504		
Total	0.17%	15,357,214	5,669,320		

7. Leverage Ratio

Summary comparison of accounting assets vs leverage ratio exposure (LR1)

The following table reconciles the total assets in the published financial statements to the leverage ratio exposure measure.

		31 Dec 2023 AED'000
1	Total consolidated assets as per published financial statements *	14,696,992
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	69,519
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	-
4	Adjustments for temporary exemption of central bank reserves (if applicable)	-
5	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	14,249
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	525,070
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	-
13	**Leverage ratio exposure measure**	**15,305,830**

- ## Leverage ratio common disclosure template (LR2)

The following table provides a detailed breakdown of the components of the leverage ratio denominator, as well as information on the actual leverage ratio, minimum requirements and buffers.

		AED'000	AED'000
		31 Dec 2023	**30 Sep 2023**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	14,630,537	13,989,932
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)		
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)		
6	(Asset amounts deducted in determining Tier 1 capital)	69,519	148,247
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**14,700,056**	**14,138,179**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	70	17
9	Add-on amounts for PFE associated with *all* derivatives transactions	10,108	9,812
	CCR exposure for derivatives transactions (calculated as 1.4 x (Row 4+5))	14,249	13,761
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 9 to 12)**	**14,249**	**13,761**
Securities financing transactions			
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-

		AED'000 31 Dec 2023	AED'000 30 Sep 2023
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**	**-**	**-**
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	2,615,386	2,749,278
20	(Adjustments for conversion to credit equivalent amounts)	-2,023,861	-2,135,807
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)**	591,525	613,471
Capital and total exposures			
23	**Tier 1 capital**	1,454,436	1,373,523
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	15,305,830	14,765,411
Leverage ratio			
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	9.5%	9.3%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	9.5%	9.3%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	**Applicable leverage buffers**	6.5%	6.3%

8. Credit Risk

General qualitative information about credit risk (CRA)

The Bank is a Corporate / Commercial bank, primarily offering working capital facilities, discreetly designed for owner-operated businesses as well as corporates, financial institutions and in some cases, individuals. Products are offered through the bank's international network and robust delivery channels.

Hence, the assets of the bank mainly consist Loans & Advances (trust receipts, commercial loans, mortgages, invoice finance etc.), interbank placements, debt securities, tailored wealth management products etc.

The Bank has centralized Credit Management functions for the entire bank, independent from the Operations or Business units. The Bank has implemented appropriate policies, procedures and systems for lending businesses to ensure credit exposure is taken prudently.

The process of translation of business model in to components of credit risk at the bank, is initiated at the time of approval of Board approved Bank Strategy. The credit risk origination is across the Bank's Balance Sheet. This ensures an integrated Credit Risk Management including credit appraisal, risk to return adjusted pricing, discreet credit approval levels, secure documentation etc.

Accordingly, the Bank manages its Credit Risk based on the asset quality allocation to each asset class within the Balance sheet.

Credit Risk is low for high quality assets like CBUAE placements, FI placements with a High Investment Rating and is relatively high for riskier asset classes like Loan to SME customers.

Appropriate product programs defining customer segments, underwriting standards and security requirement are rolled-out to ensure consistency in underwriting and the on-boarding process.

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 EXCO Board Risk Committee, reflects the Risk Strategy translated to the Business Strategy to manage growth and profile of the portfolio within acceptable tolerances.

Management of credit risk

Credit risk is defined as the risk when the Bank's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Bank to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by HBZ, thereby resulting in the value of the assets to fall. As credit risk is the bank's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The key components of the Bank's overall credit policy are as follows:

• Credits are granted post a detailed review of the customer's operating as well as financial history, management, owners etc. and based on specific assessments that provide a context for such credit including a combination of qualitative and quantitative criteria.

• The exposure consummates the customer's creditworthiness, wealth components, and the client's repayment ability.

• The Bank assumes risks within the limits of applicable legislation and all relevant internal and group guidelines, including the rules regarding good business practice for financial enterprises. Regular reviews of policies are undertaken to ensure credit quality is maintained and is based on an on-going portfolio review and prevailing market conditions. Product policies are realigned through deep dive analysis on the portfolio which includes monthly and quarterly reviews of the portfolio.

Guidelines are taken from

- Approved Strategy of the Bank, cascaded down to various departments
- Key circulars and guidelines issued by CBUAE and Head Office
- Group Credit Risk Policy as well as CBUAE's issued frameworks
- International Best practices in the form of Basel Guidelines, IFRS-9 Guidelines etc.
- Bank's approved Risk Governance / Appetite Frameworks
- Approved Local functional guidelines, which have stipulated customer acceptance as well as customer selection criteria, concentration caps on industries, products & segments and defined product programs.

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's size of the exposure and collateral amount.

Structure and organization of the credit risk management and control function

The Bank's exposures are classified as per the Standard Portfolio approach to Credit Risk under Pillar I of Basel II. The majority of our Credit Risk is well diversified within Corporate / Commercial and SME Customers. Besides, Bank has also exposure with Institutional Counter Parties (Sovereigns, Other Financial Institutions and Banks).

The core values and main procedures governing the provision of credit are laid down in the Group Credit Risk Policy and related Directives. The Bank's credit risk management system operates through a hierarchy of exposure discretion.

The underwriting and risk management functions are separated from each other. Credit 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 Chief Credit Officer (CCO), while all other risks including Market, Operational, Information, Cyber etc. are managed by Risk Management Department, headed by Chief Risk Officer (CRO), who reports directly to CEO. Please note that CRO covers the overall risk appetite for the bank, including that of Credit Risk.

This mandate and scale also comprises a range of additional limits to ensure that no concentrations exist in the portfolio. All exposures over a certain level require the approval of the Area Credit Committee, Country Credit Committee and Group Credit Management Committee. These Credit Committees are composed of Business Managers, Senior Executives, Chief Credit Officer, as well as the SEVP, Country Head and President of the Bank.

The Credit Committees structure in the bank is set out below

- Zonal Credit Committee -2 (ZCC-2)
- Zonal Credit Committee -1 (ZCC -1)
- Area Credit Committee (ACC)

The senior management also reviews the accounts on Early Warning Monitor and Watch category on Quarterly basis. The Bank determines its Credit Risk largely under the following categories

- Claims on Sovereigns
- Claims on Corporates
- Claims included in the Regulatory Retail Portfolios
- Claims Secured by Residential Property
- Claims Secured by Commercial Real Estate
- Off Balance Sheet Items

The Credit risk management department is responsible for the following:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements. Chief Risk Officer (CRO) covers the overall risk appetite for the bank, including that of Credit Risk.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to various credit committees. Larger facilities require approval by management as appropriate;
- Reviewing and assessing credit risk: Credit Risk Management department assesses all credit exposure in excess of designated limits, prior to facilities being committed to customers. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentration of exposure to counterparties, geographies and industries
- Developing and maintaining the risk grading in order to category exposures according to the degree of risk of financial loss faced and to focus management on the attendant risk; the risk grading system is used in determining where impairment provisions may be required against specific credit exposures. Risk grades are subject to regular reviews; and
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types.

All credit exposure is approved, either by approval of an individual transaction / facility (e.g., lending facilities), or under a system of credit limits. Credit exposure is monitored daily to ensure it does not exceed the approved credit limit. One of the main responsibilities of Credit Risk Management Department (CRMD) is the analysis and review of new counter-party trading relationships and the subsequent on-going review of the creditworthiness of the client. Credit limits are sized with the strategy of the counterparty, the level of disclosure of financial information and the amount of risk mitigation that is present in the trading relationship (e.g., Level of Collateral).

The Bank has an approved Local Functional Guidelines for credit to minimize the credit risk through the lifecycle of relationship. A detailed credit review is performed on each new business case. The Bank uses a risk rating system to evaluate the financial and repayment risk of proposed advances and to ensure appropriate returns for assuming risks. The accounts on early warning monitor and watch exposures are reviewed each quarter by the country credit management of the Bank. CRMD is responsible for managing the credit risk through customer lifecycle and is headed by the Chief Credit Officer, with functional reporting to Group Head of Credit and CEO.

Transaction and position limits by instrument and/or by counterparty are set by General Management based in Head Office, within the overall limits set by the Board. These limits are subject to annual review. Comprehensive reporting is to be made to the Board at Head office prior to such review.

Credit risk of individual counterparties or issuers are checked and monitored by management in accordance with internal rules.

Regular audits of business units and credit processes are undertaken by Internal Audit.

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

There is a clear demarcation between the duties of the Credit Risk Management, Risk Control and the other independent control functions like Compliance and Internal Audit . Whilst the Risk Management function is responsible for establishing bank-wide risk and control strategies and relevant policies, other control functions have exclusive responsibilities like developing and communication of respective Compliance and Internal Audit policies.

