PILLAR 3 DISCLOSURES

For the year ended 31 December, 2022

RAKBANK
Simply Better

The National Bank of Ras Al-Khaimah (P.S.C.)

1. Introduction

On 30th December 2022, the Central Bank of UAE published final Capital Adequacy Standards and Guidance along with Notice 5280/2022 as an update to Notice 4980/2020. This included final Standards and Guidance with respect to Pillar 3 – Market Disclosures. The effective date of these disclosures was prescribed to be 31st December 2021 and quarterly thereon. Further to this, the Central Bank of UAE provided explanatory notes and disclosure templates for Pillar 3 on 30th November 2021 as part of Notice 5508/2021 which was superseded by Notice 1887/2022 issued on 9th May 2022.

The Bank has a formal disclosure policy in place which highlights the roles and responsibilities of the management and Board of Directors with respect to internal controls and procedures for information reported under Pillar 3 disclosures.

The scope of consolidation for Pillar 3 disclosures is different compared to the scope of consolidation for financial reporting. Under the scope of regulatory consolidation, all subsidiaries of the Bank are consolidated with the exception of Ras Al Khaimah National Insurance Company PSC in line with the Capital Adequacy Standards. All sections of the following document have been prepared under the scope of regulatory consolidation unless specifically mentioned.

2. Overview of risk management, key prudential metrics and RWA

	Amounts in AED'000	a 31 Dec'22	b 30 Sep'22	c 30 Jun'22	d 31 Mar'22	e 31 Dec'21
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	8,165,747	8,643,309	8,296,328	8,084,591	7,889,152
1a	Fully loaded ECL accounting model	8,059,100	8,643,309	8,296,328	8,084,591	7,889,152
2	Tier 1	8,165,747	8,643,309	8,296,328	8,084,591	7,889,152
2a	Fully loaded ECL accounting model Tier 1	8,059,100	8,643,309	8,296,328	8,084,591	7,889,152
3	Total capital	8,766,941	9,248,903	8,888,696	8,664,904	8,434,886
3a	Fully loaded ECL accounting model total capital	8,658,961	9,248,903	8,888,696	8,664,904	8,434,886
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	53,374,252	54,572,396	52,785,360	52,543,299	49,523,321
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	15.3%	15.8%	15.7%	15.4%	15.9%
5a	Fully loaded ECL accounting model CET1 (%)	15.1%	15.8%	15.7%	15.4%	15.9%
6	Tier 1 ratio (%)	15.3%	15.8%	15.7%	15.4%	15.9%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	15.1%	15.8%	15.7%	15.4%	15.9%
7	Total capital ratio (%)	16.4%	16.9%	16.8%	16.5%	17.0%
7a	Fully loaded ECL accounting model total capital ratio (%)	16.3%	16.9%	16.8%	16.5%	17.0%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.5%	2.5%	2.5%	2.5%	2.5%
9	Countercyclical buffer requirement (%)	0.0%	0.0%	0.0%	0.0%	0.0%
10	Bank D-SIB additional requirements (%)	0.0%	0.0%	0.0%	0.0%	0.0%
11	Total of bank CET1 specific buffer requirements (%)	2.5%	2.5%	2.5%	2.5%	2.5%

12	CET1 available after meeting the bank's minimum capital requirements (%)	5.9%	6.4%	6.3%	6.0%	6.5%
	Leverage Ratio*					
13	Total leverage ratio measure	72,486,864	71,902,159	68,335,984	65,419,499	62,970,840
14	Leverage ratio (%)	11.3%	12.0%	12.1%	12.4%	12.5%
14a	Fully loaded ECL accounting model leverage ratio (%)	11.1%	12.0%	12.1%	12.4%	12.5%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	11.3%	12.0%	12.1%	12.4%	12.5%
	Liquidity Coverage Ratio					
15	Total HQLA					
16	Total net cash outflow					
17	LCR ratio (%)					
	Net Stable Funding Ratio					
18	Total available stable funding					
19	Total required stable funding					
20	NSFR ratio (%)					
	ELAR					
21	Total HQLA	7,268,037	7,879,888	6,751,440	5,949,025	5,476,267
22	Total liabilities	56,682,456	54,431,931	51,769,205	49,892,014	47,259,760
23	Eligible Liquid Assets Ratio (ELAR) (%)	12.8%	14.5%	13.0%	11.9%	11.6%
	ASRR					
24	Total available stable funding	54,036,137	48,731,592	48,167,572	47,129,654	45,274,400
25	Total Advances	42,882,194	41,181,766	39,475,792	40,980,578	37,500,815
26	Advances to Stable Resources Ratio (%)	79.4	84.5	82.0	87.0	82.8

The available capital has reduced compared to previous quarters primarily due to the proposed dividend of 34 fils per share and regulatory deduction of software not integral to hardware (treated as intangibles) from the regulatory capital as per Notice 4539/2022, partially cushioned by the increase in current year profits. This has led to the reduction in capital ratios despite the total Risk Weighted Assets (RWA) reducing quarter-on-quarter.

Leverage ratio has also dropped even while the exposure has not increased significantly, due to lower regulatory capital as detailed above.

Advances to Stable Resources Ratio has reduced due to the application of the offsetting requirements of IAS 32 Financial Instruments: Presentation for Home in One as well as a general increase in customer deposits, interbank deposits and capital.

The Bank's most significant risks include Credit Risk, Market Risk, Operational Risk, Liquidity Risk, Internal Control Risk, Information Security Risk and Fraud Risk. The Board Risk Committee has been established by the Board of Directors to assist the Board in fulfilling its responsibility with respect to the oversight of the bank's risk management framework. The committee also reviews and approves changes to the policies and practices used in managing these risks. Global inflation has been on the rise in recent times, driven by various factors such as supply chain disruptions, increased consumer demand, and higher energy prices. Whilst the risk of a deep global recession seems to be receding, we continue to proactively monitor the risks to the global economy and their impact on our customers and business.

The Bank's business model focuses on core banking activities including Business Banking, Personal Banking, Wholesale Banking, Treasury and Islamic Banking activities. The Bank's Risk Management strategy is intrinsically interlinked with Bank's business model and strategy, i.e. Bank's risk appetite and its business strategy co-exist to achieve and enhance shareholder value. The Enterprise–wide Risk Management structure of the Bank incorporates the effective participation of the Board and Senior Management at different levels to provide oversight and ensures the creation and sustenance of a proper risk management environment and is designed to ensure that the formal process is in place to identify, assess, manage, report and monitor all plausible risks that could have a significant impact on the bank and allocates responsibilities for risk management to provide clear accountability. The Bank's philosophy is to proactively manage risks to ensure that risk-taking activities are commensurate with its size and complexity of operations.

RAKBANK ensures substantial due diligence on risk monitoring to ensure on-going compliance with the approved risk appetite. The Bank has an effective structure in place for reporting to relevant management committees and Board delegated risk committee. The Bank's Enterprise Risk Management Policy provides the Risk Governance Framework of the Bank. Below is an overview of the Framework:

Risk Framework	
Lines of Defense	A three line of defense mechanism for managing risk is followed in the bank 1. First Line - Is the business unit responsible for maintaining internal controls for their processes. 2. Risk Management/Compliance: The teams function as independent monitoring function for the business units. 3. Internal Audit: Reviews, first and second line of defense and provides assurance to the management and Board of Directors.
Board Responsibility	Board is responsible for providing oversight on the effective management of the Bank's overall risk and approving the risk appetite of the bank While recognising the risks to which the Bank is exposed, they provide the required human resources, environment, practices and systems to address such risks.
Management Committees	Management Committees provide a forum for discussion, assessment, monitoring and approval of various types of risks in the bank and cover a range of risks. For example, ALCO is responsible for Asset and Liability Management, Interest Rate, and Liquidity Risks whereas the Management Credit Committee covers credit risk.
Policies and Procedures	The Risk Management Department establishes bank-wide policies, procedures and product programs in consultation with the Business, which govern the risk-taking activities of different areas of the bank. It also monitors compliance against these policies, escalates any breaches to the Board and amends and enhances policies and procedures on an ongoing basis. Some key policies include Enterprise Risk Management Framework, Market Risk Policy, and Credit Risk Policies, Information Security Policy and Operational Risk Policy and related procedures.
Risk Appetite	The Risk Appetite Statement (RAS) establishes key thresholds for conducting business group-wide. The RAS is approved by the Board Risk Committee and specifies category-wise risk limits and thresholds, which serve as an overall guide for all risk-taking activities in the bank.

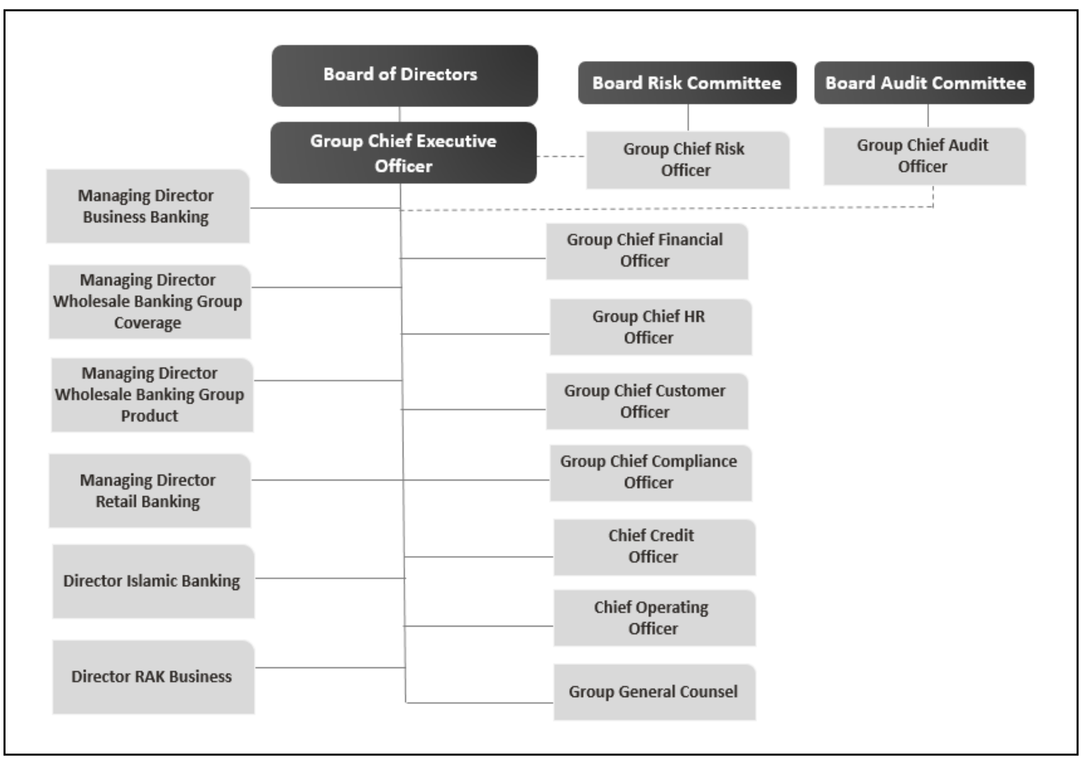
Risk Mitigation	
Monitoring	Risks are monitored through established Risk limits and monitoring the utilisation to ensure compliance and remedial action in case of breach. Limits are set for each type of risk and monitored on a daily, monthly, quarterly basis and annual basis
Reporting	Reporting of the risk triggers is done at Board, CEO, Management and Department head level. Reporting is ensured through information shared at regular intervals or on need basis with Board and Management committees.
Mitigation	Risk mitigation is ensured through management triggers, risk appetite triggers, early warning indicators, contingency funding plans, capital plans, forward looking estimates and other remedial measures.

