Basel III - Pillar 3 Disclosures

31 December 2024

National Bank of Umm Al Qaiwain

Contents

1. General Information:

National Bank of Umm Al-Qaiwain (PSC) (the "Bank") is a Public Shareholding Company (ADX listed) incorporated in the Emirate of Umm Al-Qaiwain ("UAQ") in the United Arab Emirates ("U.A.E.") by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The Group comprises National Bank of Umm Al-Qaiwain (PSC), UAQ and its subsidiary Twin Towns Marketing Management LLC (100% ownership), Dubai. The Bank is engaged in providing products and services to customers in Retail, Corporate, Small and Medium Enterprise, Treasury and Trade finance in both conventional and Islamic banking. The Group carries out Islamic banking operations through an Islamic banking window established in 2005 across all networks. During the year 2022, the Bank has decided to run down of Islamic window and to continue with the existing Islamic portfolio only. As per the run-down plan approved by the Internal Shari'ah Supervision Committee, this is expected to be completed by year 2025.

2. Executive Summary:

The Central Bank of the UAE published notice number CBUAE/BSD/N/2021/5508 on 30 November 2021 regarding Pillar 3 disclosures. These disclosures have been prepared in accordance with these guidelines.

2.1. Purpose

The purpose of this report is to enable market participants to access key information relating to Bank's regulatory capital and risk exposures to increase transparency and confidence about Bank's exposure to risk and the overall adequacy of its regulatory capital.

2.2. Overview of Basel III Requirements

The Bank complies with Basel 3 standards and guidelines, which have been implemented in the UAE through notice reference CBUAE/BSD/N/2022/5280 dated 30 December 2022.

Pillar 1, Bank has adopted the Standardized Approach for Credit Risk, the Standardized Approach for Market Risk and the Basic Indicator Approach for determining the capital requirements for Operational Risk.

Pillar 2 covers additional risk areas such as concentration risk, FIRB vs standardized approach risk, IRRBB risk, Liquidity risk, residual risk, IT/outsourcing/fraud risk, business & strategic risk, reputational/legal/compliance risk, model risk, Market & Operational risk (additional Pillar 2), conduct risk, climate risk & credit stress testing. The risk and capital assessment of these other areas are commonly referred to as "Internal Capital Adequacy Assessment Process (ICAAP)". Under the ICAAP report, the Bank assesses the above-mentioned risks (where applicable) and measures that after combining pillar 1 and pillar 2 risk the Bank can withstand the regulatory and internal capital requirements. The Bank submits the ICAAP report to CBUAE on an annual basis.

Pillar 3 focuses on Market Discipline and complements the minimum capital requirements (Pillar I) and the supervisory review process (Pillar II). The CBUAE supports enhanced market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on the scope of application, capital, risk exposure, risk assessment process and hence capital adequacy. This report has been prepared in line with the same objective.

2.3. Capital Management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined based on loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and the Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios to support its business and to maximize shareholders' value. During the year the

Bank complied fully with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 10.5% (excl. buffers).

Capital Structure: The table below shows capital structure of the Bank

AED 000	**2024**	**2023**
Tier 1 Capital		
Share Capital	2,000,000	2,000,000
Statutory Reserve	1,019,266	1,019,266
General Reserve	6,440	81,237
Fair value reserves on investment securities at FVTOCI	231,825	174,714
Retained Earnings	2,003,576	1,852,184
Other deductions	**445,289**	**320,467**
Total Tier1	**4,815,819**	**4,806,934**
Tier 2 Capital		
General reserves on loans and advances	153,988	129,892
Total Tier 2 Capital	153,988	129,892
Total Regulatory Capital	**4,969,807**	**4,936,826**
Risk Weighted Assets		
Credit risk-weighted assets	12,319,065	10,391,368
Market risk-weighted assets	51,606	84,345
Operations risk-weighted assets	1,346,186	1,069,783
Total risk-weighted assets	**13,716,857**	**11,545,495**
Total capital adequacy ratio	36.23%	42.76%
Common equity Tier 1 capital ratio	35.11%	41.63%
Tier 1 capital ratio	35.11%	41.63%

As it is evident from the above table that the Bank continues to maintain one of the highest capital adequacy ratios in the UAE banking industry, which stands at 36.23%, which is far higher than the 10.5% i.e the minimum prescribed levels stipulated by Central Bank of the UAE. This demonstrates the financial strength of the Bank and its capacity to expand its lending and investment capability when needed.

2.4. Capital Stress Testing

The Bank conducts annually stress-testing exercises as mandated by CBUAE. The objective of the stress test exercise is to provide a forward-looking capital adequacy assessment of the Bank with a common analytical framework and consistent scenarios as provided by CBUAE.

The Bank presented stress test results to CBUAE and showed that even in adverse stress scenarios the Bank's capital adequacy ratio was way above the minimum 10.5% threshold as prescribed by CBUAE. **The Bank passed the CBUAE stress test satisfactorily.**

In addition to the above, the Bank performs internal stress testing exercise monthly for its liquidity & interest rate risk position, the same is discussed in ALCO.