The Bank has centralized Credit Management functions for the entire bank, independent from the Operations, Business departments and Risk Control. Chief Risk Officer (CRO) has separate responsibilities from Chief Credit Officer (CCO), who is dedicated for overseeing the Credit Risk function, while all other risk categories (operational, market, information etc.) are with CRO, however, CRO covers the overall risk appetite for the bank, including that of Credit Risk. The Bank has implemented appropriate policies, procedures and systems for lending businesses to ensure credit exposure is taken prudently.

The Bank's credit risk management culture is based on the concept that risk management and business work with shared responsibilities. Both branch managers as well as independent credit managers approve credit. Branches as well as Credit Risk is jointly responsible for adjusting these strategies and budgets to manage through with changing environments. The business (branches and the relationship management) is looked as the institution's first line of risk defense given their unique access and proximity to their clients on a real time basis, while Credit Risk is considered second line of defense as this provides an independent risk management review of risk profile of the portfolios, including suitability and appropriateness to ensure that the impact of all risk disciplines is understood.

The Compliance function within the Bank forms a standalone department and it is independent from the business. Forming part of the second line of defense, the team assists the business units in managing its Regulatory Compliance and Financial Crime Risks. The Chief Compliance Officer reports to the CEO directly and dotted line to the Group Head of Legal and Compliance Board. The function has direct access to the Chairman, Board and Executive Management, personal and information on an on- going basis. Regular updates are provided to the Board, who oversee compliance with legal and regulatory requirements.

Risk management processes of the bank are audited periodically by the Group Internal Audit Department (third line of defense) which examines both the adequacy of the procedures and the bank's compliance with the procedures. Group Internal Audit Department comments on the results of their assessments with management, and reports its findings and recommendations to the Board Audit Committee. Committee, Asset Quality Committee and the Board of Directors) on a regular basis.

Credit quality of assets (CR1)

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

		a	b	c	d	e	f
		Gross carrying values of		Allowances/ Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
31st December 2023 (AED'000)		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	111,771	3,643,844	282,665	102,837	179,828	3,472,949
2	Debt securities		5,612,328	203		203	5,612,126
3	Off-balance sheet exposures	2,061	727,819	5,425	1,957	3,468	724,455
4	**Total**	**113,832**	**9,983,991**	**288,293**	**104,794**	**183,499**	**9,809,530**

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

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

		31 Dec 2023 AED'000
1	**Defaulted loans and debt securities at the end of the previous reporting period (Dec 31, 2022)**	124,823
2	Loans and debt securities that have defaulted since the last reporting period	26,332
3	Returned to non-default status	
4	Amounts written off	(20,008)
5	Other changes	(17,315)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**113,832**

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

1. **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**

Past Due Exposure: Loans are considered past due if any part of the contractual interest and/or principal payment is not met on time. The number of days past due is non-cumulative, where the most recent payment cures the earliest contractual breach. For example if repayments are agreed to be made monthly, and the customer is 30 days late in making the repayment, his next repayment should cover 60 days to cure the arrears. However, If the customer only makes one month payment, the customer cures the past month arrears (30 days) but falls in arrears for the new month (i.e. in arrears for 1 day).

Impaired Exposure: Any facility that is past due for over 90 DPD qualifies as a default customer and qualifies as impaired exposures or Stage 3 customers under IFRS-9.

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data from the following events:

• Significant financial difficulty of the borrower or issuer

• A breach of contract such as a default or past due event

• The disappearance of an active market for a security because of financial difficulties or

• The sale of a financial asset at a deep discount that reflects the incurred credit losses.

Taken From credit impairment and value adjustment directives

- Days past due
- Inability of the client to service the contractual agreement, which may result in covenant waivers / amendments (restructuring)
- Significant increase in the credit risk of other financial instruments of the same client (cross-product / facility)
- Transition (downgrade) in the (internal / external) credit rating of the obligor
- Tagging of exposures as as Watch- internal or external, and
- Tagging of exposures as FAP (for adjustment purpose», which corresponds to non-performing.

The following early warning signals can trigger any of the above-mentioned criteria and subsequently trigger classification of exposure into Stage 2 or Stage 3 based on the degree of severity of the signal and the judgment of the Credit Committee

- Significant changes in the terms of an existing financial instrument as on the reporting date compared to its terms at origination
- a borrower's bank guarantee called upon by the counterparty
- The movement of an off-balance sheet exposure to an on-balance sheet exposure
- A change in the financial position / operational efficiency of the borrower, examples of which could include (but are not limited to) the following:
    - Declining profitability
    - Tightening liquidity or cash flow

- Increasing leverage and / or weakening net worth, and
- Changes in key management positions

- Weakened marketability and / or value of collateral
- Change in the industry in which the borrower operates, and
- Stressed macro-economic conditions that may impact the performance of the borrower and impact its ability to service the debt commitments in full.

Impairment assessment:

The asset portfolio is reviewed at least quarterly at a minimum or as often as necessitated. The accrual or non-accrual status of the asset is re-assessed and appropriately, risk graded as per the credit policy on risk grades. Impaired assets are classified as such through approvals on a credit memorandum and reported at least on quarterly intervals to the Board sub committees.

Group classifies its credit exposure with regard to the impairment process into three categories:

- Stage 1 - Performing financial assets
- Stage 2 - Financial assets with significant increase in credit risk
- Stage 3 - Credit impaired financial assets

Value adjustments requirements for default risk apply to all three categories, be it latent as in Stage 1 and 2 or specific as in Stage 3

As soon as a credit exposure is marked Stage 3, all accrued interest goes into the Interest in Suspense Account

These Interest in Suspense accounts are client-specific as soon as a credit exposure is marked Stage 3, all specific value adjustments go into a special account, which again is client-specific, while latent credit risk is not allocated to the specific clients.

Off-balance sheet exposures are converted into on-balance sheet exposure according to the respective model configuration, which by and large follow the conversion factors of Basel I

Trade finance (LCs)	Bid and performance bonds	Standby LCs	Payment and financial guarantees
20%	50%	100%	100%

Stage 1 - Performing financial assets Stage 1 assets are assessed based on existing credit risk management standards for acceptable credit quality, in line with the relevant Governance Documents. These are assets / exposures which have not increased significantly in credit risk since initial recognition.

Stage 2 - Financial assets with significant increase in credit risk (SICR) These are financial assets whose credit quality has deteriorated significantly since origination.

Stage 3 - Credit impaired financial assets - Assets classified under this category are unlikely to be re-payed on a timely basis and are considered as defaulted. The default definition used by the Group is based on the The New Basel Capital Accord, issued by the Bank for International Settlements (BIS). The unlikely to pay criteria is captured by the for adjustment purpose tagging, which in turn is triggered by the early warning signals / qualitative criteria.

All accounts classified as “Sub Standard”, “Doubtful” and “Loss” constitute “Non- Performing Accounts”

During IFRS 9 implementation, the Bank formed a Steering Committee comprising of the appropriate Bank representatives to oversee the process of IFRS 9 implementation.

There is no difference in the manner “past due” and “default” are defined for accounting and regulatory purposes.

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

As of 31st December 2023, there is no such customer.

3. **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 categorization of ECL accounting provisions in general and specific categories for standardized approach exposures**

The bank follows CBUAE issued IFRS-9 guidelines for categorization of ECL accounting provisions in to general and specific categories i.e. wherein if provisions as per CBUAE issued circular 28/2010 is greater than IFRS-9 calculated ECL then the difference between the two is moved to the appropriate Reserve account in Balance sheet. If IFRS-9 calculated, ECL is greater than CBUAE circular 28/2010, it is taken directly to Profit & loss statement.

Expected credit loss

On adoption of IFRS 9 from 1 January 2018 impairment provisioning has changed from incurred loss model under IAS 39 to expected credit loss model under IFRS 9. Under IAS 39 credit loss, provisioning was done only for loans and advances but under IFRS 9, provisioning is done for all risk assets.

Measurement of ECL

Bank recognizes loss allowances for expected credit losses (ECLs) on the following financial instruments, not measured at FVTPL:

- Due from other banks
- Debt investment securities carried at FVOCI and amortized cost
- Loans and advances to customers
- Insurance assets and receivables
- Customer acceptances and other financial assets
- Loan commitments;
- Financial guarantees and contracts

No impairment loss is recognized on equity investments

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

Macroeconomic Factors, Forward Looking Information (FLI) and Multiple Scenarios

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information will require significant judgment.

PD, Loss Given Default (LGD) and Exposure at Default (EAD) inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio.

Each macroeconomic scenario used in expected credit loss calculation will have forecasts of the relevant macroeconomic variables.

The estimation of expected credit losses in Stage 1 and Stage 2 will be a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios.

The base case scenario will be based on macroeconomic forecasts (e.g. GDP growth rate and international oil prices indices). Upside and downside scenarios will be set relative to base case scenario based on reasonably possible alternative macroeconomic conditions.