Risk Culture

The Banks's risk culture refers to the shared attitudes, values and standards that shape behaviors related to risk awareness, risk taking and risk management. It is instrumental in aligning the behaviors of individuals with the attitude to assuming and managing risk, which helps to ensure that the bank's risk profile remains aligned with the risk appetite. The fostering of a strong risk culture is a key responsibility of the Board and Senior Management. The culture is also reinforced by the approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and strategy.

Risk Governance

The Board has ultimate responsibility for the effective management of risk and approves Bank's risk appetite. The Bank's risk governance is built upon the premise that each business line is responsible for monitoring the risks inherent in its business activities, which is augmented by the oversight provided by the Board and relevant committees. RAKBANK operates in accordance with the statutory requirements and is committed to adopting and complying with good corporate governance practices. The organisational chart is as below.



The Board of Directors regularly review the Bank's financial performance as well as the performance of the individual areas and the risks associated with it. The Board agenda typically includes:

1. Strategy and risk management, market trends and developments and new business opportunities
2. Implication of developments in international sanctions, compliance and central bank regulations
3. Enhancements in governance structure and practices

Following are key Board and Management risk managing committees and their roles and responsibilities;

Board Risk Committee (BRC):
The BRC has been established by the Board of Directors, to assist the Board in fulfilling its responsibility with respect to the oversight of the bank's risk management framework relating to all risks including, but not limited to, Market Risk, Liquidity Risk, Credit Risk, Operational Risk and Information and Cyber Security Risks and associated policies and procedures used in managing these risks.

Board Risk Committee (BRC) has oversight over the following two Management Committees:

- Assets and Liabilities Committee (ALCO)
- Management Risk Committee (MRC)

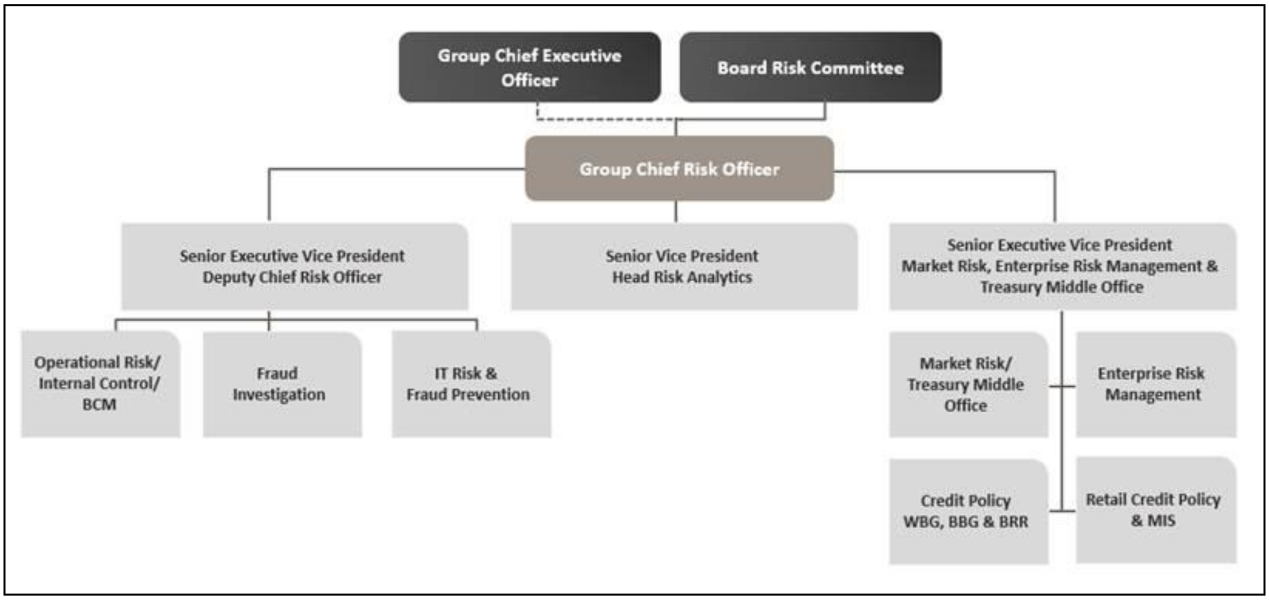
A. The **Assets and Liabilities Committee (ALCO)** is responsible for the following:

- Review the Bank's ALM strategies, policies and procedures for Interest rate risks, liquidity risks and Capital Management. The ALCO shall also have an overview of the Investment portfolio of the Bank.
- Review reports on Liquidity, Interest Rate Risk and Capital Management and ensure adherence to applicable limits, policies and regulatory requirements.
- To manage the balance sheet efficiently taking a forward looking view of changes to economic, regulatory and competitive actions.
- Review of asset and deposit pricing strategy for the market.
- Management of Liquidity Risk in the Bank

B. The **Management Risk Committee (MRC)** with the CEO as its chair, has a vital role in setting the tone for the Bank's risk taking activities by articulating the Bank's risk philosophy and priorities. In addition, its role encompasses:

- Review and recommendation of the risk management strategies as well as the risk tolerance and risk appetite of the Bank;
- Oversight of implementation of the risk management strategies
- Reviewing and assessing the adequacy of the risk management framework and policies in identifying, measuring, monitoring and controlling risk and the extent to which these are operating effectively;
- Ensuring that appropriate infrastructure, resources and systems are in place for risk management;
- Reviewing the robustness of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) & recommend for the Board's approval
- Review of periodic reports on risk exposure and risk management activities.

Risk Management Functional Structure



Risk Appetite

Risk Appetite Statement (RAS) is an articulation of the aggregate level and type of risks the bank is willing to assume. A clearly defined Risk Appetite framework helps the bank to understand the risk capacity, risk limits and risk triggers in carrying out its business. A sound risk appetite framework helps to build a strong risk culture and acts as a beacon which prevents excessive risk-taking.

It acts as a pivotal link between the Board of Directors and Management's vision of the bank's risks and the individual action of the business units which ensures that the overall risk profile of the bank stays within the parameters set by the framework.

The Bank's risk appetite and tolerance limits and policies relating to risk identification, measurement, monitoring and control are clearly communicated to all functional/ business groups in the Bank to ensure that risks undertaken are consistent with shareholder's expectation, Bank's strategic plan and regulatory requirement. The purpose of effective communication is to ensure that risk culture is understood across the bank.

The approach includes development and dissemination of information through various channels such as; Policies and procedures, frameworks, product programs, staff awareness through training and reinforcement of expectations in committees.

Purpose:

Key objectives of the Risk Appetite Statement include:

- Achievement of the business strategy and targets
- Meeting shareholder's return expectations
- Ensuring compliance with applicable rules and regulations, and
- Managing overall risk within an acceptable level.

The Board of Directors of the bank acknowledge the importance of identification, measurement and monitoring of risks in the bank. The Board outlines various risk thresholds and parameters within which the bank needs to operate. For setting the risk thresholds, factors like the bank's strategy, size, complexity of products, historic behavior and financial targets are taken into account.

Risk Thresholds

To set up the threshold for financial and non-financial risks the categories are broken down into further risk components like credit risk, market risk, operational risk, liquidity risk, strategic, compliance and legal. To measure the risk for each risk component a threshold is set. The utilisation of various risk triggers along with the status are shared with the Management and Board Risk Committees on periodic basis

Stress Testing

Stress testing is an important risk management tool that is used by banks as part of their internal risk management. Stress testing alerts bank management to adverse unexpected outcomes related to a variety of risks and provides an indication of how much capital might be needed to absorb losses should large shocks occur. Moreover, stress testing is a tool that supplements other risk management approaches and measures. It plays a particularly important role in:

- providing forward-looking assessments of risk;
- overcoming limitations of models and historical data;
- supporting internal and external communication;
- feeding into capital and liquidity planning procedures;
- informing the setting of a banks' risk tolerance; and
- Facilitating the development of risk mitigation or contingency plans across a range of stressed conditions.
- Portfolio level stress tests such as mortgage portfolio stress

Board and senior management involvement is critical in ensuring the appropriate use of stress testing in banks' risk governance and capital planning. This includes setting stress testing objectives, defining scenarios, discussing the results of stress tests, assessing potential actions and decision making.

Stress Testing Elements

Following are the details of various elements used to stress test various risks based on the risk profile of the bank:

1. **Credit Risk** – Based on CB UAE Macro Economic stress testing guidelines
2. **Market Risk and Currency Risk** – a combination of various stress scenarios which includes regulatory prescribed and bank's internal scenarios
3. **Interest Rate Risk in Banking Book** – NII and EVE impacts with various bps shocks are worked out
4. **Country Risk** – Rating Downgrade impact on country exposure based on existing rating and Outlook
5. **Liquidity Risk** – Three scenarios which include Bank level stress, Market-wide stress and combined stress.
6. **Macro-economic Stress Testing** – Bank performs Stress Testing on various risks using the CBUAE prescribed macro-economic data under baseline and adverse scenarios and measure the impact on the Capital adequacy.

The Bank adopts Integrated Stress Testing Approach, in which different types of stressed events are inter-linked and are jointly considered for their impact on the financials and key regulatory ratios. The results of the Stress Testing exercise are presented to Senior Management and to the Board Risk Committee (BRC).

The Bank has a well-defined Hedging framework which elucidates what kind of risks on Balance Sheet will be hedged and what are the hedging instruments permitted. Further, it highlights the process followed for hedge effectiveness.

	AED'000	a	b	c
		RWA		Minimum capital requirements
		31 Dec 2022	30 Sep 2022	31 Dec 2022
1	Credit risk (excluding counterparty credit risk)	47,582,760	47,788,733	4,996,190
2	Of which: standardised approach (SA)	47,582,760	47,788,733	4,996,190
3	Of which: foundation internal ratings-based (F-IRB) approach			
4	Of which: supervisory slotting approach			
5	Of which: advanced internal ratings-based (A-IRB) approach			
6	Counterparty credit risk (CCR)	255,013	366,370	26,776
7	Of which: standardised approach for counterparty credit risk	255,013	366,370	26,776
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	257,784	292,428	27,067
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds - look-through approach	-	-	-
13	Equity investments in funds - mandate-based approach	-	-	-
14	Equity investments in funds - fall-back approach	-	-	-
15	Settlement risk	-	-	-
16	Securitisation exposures in the banking book	-	-	-
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	-	-	-
19	Of which: securitisation standardised approach (SEC-SA)	-	-	-
20	Market risk	1,649,697	2,446,416	173,218
21	Of which: standardised approach (SA)	1,649,697	2,446,416	173,218
22	Of which: internal models approach (IMA)			
23	Operational risk	3,628,998	3,678,449	381,045
24	Amounts below thresholds for deduction (subject to 250% risk weight)			
25	Floor adjustment			
26	**Total**	**53,374,252**	**54,572,396**	**5,604,296**

Market Risk Weighted Assets have reduced primarily due to lower net open positions in certain foreign currencies which has led to lower Risk Weighted Assets on Foreign Exchange Risk. Additionally, lower exposures in interest rate investment securities and derivative contracts have led to a significant reduction in Interest Rate Risk. Finally, lower exposures in trading equities has led to the reduction in Equity Risk.