3. Overview of risk management and RWA

3.1. Template KM1: Key metrics (at consolidated group level)

	In AED'000	a T 31-Dec-24	b T-1 30-Sep-24	c T-2 30-Jun-24	d T-3 31-Mar-24	e T-4 31-Dec-23
	Available capital (amounts)					
1	Common Equity Tier 1 (CET1)	4,815,819	5,122,376	5,043,184	5,000,734	4,806,934
1a	Fully loaded ECL accounting model	4,815,819	5,122,376	5,043,184	5,000,734	4,806,934
2	Tier 1	4,815,819	5,122,376	5,043,184	5,000,734	4,806,934
2a	Fully loaded ECL accounting model Tier 1	4,815,819	5,122,376	5,043,184	5,000,734	4,806,934
3	Total capital	4,969,807	5,264,796	5,179,859	5,133,542	4,936,826
3a	Fully loaded ECL accounting model total capital	4,969,807	5,264,796	5,179,859	5,133,542	4,936,826
	Risk-weighted assets (amounts)					
4	Total risk-weighted assets (RWA)	13,716,857	12,507,417	12,045,498	11,738,403	11,545,495
	Risk-based capital ratios as a percentage of RWA					
5	Common Equity Tier 1 ratio (%)	35.11%	40.95%	41.87%	42.60%	41.63%
5a	Fully loaded ECL accounting model CET1 (%)	35.11%	40.95%	41.87%	42.60%	41.63%
6	Tier 1 ratio (%)	35.11%	40.95%	41.87%	42.60%	41.63%
6a	Fully loaded ECL accounting model Tier 1 ratio (%)	35.11%	40.95%	41.87%	42.60%	41.63%
7	Total capital ratio (%)	36.23%	42.09%	43.00%	43.73%	42.76%
7a	Fully loaded ECL accounting model total capital ratio (%)	36.23%	42.09%	43.00%	43.73%	42.76%
	Additional CET1 buffer requirements as a percentage of RWA					
8	Capital conservation buffer requirement (2.5% from 2019) (%)	2.50%	2.50%	2.50%	2.50%	2.50%
9	Countercyclical buffer requirement (%)	0.00%	0.00%	0.00%	0.00%	0.00%
10	Bank D-SIB additional requirements (%)	0.00%	0.00%	0.00%	0.00%	0.00%
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9+ row 10)	2.50%	2.50%	2.50%	2.50%	2.50%
12	CET1 available after meeting the bank's minimum capital requirements (%)	24.61%	30.45%	31.37%	32.10%	31.13%

	In AED'000	a	b	c	d	e
		T **31-Dec-24**	**T-1** **30-Sep-24**	**T-2** **30-Jun-24**	**T-** **3** **31-Mar-24**	**T-4** **31-Dec-23**
	Leverage Ratio					
13	Leverage ratio exposure measure	19,315,771	18,355,618	17,402,303	16,713,676	16,637,344
14	Leverage ratio (%) (row 2/row 13)	24.93%	27.91%	28.98%	29.92%	28.89%
14a	Fully loaded ECL accounting model leverage ratio (%) (row 2A/row 13)	24.93%	27.91%	28.98%	29.92%	28.89%
14b	Leverage ratio (%) (excluding the impact of any applicable temporary exemption of central bank reserves)	24.93%	27.91%	28.98%	29.92%	28.89%
	Liquidity Coverage Ratio					
15	Total HQLA	NA	NA	NA	NA	NA
16	Total net cash outflow	NA	NA	NA	NA	NA
17	LCR ratio (%)	NA	NA	NA	NA	NA
	Net Stable Funding Ratio					
18	Total available stable funding	NA	NA	NA	NA	NA
19	Total required stable funding	NA	NA	NA	NA	NA
20	NSFR ratio (%)	NA	NA	NA	NA	NA
	ELAR					
21	Total HQLA	3,036,134	3,479,550	3,274,076	2,951,743	2,261,716
22	Total liabilities	10,555,919	10,525,234	10,304,529	9,175,339	9,106,295
23	**Eligible Liquid Assets Ratio (ELAR) (%)**	**28.76%**	**33.06%**	**31.77%**	**32.17%**	**24.84%**
	ASRR					
24	Total available stable funding	16,132,005	14,966,621	13,948,893	12,294,750	12,307,161
25	Total Advances	9,986,656	9,908,111	9,929,942	7,847,539	7,740,835
26	**Advances to Stable Resources Ratio (%)**	**61.91%**	**66.20%**	**71.19%**	**63.83%**	**62.90%**

CAR ratio declined by 6.53% in Q4’24 vs Q4’23 due to increase the size of the lending book. However, CAR ratio declined by 5.86% in Q4’24 vs Q3’24 due to increase the size of lending book and capital reduction due to dividend announcement of AED 360 million.

Note: LCR & NSFR as NA as these applies to D-SIB.

3.2. Table OVA: Bank Risk Management Approach

3.2.1. Business Model Determination and Risk Profile:

The Bank provides a wide range of integrated banking products and services to Retail, SME, Corporate and other sectors through its branch network across the United Arab Emirates and via its digital platform.

A bank is exposed to a standard range of risk in the normal course of its business. The Bank has Board approved policies and procedures designed to identify and quantify these risks, set appropriate limits in line with defined risk appetite, ensuring control and monitoring adherence to the limits.

3.2.2. Risk Governance Framework:

The board is in ultimate control of the Bank and responsible to put comprehensive risk management framework in place. The framework will consist of **(a)** Strategic and Operational decision making **(b)** risk appetite statement **(c)** roles and responsibilities of different parts of the Bank involved in managing the risk **(d)** policies and procedures to manage risk and **(e)** contingency arrangements.