Scenarios will be probability-weighted according to the best estimate of their relative likelihood based on historical frequency and current trends and conditions. Probability weights will be updated on a quarterly basis. All scenarios considered will be applied to all portfolios subject to expected credit losses with the same probabilities.

Expected Life

When measuring ECL, the Branches must consider the maximum contractual period over which the Branches are exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Branches are exposed to credit risk and where the credit losses would not be mitigated by management actions.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the bank under the contract and the cash flows which are expected to be received arising from the weighting of multiple future economic scenarios, discounted at the asset’s interest rate.

Impact on modelled ECL allowance

The Bank’s models have been constructed and calibrated using historical trends and correlations as well as forward looking economic scenarios. The severity of the current macro-economic projections and the added complexity caused by the various support schemes and regulatory guidance across the main regions in which the

Bank operates could not be reliably modelled for the time being. Therefore, the existing models may generate results that are either overly conservative or overly optimistic depending on the specific portfolio / segment. As a result, post-model adjustments are required. Given model changes take a significant amount of time to develop and test and the data limitation issues noted above, the Bank expects that post-model adjustments to be applied for the near future.

Post-model adjustments

Post-model adjustments (both positive and negative) represent adjustments in relation to data and model limitations because of external factors.

4. **The bank's own definition of a restructured approach.**

Restructured facilities are those wherein renegotiated terms and conditions result in a loss to the bank because of reduced interest and/ or principal amount, i.e. the carrying amount asset is greater than the present value of the future cash flows discounted with original rate resulting in an impairment.

A restructuring of a credit agreement generally is a breach of contract under the initially agreed terms and conditions. A change in the form of the credit facility - for example conversion from a trade-related facility to an overdraft facility - does not constitute a restructuring.

Without restructuring the client would not be able anymore to meet the conditions of the contract. A restructuring therefore can be defined as the inability of the borrower to continue servicing the debt without any relief in the terms and conditions.

Restructuring is not referring to a normal - business as usual - request by the client to amend credit facilities according to the changing economic environment. This could be due to expansion of the business or reallocation of resources and therefore changing financing needs in view of a different expectation of the future economic environment.

Restructured cases need to be flagged as “restructured” from the start. This flagging is an additional earmark besides the classification. The ECL numbers for stage 2 exposures will be computed over the lifetime of the facility based on residual maturity / tenor of the facility.

Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in 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. The following tables set out the concentration of credit risk by sector, geography and currency.

1. **Concentration of credit risk by geographic location for 2023:**

31-Dec-23	*Loans AED 000*	*Debt Securities AED 000*	*OTC Dervatives AED 000*	*Total Funded AED 000*	*balance sheet exposures AED 000*	*Total Non Funded AED 000*	*Total AED 000*
UAE	3,330,607	2,912,538	379,829	9,906,715	680,723	1,060,552	10,967,267
GCC excluding UAE	6	17,263	-	64,631	-	-	64,631
Arab League (Excluding GCC)	-	-	-	-	-	-	-
Asia	102,983	505,001	-	1,251,687	23,214	23,214	1,274,901
Africa	2,718	-	-	37,711	24,259	24,259	61,970
North America	8,472	1,740,860	-	1,878,807	-	-	1,878,807
South America	-	-	-	-	-	-	-
Caribbean	28,155	-	-	28,155	1,464	1,464	29,619
Europe	8	360,780	36,699	1,444,190	137	36,836	1,481,026
Australia	-	75,684	-	85,096	83	83	85,179
Total	**3,472,949**	**5,612,126**	**416,528**	**14,696,992**	**729,880**	**1,146,408**	**15,843,400**

2. **Analysis by economic activity:**

The Bank monitors concentrations of credit risk by economic activity sector. The analysis on significant credit risk by economic activity is as follows:

	2023 Loans and Receivables AED 000	**Banks & Investment AED 000**	**Other Off-Balance Sheet exposures**
Manufacturing	587,356	-	143,472
Construction & Real Estate	882,755	-	26,832
Trade	1,606,564	-	418,500
Transport and communication	13,970	-	12,266
Other Services	93,200	-	25,883
Sovereign	243	2,868,760	-
Personal	494,768	-	11,251
Banks & other financial institutions	101,493	3,549,143	91,676
Others	-	1,275,966	-
	--------------	--------------	--------------
Total gross assets	**3,780,349**	**7,693,869**	**729,880**
	=========	=========	=========

3. Impairment

The Bank's past due loans and advances (including interest in suspense) by industry segment and geographical location at 31 December 2023, as defined by the Central Bank of the UAE are as follows:

	Past Due but not impaired AED 000	***Individually impaired AED 000***	***Total AED 000***	***ECL and IIS AED 000***	***Net impaired assets AED 000***
As at 31 December 2023					
Industry Segment					
Manufacturing	0	12,702	12,702	(12,702)	0
Construction & Real Estate	31,466	75,374	106,840	(75,575)	31,265
Trade	5,990	32,726	38,716	(31,861)	6,855
Transport and Communication	30	244	274	(244)	30
Other Services	0	4,036	4,036	(3,966)	70
Sovereign	0	0	0	0	0
Personal	73,813	11,423	85,236	(3,223)	82,013
Banks & Other Financial Institutions	0	0	0	0	0
Total	**111,299**	**136,505**	**247,804**	**(127,571)**	**120,233**

	Past Due but not impaired AED 000	***Individually impaired AED 000***	***Total AED 000***	***ECL and IIS AED 000***	***Net impaired assets AED 000***
Concentration by Geography					
United Arab Emirates	111,299	136,440	247,739	(127,506)	120,233
Non UAE	0	65	65	(65)	-
Total	**111,299**	**136,505**	**247,804**	**(127,571)**	**120,233**

Credit Risk Mitigation

The Bank uses a number of techniques to mitigate the credit risks to which we are exposed. Mitigation of credit risk is a key aspect of effective risk management and takes many forms such as collateral, netting, credit insurance and guarantees. The Group carefully assessed these credit risk mitigation techniques to ensure legal certainty and enforceability, market valuation, correlation and credit risk of the guarantor.

Analysis of the collateral type is presented in the following table:

	2023 AED'000
Against loans and advances - Stage 3	
Pledged deposits	**44**
Property	**36,199**
Vehicles	**1,583**
Total	**37,826**

	2023 AED'000
Against loans and advances - Stage 1 and 2& 3	
Pledged deposits	**704,593**
Debt / Equity securities	**66,702**
Property	**1,592,432**
Vehicles	**54,150**
Bank guarantees	**5,000**
Total	**2,422,877**

Credit risk mitigation techniques –Overview (CR3)

The following table represents the extent of use of credit risk mitigation techniques.

		a	b	c	d	e	f	g
	31st December 2023 (AED'000)	**Exposures unsecured: carrying amount**	**Exposures secured by collateral**	**Exposures secured by collateral of which: secured amount**	**Exposures secured by financial guarantees**	**Exposures secured by financial guarantees, of which: secured amount**	**Exposures secured by credit derivatives**	**Exposures secured by credit derivatives, of which: secured amount**
1	Loans	2,418,158	1,337,258	454,809	199	199	-	-
2	Debt securities	5,612,328	-	-	-	-	-	-
3	**Total**	**8,030,486**	**1,337,258**	**454,809**	**199**	**199**	**-**	**-**
4	Of which defaulted	106,511	5,260	241	-	-	-	-

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

(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

The Bank follows the standardized approach which requires banks to use risk assessments prepared by external credit assessment institutions ('ECAIs') to determine the risk weightings applied to rated counterparties. CBUAE has advised following ECAIs to be used for the rating purpose:

- Standard & Poor's Ratings Services;
- Moody's Investors Service;
- Fitch Ratings; and
- Capital Intelligence

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

For Exposures with a contractual maturity of less than or equal to one year (except Cash Credit, Overdraft and other Revolving Credits), Short-term Ratings given by approved Rating Agencies are used. (ii) For Cash Credit, Overdraft and other Revolving Credits (irrespective of the period) and for Term Loan exposures of over 1 year, Long Term Ratings are used.

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

The key aspects of the Bank's external ratings application framework are as follows:

- All long term and short term ratings assigned by the credit rating agencies specifically to the Bank's long term and short term exposures respectively are considered by the Bank as issue specific ratings.
- Foreign sovereign and foreign bank exposures are risk-weighted based on issuer ratings assigned to them.
- The Bank ensures that the external rating of the facility/borrower has been reviewed at least once by the ECAI during the previous 15 months and is in force on the date of its application.
- Where multiple issuer ratings are assigned to an entity by various credit rating agencies, In this context, the lower rating, where there are two ratings and the second-lowest rating where there are three or more ratings are used for a given facility.
- Long-term Issue Specific Ratings (For the Bank's own exposures or other issuance of debt by the same borrower-constituent/counter-party) or Issuer (borrower constituents/counter-party) Ratings are applied to other unrated exposures of the same borrower-constituent/counter-party in the following cases
    - If the Issue Specific Rating or Issuer Rating maps to Risk Weight equal to or higher than the unrated exposures, any other unrated exposure on the same counter-party is assigned the same Risk Weight, if the exposure ranks pari passu or junior to the rated exposure in all respects.
    - In cases where the borrower-constituent/counter-party has issued a debt (which is not a borrowing from the Bank), the rating given to that debt is applied to the Bank's unrated exposures, if the Bank's exposure ranks pari passu or senior to the specific rated debt in all respects and the maturity of unrated Bank's exposure is not later than the maturity of the rated debt.