3. Linkages between financial statements and regulatory exposures

AED'000	a	b	c	d	e	f	g
			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	4,713,892	4,713,873	4,713,873	-	-	-	-
Due from other banks, net	11,456,321	11,305,477	11,305,477	-	-	-	-
Investment securities measured at fair value	4,242,242	4,133,689	4,133,689	-	-	107,496	-
Investment securities measured at amortised cost	7,221,805	7,539,049	7,539,049	-	-	-	-
Loans and advances, net	36,071,267	36,071,267	36,071,267	-	-	-	-
Insurance contract assets and receivables, net	280,928	-	-	-	-	-	-
Customer acceptances	145,973	145,973	145,973	-	-	-	-
Other Assets	1,434,126	1,432,985	1,432,985	563,489	-	563,489	-
Property and equipment	454,134	452,862	452,862	-	-	-	-
Right-of-use assets	112,657	112,657	112,657	-	-	-	-
Goodwill and other intangible assets	370,498	198,470	-	-	-	-	364,856
Total Assets	**66,503,844**	**66,106,302**	**65,907,832**	**563,489**	**-**	**670,985**	**364,856**
Liabilities							
Due to other banks	6,191,834	6,141,834	-	-	-	-	6,141,834
Deposits from customers	44,871,310	45,004,851	-	-	-	-	45,004,851
Customer acceptances	145,973	145,973	-	-	-	-	145,973
Debt securities issued and other long term borrowings	3,999,743	3,999,743	-	-	-	-	3,999,743
Insurance contract liabilities and payables	464,491	-	-	-	-	-	-
Other liabilities	1,702,470	1,666,310	-	524,050	-	524,050	1,142,260
Lease liabilities	102,912	102,912	-	-	-	-	102,912
Total Liabilities	**57,478,733**	**57,061,623**	**-**	**524,050**	**-**	**524,049**	**56,537,574**

Amounts appearing in more than one category – Investment securities measured at fair value through profit & loss and derivative assets are reported under Credit Risk as part of 0% risk weight category and are also subject to Market Risk. Derivative assets and derivative liabilities are subject to market risk and counterparty credit risk.

	AED'000	a	b	c	d	e
			Items subject to:			
		Total	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)	65,741,446	65,907,832	-	563,489	670,985
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	524,050	-	-	524,050	524,050
3	**Total net amount under regulatory scope of consolidation**	**65,217,396**	**65,907,832**	**-**	**39,440**	**146,935**
4	Off-balance sheet amounts	13,850,335	13,850,335	-	693,942	-
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*	1,345,856	1,345,856	-	-	-
8	*Differences due to prudential filters*	106,646	106,646	-	-	-
9	*Other differences*	(357,592)	(159,122)	-	-	-
10	**Exposure amounts considered for regulatory purposes**	**80,162,642**	**81,051,547**	**-**	**733,381**	**146,936**

The difference between the net amount under regulatory scope of consolidation and the exposure amounts considered for regulatory purposes is due to the inclusion of off-balance sheet amounts and prudential filter, and the exclusion of non-specific provisions to arrive at the net regulatory exposure. Other differences primarily include exposure amounts that are not subject to capital requirements or subject to deduction from capital.

While financial reporting is done at a consolidated level including all subsidiaries of the Bank, the scope of regulatory consolidation requires deconsolidation of insurance subsidiaries which in our case is Ras Al Khaimah National Insurance Company. This is the only reason of difference between carrying values as reported in published financial statements and carrying values under scope of regulatory consolidation.

Carrying value of assets under the scope of regulatory consolidation is limited to On-Balance Sheet products and are also net of all provisions and interest/fees suspended. To arrive at the net exposure amount considered for regulatory purposes, Off-Balance Sheet amounts, non-Specific Provisions and Prudential Filter have been added.
Bank uses below prudent valuation methodologies for valuations of all the Trading and Banking book positons:-

Mark-to-Market (MTM)
Marking-to-market is the daily valuation of positions/exposure at readily available close out prices that are sourced independently. Such prices include Exchange prices, Quotes from independent, reputable brokers & Quotes from independent and reputable market information providing systems.

Counterparty Quotes
The Bank obtains Counterparty Valuations for some structured products like Credit Linked Notes (CLN), Total Return Swaps (TRS), and Hedge Funds which is otherwise not quoted in the market.

Marking-to-model
Marking to Model is applied only where Mark to market & Counterparty quotes are not available or if they are not reflective of current market conditions.

Bank uses data providers like Reuters and Bloomberg for independent price feeds of various Asset classes like FX Currency Spot and Forward rates, Interest Rates, Commodity prices, Bonds prices, Equity prices, etc.
Bank uses the Treasury system for valuation of most of the products and Bloomberg valuation models for some Derivative products.

Currently Bank does valuation adjustments for CVA to factor the credit risk arising from Derivative exposures as a provision to P&L. Detailed procedure for valuation approaches applied for various asset classes are documented in the Market Risk Policy of the Bank approved by the Board and the Valuation document. Further, the policy defines a Water-fall methodology for Valuations of both Trading book and Banking Book positions by using Mark to Market, if available, else Mark to Model or Counterparty Quotes.

Ras Al Khaimah National Insurance Company, which is the insurance subsidiary of the Bank, is deconsolidated for regulatory reporting purposes. The book value of investment in the insurance subsidiary net of goodwill is then risk weighted at 250% in line with Capital Adequacy Standards.

4. Composition of capital

	Amounts in AED'000	a 31 Dec 2022	b Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Common Equity Tier 1 capital: instruments and reserves		
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	1,676,245	Share Capital
2	Retained earnings	2,968,397	
3	Accumulated other comprehensive income (and other reserves)	3,883,399	
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**	**8,528,041**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	-	
8	Goodwill (net of related tax liability)	(166,386)	
9	Other intangibles including mortgage servicing rights (net of related tax liability)	(198,470)	
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	2,561	
12	Securitisation gain on sale	-	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	-	
14	Defined benefit pension fund net assets	-	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	-	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	-	
17	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-	
18	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	-	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-	
20	Amount exceeding 15% threshold	-	
21	Of which: significant investments in the common stock of financials	-	
22	Of which: deferred tax assets arising from temporary differences	-	
23	CBUAE specific regulatory adjustments	-	
24	**Total regulatory adjustments to Common Equity Tier 1**	**(362,295)**	
25	**Common Equity Tier 1 capital (CET1)**	**8,165,746**	
	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)**	**8,165,746**
	Tier 2 capital: instruments and provisions	
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	-
41	*Directly issued capital instruments subject to phase-out from Tier 2*	-
42	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 30) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	-
43	*Of which: instruments issued by subsidiaries subject to phase-out*	-
44	Provisions	601,194
45	**Tier 2 capital before regulatory adjustments**	**601,194**
	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)**	**601,194**
52	**Total regulatory capital (TC = T1 + T2)**	**8,766,941**
53	**Total risk-weighted assets**	**53,374,252**
	Capital ratios and buffers	
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**15.3%**
55	**Tier 1 (as a percentage of risk-weighted assets)**	**15.3%**
56	**Total capital (as a percentage of risk-weighted assets)**	**16.4%**

57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	**2.5%**
58	**Of which: capital conservation buffer requirement**	**2.5%**
59	**Of which: bank-specific countercyclical buffer requirement**	**0.0%**
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	**0.0%**
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	**5.9%**
	The CBUAE Minimum Capital Requirement	
62	Common Equity Tier 1 minimum ratio	7.0%
63	Tier 1 minimum ratio	8.5%
64	Total capital minimum ratio	10.5%
	Amounts below the thresholds for deduction (before risk weighting)	
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	
66	Significant investments in common stock of financial entities	150,858
67	Mortgage servicing rights (net of related tax liability)	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	-
	Applicable caps on the inclusion of provisions in Tier 2	
69	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to standardised approach (prior to application of cap)	721,433
70	Cap on inclusion of provisions in Tier 2 under standardised approach	601,194
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach	
	Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2018 and 1 Jan 2022)	
73	*Current cap on CET1 instruments subject to phase-out arrangements*	
74	*Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)*	
75	*Current cap on AT1 instruments subject to phase-out arrangements*	
76	*Amount excluded from AT1 due to cap (excess after redemptions and maturities)*	
77	*Current cap on T2 instruments subject to phase-out arrangements*	
78	*Amount excluded from T2 due to cap (excess after redemptions and maturities)*	

Regulatory deduction includes the reduction of goodwill arising from the purchase of Ras Al Khaimah National Insurance Company (unconsolidated entity for regulatory purposes) and the treatment of software not integral to hardware as intangible assets. These deductions, along with the impact of proposed dividends have led to the reduction in regulatory capital amounts as well as ratios.

AED'000	a Balance sheet as in published financial statements 31 Dec 2022	b Under regulatory scope of consolidation 31 Dec 2022	c Reference*
Assets			
Cash and balances with UAE Central Bank	4,713,892	4,713,873	
Due from other banks, net	11,456,321	11,305,477	
Investment securities measured at fair value	4,242,242	4,133,689	
Investment securities measured at amortised cost	7,221,805	7,539,049	
Loans and advances, net	36,071,267	36,071,267	
Insurance contract assets and receivables, net	280,928	-	
Customer acceptances	145,973	145,973	
Other Assets	1,434,126	1,432,985	
Property and equipment	454,134	452,862	
Right-of-use assets	112,657	112,657	
Goodwill and intangible assets	370,498	198,470	
Total assets	**66,503,844**	**66,106,302**	
Liabilities			
Due to other banks	6,191,834	6,141,834	
Deposits from customers	44,871,310	45,004,851	
Customer acceptances	145,973	145,973	
Debt securities issued and other long term borrowings	3,999,743	3,999,743	
Insurance contract liabilities and payables	464,491	-	
Other liabilities	1,702,470	1,666,310	
Lease liabilities	102,912	102,912	
Total Liabilities	**57,478,733**	**57,061,623**	
Shareholders' equity			
Share capital (which equals amount eligible for CET1)	1,676,245	1,676,245	
Legal reserve	950,431	950,431	
Retained earnings	3,395,840	3,431,674	
Other reserves	2,975,328	2,986,327	
Non-controlling interests	27,266	-	
Total shareholders' equity	**9,025,111**	**9,044,678**	

*Refer to consolidated financial statements for the year ended 31st December 2022 and note 3 of this document

Due from other banks has seen an increase due to increases in trade loans and syndicated loans. The increase in investment securities measured at amortised cost is due to the increase in quoted debt securities. The increase in loans and advances is primarily driven by the application of the offsetting requirements of IAS 32 Financial Instruments: Presentation for Home in One as well as an increase in Wholesale Banking lending.

		a **Quantitative / Qualitative information**
1	Issuer	The National Bank of Ras Al Khaimah (P.J.S.C)
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	AEN000601015
3	Governing law(s) of the instrument	CBUAE, SCA and all applicable laws & regulations
	Regulatory treatment	Common Equity Tier 1
4	Transitional arrangement rules (i.e. grandfathering)	N/A
5	Post-transitional arrangement rules (i.e. grandfathering)	N/A
6	Eligible at solo/group/group and solo	Solo & Group
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in millions, as of most recent reporting date)	AED 1,676
9	Nominal amount of instrument	AED 1
9a	Issue price (original)	AED 1
9b	Redemption price	N/A
10	Accounting classification	Shareholders' Equity
11	Original date of issuance	Various
12	Perpetual or dated	Perpetual
13	Original maturity date	No Maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	Coupons / dividends	Dividends
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully Discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully Discretionary
21	Existence of step-up or other incentive to redeem	No
22	Non-cumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	Write-down feature	No
25	If write-down, write-down trigger(s)	N/A
26	If write-down, full or partial	N/A
27	If write-down, permanent or temporary	N/A
28	If temporary write-own, description of write-up mechanism	N/A
28a	Type of subordination	N/A
29	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument in the insolvency creditor hierarchy of the legal entity concerned).	N/A
30	Non-compliant transitioned features	No
31	If yes, specify non-compliant features	N/A

5. Leverage ratio

		a 31 Dec 2022 AED'000
1	Total consolidated assets as per published financial statements	66,503,844
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	317,244
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	(563,489)
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	855,323
9	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	3,933,762
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	1,440,179
13	**Leverage ratio exposure measure**	**72,486,864**

The difference between the total assets as per consolidated financial statements and the leverage ratio exposure measure is primarily on account of off balance sheet items including derivatives. Other adjustments mainly include adjustments for provisions and suspended interest, amongst others.