I. In all the banking activities the Bank address the following risk areas:
   a. Credit Risk
   b. Market Risk
   c. Liquidity Risk
   d. Operational Risk
   e. Risk arising from its strategic objectives, business plans and digitization plans
   f. Other risk that singly or in combination with different risks may have a material impact on the Bank

II. The Board ensures the implementation of effective risk governance and internal controls across the Bank and its subsidiaries. The Board approves Risk Governance framework, which must incorporate **"three lines of defense"** approach including business lines, control functions of risk management and compliance and an independent and effective internal audit function.

III. The board will facilitate appropriate resources for risk management, compliance and internal functions. This includes unrestrained access to all kinds of information needed for risk management, compliance and internal audit functions to fulfill their tasks.

IV. Senior Management must implement policies, procedures, systems and controls for managing the risk to which the Bank has exposure and for complying with laws and CBUAE regulations.

V. Senior Management must provide the Board with the information it needs to carry out its responsibilities, including the supervision of Senior Management and assessment of the quality of Senior Management performance.

VI. The Risk Committee develops and maintains the framework, which enables Management to effectively identify, measure, monitor and control risk exposures consistent with the Board of Directors approved risk appetite. CRO Reports to the Risk committee on the Bank's overall risk profile, including aggregate and emerging risks.

3.2.3. Strategic and Operational Decisions:

Board puts in place various committees and Charters, Articles of Association as per company law for the Bank. These committees discharge their duties based on the respective charters. Various committees functioning as follows:

A. Board Committees

1. Audit Committee:

Audit committee is a Board Committee and assists the Board to take oversight of the audit function and this committee will function based on a charter approved by the Board.

2. **<u>Risk Committee:</u>**

The risk committee is a Board Committee and assists the Board to take oversight of the risk management function. The risk committee will function based on a charter approved by the Board.

3. **<u>Executive Committee:</u>**

Executive Committee handles all the strategic and operational matters on a regular basis and approves credit facilities for wholesale and retail, based on the approved limits set against this committee based on a charter approved by the Board. This committee meets regularly based on the business needs of the Bank.

4. **<u>Nominations and Remunerations Committee:</u>**

Bank has a Nominations and Remunerations Committee to handle all the functions related to Board Nominations, their remuneration and fixing remunerations of Senior Management staff and other HR related strategic decisions. It is a Board Committee.

B. Management Committees

CEO is empowered to set up any other management committees, which he feels appropriate to promote various business functions.

1. **<u>Assets and Liabilities Committee (ALCO):</u>**

ALCO is a management committee responsible for ascertaining the liquidity position, monitoring and managing assets and liabilities and regulatory compliance. This committee meets every month to finalize the related matters.

2. **<u>Management Credit Committee:</u>**

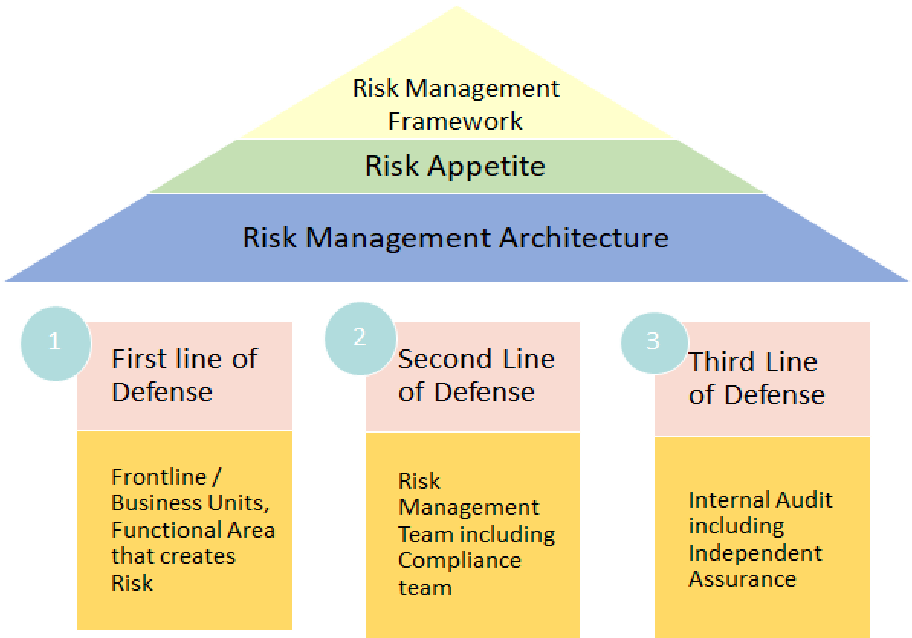
Management Credit Committee approves credit matters, which fall under its delegation and recommend on credit matters that are not in its delegation to appropriate committee.

3. **<u>Retail Credit Committee:</u>**

Retail Credit Committee is in place to assess and approve the retail loans. This committee meets regularly based on the business needs of the Bank.

3.2.4. ***Risk Management Structure:***
Risk management structure contains risk framework, risk appetite, risk management architecture and three lines of defense which inculcate overall risk profile of the Bank as defined below:

Figure 1: Risk Management Structure



3.2.5. ***Risk Management Framework***
a) Risk management is the architecture within which risk management operates in an organization. It defines the way in which a company undertakes risk management.
b) It provides guidance for sound and informed decision-making and effective allocation of resources.
c) Successful risk governance is therefore contingent on how effectively the Board and management can work together in managing risks.
d) The bank’s directors, management and staff avoid conflict of interest in all the material decisions.
e) The committees ensure material risk and risk-taking activities exceeding the risk appetite and limits are recognized, escalated and addressed in a timely manner.