(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).

S No.	Standard and Poor's	Moody's	Fitch
1	AAA to AA-	Aaa to Aa3	AAA to AA-
2	A+ to A-	A1 to A3	A+ to A-
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
5	B+ to B-	B1 to B3	B+ to B-
6	CCC+ and below	Caa1 and below	CCC+ and below

Normal	Watch	Sub-standard	Doubtful	Loss
A (AAA, AA, and A) and BBB ratings	BB ratings	B+ and B ratings	B- ratings and unrated countries	C and D ratings

If there is only one rating, that rating should be used to determine the risk weight of the exposure. If there are two rating that map to different risk weights, the higher risk weight must be applied.

If there are three or more ratings with different risk weights, the corresponding to the two lowest risk weights should be referred to. If these give rise to the same risk weight, that risk weight should be applied. If different, the higher risk weight should be applied.

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

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

31st December 2023 (AED'000)	**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	6,073,240	-	6,073,240	-	243	0.0%
Public Sector Entities	10,936	-	10,936	-	2,187	20.0%
Multilateral development banks	-	-	-	-	-	-
Banks	3,270,381	56,131	3,284,829	13,386	1,295,182	39.3%
Securities firms	-	-	-	-	-	-
Corporates	3,448,662	2,472,041	3,702,300	183,165	2,656,302	68.4%
Regulatory retail portfolios	233,782	97,635	299,627	12,837	102,139	32.7%
Secured by residential property	596,105	-	596,105	-	375,180	62.9%
Secured by commercial real estate	605,318	-	605,318	-	605,318	100.0%
Equity Investment in Funds (EIF)	-	-	-	-	-	-
Past-due loans	247,804	3,828	122,103	-	115,881	94.9%
Higher-risk categories	-	-	-	-	-	-
Other assets	454,720	-	453,367	-	516,888	114.0%
Total	**14,940,948**	**2,629,635**	**15,147,825**	**209,388**	**5,669,320**	**36.9%**

Standardized approach - Exposures by asset classes and risk weights (CR5)

The following table presents the breakdown of credit risk exposures under the standardized approach by asset class and risk weight.

	31st December 2023 AED'000 Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	6,072,997					243	-		6,073,240
2	Public Sector Entities		10,936							10,936
3	Multilateral development banks									-
4	Banks		1,760,668		1,234,875		256,795	45,877		3,298,215
5	Securities firms									-
6	Corporates	583,820	46,046		979,585		1,484,588	-	791,427	3,885,466
7	Regulatory retail portfolios	186,092				96,931	29,441			312,464
8	Secured by residential property	2,057		336,720		-	257,328			596,105
9	Secured by commercial real estate	-					605,318			605,318
10	Equity Investment in Funds (EIF)									-
11	Past-due loans	6,349					115,501	253		122,103
12	Higher-risk categories									-
13	Other assets	46,978					332,723		73,666	453,367
14	**Total**	**6,898,293**	**1,817,650**	**336,720**	**2,214,460**	**96,931**	**3,081,937**	**46,130**	**865,093**	**15,357,214**

9. Counterparty credit risk (CCR)

Qualitative disclosure related to Counterparty credit risk (CCRA)

Counterparty credit risk (CCR) is the risk that a counterparty in a derivative contracts defaults prior to the settlement of the derivative transactions. CCR arises mainly in trading book but also arises in the non-trading book (hedging an exposure with external counterparty).

Limits for CCR exposures are assigned within the overall credit process and set for individual counterparties. The magnitude of this limit will depend on the overall risk appetite and type of derivatives traded with the counterparty. Individual limits assigned to each counterparty are based on Potential Future Exposure (PFE) methodology.

The PFE measures used for CCR are adjusted to the 95th percentile. It takes into account volatility of various assets classes (Forex, Interest rate and commodities), contract maturity and the counterparty legal documentation covering netting and collateral.

Counterparty credit risk Mitigants

Credit risk from derivatives is mitigated where possible through contractual netting arrangements whereby derivative assets and liabilities with the same counterparty can be offset.

Exposure value calculation

From a capital perspective, in line with Central Bank of the UAE, the Group uses the Standardized approach for measurement of CCR exposure associated with over the Counter (OTC) derivatives transactions. This methodology replaces the Current Exposure Method (CEM) as it accurately recognizes the effects of collateralization and recognizes the benefit from over-collateralization.

Credit rating downgrade

A credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral or the termination of transactions by the non-affected party.

Analysis of Counterparty Credit Risk by approach (CCR1)

The following table provides a comprehensive view of the method used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method.

	31st December 2023 AED'000	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)						
3	Simple Approach for credit risk mitigation (for SFTs)						
4	Comprehensive Approach for credit risk mitigation (for SFTs)						
5	[redacted]						
6	**Total**						

Credit valuation adjustment capital charge (CCR2)

		a	B
		EAD post-CRM	**RWA**
1	All portfolios subject to the Standardised CVA capital charge*		
2	All portfolios subject to the Simple alternative CVA capital charge		

Standardized approach - CCR exposures by regulatory portfolio and risk weights (CCR3)

The following table provides a breakdown of counterparty credit risk exposures calculated according to the standardized approach by regulatory portfolio and by risk weight.

Regulatory portfolio	0%	20%	50%	75%	100%	150%	Others	Total credit exposure
Sovereigns	-	-	-	-	-	-	-	-
Public Sector Entities (PSEs)	-	-	-	-	-	-	-	-
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	-	-	-	-	-	-	-
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	-	-
Regulatory retail portfolios	-	-	-	-	-	-	-	-
Secured by residential property	-	-	-	-	-	-	-	-
Secured by commercial real estate	-	-	-	-	-	-	-	-
Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-
Past-due loans	-	-	-	-	-	-	-	-
Higher-risk categories	-	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Composition of collateral for Counterparty Credit Risk exposure (CCR5)

The following table provide a breakdown of all types of collateral posted or received by the Bank to support or reduce the counterparty credit risk exposures related to derivative transactions.

31st December 2023 AED'000	a	b	c	d	e	f
	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	-	-	-	-	-	-
Cash - other currencies	-	-	-	-	-	-
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	-	-	-	-	-	-

10. Market Risk

General qualitative disclosure requirements related to market risk (MRA)

The Bank is exposed to interest rate risk, foreign exchange risk and, to a very limited extent, to equity and commodity risk. The Bank's market risk appetite is defined and monitored through a comprehensive system of market risk limits defined by the Bank Asset & Liability Management Committee. Furthermore, the Bank regularly performs scenarios and stress tests for interest rate, foreign exchange and equity risks based on prevailing risk exposures.

The Bank is exposed to interest rate risk due to interest periods set for advances made to clients exceeding the interest periods for client deposits taken. To limit interest rate repricing risk, most client advances are agreed on a three or six-month base rate plus a credit spread.

In addition, the Bank has placed excess liquidity in bank placements or in financial investments with tenors usually of up to three to five years. However, the interest-rate risk related to long-term fixed income instruments included in the financial investment portfolio largely offset by the stable portion of the customer deposits. Behavioural deposit analyses are performed for the bank. These highlight that a significant portion of deposits will remain with the Bank, even if interest rates move.

The Bank introduced the Interest Rate Risk in the Banking Book (IRRBB) approach in 2019 and considers both the value and the earnings perspective. For IRRBB, Economic Value of Equity (EVE) sensitivity limits have been defined by the Board of Directors. EVE sensitivity limits are in place for the Bank and limit adherence is monitored by the Bank Asset & Liability Management Committee.

For foreign exchange transaction risks, the Bank pursues a risk-averse approach and aims to keep the potential foreign exchange losses to a minimum. The Bank does not pursue proprietary foreign exchange trading activities.

The Bank distinguishes several risk classes and defines the risk class «market risk» as follows

Risk of losses from value changes of financial instruments. Market risk is the exposure to a change in value of some market variable, such as interest rates, foreign exchange rates, equities or commodity prices. In addition, for trading positions and investment securities market risk also relates to value changes due to credit spread movements.