	Amounts in AED'000	a 31 Dec 2022	b 30 Sep 2022
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	67,697,779	65,561,880
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework	161,381	174,469
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)	-	-
7	**Total on-balance sheet exposures (excluding derivatives and SFTs)**	67,859,160	65,736,349
	Derivative exposures		
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	213,702	402,730
9	Add-on amounts for PFE associated with *all* derivatives transactions	480,240	689,815
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**	693,942	1,092,545
	Securities financing transactions		
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	-	-
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
16	CCR exposure for SFT assets	-	-
17	Agent transaction exposures	-	-
18	**Total securities financing transaction exposures**	-	-
	Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	13,156,484	16,032,373
20	(Adjustments for conversion to credit equivalent amounts)	(9,222,722)	(10,959,108)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	-	-
22	**Off-balance sheet items**	3,933,762	5,073,265
	Capital and total exposures		
23	**Tier 1 capital**	8,165,746	8,643,309
24	**Total exposures**	72,486,864	71,902,159
	Leverage ratio		
25	**Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)**	11.3%	12.0%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	11.3%	12.0%
26	CBUAE minimum leverage ratio requirement	3.0%	3.0%
27	**Applicable leverage buffers**	0.0%	0.0%

Lower derivative exposures and lower underwriting commitments have cushioned the drop in leverage ratio due to the reduction in regulatory capital, which in turn is on account of proposed dividends and the regulatory deduction of software that is not integral to hardware (treated as intangibles).

6. Liquidity

Liquidity Risk is the risk that the bank will not be able to efficiently meet both expected and unexpected current and future cash flow and collateral needs without affecting either daily operations or the financial condition of the firm under normal and stress circumstances.

The Liquidity risk strategy of the bank is to ensure that the bank remains adequately liquid by always ensuring a viable balance of liquid assets to meet expected and contingent outflows and adhering to all regulatory guidelines. In addition, the Bank also manages liquidity risk through a range of internal measures like cash flow mismatches, concentrations, funding sources and uses etc.

Governance

Liquidity Risk Management in the Bank is governed by Liquidity Risk Management Framework under Enterprise Risk Management Framework approved by the Bank's Board of Directors. The liquidity risk is managed using Top Down approach in which boundary of the risk thresholds is defined by Board in line with the Bank's Risk Appetite.

Treasury ALM and Business groups are primarily responsible for managing liquidity for the Bank. Accordingly, it is important to consolidate all commercial banks funding activities in Treasury enabling it to monitor, plan and execute effectively. Risk Management and Finance teams are responsible for the measurement and monitoring of liquidity metrics stipulated in the framework and updating Board & ALCO on issues pertaining to liquidity risk.

Risk Measurement

The Bank has adopted a pro-active approach in identifying and assessing, measuring and monitoring liquidity risks. Risk Management conducts regular and ad-hoc risk analyses (such as stress tests) and reports, findings and recommendations, to Bank's ALCO and Board. RAKBANK manages its liquidity on a daily basis and liquidity risk is managed through a combination of risk indicators and risk triggers. The Liquidity is managed using stock approach and cash-flow approach. The stock approach measures the stock of liquidity in the balance-sheet.

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

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

Liquidity Stress Testing

Bank uses Scenario analysis for performing the stress testing, considering the wide application, ease of usage and comprehensive coverage. Scenarios involve defining a set of risk factors and amounts by which these factors could move (in a stressed scenario) under a specified scenario. Each source behaves differently under three different scenarios i.e. Bank-wide, Market Wide and combination of both scenarios with varying sensitivities. For instance, a market wide stress could impact interbank funding and a deposit run simultaneously.

Post the impact analysis the scenario results i.e. the Cost to Close for a 30 day stress Liquidity Gap under all three scenarios are compared to the available sources of funding as per the Contingency Funding Plan.

A detailed iterative process is carried out for the stress testing exercise.

- The scenarios are discussed and decided based on evolving market exercise as part of Bank's annual ICAAP process.
- Stressed Liquidity Gap report is prepared using the agreed stress factors.
- The scenario analysis is carried out to check the level of liquidity stress.
- Stressed Gaps are calculated for all the sets of scenarios.

- The resources available as per the contingency funding plan is compared to the stressed gap of a 30 day period to assess if the liquidity is adequate to ensure that the bank can withstand the stress.
- The results are discussed in detail with Business and Treasury and their inputs are obtained to update the results.
- The results are shared with Senior Management and Board Risk Committee and further submitted to CB UAE as part of the annual ICAAP report.

Funding Strategy

The Bank lends to and borrows from various sources and segments of the market vis-à-vis Retail, SME, Commercial, Corporate and Financial Institutions etc. at differentiated pricing, tenures, currencies and through a varied suite of products, in turn, giving rise to various risk exposures that need to be effectively managed, be it liquidity risk, interest rate risk, currency risk, credit risk, market risk etc. While this document limits its remit to the liquidity risk element of the business, all the other factors need to be duly considered before appropriate execution of the proposed strategy. To best mitigate the said risk, the Bank ensures availability of timely, appropriate and sufficient resources to meet all its liquidity obligations that may arise, both current and prospective, be it under a normal or stressed scenario. The Bank currently achieves this through a well-diversified customer deposits base (both time deposits and demand deposits). To achieve the objective of diversifying its source of funds, the bank also maintains access to a variety of sources of wholesale funds in multiple currencies, including those available from money markets, repo markets, bilateral or syndicated loans and from international bond markets, across a variety of distribution channels and geographies.

The Bank has the ability to effectively manage its liquidity by raising deposits or liquidating/selling off/distributing assets in a timely manner by tapping into the various diversified avenues at its disposal. Treasury, continuously monitors the liquidity position through multiple reporting mechanisms that have been put in place, including but not limited to daily liquidity reports that allows the Treasury team to keeps a constant watch on the upcoming maturities for all material money market deposits, bonds, repos, etc., this in addition to the expected disbursal pipeline from businesses enable proactive actions/measures to handle any liquidity scenarios be it shortages or excesses for short, medium or long term positions.

Overview of Contingency Funding Plan

Liquidity Risk Management Framework includes the Contingency Funding Plan ("CFP"). The Contingency Funding Plan (CFP) sets out the Bank's strategies to respond to a severe disruption of the bank's liquidity or funding position due to internal or external events. The plan designates the CFP Team, which will be activated in the event of a liquidity crisis and establishes allocation of roles within the Team.

The contingency funding plan provides for a comprehensive description of the sources of funds, expected haircuts, roles and responsibilities of the implementation team and the trigger points for the plan.

Bank has clearly defined CFP triggers which is monitored by Risk Management independently. A crisis team to manage liquidity crisis situation is designated as part of the CFP document along with their roles and responsibilities, which includes senior management executives.

The funding sources and action plan to source liquidity, in case of both Long term as well as Short term liquidity crisis is defined in the CFP.

The Bank measures and monitors liquidity risk as per the Liquidity Risk framework approved by the Board Risk Committee and ensures compliance by the Central Bank of UAE regulations related to Liquidity Risk. Apart from regulatory liquidity metrics that Bank complies, Bank uses a number of internal liquidity risk metrics as below to manage its liquidity position.

- Cash Liquidity Position
- Structural Liquidity
- Short Term funding sources under stress
- Concentration Risk
- Regulatory Ratios
- Basel III Liquidity Ratios
- Funding Strategy Ratios
- Stressed Liquidity Ratio
- Liquidity GAP under stressed scenarios

The Bank has set concentration risk thresholds on its different funding sources such as customer deposits concentrations, capital market funding, secured & unsecured money market (Interbank & repo borrowing) funding, wholesale funding etc.

The Bank through Assets & Liabilities Committee, ensures that its funding needs are from diverse sources ranging from Local Customers deposits from its retail, corporate and institutional customers as well as the central bank to medium & long term funding such as EMTN programme. The subsidiaries of the Bank operates independently at entity level.

The liquidity gap for on and off Balance Sheet exposures over various maturity buckets is presented on the following page.

Liquidity Gap – 31 Dec 2022							AED'000
Particulars	**Upto 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**	**ECL**	**Total**
Assets							
Cash & Balances with UAE Central Bank	4,713,873	-	-	-	-	-	4,713,873
Due from other banks	5,409,953	4,061,651	1,891,033	-	-	(57,160)	11,305,477
Loans & advances	8,687,011	5,983,200	8,332,385	5,117,695	10,024,028	(2,073,052)	36,071,267
Investment securities	2,753,622	1,142,603	2,597,666	2,780,483	2,455,489	(57,124)	11,672,738
Customer Acceptances	100,545	45,428	-	-	-	-	145,973
Property & equipments, Right to use asset & other assets	1,022,527	17,941	39,519	81,384	1,035,601	-	2,196,973
Total	**22,687,530**	**11,250,825**	**12,860,603**	**7,979,561**	**13,515,118**	**(2,187,336)**	**66,106,301**
Liabilities and shareholder's equity							
Due to other banks	3,088,314	1,293,627	595,860	1,164,033	-	-	6,141,834
Due to customers	38,450,742	5,678,247	842,281	33,575	6	-	45,004,851
Debt security in issue/other long	-	2,182,192	1,817,551	-	-	-	3,999,743
Other liabilities	1,292,577	10,255	41,072	85,415	339,903	-	1,769,222
Customer Acceptances	100,545	45,428	-	-	-	-	145,973
Shareholder's equity	-	-	-	-	9,044,678	-	9,044,678
Total	**42,932,178**	**9,209,749**	**3,296,764**	**1,283,023**	**9,384,587**	**-**	**66,106,301**
Net gap	(20,244,647)	2,041,076	9,563,839	6,696,538	4,130,530	(2,187,336)	-
Net cumulative gap	(20,244,647)	(18,203,571)	(8,639,732)	(1,943,195)	2,187,336	-	
Loan commitments	1,407,192	2,965,524	119,373	-	-	-	4,492,089
Letters of Guarantee & Letters of Credit	915,145	186,061	136,417	1,958	-	-	1,239,581
Total	**2,322,337**	**3,151,585**	**255,790**	**1,958**	**-**	**-**	**5,731,670**