3.2.6. ***Risk Appetite***
a) Risk appetite is the aggregate level and types of risk that the Bank is willing to assume or to avoid, in pursuit of its goals, objectives and operating plan, consistent with applicable capital, liquidity, other requirements and reinforces the risk culture.
b) Risk appetite is a top-down articulation of the quantum of risk that the Board of the Bank is prepared to accept in relation to the Bank's business strategy. The risk appetite is articulated in the Bank's Risk Appetite Statement.
c) The Board of Directors’ role is to review, evaluate and support the Bank’s risk appetite. The risk appetite communicated throughout the Bank. The Risk appetite document is reviewed annually and duly approved by the Board of Directors.
d) Where there are exposure limits both at NBQ & CBUAE regulations, Bank follows approach that is more conservative and takes the decisions accordingly.

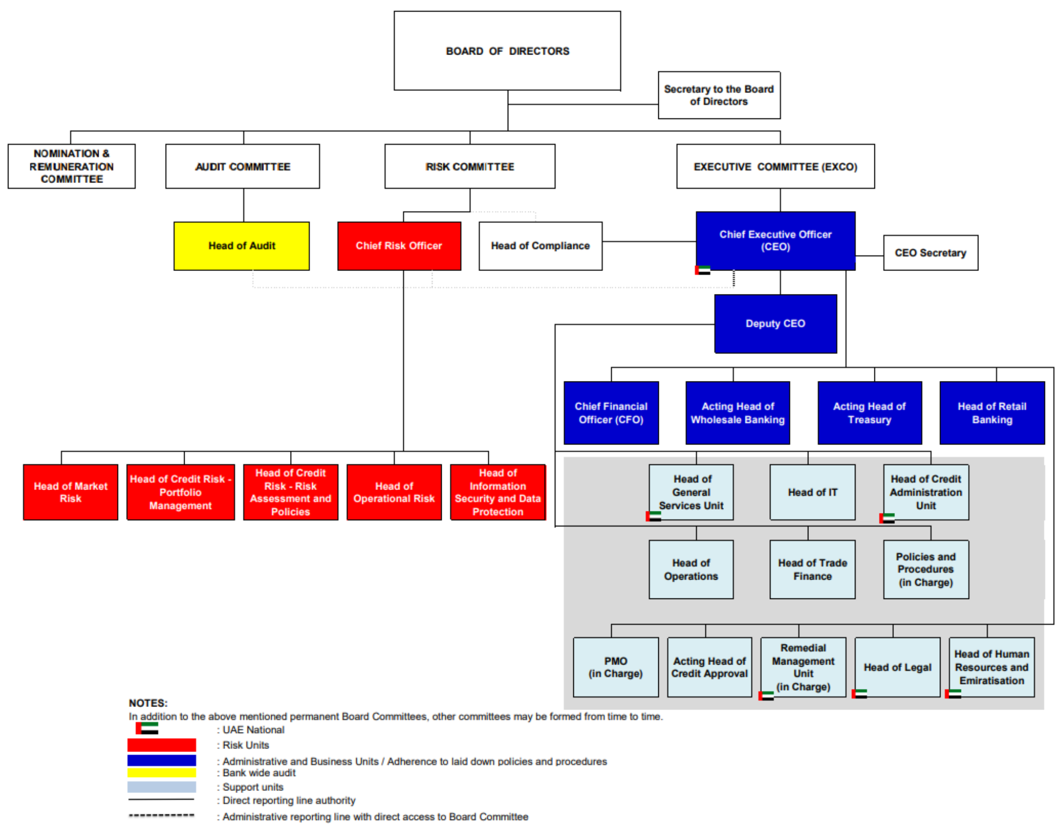
3.2.7. ***Risk Management Architecture***

Risk management architecture consists of (a) organisation structure and (b) three lines of defence. This architecture facilitates management to perform banking operations in line with Risk Appetite and polices set by the Board.

a) Organizational Structure

Management creates and maintains an organizational structure (refer "Figure 2") that ensures clear lines of responsibility, accountability and oversight. Management ensures that personnel in risk management and audit have sufficient independence and stature.

Figure 2: NBQ Organizational Structure for Risk Governance



b) **Three Lines of Defense.** To address the full spectrum of possible risks & to avoid conflict of interest and to have checks and balances, three independent lines of defense formed as follows:

I. ***First Line of Defense*** is provided by the business units where risks are taken. In the course of conducting business activities, business units identify, assess, measure and monitor risks on an ongoing basis.

II. ***Second Line of Defense*** is provided by independent risk management and compliance functions. The risk management function is primarily responsible for overseeing the Bank's risk-taking activities, undertaking risk assessments and reporting independently from the business units, while the compliance function monitors AML, CFT and compliance with applicable laws, regulations and internal policies.

III. ***Third Line of Defense*** is provided by an independent internal audit function, which is responsible for providing assurance on the effectiveness of the Bank's risk management framework including the risk management governance arrangements (including the first and second lines of defense described above).