The risk class «market risk» is further divided into the following risk types:

Risk types	Description
Interest rate risk	**Risk of losses from value changes of financial instruments due to adverse interest rate movements** Interest rate risk is the exposure of the Bank's financial condition to adverse movements in interest rates. Changes in interest rates affect the Bank's earnings by changing its net interest income and the level of other interest-sensitive income and expenses. Changes in interest rates also affect the underlying value of the Bank's assets, liabilities and off-balance sheet instruments because the present value of future cash flows change when interest rates change.
Foreign exchange risk	**Risk of losses related to value changes of financial instruments due to adverse exchange rate movements** Foreign exchange risk is the exposure to financial transactions, which are denominated in a currency other than the functional currency («the currency

	of the primary economic environment») of Bank («FX transaction risk exposure»).
Equities price risk	**Risk of losses from value changes of shares, participation certificates, equities funds and options held due to adverse equities price movements** Equities price risk is the Bank's exposure to holding of equities positions in the form of shares, participation certificates, equities funds or options when adverse equities price movements occur.
Commodities price risk	**Risk of losses from value changes of commodities positions held due to adverse commodities price movements** Commodity price risk is the Bank's exposure to holding commodities (or commitments made) when adverse commodities price movements occur.
Other market price risk	**Risk of losses from value changes of other market positions held due to adverse other market price movements** Other market price risk is the Bank's exposure to holding real estate or other assets when adverse other market price movements occur.
Market concentration risk	**Risk of losses from value changes of single or correlated exposures due to adverse market price movements** Market concentration risk arises either from exposures to a single risk factor or exposures to multiple risk factors that are correlated when adverse market price movements occur.

1. **Market risk appetite**

The EXCO BOD reviews the market risk appetite at least annually as part of the Risk Assessment. The risk appetite is an integral part of the Risk Assessment.

2. **Basis for market risk exposure and analyses**

Market risk exposures and analyses shall be established on a market value basis (e.g. for financial investments) by use of market prices prevailing at reporting date, wherever possible.

3. **Specific principles regarding market risk**

The Bank shall adhere to the following market risk principles

Topic	Principles
interest rate risk	In general, the bank is exposed to longer tenors and interest repricing periods for its assets than for its liabilities (particularly as most clients deposit their funds with the Bank at sight rather than on term).
Interest rate risk measurement	**EVE sensitivity** Economic Value of Equity («EVE») sensitivity estimates the percentage by which the net present value («NPV») of the cash flows arising from on- and off-balance sheet positions under the prevailing term structure of interest rates changes under different instantaneous interest rate shocks. It is measured by applying six FINMA-defined stress scenarios and considering the EVE change of the worst case, which is put in relation to EVE. **NII sensitivity** Net Interest Income («NII») sensitivity looks at the expected / potential increase or reduction in NII over a shorter time horizon (typically one to three years) resulting from defined interest rate scenarios. The change in NII is the

	difference in the expected NII between a base scenario and the defined interest rate scenarios. It does not include Expected Credit Losses («ECL»)9 and is measured by applying two FINMA-defined stress scenarios and considering the NII change of the worst case, which is put in relation to the NII base case.
Foreign exchange risk measurement	The FX transaction risk exposure for contractually agreed transactions is defined as the sum of all long and short net exposures by currency without netting. This comprises both the on balance sheet exposure (financial assets minus financial liabilities) and the relevant off-balance sheet exposure (e.g. forward purchases minus forward sales) by currency. Precious metals («PMET») exposures to gold, silver, platinum and palladium (XAU, XAG, XPT and XPD) are treated like another currency. PMET net exposures include physical PMET positions held for risk of the Bank, metal accounts claims from banks, metal account liabilities to clients and open PMET forward purchases and sales. Individual PMET net exposures are to be included in the FX transaction exposure like net exposures for individual currencies.
Equities risk measurement	For equities risk exposure calculation and risk limit adherence, shares, participation certificates, equities funds and options as well as perpetual bonds are included at prevailing market values (sum of long and short positions without netting). Funds invested in equities as well as mixed funds, which include equities investments, are to be counted as equities positions in their entirety for the purpose of the exposure calculation.
Commodities price risk measurement	For commodities price risk exposure calculation commodities are included at prevailing market values (sum of long and short positions without netting). For commodities risk measurement purposes individual commodities exposures cannot be netted when terms do not match.
Other market price risk measurement	For other market price risk exposure calculation real estate and real estate funds are included at prevailing market values (sum of long and short positions without netting).

Market risk under the standardized approach (MR1)

		31st December 2023 AED'000
		RWA
1	General Interest rate risk (General and Specific)	-
2	Equity risk (General and Specific)	-
3	Foreign exchange risk	6,403
4	Commodity risk	-
	Options	-
5	Simplified approach	-
6	Delta-plus method	-
7		
8	Securitisation	-
9	**Total**	**6,403**

IRRBB risk management objectives and policies (IRRBBA)

Habib Bank AG Zurich Parent Group («hereinafter The Group ») introduced the Interest Rate Risk in the Banking Book (IRRBB) approach in 2019 and considers both the value and the earnings perspective. For both IRRBB and the combined trading book and banking book, Economic Value of Equity (EVE) sensitivity limits have been defined by the Board of Directors. EVE sensitivity limits are in place for all countries and limit adherence is monitored by the Group Asset & Liability Management Committee.

1. **Description of how the bank defines IRRBB for the purpose of managing and measuring risk**

For Interest Rate Risk in the Banking Book (IRRBB) the Group considers all interest rate sensitive positions in the banking book. For interest rate risk management and control purposes, both value and earnings impact is determined. Thereby the focus is on two measures: Economic Value of Equity (EVE) as well as Net Interest Income (NII) sensitivity.

2. **Description of the overall strategy of the bank to manage and mitigate IRRBB**

For IRRBB management and risk mitigation purposes, EVE and NII sensitivities are reported to the Group Asset & Liability Committee (GALC) and the respective Country Asset & Liability Committee (CALC). In addition, several IRRBB stress tests are performed. Furthermore, a front-independent unit checks that the worst case regulatory IRRBB stress test result is within the defined risk limits. Models used for IRRBB computation purposes form part of the Group's model inventory, require a model description and undergo a periodic model validation process. Model validation results are reported to the Group Risk & Control Committee (GRCC).

3. **Frequency of calculation of the bank's IRRBB metrics and description of the specific metrics the bank uses to estimate its sensitivity to IRRBB**

The Group focuses on two measures: EVE sensitivity (EVE change / EVE) as well as the NII sensitivity (NII change / NII), which are computed on a quarterly basis.

4. **Description of the interest shock and stress scenarios the bank uses to estimate in economic value and earnings**

The Group performs several IRRBB stress tests (parallel up / down, flattener / steepener, short term up / down) based on regulatory required as well as internally defined stress factors.

5. **Differences between the model assumptions used in the bank's internal interest risk measurement system and the model assumptions prescribed to disclosure in Table IRRBB1**

For internal IRRBB computations, other stress factors are applied for individual Emerging Markets currencies to better reflect recent developments and economic realities. For example, no 300 basis points stress is applied for the AED as the currency is pegged to the USD (for which a 200 basis points stress is prescribed by FINMA)

6. **Overall description of how the bank hedges its IRRBB and the associates accounting treatment**

At present, the Group does not employ interest rate derivatives to hedge its IRRBB exposure. When necessary, EVE sensitivity deemed is reduced by changing the duration of the Group's fixed income portfolio through purchase and sale of securities as well as changing the composition of repurchase / reverse repurchase positions.

7. **Key modelling assumptions and calculation parameters used to calculate ΔEVE and ΔNII in Table IRRBB1.**

1	Change in net present value of capital (ΔEVE)	Calculation of cash flows: Recognition of interest rate margins and other components	Interest cash flows used for EVE change computation include client credit spreads
2		Mapping: Description of the cash flow mapping used	Interest cash flows and repricing positions are included in the respective time bucket in accordance with the date of the interest payment or the date of repricing, respectively. However, for EVE change computations, actual payment or repricing dates are applied.
3		Discount rates: Description of the (product specific) discount rates or interpolation assumptions	For discounting purposes, the risk-free yield curve in the respective currency plus a credit spread by asset class is used. This ensures an economically consistent computation in line with the chosen approach under 1 above.
4	Changes to planned income (ΔNII)	Description of the procedure and central assumptions in the model for calculating future income	NII change is computed based on NII resulting from prevailing contractually agreed positions (run-off balance sheet) and future transactions, which fall into the defined 12-month horizon. Given the constant volume, lifetime and margin assumption, actual transactions reaching maturity are rolled over or "renewed" and modelled as future transactions. For the NII change computation, new interest rates for floating rate positions, fixed rate instruments and Non Maturing Balances (NMB) are determined based on the prevailing risk free yield for the currency, the respective forward adjustment and the defined interest rate stress factors for the currency (parallel shift up and down).
5	Variable exposures	Description of the procedure and central assumptions and parameters for determining the interest rate reset date and cash flows of variable exposures	For Non-Maturing Balances (NMB), the interest repricing dates are determined based on internal models.
6	Exposures with repayment options	Description of the assumptions and procedures for recognizing behavior-related early repayment options	The Group has no material asset positions with early repayment features. Most loans are granted as floating or managed rate loans. Therefore, no related optionality are considered.
7	Term deposits	Description of the assumptions and	Early withdrawals of deposits are not very frequent. In addition, a penalty payment applies

		procedures for recognizing behavior-related early withdrawals	in most cases when an early deposit repayment is made. This largely compensates for potential unrealized gains foregone. Therefore, early withdrawal options are not considered for the Group's IRRBB computation.
8	Automatic interest rate options	Description of the assumptions and procedures for recognizing automatic, behavior-independent interest rate options	Except for very few bonds held with a prepayment option by the issuer, there are no automatic interest rate options. The prepayment options are not modelled for IRRBB purposes in view of immateriality.
9	Derivative exposures	Description of purpose, assumptions and procedure for linear and non-linear interest rate derivatives	The Group does not make use of interest rate derivatives at the present time.
10	Other assumptions	Description of other assumptions and procedures affecting the calculation of figures in Tables IRRBB1, e.g. aggregation across currencies and correlation assumptions for interest rates	The EVE change results by currency are simply added up based on regulatory requirements (FINMA Circular 2019/2 "Interest rate risk - Banks"). This aggregation does not consider correlations.