	Amounts in AED'000		
1	**High Quality Liquid Assets**	**Nominal amount**	**Eligible Liquid Asset**
1.1	Physical cash in hand at the bank + balances with the CBUAE	4,713,873	
1.2	UAE Federal Government Bonds and Sukuks	2,002,525	
	Subtotal	**6,716,398**	**6,716,398**
1.3	UAE local governments publicly traded debt securities	551,639	
1.4	UAE Public sector publicly traded debt securities	-	
	Subtotal	**551,639**	**551,639**
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks	-	-
1.6	**Total**	**7,268,037**	**7,268,037**
2	Total liabilities		56,682,456
3	**Eligible Liquid Assets Ratio (ELAR)**		**12.8%**

	Amounts in AED'000	
	Items	**Amount**
1	**Computation of Advances**	
1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	35,857,947
1.2	Lending to non-banking financial institutions	128,577
1.3	Net Financial Guarantees & Stand-by LC (issued - received)	329,392
1.4	Interbank Placements	6,566,278
1.5	**Total Advances**	**42,882,194**
2	**Calculation of Net Stable Resources**	
2.1	Total capital + general provisions	10,303,798
	Deduct:	
2.1.1	Goodwill and other intangible assets	198,470
2.1.2	Fixed Assets	452,862
2.1.3	Funds allocated to branches abroad	-
2.1.5	Unquoted Investments	198,996
2.1.6	Investment in subsidiaries, associates and affiliates	325,819
2.1.7	**Total deduction**	**1,176,147**
2.2	**Net Free Capital Funds**	**9,127,651**
2.3	**Other stable resources:**	
2.3.1	Funds from the head office	-
2.3.2	Interbank deposits with remaining life of more than 6 months	3,561,760
2.3.3	Refinancing of Housing Loans	-
2.3.4	Borrowing from non-Banking Financial Institutions	723,185
2.3.5	Customer Deposits	38,255,642
2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	2,367,899
2.3.7	**Total other stable resources**	**44,908,486**
2.4	**Total Stable Resources**	**54,036,137**
3	**Advances To Stable Resources Ratio**	**79.4%**

7. Credit risk

Credit Risk Management is split into three key segments viz Wholesale Credit Risk Management, Business Banking Credit Risk Management and Retail Credit Risk Management. Each segment has policies that provide the guiding principles credit criteria, portfolio caps/triggers, portfolio management techniques, write-off policy, risk analysis and mitigation and delegation of authorities etc. All Policy limits are monitored by Credit Risk Management unit and any breaches to the limit is reported to Management and/or Board Risk Committees. Monthly analytics decks are circulated and reviewed for the Retail banking segment by the Credit Risk Analytics team along with Retail Credit Policy unit. Key indicators are reported to Management &/or Board in the respective committees. For Wholesale Banking and Business Banking, the monthly analytics decks are circulated and reviewed by the Credit Risk Analytics team along with Credit Policy unit. Key indicators are reported to Management & Board in the respective committees. Bank's credit risk profiling includes the aspects of Consumer Protection Policy / Manual and the Bank adheres to the defined standards across all lending products.

The Bank has a mix of secured and unsecured products with approved maximum exposure and maximum permissible loss thresholds at a product level. These thresholds are approved by the relevant Board committees and are reviewed on periodic basis.

The Bank has implemented appropriate policies, procedures and systems separately for Wholesale Banking, Business Banking and Retail Banking businesses to ensure that credit exposure is taken prudently. The policies are under the oversight of the Board Risk Committee and establish the guidelines for client origination and management, securing documentation, MIS, remedial management and recoveries/collections of credit exposures. Credit risk limits are set under the policies based on the credit risk rating of the obligor and/or the product specific lending caps stated in the respective product program guidelines. Lending proposals are assessed by the Bank’s Credit Division under these policies and duly approved by the senior management as per their delegated lending authority as granted by the Bank’s Board of Directors.

Appropriate product programs defining customer segments, underwriting standards and security requirement are in place to ensure consistency in the underwriting and onboarding process. For Wholesale banking and Business banking exposures, credit risk is managed by appropriately identifying target market segment, structured credit approval process and robust post-disbursement monitoring and remedial processes. In the case of Retail lending business, the credit risk is managed through appropriate front-end sales and credit underwriting processes, and back-end operational and collection processes. Appropriate product programs defining customer segments, underwriting standards and security requirement are rolled-out to ensure consistency in underwriting and the on-boarding process. Retail credit portfolio is monitored centrally across products and customer segments. Credit Bureau checks & Risk scoring at acquisition (A score) also helps manage the Risks in Retail banking. In addition Enterprise Risk Management Team reviews applications for potential fraud prevention and stringent employer listing process for souring Personal loans mitigates the Risk to lending / limit assignments to unsecured Retail banking segment.

Business is responsible for ensuring that a risk controlled environment is established as part of their day to day operations. Line management is therefore required to be adequately skilled to be able to execute compliance risk assessments and proactively review & update emerging risk & compliance challenges.

Risk Management, Compliance, Credit, Finance and Legal are the oversight functions that set the risk appetite by drafting detailed policies, procedures and implementing the same. The Credit Risk Management unit is also responsible for proposing risk appetites, identification and reporting of breaches to the Board Risk Committee and provide guidance & direction to the first line of business on specific risk related scenarios.

Internal Audit primarily provides independent assurance to Board of Directors. They add value by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management controls and governance processes.

The ultimate responsibility of the overall risk of the bank lies with the Board of Directors. They define the overall risk appetite which is cascaded to the business divisions. The Board committees oversee the first, second and third line of defense for performance, compliance with risk appetites.

The Board of Directors has delegated authority to the Board Credit Committee and Board Risk Committee to oversee the credit management measures including portfolio, sectoral and customer level reviews as well as also quality of assets and health of large borrower accounts and borrower groups. The Board has established executive level Management Credit Committee and Management Risk Committee to review major credit portfolios, non-performing loans, accounts under watch, overdue and credit sanctions. Periodic reviews on the portfolio performance in terms of NPA movement, provision coverage, provision trends, etc. are presented to the Board Credit Committee and Board Risk Committees and any actions recommended are implemented.

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is 90 (or more) days past due on its contractual payments.

Qualitative criteria:

The bank classifies the loans as Non-Performing Asset (NPA) when:

A. Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
B. Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
C. Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.

	AED'000	a	b	c	d	e	f
		Gross carrying values of			Of which ECL accounting provisions for credit losses on SA exposures		
		Defaulted exposures	Non-defaulted exposures	Allowances/ Impairments	Allocated in regulatory category of Specific	Allocated in regulatory category of General	Net values
1	Loans	1,202,499	36,941,820	(2,073,052)	(893,819)	(1,179,233)	36,071,267
2	Debt securities	219,894	10,788,473	(201,109)	(165,697)	(35,412)	10,807,258
3	Off-balance sheet exposures	2,244	5,765,294	(27,019)	(384)	(26,635)	5,740,520
4	**Total**	**1,424,637**	**53,495,587**	**(2,301,180)**	**(1,059,900)**	**(1,241,280)**	**52,619,045**

Specific provision includes the Expected Credit Loss (ECL) on Stage 3 exposures within each category while General provision includes the ECL on Stage 1 and Stage 2 exposures.

		a AED'000
1	**Defaulted loans and debt securities at 30 June 2022**	**1,473,686**
2	Loans and debt securities that have defaulted since the last reporting period	274,226
3	Returned to non-default status	(14,673)
4	Amounts written off	(206,373)
5	Other changes	(104,472)
6	**Defaulted loans and debt securities at 31 December 2022**	**1,422,393**

The balance of defaulted loans and debt securities have dropped despite the increase in new defaults since 30th June 2022 is due to higher write-off and closure of defaulted loans and debt securities.

Past due exposures are those which are in 30+ days past due date while exposures meeting the qualitative and/or quantitative criteria listed previously are considered impaired. All exposures that are 90+ days past due date are considered as impaired without any exceptions. Past due and impaired loan exposures differ to the extent of previously detailed qualitative criteria.

The bank uses both approaches of Central Bank Provisions (CBUAE 28/2010 – Regulations for Classification of Loans and determining their provisions) and IFRS9 for determining the provisions on credit losses. ECL accounting provisions for credit losses on SA exposures allocated in the regulatory category of Specific includes the expected credit losses on Stage 3 exposures while ECL accounting provisions for credit losses on SA exposures allocated in the regulatory category of General includes the expected credit losses on Stage 1 and Stage 2 exposures for the respective products.

For Wholesale Banking, Business Banking and Retail Banking, stressed loans that are in default or are in overdue status while still having a source of income, the bank offers restructure of the facility with changes in the either Payment Terms or Interest Rate of the loan or in both.

Breakdown of Exposures by Geography

AED'000	Gross Carrying Amount
UAE	34,932,186
GCC	701,804
Others	2,510,329
Grand Total	**38,144,319**

Breakdown of Exposures by Industry

AED'000	Gross Carrying Amount
Agriculture, Fishing & Related Activities	4,539
Crude Oil, Gas, Mining & Quarrying	185,285
Manufacturing	2,335,747
Electricity and Water	807,543
Construction and Real Estate	2,349,220
Trading	4,534,461
Transport, Storage & Communication	2,845,584
Financial Institutions	1,472,440
Services	2,994,623
Government	507,466
Retail and Consumer Banking	20,107,411
Grand Total	**38,144,319**

Breakdown of Exposures by Residual Maturity

AED'000	Gross Carrying Amount
Overdue	521,644
Overdrafts	456,708
Sum of 0 - 7 days	958,125
Sum of 8-14 days	301,073
Sum of 15 days - 1 month	1,162,143
Sum of 1 - 3 months	5,287,319
Sum of 3 - 6 months	2,841,273
Sum of 6 -12 months	3,141,927
Sum of 1 - 2 years	4,702,616
Sum of 2 - 3 years	3,629,769
Sum of 3 - 4 years	3,249,372
Sum of 4 - 5 years	1,868,323
Sum of > 5 years	10,024,028
Grand Total	**38,144,319**

Breakdown of Impaired Loans by Geography

AED'000	Gross Carrying Amount	Expected Credit Loss	Net Carrying Amount
UAE	1,192,345	(892,133)	300,212
GCC	3,164	(532)	2,633
Others	6,989	(1,155)	5,834
Grand Total	**1,202,499**	**(893,820)**	**308,679**

Breakdown of Impaired Loans by Industry

AED'000	Gross Carrying Amount	Expected Credit Loss	Net Carrying Amount
Manufacturing	86,060	(82,788)	3,272
Electricity and Water	27	(26)	1
Construction and Real Estate	187,117	(136,209)	50,908
Trade	185,555	(163,572)	21,983
Transport, Storage & Communication	42,111	(39,279)	2,832
Services	213,976	(194,342)	19,634
Retail and Consumer Banking	487,653	(277,604)	210,048
Grand Total	**1,202,499**	**(893,820)**	**308,679**

Aging of Past Due Exposures

AED'000	Gross Carrying Amount
Less than 30 days	745,014
30 - 90 days	296,812
90 - 120 days	37,766
120 - 180 days	72,406
Over 180 days	974,995
Grand Total	**2,126,993**

Breakdown of Restructured Loans

AED'000	Gross Carrying Amount
Impaired	612,078
Not Impaired	1,537,944
Grand Total	**2,150,022**

Measurement of ECL

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

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

No impairment loss is recognised on equity investments.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When there has not been a Significant Increase in Credit risk (SICR) since its initial recognition, an amount equal to 12 months Expected Credit Loss (ECL) is recorded. 12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2: When a financial instrument shows a Significant Increase in Credit Risk (SICR) since its initial recognition, it is moved to Stage 2 and an amount equal to Lifetime ECL is recorded against these financial instruments. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

Stage 3: Financial instruments considered as credit impaired are moved to Stage 3 and amount equal to Lifetime ECL is recorded against these financial instruments.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key inputs are the term structure of the following:

- Probability of default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters are derived from the Group's internally developed statistical models or external data, and other historical data. These are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust the ECL numbers for the factors not being captured in the model, as a part of Management Overlay.