3.2.8. ***Risk Management Function:***

Risk Management function is headed by Chief Risk Officer. Functions of Credit Risk, Operational Risk, Market Risk, Information & security risk report to him. This function develops metrics relevant to risk appetite statement, monitors and report on the risk metrics, escalate breaches and conduct stress test.

Roles and responsibilities of Chief Risk Officer (CRO) must:

i. Not have a decision-making role in the Bank's risk-taking functions, including credit underwriting, or the finance function.
ii. Have no revenue generating responsibilities.
iii. Not have remuneration based on the performance of any of the Bank's risk-taking functions.
iv. Have a direct reporting line to the Board or Board Risk Committee and appropriate reporting lines to CEO.
v. Have unfettered access directly to the Board risk committee, including the ability to meet without other Senior Executives being present

Key activities of the risk management function must include, but are not limited to the following:

I. Identifying material individual, aggregate and emerging risks.
II. Assessing these risks and measuring the Bank's exposure to them.
III. Supporting the Board in its implementation, review and approval of the Bank wide risk governance framework.
IV. Ongoing monitoring to ensure risk taking activities and risk exposure are in line with the Board approved risk appetite, risk limits and corresponding capital or liquidity needs.
V. Establishing an early warning or trigger system as part of ongoing monitoring to ensure that breaches to the Board approved risk appetite are reported to Board/Board Risk Committee;
VI. Influencing and when necessary, challenging material risk decisions
VII. Reporting to Senior Management and the Board or Board Risk committee in accordance with the Risk Governance Framework

3.2.9. ***Compliance Function:***

Compliance department reports to Chief Executive Officer of the Bank.

i. The compliance department operates as the second line of defense in the Bank.
ii. Compliance function assess bank wide adherence to requirements for (a) Develop and communicate compliance policies and procedures (b) monitor and report on compliance with laws, corporate governance rules, regulations, regulatory codes and policies to which the Bank is subject.

3.2.10. ***Internal Audit & Control Function:***

Internal Audit and Control Department (IACD) reports to Audit Committee of the Bank. IACD independently assesses the adequacy and effectiveness of the policies and processes applied by the Bank to manage the risk.

I. Internal audit and control function provides independent assurance.
II. Independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes.
III. Independently assess the effectiveness of business line management in fulfilling their mandates and managing risk.
IV. The internal audit activity adds value to the organization and its stakeholders when it provides objective and reasonable assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

3.2.11. ***Information Systems and Reporting:***

Bank management put in place IT infrastructure and/or procedures to provide risk data aggregation and reporting capabilities appropriate for its risk profile, nature, size and complexity of its business and structure. There are policies and procedures for data architecture and information technology infrastructure that supports the Bank's monitoring and reporting needs in normal times and period of stress.

The Bank system supports supervisory reporting requirements and provision of risk reports to all relevant parties within the Bank on a timely basis and in a format commensurate with the needs. The scope of reporting is proportionate to the business activities and complexity of the Bank.

a) Internal Capital Adequacy Assessment Process (ICAAP)

Management will put policy for Internal Capital Adequacy Assessment Process (ICAAP) in place. Currently this report is prepared annually and approved by the Board. This represents NBQ's own assessment of its internal capital requirements and consists of the Bank's forward-looking approach for risk, stress testing and governance framework.

The ICAAP document contains the following:

a. Board and Senior Management oversight.
b. Elements of a sound capital assessment process. This includes policies and procedures designed to ensure that the bank identifies, measures and reports all material risks, policies and procedures relating to capital and capital adequacy goals to the level of risk and policies and procedures for internal control to ensure the integrity of the overall management process.
c. Comprehensive assessment of risk, credit, market, operational, interest rate, concentration, liquidity and other risks.
d. Monitoring and reporting of risk exposures and related capital requirements
e. Internal Control review, including the role of Internal and External Audit where appropriate.

b) Stress Testing

Bank performs the CBUAE prescribed stress-testing exercise periodically to ascertain whether the Bank is having sufficient capital to cover all the losses. The stress test provides a forward-looking capital adequacy assessment of individual banks under a common methodological framework. The methodology covers credit risk in the loan book, market risk in the trading book, other credit risk in a bank's investment portfolio and the impact on bank's net interest income from rising interest rates.

*3.2.12. **Policies***

To manage risk, management is responsible to put in place indicative list of policies:

Figure 3: Risk Management Policies, Guidelines and Circulars Guidance(s)

Risk Management Framework	
Risk Management Policies & Architecture	
Credit Risk	Credit Risk Policies and Circulars
	Internal Capital Adequacy Assessment Process
	IFRS 9 Compliance
Market Risk	Mid Office
	Assets & Liabilities Management
	Investment Risk
	Liquidity Risk
	Proprietary Trading Risk
	Interest Rate Risk
Operational Risk	Operational Risk Policies
	Business Continuity Plans
	Outsourcing Risk
Information Security Risk	Information Security Policies
	Card Fraud Monitoring
Compliance Risk	Financial Crime Monitoring
	FATCA & CRS Monitoring & Reporting
	Internal Controls
	CB Circular Compliance
Islamic Banking	Compliance with Shari’ah Provisions

Policies are approved by the Board or Board delegated Committees. Senior Management approves procedures. Policies are reviewed once in 3 years or earlier if there is a regulatory requirement.