Sensitivity of economic value of equity and NII (IRRBB1)

The following table indicates the economic value of equity and net interest income under the prescribed interest rate shock scenarios.

In reporting currency (AED in '000)	**ΔEVE**		**ΔNII**	
Period	**31st Dec 2023 AED'000**	**31st Dec 2022 AED'000**	**31st Dec 2023 AED'000**	**31st Dec 2022 AED'000**
Parallel up	88,496	114,059	121,270	121,966
Parallel down	(83,453)	(104,126)	(109,027)	(106,052)
Steepener	27,890	31,749		
Flattener	(5,778)	3,486		
Short rate up	58,640	72,149		
Short rate down	(57,846)	(70,090)		
Maximum	(83,453)	(104,126)		
Period	**31st Dec 2023**		**31st Dec 2022**	
Tier 1 capital	1,454 ,436		1,392,012	

11. Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This definition comprises legal risk including regulatory fines and settlements, but excludes strategic and reputation risk.

The Bank has an Independent Department in charge of the management of operational risks. This function is responsible for the development of strategies for the identification, assessment, monitoring, control and mitigation of operational risks. The function is also responsible for the development and implementation of a method to assess and report operational risks and systematically collecting the operational risk data relevant for the Bank's operations.

The operational risk department is an integral part of the overall risk management strategy of the Bank. The Bank has sound documentation of all the standard procedures, policies and standardised approaches for all the generic and key processes. Majority of the coverage as to the Management of Operational Risk at the Bank is also effected through system controls

The total capital requirement for Operational Risk as at 31 December 2023 is AED 1,050 million.

12. Liquidity Risk

The Bank applies a prudent approach to liquidity risk management. The Bank Asset & Liability Management Committee and Risk Management Committee regularly monitors liquidity risks.

The Bank grants advances and loans to clients both on a short-term basis and with tenors generally of up to five years. Funding is primarily obtained through deposits, which are mainly at sight or short-term deposits. Wholesale funding is not significant and deposits are well diversified. No single depositor accounts for more than 5% of the Bank's total deposits. Excess liquidity is held as bank placements or financial investments. The latter primarily consist of bond portfolios of sovereign issuers or other issuers that are high quality.

The contractual maturities of the Bank's financial assets exceed the contractual maturities of the financial liabilities. However, when determining maturity gaps, the stickiness of deposits or economic maturities are considered, which significantly reduces the contractual gaps. Furthermore, individual client Banks in different countries will not act in the same way and at the same time.

In general, the Bank is exposed to potentially larger deposit outflows and sudden adverse market developments. Therefore, related scenarios have been analysed as part of three liquidity stress tests performed throughout the Bank. The stress test results showed that the liquid assets available could absorb projected outflows in all cases.

The Bank has a strong liquidity position, which is further supported by established repo functionalities. In addition, liquidity coverage ratio and net stable funding ratio targets have been defined. Both funding and liquidity management is performed on a decentralised basis. The short-term liquidity disposition and liquidity situation of the bank is monitored by the treasury functions. In addition, liquidity reserves are held at the Bank level, and contingency funding plans are in place for the Bank.

The Bank distinguishes several risk classes and defines the risk class «liquidity risk» as follows

Risk of inability to fund assets or meet obligations at a reasonable price. Liquidity risk is the inability of a bank to fund increases in assets or to meet obligations when they become due, without incurring unacceptable losses. The fundamental role of bank in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets as a whole.

The risk class «liquidity risk» is further divided into the following risk types:

Risk types	Description
Funding liquidity risk	**Risk of insufficient liquidity when obligations become due** Possibility that over a specific horizon the Bank will become unable to settle obligations with immediacy
Market liquidity risk	**Risk of illiquidity of assets or significant market price impact** Risk that the Bank cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruptions. This is particularly important for illiquid markets, which are characterized by wide bid/offer spreads, lack of transparency and large movements in price after a deal of any size.
Liquidity concentration risk	**Risk of partial illiquidity or insufficient funding due to asset or liabilities concentrations** A concentration in assets can disrupt the Bank’s ability to generate cash in times of illiquidity or reduced market liquidity. A funding concentration exists when the funding structure of the Bank makes it vulnerable

	to a single event or single factor such as a significant and sudden withdrawal of funds or inadequate access to new funding

Liquidity risk appetite

The BOD reviews the liquidity risk appetite at least annually as part of the Risk Assessment. The risk appetite is an integral part of the Risk Assessment.

Liquidity risk principles

The Bank shall adhere to the following prudent liquidity risk principles

Topic	Principles
Overall liquidity	**Ensure a holistic view of liquidity** Early warning indicators, actual liquidity positions and liquidity reserves shall to be closely monitored in order to identify potential liquidity shortfalls at an early stage.
Short-term liquidity	**Monitor liquidity closely** • Short-term liquidity shall be planned carefully and due consideration shall be given to intraday liquidity risk and short-term liquidity flow mismatches. • Liquidity coverage ratio («LCR») targets defined by Asset & Liability Committee shall be met at all times. • Regulatory LCR requirement shall be met at all times.
Repo-eligible securities	**Facilitate immediate take up of liquidity** • A minimum stock of repo-eligible securities is to be defined and held in order to quickly take up liquidity at low cost, when needed. • Preferably repo-eligible securities shall not be provided as securities collateral (e.g. under collateralized arrangements for open FX forward and other derivative transactions).
Money market placements	**Adhere to tenor limits for short-term placements** Asset & Liability Committees define tenor limits for money market placements to enhance short-term liquidity.
Long-term assets	**Limit long-term assets** As long-term loans and financial investments are often not refinanced at corresponding tenors, the volume of long-term assets shall be monitored and kept limited:
Term financing	**Strengthen term financing** • Client term deposits shall be promoted / incentivized to increase the overall tenor of liabilities. • The regulatory net stable funding ratio requirement («NSFR») shall be satisfied at all times.
Liability structure	**Avoid currency mismatches and funding concentration risk** • Currency matched funding: FX exposure limits (as defined by ALCO, local Board of Directors or local regulators) shall be adhered to at all times. • Wholesale funding: no counterparty source of funding shall exceed 25% of total wholesale funding (if total wholesale funding is greater than 10% of equity).

	• A single funding source shall not exceed 5% of total wholesale financing, total securities financing transactions («SFT») and total deposits.

Approach to Liquidity risk management

The Bank shall perform several liquidity risk analyses and stress tests in order to better understand its liquidity risk profile. Subsequently, liquidity risk management («LRM») measures shall be implemented, which comprise of liquidity holdings in appropriate forms, specific contingency funding measures and agreed liquidity support. Furthermore, risk limit adherence shall be controlled and reported in the quarterly Group Risk Highlights Report and key liquidity risks shall be outlined in the Group Risk Report.

LRM key elements	LRM instruments
LRM analysis	Early warning indicators
	Liquidity coverage ratio
	Deposit coverage ratio
	Net stable funding ratio
	Maturity gap analysis
	Funding concentration risk analysis
	Regulatory liquidity requirements
	Liquidity stress tests
LRM measures	Liquidity planning
	Overall liquidity reserve
	Freely disposable liquidity
	Contingency funding plan
	Recovery plan
LRM control	Risk limit adherence control
	Group Risk Highlights Report
	Group Risk Report

The TREASURY FUNCTION, FINANCIAL CONTROL FUNCTION and RISK CONTROL FUNCTION shall analyse future cash flows, funding gaps and funding concentration risk at bank level. In addition, they shall project and plan the liquidity and support ALCO in identifying potential liquidity shortfalls at an early stage. This shall allow for a clear assessment of liquidity risks and to initiate necessary measures at bank level on a timely basis.