Summary of statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date upto default date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and expect recovery including expected amount from sale of collateral. It is usually expressed as a percentage of the EAD.
- ECL are a probability-weighted estimate of credit losses. They are measured as follows:
- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics (Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate whether it is measured on an individual basis or a collective basis.

Credit-impaired financial assets

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 about 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 purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is 90 (or more) days past due on its contractual payments.

Qualitative criteria:

The bank classifies the loans as Non-performing (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
- Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may vary from remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle like credit cards, overdraft balances, etc. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Unsecured Lending is basis detailed analysis of the Individual / Company's financial statements, Credit Bureau checks, industry checks, etc. For Collateral based lending, approved LTV matrix is followed in addition to the income, industry, credit bureaus, etc. checks done. For Cash, Secured Overdrafts & Cards, the bank places a lien on the customer deposits for netting of the exposure.

Internal Desktop valuation is done to assess the Current Market Valuation (CMV) for performing accounts for the Retail Mortgage Portfolio on a half yearly basis. Physical valuation by approved valuator is done for all NPL loans at least once a year.

For Wholesale Banking and Business Banking - for performing loans, the valuation of mortgaged properties is done on a biennial basis and for NPL loans it is done as per regulatory guidelines.

The bank has a secured portfolio of Real Estate Mortgage, Loans against Investments, Auto Loans, Overdrafts, Secured Cards, Secured Finance and Asset Backed Finance for which collaterals like property, investments, vehicles and deposits are held.

	AED'000	a	b	c	d	e	f	g
		Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	33,326,486	4,728,815	960,550	89,018	78,976	-	-
2	Debt securities	11,008,367	-	-	-	-	-	-
3	**Total**	**44,334,853**	**4,728,815**	**960,550**	**89,018**	**78,976**	**-**	**-**
4	Of which defaulted	1,405,643	13,793	60	2,957	945	-	-

The Bank makes use of ratings provided by external credit assessment institutions (ECAIs) for assessment of risk. The ECAIs used by the Bank are Moody's, Fitch, S&P and Capital Intelligence. There has been no change to the ECAIs used by the Bank**.** The ratings provided by these ECAIs are used for risk weighting Investments, Due from Banks & Loan portfolios. Where both issue and issuer ratings are available, issue rating takes priority. If issue rating is unavailable or is unrated, issuer rating is used to arrive at the risk weights. The Bank follows the standard mapping provided by the Central Bank of UAE to categorise exposures to risk buckets.

	AED'000	a	b	c	d	e	f
		Exposures before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
	Asset classes	On-balance sheet amount	Off-balance sheet amount	On-balance sheet amount	Off-balance sheet amount	RWA	RWA density
1	Sovereigns and their central banks	8,498,364	71,311	8,498,364	70,681	1,719,865	20.1%
2	Public Sector Entities	5,279,727	1,906,076	5,279,727	950,381	5,102,276	81.9%
3	Multilateral development banks	870,963	-	870,963	-	488,186	56.1%
4	Banks	15,250,115	1,329,476	15,250,115	937,385	11,859,289	73.3%
5	Securities firms	-	-	-	-	-	NA
6	Corporates	6,926,302	5,926,789	6,941,074	1,645,022	8,134,908	94.7%
7	Regulatory retail portfolios	16,381,172	4,589,451	16,368,724	257,024	12,266,178	73.8%
8	Secured by residential property	7,172,489	-	7,172,489	-	2,659,506	37.1%
9	Secured by commercial real estate	2,946,786	-	2,945,498	-	2,919,190	99.1%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	NA
11	Past-due loans	433,554	479	432,609	479	448,207	103.5%
12	Higher-risk categories	-	-	-	-	-	NA
13	Other assets	3,441,649	26,845	3,441,649	26,845	2,240,167	64.6%
14	**Total**	**67,201,121**	**13,850,426**	**67,201,212**	**3,887,817**	**47,837,773**	**67.3%**

Movements arise on account of the changing mix of Bank's exposures in sovereigns, banks, corporates and retail clients as well as other components of Balance Sheet.

	AED'000	a	b	c	d	e	f	g	h	i
	Risk Weight / Asset Class	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	6,656,760	111,478	-	261,546	-	1,484,190	55,071	-	8,569,045
2	Public Sector Entities	43,868	1,345,408	-	15,275	-	439,424	-	4,386,134	6,230,108
3	Multilateral development banks	-	91,825	-	618,634	-	160,504	-	-	870,963
4	Banks	275,334	2,296,979	-	3,971,204	-	9,147,165	19,333	477,484	16,187,500
5	Securities firms	-	-	-	-	-	-	-	-	-
6	Corporates	71,408	28,489	-	249,266	-	3,136,958	332,789	4,767,185	8,586,096
7	Regulatory retail portfolios	1,052,103	-	-	-	13,229,869	2,343,776	-	-	16,625,749
8	Secured by residential property	37,180	-	6,861,556	-	63,168	210,585	-	-	7,172,489
9	Secured by commercial real estate	26,309	-	-	-	-	2,919,190	-	-	2,945,498
10	Equity Investment in Funds (EIF)	-	-	-	-	-	-	-	-	-
11	Past-due loans	-	-	-	-	-	402,847	30,240	-	433,087
12	Higher-risk categories	-	-	-	-	-	-	-	-	-
13	Other assets	1,442,574	25,445	-	-	-	1,832,982	16,635	150,858	3,468,494
14	**Total**	**9,605,536**	**3,899,624**	**6,861,556**	**5,115,924**	**13,293,037**	**22,077,622**	**454,068**	**9,781,661**	**71,089,028**

Movements arise on account of the changing mix of Bank's exposures in sovereigns, banks, corporates and retail clients as well as other components of Balance Sheet.

8. Counterparty credit risk

The Bank has a Derivatives and Structured Products Credit Limits Utilisation Process document which considers Potential Future Exposure (PFE) model taking into account the historical volatilities for exposures in various asset classes like (Forex, Interest Rates and Commodities). This model is used for setting up credit limits and monitoring credit exposures.

Further, Market Risk & Treasury Middle Office Unit (MRMO) within the Bank also computes the Standardised Approach for Counterparty Credit Risk (SA-CCR) and Standardised Approach for Credit Value Adjustment (CVA) capital charge in line with CBUAE Guidelines. The Bank reports the capital charge to CBUAE on a quarterly basis in the suggested CBUAE template.

The Bank has also developed an Internal Methodology for CVA Capital Charge. Based on this model, the Bank computes and provides for the CVA using Internal PFE's and IFRS PDs. Loss given Default (LGD) benefit not considered, given that the Exposures are net of Collaterals, hence LGD taken @ 100%.

Bank has signed the ISDA and CSA with interbank and corporate counterparties. MRMO independently performs the collateral management on a day to day basis for both banks and corporate borrowers. For certain corporate borrowers with no ISDA/CSA being signed, then the Bank executes derivatives only on receipt of upfront cash margin and monitors the exposures as against this margin. There is a defined threshold for margin call with these counterparties.

The Bank always follows a process of collecting Cash collateral as a credit risk mitigant against the exposure undertaken with all counterparties.

At present in the ISDA's and (or) CSA's that the Bank has signed with the interbank counterparties there is no explicit clause on the specific collateral to be posted in case of an event like Credit rating downgrade.

	AED'000	a Replacement cost	b Potential future exposure	c EEPE	d Alpha used for computing regulatory EAD	e EAD post-CRM	f RWA
1	SA-CCR (for derivatives)	152,644	343,029		1.4	693,942	255,013
2	Internal Model Method (for derivatives and SFTs)			-	-	-	-
3	Simple Approach for credit risk mitigation (for SFTs)					-	-
4	Comprehensive Approach for credit risk mitigation (for SFTs)					-	-
5	VaR for SFTs					-	-
6	**Total**						**255,013**

	AED'000	a EAD post-CRM	b RWA
1	All portfolios subject to the Standardised CVA capital charge	536,019	257,784
2	All portfolios subject to the Simple alternative CVA capital charge	-	-

AED'000	a	b	c	d	e	f	g	h
Regulatory Portfolio / Risk Weight	0%	20%	50%	75%	100%	150%	Others	Total credit exposures
Sovereigns	67,913	-	-	-	-	-	-	67,913
Public Sector Entities (PSEs)	-	-	-	-	-	-	9,123	9,123
Multilateral development banks (MDBs)	-	-	-	-	-	-	-	-
Banks	-	135,495	232,334	-	13,022	11,518	-	392,369
Securities firms	-	-	-	-	-	-	-	-
Corporates	-	-	-	-	-	-	224,537	224,537
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	**67,913**	**135,495**	**232,334**	**-**	**13,022**	**11,518**	**233,660**	**693,942**

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	-	201,349	-	161,381	-	62,393
Domestic sovereign debt	-	-	-	-	-	-
Government agency debt	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-
Equity securities	-	-	-	-	-	-
Other collateral	-	-	-	-	-	-
Total	**-**	**201,349**	**-**	**161,381**	**-**	**62,393**

	AED’000	a EAD (post-CRM)	b RWA
1	**Exposures to QCCPs (total)**		**6,342**
2	Exposures for trades at QCCPs (excluding initial margin and default fund contribution); of which:	158,554	6,342
3	(i) OTC derivatives	-	-
4	(ii) Exchange-traded derivatives	158,554	6,342
5	(iii) Securities financing transactions	-	-
6	(iv) Netting sets where cross-product netting has been approved	-	-
7	Segregated initial margin	-	
8	Non-segregated initial margin	83,021	-
9	Pre-funded default fund contributions	-	-
10	Unfunded default fund contributions	-	-
11	**Exposures to non-QCCPs (total**		**-**
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contribution); of which:	-	-
13	(i) OTC derivatives	-	-
14	(ii) Exchange-traded derivatives	-	-
15	(iii) Securities financing transactions	-	-
16	(iv) Netting sets where cross-product netting has been approved	-	-
17	Segregated initial margin	-	
18	Non-segregated initial margin	36	-
19	Pre-funded default fund contributions	-	-
20	Unfunded default fund contributions	-	-

The Risk Weighted Assets for Counterparty Credit Risk and Credit Valuation Adjustment have dropped due to reduced notional amounts and higher collateral amounts which have led to a reduction in Exposure at Default.

The increase in collateral is due to an improvement in the mark to market valuations of foreign exchange and derivative contracts.