3.2.13. ***<u>Risk Identification, Assessment and Measurement:</u>***

Approach to risk identification, assessment and measurement is illustrated in Figure 4 below:

Figure 4: Risk Management Specific Areas

Risk Specific Area	Risk Identification, Assessment & Measurement			Risk Monitoring	Risk Control
Capital Adequacy	Internal Capital Adequacy Assessment Process			Periodic Risk Reporting Dashboard	Key Risk Indicators
	Capital Adequacy Computation				
Stress Testing	Stress Testing Exercise				
Loan Loss Provisioning	Expected Credit Loss Model (IFRS9)				
Credit Risk	Wholesale Credit Rating Models				
	Corporate	SME	Real Estate		
	Trading	Manufacturing	Services		
	Probability of Default Model	Loss Given Default Model			
Market Risk	Economic Value of Equity Model				
	Net Interest Income Model				
Liquidity Risk	Structural Liquidity				
Operational Risk	Operational Risk and Control Self Assessment (RCSA)				
	Operational Risk Incident Reporting				
Compliance Risk	Compliance Risk Assessment				
	Red Flag and Suspicious Activity				
Information Security Risk	National Electronic Security Authority Guidelines				
	Payment Card Industry Data Security Standard Guidelines				

3.3. Template OV1: Overview of RWA

	In AED'000	a	b	c
		Risk Weighted Assets		Minimum capital requirements
		31 Dec 2024	30 Sep 2024	31 Dec 2024
1	Credit risk (excluding counterparty credit risk)	12,318,875	11,393,027	1,293,482
2	Of which: Standardized approach (SA)	12,319,065	11,393,575	1,293,502
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)	95	274	10
7	Of which: Standardized approach for counterparty credit risk	95	274	10
8	Of which: Internal Model Method (IMM)			
9	Of which: other CCR			
10	Credit valuation adjustment (CVA)	95	274	10
11	Equity positions under the simple risk weight approach			
12	Equity investments in funds - look-through approach	0	0	0
13	Equity investments in funds - mandate-based approach	0	0	0
14	Equity investments in funds - fallback approach	0	0	0
15	Settlement risk	0	0	0
16	Securitization exposures in the banking book	0	0	0
17	Of which: securitisation internal ratings-based approach (SEC-IRBA)			
18	Of which: securitisation external ratings-based approach (SEC-ERBA)	0		0
19	Of which: securitisation Standardised approach (SEC-SA)	0		0
20	Market risk	51,606	44,060	5,419
21	Of which: Standardised approach (SA)	51,606	44,060	5,419
22	Of which: internal models approach (IMA)			
23	Operational risk	1,346,186	1,069,783	141,350
24	Amounts below thresholds for deduction (subject to 250% risk weight)			
25	Floor adjustment			
26	**Total (1+6+10+11+12+13+14+15+16+20+23)**	**13,716,857**	**12,507,417**	**1,440,270**

- CRWAs increased by AED 925 mio due to growth in the loan book and placements.
- Market risk-weighted assets increased due to FX and Equity positions.
- Operations risk weighted assets increased due to average gross income.

4. *LIA: Linkages between financial statements and regulatory exposures*

The difference between the financial statements and regulatory exposures is General Provisions excluding customer acceptances.

4.1. *Template LI1: Differences between accounting and regulatory scopes of consolidation*

31-Dec-2024	a	b	c	d	e	f	g
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:				
			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 at central bank	2,590,559	1,875,857	1,875,857				
Due from other banks	5,294,105	5,353,086	5,353,086				
Loans and advances to customers	7,775,670	7,891,942	7,891,942				
Investments securities	1,738,624	2,461,602	2,016,422			13,617	431,563
Other assets	212,991	56,588	56,588				
Investments in associates and joint ventures	252	252	252				
Property, plant and equipment	72,322	137,451	123,725				13,726
Customer's acceptances	195,937	-	-				
Total Assets	**17,880,460**	**17,776,777**	**17,317,872**	**-**	**-**	**13,617**	**445,289**
Liabilities							
Customer accounts	11,405,816	11,405,816					11,405,816
Accruals, deferred income and other liabilities	292,772	292,772					292,772
Customer's acceptances	195,937	-					
Share capital	2,000,000	2,000,000					
Statutory reserves	1,019,266	1,019,266					
General reserves	6,440	6,440					
Impairment reserves - general	81,486	-					81,486
Cumulative change in fair values	515,167	231,825					283,342
Retained earnings	2,363,576	2,003,576					
Total Liabilities	**17,880,460**	**16,959,695**	**-**	**-**	**-**	**-**	**12,063,416**

I. In Financial Statement accrued interest included in other assets whereas in Basel reporting its added in respective heads.

II. Financial statement figures are net of provisions (GP & SP), whereas Basel reporting figures are gross of general provision.

III. Acceptances are reported in financial statement, whereas for Basel reporting acceptances are considered under off-balance sheet exposure.

IV. In Basel reporting, 55% haircut applied on “cumulative change in fair value”. However, in the financial statement no haircut applied.