Furthermore, the bank shall monitor and manage the unencumbered central bank eligible collateral or other collateral (e.g. repo-eligible securities), which can be used for short-term funding.

Balance sheet and off-balance sheet items broken down into maturity buckets and the resultant liquidity gaps

The table below summarises the residual maturity profile of the Bank's Balance sheet and off-balance sheet items analysed according to when they are expected to be recovered or settled

As at 31 December 2023	***Up to 3 months AED 000***	***3 – 12 months AED 000***	***1 – 5 year AED 000***	***Over 5 years AED 000***	***No maturity AED 000***	***Total amount AED 000***
Assets						
Cash and balances with						
UAE Central Bank	1,380,000	425,000	-	-	1,206,569	3,011,569
Due from banks	1,686,687	209,689	-	-	182,126	2,078,502
Due from related parties	1,362	-	-	-	43,354	44,716
Loans and receivables	1,309,984	462,943	196,826	1,242,008	261,188	3,472,949
Investments	1,777,363	1,609,231	2,225,532	-	-	5,612,126
Property and equipment	-	-	-	-	38,539	38,539
Right-of-use assets					73,929	73,929
Customers' indebtedness	-	-	-	-	-	-
for acceptances	66,455	-	-	-	-	66,455
Deferred tax assets	-	-	-	-	73,667	73,667
Other assets	-	-	-	-	224,540	224,540
Total assets	**6,221,851**	**2,706,863**	**2,422,358**	**1,242,008**	**2,103,912**	**14,696,992**
Liabilities, capital and reserves						
Deposits from customers	2,681,565	1,210,735	55,929	-	8,296,005	12,244,234
Due to banks	-	-	-	-	167,661	167,661
Due to related parties	100	-	-	-	12,649	12,749
Liabilities under acceptances	66,455	-	-	-	-	66,455
Lease liabilities	2,717	14,183	29,036	1,449	-	47,385
Other liabilities	-	-	-	-	316,398	316,398
Deferred tax liabilities	-	-	-	-	-	-
Capital and reserves	-	-	-	-	1,842,110	1,842,110
Total liabilities and capital and reserves	**2,750,837**	**1,224,918**	**84,965**	**1,449**	**10,634,823**	**14,696,992**
Maturity gap						
2023-On Balance Sheet	**3,471,014**	**1,481,945**	**2,337,393**	**1,240,559**	**(8,530,911)**	**(0)**
Off Balance Sheet	507,830	199,918	21,371	761	-	729,880
Maturity gap						
2023 (Incld Off-Balance)	**2,963,184**	**1,282,027**	**2,316,022**	**1,239,798**	**(8,530,911)**	**(729,880)**

Eligible Liquid Assets Ratio

1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	3,011,569	
1.2	UAE Federal Government Bonds and Sukuks	2,868,760	
	Sub Total (1.1 to 1.2)	5,880,329	5,880,329
1.3	UAE local governments publicly traded debt securities		
1.4	UAE Public sector publicly traded debt securities		
	Sub total (1.3 to 1.4)	0	0
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	235,359	0
1.6	**Total**	**6,115,688**	**6,115,688**
2	Total liabilities		12,837,877
3	**Eligible Liquid Assets Ratio (ELAR)**		**47.6%**

Advances to Stables Resource Ratio

		Items	Amount
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	3,449,547
	1.2	Lending to non-banking financial institutions	146
	1.3	Net Financial Guarantees & Stand-by LC (issued - received)	
	1.4	Interbank Placements	209,689
	1.5	**Total Advances**	3,851,504
2		**Calculation of Net Stable Ressources**	
	2.1	Total capital + general provisions	1,928,637
		Deduct:	
	2.1.1	Goodwill and other intangible assets	
	2.1.2	Fixed Assets	38,538
	2.1.3	Funds allocated to branches abroad	
	2.1.5	Unquoted Investments	0
	2.1.6	Investment in subsidiaries, associates and affiliates	
	2.1.7	**Total deduction**	38,538
	2.2	**Net Free Capital Funds**	1,890,099
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4	Borrowing from non-Banking Financial Institutions	21,305
	2.3.5	Customer Deposits	10,506,167
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	
	2.3.7	**Total other stable resources**	10,527,472
	2.4	**Total Stable Resources (2.2+2.3.7)**	12,417,571
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	31.02

13. Remuneration Policy

Remuneration policy (REMA)

1. **Information relating to the bodies that oversee remuneration.**

Annual salary review

Human Resources Function conducts annual salary reviews to ensure that compensation positioning remains competitive in line with the strategy, as well as to ensure fairness and consistency. The process for all eligible staff members shall be conducted effective 1st January, unless otherwise specified.

Salaries are reviewed by Human Resource Function and approved by Country Manager based on the recommendation of Business Line Managers and Heads of Support Functions, keeping in view the following criteria:

- Market and economic indicators
- Staff member's performance appraisal record
- Staff member's compensation in relation to the internal equity
- Prevailing business conditions and competition.

The specific guidelines on increments, merit adjustment and promotion shall be communicated at the time of the annual performance management exercise conducted by Human Resources Function with the concurrence and validation from Group Human Resources. All compensation for VP and above staff members across the Group are discussed, finalized and approved at the GHRC annually.

2. **Information relating to the design and structure of remuneration processes.**

Compensation framework

The Bank compensation framework is designed to be transparent and supports the Bank's business strategy. It allows the Bank to attract and retain key talent by maintaining a salary structure that is competitive towards the external job market while maintaining an internal equity and consistency across the diverse functions of the Bank. It should motivate staff members to perform at the best of their competencies, abilities and skill sets, retain key talent, reward high performing staff members and provide the foundation for a performance-based pay culture.

The Bank's compensation framework is based on the following principles and rules:

- Cost management, affordability, market considerations, Bank performance and need for expertise shall be taken into account in establishing reward levels and spend
- Overall compensation structure shall be determined based on respective country's market data, determined against a suitable peer group of banks and using well-established benchmarking tools as and when decided by the HR Committee.
- The pay system is merit-based, and pay increases and awards are allocated on the basis of demonstrated performance and tenure of service
- Performance bonus payments, if applicable, shall be restricted to higher levels of individual performance based on individual objectives, Key Performance Indicators (KPIs), organizational unit's performance and Bank's performance. All performance bonus payments shall have prior approval of GM on recommendation of CEO & Group Head HR, to be done transparently and tabulated on

periodic intervals during the year. The final disbursement will only happen after it has been discussed at the time of Human Resources Committee (HRC).
- All reward and benefit arrangements shall fully comply with UAE labour laws and applicable regulatory requirements.

Remuneration survey

The Bank may use a variety of tools to gather compensation data through different formal or informal sources. Typical, sources are as follows:

- Market intelligence
- Previous history of a particular job role
- Through formal external surveys
- Through informal methods /networking.

Salary ranges / bands

Human Resources Function develops and maintains salary bands based on remuneration survey data, and defines a salary band for each grade with minimum, midpoint and maximum salary range, so that different positions can be catered within the same band. This needs to be shared with Group Human Resources for necessary review and concurrence.

Internal salaries by grade /bands shall be reviewed and data updated if required, as per management discretion or at least every 5 years, in order to compare the internal reality against the external market.

Fixed Payout

Fixed Payout is given as per management discretion and is not considered as a part of end of service benefit. All fixed payouts calculations are done on the basis of staff basic salary. Fixed payout will be paid to staff on pro-rata based on number of days worked from the date of joining.

In case, the staff has availed leave without pay of more than 30 days, the fixed payout will not be paid for the leave without paydays. Currently the fixed payout is paid during the month of June, Ramadan and December and each payout is equivalent to one basic salary of staff.

Salary structure

The ratio between the basic /base salary and the gross salary should ideally be at 50%.

Allowances

Allowances may be paid to staff members and form part of their compensation package. Eligibility for allowances will be communicated to staff members by the Human Resources Function.

In general, such allowances are not considered to be part of the gross salary for computation of any other benefit and may be withdrawn in case of job assignment changes, subject to the UAE laws and regulations.

Salary payment

Salary is paid every month into the salary accounts of staff members. Generally, where payday falls on a nonworking day, payment is credited on the last preceding working day.

End of service benefits

The Bank offers end of service benefit schemes to eligible staff members as follows:

Gratuity: UAE labor law will be followed for payment of gratuity to expat staff.

Pension: UAE labor law will be followed for pension for UAE National staff.

3. **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.**

Senior Management

The Senior Management are identified as the executive management of the Bank for the sound and prudent day-to-day management of the Bank.