9. Market risk

The Bank conducts business in various asset classes to service the needs of its customer and/or to exploit market opportunities and dislocations to generate revenues appropriate to the market risks taken and within the market risk limits.

Market Risk and Treasury Middle Office (MRMO) within Risk Management is an independent unit involved in measuring, monitoring and reporting of trading activities. MRMO uses sensitivity based measures like Duration and (or) Delta – Gamma, DV01 for assessing the risk on the trading exposures of the Bank.

Further, this is supplemented with internal stress scenarios covering all the asset classes that the Bank has trading exposures in.

There is also a well-developed Risk Appetite, Management Alert Triggers (MAT's) and Stop Loss limits for monitoring the exposures against these metric for all the asset classes that the Bank has positions in. Also there are other limits like Notional limits, Stop Loss limits, Sensitivity based limits for the investment positions that the Bank carries in its book. Further, there is an overall market risk capital charge limit at the Bank level.

Bank has a Hedging Framework which encompasses Risk management objective and the strategy for hedging. Further, hedge effectiveness testing is performed on all the on and off-balance sheet hedges thereby ensuring continuous effectiveness of hedges.

The Risk Governance structure as a part of Market Risk Policy specifies the Roles and Responsibilities at Board Committee levels. The Board Risk Committee (BRC) is responsible for overview of the complete Market Risk management process within RAKBANK. The Risk Governance structure specifies the role of Management Committee with respect to supervision of Market Risk implementation within the Bank. Further it also explains the roles undertaken by the MRMO as part of the day to day implementation of the Market Risk management process within the Bank.

The MRMO is responsible for reporting the market risk exposures against the set limits for the Market risk exposures of the Bank as part of various Dash boards at both Senior Management level and at Board Committee levels (BRC & BCC) at regular intervals.

The MRMO unit is also responsible for reporting the market risk exposures in various asset classes covering Fixed Income, Equities, Funds, Derivatives, FX, etc. against the limits set up by the Board. The scope of various Management reports published by MRMO includes Collateral Management, Treasury Credit exposures, Treasury Trading PL reporting, Trading Limits monitoring covering the Notionals, Stop Loss, Dv01, Duration, etc., Investment exposure limits monitoring covering the Investment books exposures, Portfolio level limits covering different asset classes, Portfolio MTMs, Portfolio Concentrations covering Geographic and rating concentration, etc.

These Management reports are published on regular set intervals covering daily, weekly, monthly and quarterly frequencies. Further, MRMO performs Market Risk stress testing considering regulatory stress scenarios and internal scenarios.

Bank uses the Treasury system for monitoring and reporting of market risks for most of the Treasury products, while for some derivatives, the Bank uses Bloomberg/Counterparty quotes for the valuations.

		a RWA AED'000
1	General Interest rate risk (General and Specific)	750,214
2	Equity risk (General and Specific)	214,993
3	Foreign exchange risk	684,489
4	Commodity risk	-
	Options	**2**
5	Simplified approach	2
6	Delta-plus method	-
7	Scenario approach	
8	Securitisation	-
9	**Total**	**1,649,697**

Market Risk Weighted Assets have reduced primarily due to lower net open positions in certain foreign currencies which has led to lower Risk Weighted Assets on Foreign Exchange Risk. Additionally, lower exposures in interest rate investment securities and derivative contracts have led to a significant reduction in Interest Rate Risk. Finally, lower exposures in trading equities has led to the reduction in Equity Risk.

10. Interest rate risk in the banking book

IRRBB refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This in turn changes the underlying value of a bank's assets, liabilities and off-balance sheet items and hence its economic value. Changes in interest rates also affect a bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII). Excessive IRRBB can pose a significant threat to a bank's current capital base and/or future earnings if not managed appropriately.

The Bank measures and monitors structural IRRBB for both net interest income (changes impacting profit & loss statement) economic value of equity (market value changes impacting capital) periodically through;

- Earning based measures (changes in expected earnings - ΔNII)
- Equity based measures (changes in economic value of equity – ΔEVE)

The Bank has in place a set of Risk Appetite and Management Actions Triggers based on above IRRBB measures and the deviation from the thresholds are presented to Board and Senior Management. The Bank follows a comprehensive strategy for management and mitigation of Interest Rate risk. The Assets & Liabilities Committee reviews the interest rate risk of the balance sheet and the underlying assumptions of IRRBB stress test to understand the interest rate sensitivity of the book.

- Stress Testing: Bank conducts stress test on complete book periodically, with results presented and discussed at highest level of management and board. As part of stress test bank considers interest rate risk through various interest rate shocks as prescribed under Basel guidelines on IRRBB and calculate the impact of these shocks on Bank's NII and EVE.
- Outcome Analysis: As outcome of stress test, impact of decrease in NII on capital adequacy ratio (CAR) is calculated and it is assessed that resulting CAR is within bank and regulatory threshold. Also, impact on EVE is compared against Bank's equity and any breaches in thresholds as defined in Management Alerts and Risk Appetite are escalated to management.

- Independent Audit: Results of IRRBB and Stress test under ICAAP and Annual Stress test are audited by internal audit team as an independent team. Internal audit submit their report with observations and points raised by Audit are closed in the same cycle or taken for closure in next cycle of the activity.
- Model Validation: NII models are independently validated by external as part of Annual Stress Test Exercise.

Bank measures the impact of Increase/ decrease in interest rates (100 bps & 200 bps) on its Net interest Income and impact of multiple interest rate scenario as prescribed in BCBS (parallel up and down, short rate up and down, steepener & flattener) on its Economic Value of Equity on monthly basis.

For EVE calculation, the assumptions of Core and Volatile portion of Non Maturity Deposits are based on the results of historical behavior analysis of NMD and aligned with the BCBS 368 floors and caps across business segments.

The commercial margins are implicitly embedded in the computation. The discount rates utilised are lifted from Bloomberg market data per currency & tenor wise. The average repricing maturity of non-maturity deposits has been determined based on behavioral analysis, using internal assessment of Bank's historical data and the caps applied are in line with the Basel's guidelines. Given the pre-payment penalty structure of the bank, very minimal pre-payment is assumed and accordingly No pre-payment rate on customer loans and term deposits are applied. Other assumptions made are aligned with the most CB UAE Stress Testing Guidance for Participating Banks w.r.t. Pre-Impairment Profit section (on ΔNII).

The Bank has a well-defined Hedging framework which elucidates what kind of risks on Balance Sheet will be hedged and what are the hedging instruments permitted. Further, it highlights the process followed for hedge effectiveness. For interest rate risks, strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions. The Group has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk on certain fixed rate Investments and Loans.

Given low exposures in currencies other than USD, currency impact is not considered in IRRBB.

	Years
Average repricing maturity assigned to NMDs	1.5
Longest repricing maturity assigned to NMDs	2.5

AED'000	ΔEVE		ΔNII	
Period	**31 Dec 2022**	**31 Dec 2021**	**31 Dec 2022**	**31 Dec 2021**
Parallel up	(476,659)	(571,718)	(224,287)	(235,830)
Parallel down	626,185	607,271	177,113	52,819
Steepener	(386,164)	(277,395)		
Flattener	293,544	387,142		
Short rate up	34,503	(106,589)		
Short rate down	(40,170)	112,690		
Maximum	**(476,659)**	**(571,718)**		
Period	**31 Dec 2022**		**31 Dec 2021**	
Tier 1 capital	**8,165,746**		**7,889,153**	

11. Operational risk

Policy, Framework and Guidelines for the management of Operational risks

Operational Risk is defined as the risk of direct or indirect loss arising from inadequate or failed internal processes, people and systems or from external events.

In RAKBANK, a Board approved Operational Risk Management Policy is in place and the policy is subject to annual renewal. The objective of the policy is to establish an effective "Operational Risk Management framework" within the Bank in line with the regulatory requirement of Central Bank of the UAE, Guidelines issued by Basel Committee on Banking Supervision and leading industry practices. The objective of the Operational Risk Management framework is to identify, assess, monitor and mitigate current and future Operational risks through a robust and effective control environment across the organisation. The Operational Risk Management framework has two distinct components viz. "Qualitative Standards" and "Quantitative Standards", both of which are essential for effective management of Operational risk.

<u>Qualitative Standards</u>:

- Product and Process Approval: RAKBANK has defined a process for authorising new products and product variants through the Product Management Guideline document. The Bank also has a change management process which is implemented through developing, updating and circulating Operating Procedures.
- Risk & Control Self-Assessment (RCSA) Process: The Policy mandates use of a comprehensive RCSA program for early detection and assessment of Operational risks that have not been effectively managed and the development of focused action plans that safeguard the Bank against these risks.
- Key Risk Indicators (KRI): The objective of KRI is to set and monitor agreed indicators which alert how well the Bank is managing potential Operational risks.

<u>Quantitative Standards</u>:

- Internal Loss Management Process: RAKBANK collects, analyses and reports Operational risk events, basis the guidelines issued on this subject.
- Capital Computation Process: RAKBANK uses the "Alternative Standardised Approach" for computation of Operational risk capital. This approach starts with the categorisation of the Banks's activities into one of eight business lines as prescribed in Capital Adequacy Standards. The 3 year average of historical data of Balance Sheet (for Commercial Banking & Retail Banking business lines) and Profit & Loss Statement (for other business lines) is multiplied with applicable Beta and M factors as prescribed in Capital Adequacy Standards to arrive at the capital charge for Operational Risk.

Structure and organisation of Operational risk management and control function

The Operational Risk Management function is managed by Executive Vice President and Head of Operational Risk, Internal Controls and BCM reporting to the Chief Risk Officer. Bank has a formal Operational Risk Management (ORM) governance structure established under the aegis of Management Risk Committee and Board Risk Committee, which provides the strategic direction and oversight over ORM activities.

The Risk Governance structure is designed to include three lines of defense signifying a clear division of responsibilities between the risk owners (Business, Operations and Support units), the control functions (Risk Management) and independent assurance by the Internal Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The governance structure is described below:

- First Line of Defense: Business, Operations & Support units are responsible for ensuring that a risk controlled environment is established as part of their day to day operations.
- Second Line of Defense: Risk Management functions set the risk appetite by drafting detailed policies, procedures and implementing the same. They are also responsible for reporting of breaches and provide guidance and direction to the first line of business on specific risk related scenarios.
- Third Line of Defense: Internal Audit primarily provides independent assurance to the Board of Directors and improve the effectiveness of risk management controls and governance processes.

The policy envisages clear responsibilities across all three lines of defence for implementation of each element of the Operational risk framework and the roles of all the key stakeholders form part of the Guidelines on Operational Risk Management.

Operational risk measurement system

The Bank uses Alternative Standardised Approach (ASA) for computation of Operational Risk Capital, in line with regulatory expectations and Basel Standards. The Bank has a robust process and system of collecting and analysing "OR Loss events" and monitoring the same against "Gross Annual revenue" as a measure of Risk tolerance and reporting the same to the Senior Management and the Board on a periodic basis.

Scope and main context of the reporting framework on Operational risk to senior management and to the Board

RAKBANK has a formal Operational risk reporting process and the following details / indicators are reported to Executive Management viz. Management Risk Committee (MRC) and to the Board viz. Board Risk Committee (BRC):

- A brief commentary on key Operational risk events along with the preventive and corrective steps initiated or proposed to be initiated by Business / Support units.
- Operational losses as a percentage of Gross Annual revenue.
- Details of KRI's in "RED" zone and a commentary on critical KRIs in "RED" zone.