V. As per the guidelines, proposed dividend deducted from the retained earnings in Basel reporting.

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

S.No	31-Dec-24 In AED'000	a	b	c	d	e
		Total	Items subject to:			
			Credit risk framework	Securitization framework	Counterparty credit risk framework	Market risk framework
1	**Asset carrying value amount as per Regulatory Scope of Consolidation (as per template LI1)**	17,331,489	17,317,872			13,617
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)					
3	Total net amount under regulatory scope of consolidation					
4	Off-balance sheet amounts	3,037,600	1,876,406			
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 (SP) and Interest in Suspense*	147,471	147,471			
8	*Differences due to prudential filters*					
9	*Derivative*	476			476	
10	**Exposure amounts considered for regulatory purposes**	**20,517,036**	**19,341,749**		**476**	**13,617**

a) Item 1: Carrying value as per regulatory scope of consolidation as mentioned in LI1 excluding column (g) in LI1.

b) Item 4: Off Balance Sheet Exposure (before CCF) in column (a) while after CCF in column (b) for subject to credit risk framework.

c) Item 7: it’s a sum of specific provision (stage 3) and interest in suspense.

d) Item 10: Column (a) is a total On & Off-Balance exposure before (CCF & CRM) considered for regulatory purposes.

5. Composition of Capital

5.1. Template CC1: Composition of regulatory capital

	31-Dec-24	a	b
		Amounts (In AED'000)	**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	2,000,000	Same as (i) from CC2 template
2	Retained earnings	2,003,576	Same as (ii) from CC2 template
3	Accumulated other comprehensive income (and other reserves)	1,257,532	Same as (iii) from CC2 template
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**	**5,261,108**	
	Common Equity Tier 1 capital regulatory adjustments		
7	Prudent valuation adjustments	0	
8	Goodwill (net of related tax liability)	0	
9	Other intangibles including mortgage servicing rights (net of related tax liability)	13,726	
10	Deferred tax assets that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	0	
11	Cash flow hedge reserve	0	
12	Securitisation gain on sale	0	
13	Gains and losses due to changes in own credit risk on fair valued liabilities	0	
14	Defined benefit pension fund net assets	0	
15	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	0	
16	Reciprocal cross-holdings in CET1, AT1, Tier 2	0	
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)	431,563	
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)	0	
19	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	0	
20	Amount exceeding 15% threshold	0	
21	Of which: significant investments in the common stock of financials	0	
22	Of which: deferred tax assets arising from temporary differences	0	
23	CBUAE specific regulatory adjustments	0	
24	**Total regulatory adjustments to Common Equity Tier 1**	**445,289**	
25	**Common Equity Tier 1 capital (CET1)**	**4,815,819**	

	31-Dec-24	a	b
		Amounts (In AED'000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
	Additional Tier 1 capital: instruments		
26	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	0	
27	OF which: classified as equity under applicable accounting standards	0	
28	Of which: classified as liabilities under applicable accounting standards	0	
29	*Directly issued capital instruments subject to phase-out from additional Tier 1*	0	
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)	0	
31	*Of which: instruments issued by subsidiaries subject to phase-out*	0	
32	Additional Tier 1 capital before regulatory adjustments	0	
	Additional Tier 1 capital: regulatory adjustments		
33	Investments in own additional Tier 1 instruments	0	
34	Investments in capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
35	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation	0	
36	CBUAE specific regulatory adjustments	0	
37	Total regulatory adjustments to additional Tier 1 capital	0	
38	**Additional Tier 1 capital (AT1)**	**0**	
39	**Tier 1 capital (T1= CET1 + AT1)**	**4,815,819**	
	Tier 2 capital: instruments and provisions		
40	Directly issued qualifying Tier 2 instruments plus related stock surplus	0	
41	*Directly issued capital instruments subject to phase-out from Tier 2*	0	
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)	0	
43	*Of which: instruments issued by subsidiaries subject to phase-out*	0	
44	Provisions	153,988	
45	**Tier 2 capital before regulatory adjustments**	**153,988**	
	Tier 2 capital: regulatory adjustments		
46	Investments in own Tier 2 instruments	0	
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)	0	
48	Significant investments in the capital, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	0	
49	CBUAE specific regulatory adjustments	0	
50	**Total regulatory adjustments to Tier 2 capital**	**0**	

31-Dec-24		a	b
		Amounts (In AED'000)	Source based on reference numbers/letters of the balance sheet under the regulatory scope of consolidation
51	**Tier 2 capital (T2)**	**153,988**	
52	**Total regulatory capital (TC = T1 + T2)**	**4,969,807**	
53	**Total risk-weighted assets**	**13,716,857**	
	Capital ratios and buffers		
54	**Common Equity Tier 1 (as a percentage of risk-weighted assets)**	**35.11%**	
55	**Tier 1 (as a percentage of risk-weighted assets)**	**35.11%**	
56	**Total capital (as a percentage of risk-weighted assets)**	**36.23%**	
57	**Institution specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)**	**2.50%**	
58	**Of which: capital conservation buffer requirement**	**2.50%**	
59	**Of which: bank-specific countercyclical buffer requirement**	**0.00%**	
60	**Of which: higher loss absorbency requirement (e.g. DSIB)**	**0.00%**	
61	**Common Equity Tier 1 (as a percentage of risk-weighted assets) available after meeting the bank's minimum capital requirement.**	**24.61%**	
	The CBUAE Minimum Capital Requirement		
62	Common Equity Tier 1 minimum ratio	7.00%	
63	Tier 1 minimum ratio	8.50%	
64	Total capital minimum ratio	10.50%	
	Amounts below the thresholds for deduction (before risk weighting)		
65	Non-significant investments in the capital and other TLAC liabilities of other financial entities	0	
66	Significant investments in common stock of financial entities	0	
67	Mortgage servicing rights (net of related tax liability)	0	
68	Deferred tax assets arising from temporary differences (net of related tax liability)	0	
	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)	**184,786**	
70	Cap on inclusion of provisions in Tier 2 under standardised approach	**153,988**	
71	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to internal ratings-based approach (prior to application of cap)	0	
72	Cap for inclusion of provisions in Tier 2 under internal ratings-based approach		