Members	Count
CEO	1
Head of Distribution	1
Chief Operating Officer	1
Head of Corporate Banking	1
Head of Compliance	1
Chief Credit Officer	1
Head of Treasury	1
Chief Risk Officer	1
Chief Financial Officer	1
Head of Human Resources	1
Branch Managers	8

Material Risk Takers (MRT)

MRT is defined as whose work is deemed to have significant impact on the overall Risk Profile of the Bank and who has the potential to take or commit the bank to significant risk including reputation and other forms:

Members	Count	MRT	Sr. Management
CEO	1	√	√
Head of Distribution	1	√	√
Chief Operating Officer	1	√	√

Head of Corporate Banking	1	√	√
Head of Compliance	1	√	√
Chief Credit Officer	1	√	√
Head of Human Resources	1	√	√
Chief Financial Officer	1	√	√
Chief Risk Officer	1	√	√
Head of Treasury	1	√	√
Branch Managers	8	√	√

As per CB mandate with effect from Jan 2022, variable bonus payout with a deferred portion is designed for MRT:

Performance ratings	Basic Multiples	Upfront	Year 1	Year 3
A++	2	34%	33%	33%
A+	1.5	34%	33%	33%
A	1	34%	33%	33%

4. **Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration**

Performance management

Performance management is a continuous process where Business Line Managers and staff members work together in defining staff members' objectives /key performance indicators (KPIs) and in reviewing the subsequent performance.

The objectives / KPIs and the outcome of the staff members 'performance is captured on the performance appraisal form (PAF).

Performance appraisals are generally conducted on a bi-annual basis (i.e. at mid-year and year-end). However, the review of a staff member's performance is not restricted to a twice a year discussions.

This process helps to:

- Establish clear expectations
- Give feedback and provide coaching
- Assess and evaluate contribution
- Identify learning and development needs.

During this process, an on-going and two-way dialogue between Business Line Manager and staff member is critical in order to achieve the above

Performance appraisal process

There is one formal discussion required within the performance appraisal process. The year-end performance appraisal between December and January. Group Human Resources will confirm timings to Country Human Resources Function for the performance appraisal cycle each year.

The year-end performance appraisals are recorded on the PAF. At these times, an assessment is made of the staff member's performance against the set objectives /KPIs. Performance consists of the following two elements:

	Performance = 100%	
Elements	Results = 70% (Based on KPIs, objectives, etc.)	Behaviors = 30% (in accordance with the Group core values)

Weightages set for the respective performance year are stated on the PAF and / or advised by Country Human Resources each year with the total not exceeding 100%.

Performance ratings

The Bank uses the performance ratings shown below to assess and score both results (what) and behaviors (how).

Performance rating		**Definition**
A++	Outstanding	Substantially exceeds objectives (achievement of numerical targets or otherwise) or creates something new and significant, within and beyond the area of responsibility and in addition to exceeding the objectives as assigned by their Business Line Manager for the respective performance year.
A+	Exceeds expectations	Exceeds objectives (achievement of numerical targets or otherwise) or helps in sustaining and supporting as well as implementing newer ideas and innovations, within and beyond the area of responsibility and in addition to meeting the objectives as assigned by their Business Line Manager for the respective performance year.
A	Meets expectations	Is consistent and completes all objectives (achievement of numerical targets or otherwise) within the area of responsibility as assigned by the Business Line Manager for the respective performance year.
B	Partially meets expectations	Is inconsistent and partially completes the objectives (achievement of numerical targets or otherwise) assigned by the Business Line Manager for the respective performance year. Performance leaves room for improvement.
C	Unsatisfactory	Regularly misses opportunities and fails to complete the objectives (achievement of numerical targets or otherwise) assigned by the Business Line Manager for the respective performance year. Performance is below par.

Self-assessment

The year-end performance appraisal starts with the staff member completing the self-assessment on the PAF. It is important to capture the staff member's perspective on the contributions made and their capabilities. The staff member documents achieved results (not efforts), highlights achievements for each of the specified objectives and includes the rating the staff member considers appropriate for the level of output attained. The staff member also assesses and records the level of competence demonstrated for each of the behavioral aspects required and in accordance with the Bank core values. In addition, the staff member should record any progress and achievements stated on the development plan agreed at the beginning of the year.

Business Line Manager's assessment

The Business Line Manager assesses and records their perspective of the staff member's performance on the PAF. It is important for the Business Line Manager to consider the staff member's comments and ratings (self-assessment), to refer to the information collected during the performance year, and to reflect on the staff member's performance for the entire year from all possible perspectives. Where applicable, the Business Line Manager will solicit written feedback from key stakeholders in the Bank (e.g. functional management, etc.) to which the staff member has had interactions with.

Performance dialogue

Business Line Manager and staff member shall meet to clarify any questions regarding the staff member's input. This shall also offer the Business Line Manager the opportunity to provide feedback on the staff member's performance and to identify any potential development needs. There is no discussion regarding the performance rating at this stage.

The Business Line Manager then completes / finalizes the assessment of objectives /KPIs, the progress against the development plan and the staff member's demonstrated behavior on the PAF, including any changes, which have been agreed in the performance dialogue.

The following further rules also apply:

- Mid-year appraisal:
  The Line Managers and the staff member shall sign the PAF and the Heads/Manager shall forward a copy of such to Country Human Resources Function as per the respective Local Functional Guidelines.

- Year-end appraisal:

The Line Manager shall finalize and sign the PAF and forward a copy of such to Country Human Resources Function. The staff member does not sign the PAF at this stage as the PAF will be signed by the staff member once calibration and the year-end performance rating dialogue have been concluded.

Bell curve

Country Human Resources Function will ensure that Business Line Managers rate staff members through relative positioning, which should generally result in a bell curve. Country Human Resources Function should aim to align to the following distribution, as far as practicably possible:

A++	A+	A	B	C	Total
5%	15%	60%	15%	5%	100%

The irregular bell curve may result due to the following reasons:

- Distribution of staff performance ratings will be directly linked with overall unit/function/branch performance.

- Staff strength is not reasonable enough to be captured in bell curve.

Any deviation in bell curve will be duly approved by Country Manager.

Year-end calibration process

Once all the year-end performance ratings have been received, the Country Manager / Head of Support Functions and the Business Line Managers, review the ratings in order to ensure the distribution follows the bell curve. Country Human Resources Function will facilitate this process.

Year-end performance rating dialogue

The year-end performance rating dialogue is a formal discussion, and therefore it must be conducted with proper scheduling and in an uninterrupted environment. It shall take place after the ratings have been reviewed, calibrated and approved (including those for vice president (VP) grades and above, which are reviewed at the annual meeting of the Group Human Resources Committee (GHRC)).

The Line Manager shall provide the staff member with any final feedback not already discussed, both on the objectives / KPIs as well as on any behavioral aspects. This is the time to appreciate good performance and confirm any performance gaps during the year. The Business Line Manager shall then communicate and explain the overall approved performance rating to the staff member.

In cases where there is a disagreement on the performance rating, staff members may record their concern on the PAF and discuss the same with the Country Human Resources Function.

Developmental discussion

The development discussion provides clarity on the areas of required improvement or growth for the staff member in the up-coming performance year and beyond. Developmental activities can be related to improving skills and /or behaviors, as well as other technical requirements of the job.

On conclusion of the year-end rating and developmental dialogue the final PAF, duly signed by the Line Manager and staff member, is forwarded to the Country Human Resources Function.

Outcomes of the performance appraisal process

The following are the outcomes of the performance appraisal process:

- Performance rewards (increments and performance bonus- wherever applicable)
- Training and development initiatives
- Promotions
- Talent reviews and talent management
- Performance improvement plan.

Performance rewards

Country Human Resources Function is required to obtain the salary increment budget from Financial Control Function and divide the same as follows:

Performance increase	the budget to be used towards merit increases
PIMAT (promotional increment, market adjustment and talent)	the budget to be used for promotional increments and market adjustments including training & development initiatives

Remuneration awarded during the financial year (REM1)

				31st December 2023 (AED'000)
	Remuneration Amount		**Senior Management**	**Other Material Risk-takers**
1	Fixed Remuneration	Number of employees	18	
2		Total fixed remuneration (3 + 5 + 7)	17,785	
3		Of which: cash-based	17,785	
4		Of which: deferred		
5		Of which: shares or other share-linked instruments		
6		Of which: deferred		
7		Of which: other forms		
8		Of which: deferred		
9	Variable Remuneration	Number of employees		18
10		Total variable remuneration (11 + 13 + 15)		1,571
11		Of which: cash-based		1,571
12		Of which: deferred		946
13		Of which: shares or other share-linked instruments		
14		Of which: deferred		
15		Of which: other forms		
16		Of which: deferred		
17	**Total Remuneration (2+10)**		17,785	1,571

Special payments

This section is not applicable for HBZ-UAE branches.

Deferred Remuneration (REM3)

				31 December 2023 (AED '000)	
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	-	-	-	-	-
Cash	-	-	-	-	-
Shares		-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other		-	-	-	-
Other material risk-takers	18	-	-	-	
Cash	946	-	-	-	284
Shares	-	-	-	-	-
Cash-linked instruments	-	-	-	-	-
Other		-	-	-	-
Total	**946**	**-**	**-**	**-**	**284**