Risk mitigation and Risk transfer used in the management of Operational risk

The Bank has a robust Operational risk mitigation process. Each Operational Risk event is reported and analysed by relevant stakeholders and Operational Risk Unit and root cause is assessed for High Risk events. As a preventive measure, the Bank has implemented bank-wide Operating Procedures, hierarchical "Delegation of authority" across departments, Policies and procedures across key areas viz. AML, Record retention, Outsourcing, Fraud investigation, Information Security and Business continuity.

The Bank invests in risk insurance based on the requirement viz. insurance for physical assets, fidelity etc. The protection from such insurance is recognised as a complementary measure, and not as an alternative to internal operational risk controls, documented procedures and risk mitigation measures.

12. Remuneration policy

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

1. H.E. Mohamed Omran Alshamsi (Chairman) - H.E. Mohamed Omran Alshamsi has 35 years of experience with Etisalat, retiring as the Chief Executive Officer and Chairman in 2012. He is currently Chairman of the Board of Trustees for the American University in Ras Al Khaimah, and Chairman of the Board of Trustees of RAK Medical and Health Science University.

2. Mr. Ahmed Essa Al Naeem - Mr. Ahmed Essa Al Naeem has over 39 years of experience with the Ras Al Khaimah government. He is the former Chairman of Ras Al Khaimah's Electricity and Water Authority, General Manager of RAK National Oil Company and RAK Gas. He is also a former member of the Ras Al Khaimah Municipal Council and the Ras Al Khaimah Chamber of Commerce and Industry and Agriculture and has held additional posts in a number of ministries. Mr. Al Naeem is currently Chairman of RAK Trade Centre, Al Naeem Mall, Al Naeem City Centre, and Khalifa Mall. Additionally, he is Vice Chairman of RAK Insurance and Director of Majan Printing.

3. Stephen Monaghan - Mr. Stephen Monaghan is presently General Partner at FinMirai, a Digital Strategy and Investment firm. Stephen has extensive knowledge and experience in the fields of FinTech, Digital Transformation, Digital Strategy and Technology, and Financial Services. He has also served on the advisory

boards of HK Agency Science and Technology Research Institute, Intel, Veritas Genetics and as an Investment Committee member of True Global Ventures.

The Bank seeks external advice from two global HR consulting firms - Korn Ferry Hay Group and Aon-McLagan on several compensation-related matters such as grading and salary structure (including benchmarking), standard organisation design framework (including job evaluation), industry-practices for variable pay (including long/short term incentive plans for retention).

The Bank's remuneration policy is equally applicable to all Employees of the Bank including the CEO, Senior Management and staff from all business functions.

Material Risk Takers are those categories of Employees that have or may have a material impact on the Bank's risk profile. The classification of Material Risk Takers is based on several criteria such as the job role, reporting hierarchy, the decision making process, approving authority on matters that may have a material impact on the Bank's risk profile and the responsibilities within the organisation.
In RAKBANK, following roles are considered as material risk takers;

- CEO and Senior Management (reporting directly to the CEO) such as Managing Directors of Retail Banking, Business Banking, Wholesale Banking/Treasury, Chief Human Resources Officer, Chief Financial Officer, Chief Credit Officer, Chief Operating Officer, Chief Customer Officer, General Counsel and Heads of control functions such as Chief Compliance Officer, Chief Risk Officer, Chief Audit Officer.
- Heads of Wholesale Banking & Business Banking Credits, Head of ERM, Market Risk & Middle Office, Head of Trading & ALM and Head of Retail Credit Risk as these roles have authority as individuals or as Committee to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels.
- Deputy CRO as this role had key functional responsibilities within Risk Management division.

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

- To align with the Bank strategy, risk appetite, objectives, corporate values and long-term interests of the Bank while operating under clear and transparent governance through efficient corporate governance structure.
- To ensure Total Rewards remain competitive within the market by adopting best practices in the UAE, Middle East and across the globe in Banking and other sectors while relating the pay to the job and recognise differences in skill levels and job value.
- To link Total Rewards to individual performance, i.e. 'pay for performance' and to strike a right balance between fixed and variable pay reflecting short and long-term performance objectives appropriate to the goals of the company.
- To uphold the principles of equity, comply with all legal and regulatory requirements and maintain high standards of corporate governance.

BNRC reviewed the firm's remuneration policy this year. A summary of changes is enumerated below;

1. Promotion & Increment Policy – With the Bank following a bell-curve performance distribution, the performance criteria to be eligible for promotion/increment has been amended to ensure fairness in the process
2. Grade and title structure – A grading structure in accordance with the Korn Ferry Hay Group reference levels & new title structure (for hay levels 16 & above) have been introduced in the policy to ensure parity with the market.
3. Annual Performance Bonus – Criteria for performance ratings-based exclusions for annual bonus has been amended in the policy to align with Korn Ferry Hay Group recommendations

Fixed salary structure - Total fixed compensation structure proposed by Korn Ferry Hay Group & subsequently approved by the BNRC has been included in the policy to align the compensation with market standards

As a general practice, the Bank maintains a higher proportion of fixed compensation to variable compensation especially in all non-sales roles. The variable remuneration of control functions will be designed and monitored solely based on function-specific objectives that are independent of the financial performance of the business areas they monitor.

Based on the current market practice and CBUAE mandates, following measures related to variable pay of control functions are proposed and subsequently approved by the BNRC;

- For staff in control functions, fixed pay to be maintained at 70% of overall compensation or higher. If the fixed pay is lower than 70% of the total compensation, a re-alignment of fixed vs. variable pay would be done by adding a proportion from the variable pay to the fixed pay (as functional allowance) to ensure that the pay mix remains at least at 70:30 ratio.

To ensure independent and objective assessment & monitoring by the control functions, it is proposed to remove all 'income/balance sheet growth-related targets' and only the 'OPEX/CAPEX targets' for their respective business units to be retained as financial KPIs in the balanced score card of staff within these functions.

As outlined in the remuneration policy, the remuneration arrangements have been designed in a manner that is consistent with and promote sound and effective risk management.

For Senior Management and Material Risk Takers:

- a proportion of compensation to be variable and paid on the basis of individual, business-unit and Bank-wide measures that adequately measure performance
- Variable pay for Senior Management & Material Risk Takers do not exceed 100% of fixed pay. The cap may be increased to 150% & 200% with approval from the Board & General Assembly respectively
- 30% & 20% of variable compensation will be deferred for Senior Management and Material Risk Takers respectively over a period of 3 years with equal vesting each year (this deferment will be reflected in the quantitative disclosures from the year 2023 onwards).
- Deferred variable compensation will be paid in cash

Malus & claw back provisions are in place in the event of certain types of exits (bad leavers) or in the event of negative contributions to the Bank.

The Bank has a robust performance management process and systems in place by which Employees can understand what is expected of them in their roles and how their performance relates to the success of the unit and the organisation.

The performance metrics for the Bank, top-level business lines and individuals are broken down into five distinct perspectives;

a) **Financial** metrics that focus on key financial targets under one's control or influence and generally include total income, return on assets, net profit, cash flow from operations etc.
b) **Business** metrics that focus on contribution to overall growth of the business through sales such as sales revenue, gross loans and advances, volume of accounts etc.
c) **Customer** metrics that focus on activities that deliver a high quality service to both internal and external customers such as customer satisfaction rate, customer retention rate, new customer acquisition, market share, net promoter score, turnover time on customer complaints, average handling time of customer complaints etc.
d) **Risk** metrics that focus on adherence to both internal and external procedure and regulations in order to mitigate operational, financial and reputational risks.
e) **People** metrics that focus on Employee lifecycle, performance and productivity such as employee engagement index, actual vs. budgeted manpower cost, absenteeism rate, turnover rate etc.

The total compensation offered to Employees includes both fixed and variable compensation. The fixed compensation is a non-discretionary payment made to Employee based on their job role and responsibilities and is independent of the Bank's performance.

The variable compensation is a discretionary payment made to Employees based on individual and bank-wide performance. While all front-line/sales Employees receive sales incentives/commission which is directly proportional to the sales/target achieved by the staff, all non-sales staff receive variable compensation in the form of Performance Bonus which is linked to the Bank's overall profit/performance and the individual performance for the annual cycle under consideration.

The short-term variable pay schemes such as sales commission and annual performance-linked bonuses ensure that the variable compensation is adjusted in the event of below average performance of Employees.

The Bank's Performance Management System ensures there is a transparent and objective link between performance and rewards. At the end of each performance cycle, all Employees are rated against a five point rating scale based on the KPIs achieved by the employee. Employees who are rated 'Not met expectation' for the performance year under consideration are not eligible to receive bonus.

For the sales staff, both quantitative and qualitative measures are in place basis which their performance is assessed. While quantitative measures include threshold target achievement and several sales parameters such as delinquency, activation/cancellation of cards/accounts, qualitative measures are in the form of non-sales parameters such as disciplinary action, complaints/errors, KYC completion etc. Besides, there is a monthly review to identify low performers apart from reviewing the existing targets.

At the Bank level, since the annual performance bonus is a function of net profit, a direct correlation exists between the overall Bank performance and annual bonus/variable pay.

While 30% of the annual performance bonus will be deferred for Senior Management, 20% of the annual bonus will be deferred for other Material Risk Takers. The deferment will be for a period of 3 years on pro-rated basis. The percentage of variable pay that is deferred is higher for Senior Management due to the level of seniority and higher pay (compared to other employee groups).

Malus/Claw back provisions are in place for the deferral bonus arrangements.

- Natural leavers (defined as any leavers not defined under good leavers e.g. resignations, terminations due to performance/disciplinary purposes, etc.) are not entitled for payment of any un-vested bonus amount
- Good leavers (defined as a leavers due to death, injury/illness, redundancy, retirement, resigned & not leaving to a competitive firm) will be entitled for payment of un-vested bonus amount
- The Bank has the right, upon Board's approval, to forfeit or cancel any deferred bonus payments or claim back the bonus payments if the Bank determines that the employee:
    - received an award based on materially inaccurate reported performance results
    - knowingly engaged in providing materially inaccurate information
    - materially violated any conditions established or revised by the Bank
    - engaged in gross misconduct, or any other solidly justified reason

Currently, the Bank offers variable remuneration to staff only in the form of cash.

	Amounts in AED'000 Remuneration Amount		a Senior Management	b Other Material Risk-takers
1	Fixed Remuneration	Number of employees	17	6
2		**Total fixed remuneration**	**23,237**	**6,306**
3		Of which: cash-based	23,237	6,306
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	13	6
10		**Total variable remuneration**	**11,026**	**1,638**
11		Of which: cash-based	11,026	1,638
12		Of which: deferred	-	-
13		Of which: shares or other share-linked instruments	-	-
14		Of which: deferred	-	-
15		Of which: other forms	-	-
16		Of which: deferred	-	-
17	**Total Remuneration**		**34,263**	**7,944**

Amounts in AED'000 Special Payment	Guaranteed Bonus Number of employees	Guaranteed Bonus Total amount	Sign on Awards Number of employees	Sign on Awards Total amount	Severence Payments Number of employees	Severence Payments Total amount
Senior Management	-	-	3	1,549	2	1,382
Other material risk-takers	-	-	-	-	-	-