5.2. Template CC2: Reconciliation of regulatory capital to balance sheet

In AED'000	a	b	c
31-Dec-24	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Reference
	As at period-end	As at period-end	
Assets			
Cash and balances at Central Banks	2,590,559	1,875,857	
Items in the course of collection from other banks			
Due from other Banks	5,294,105	5,353,086	
Loans and advances to customers	7,775,670	7,891,942	
Investment Securities	1,738,624	2,461,602	
Prepayments, accrued income and other assets	212,991	56,588	
Investments in associates and joint ventures	252	252	
Customer acceptances	195,937	-	
Property, plant and equipment	72,322	137,451	
Total Assets	**17,880,460**	**17,776,777**	
Liabilities			
Deposits from Banks	-		
Customer accounts	11,405,816		
Accruals, deferred income and other liabilities	292,772		
Customer acceptances	195,937	195,937	
Total Liabilities	**11,894,525**	**195,937**	
Shareholders' equity			
Paid-up share capital	2,000,000	2,000,000	(i)
Of which: amount eligible for CET1	2,000,000	2,000,000	
Of which: amount eligible for AT1	-	-	
Retained earnings	2,363,576	2,003,576	(ii)
Other reserves	1,622,359	1,257,532	(iii)
Total Shareholders' Equity	**5,985,935**	**5,261,108**	

Difference between the published financials and the regulatory reporting are as follows: -

Total Assets	1. The difference between published FS - Total Assets (excluding acceptances) and under regulatory scope of consolidation (Basel Reporting) is only general provision. In published financial statements general & specific provisions are netted, however under the regulatory scope of consolidation only specific provisions are netted. 2. Acceptances are reported in financial statements (funded), whereas under regulatory purpose acceptances are included in the off-balance sheet exposure.
Total Shareholders' equity	3. Haircut of 55% is applied on **"Cumulative changes in fair value"** under Basel reporting. 4. Impairment reserves excluded from the regulatory capital calculation along with regulatory deductions (Goodwill / other intangible assets and significant investments <10% of common) according to CBUAE guidelines.

5.3. Template CCA: Main features of regulatory capital instruments

Not applicable as the Bank has neither issued / nor repaid a capital instrument.

6. Macro prudential Supervisory Measures

6.1. Template CCyB1: Countercyclical Buffer

Not Applicable. Bank does not have any exposure outside UAE geography.

7. Leverage ratio

7.1. Template LR1: Summary comparison of accounting assets vs leverage ratio exposure

	In AED'000	a 31 Dec 2024
1	Total consolidated assets as per published financial statements	17,880,460
2	Adjustments for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	(445,289)
3	Adjustment for securitized 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 recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
6	Adjustments for regular-way purchases and sales of financial assets subject to trade date accounting	-
7	Adjustments for eligible cash pooling transactions	-
8	Adjustments for derivative financial instruments	476
9	Adjustment for securities financing transactions (ie repos and similar secured lending)	-
10	Adjustments for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	2,027,275
11	Adjustments for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital	-
12	Other adjustments	(147,152)
13	**Leverage ratio exposure measure**	**19,315,771**

7.2. *Template LR2: Leverage ratio common disclosure template*

	In AED'000	a	b
		31-Dec-24	**30-Sep-24**
On-balance sheet exposures			
1	On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs), but including collateral)	17,733,308	16,587,203
2	Gross-up for derivatives collateral provided where deducted from balance sheet assets pursuant to the operative accounting framework		
3	(Deductions of receivable assets for cash variation margin provided in derivatives transactions)		
4	(Adjustment for securities received under securities financing transactions that are recognised as an asset)		
5	(Specific and general provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital)		
6	(Asset amounts deducted in determining Tier 1 capital)	(445,289)	(361,018)
7	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of rows 1 to 6)**	**17,288,019**	**16,226,184**
Derivative exposures			
8	Replacement cost associated with *all* derivatives transactions (where applicable net of eligible cash variation margin and/or with bilateral netting)	16	639
9	Add-on amounts for PFE associated with *all* derivatives transactions	324	340
10	(Exempted CCP leg of client-cleared trade exposures)		
11	Adjusted effective notional amount of written credit derivatives		
12	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)		
13	**Total derivative exposures (sum of rows 8 to 12)**	476	1,370
Securities financing transactions			
14	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions		
15	(Netted amounts of cash payables and cash receivables of gross SFT assets)		
16	CCR exposure for SFT assets		
17	Agent transaction exposures		
18	**Total securities financing transaction exposures (sum of rows 14 to 17)**		
Other off-balance sheet exposures			
19	Off-balance sheet exposure at gross notional amount	3,026,078	3,242,297
20	(Adjustments for conversion to credit equivalent amounts)	(998,803)	(1,114,233)
21	(Specific and general provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital)	0	0

	In AED'000	a	b
		31-Dec-24	**30-Sep-24**
22	**Off-balance sheet items (sum of rows 19 to 21)**	2,027,275	2,128,064
Capital and total exposures			
23	**Tier 1 Capital**	4,815,819	5,122,376
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	19,315,771	18,355,618
Leverage ratio			
25	**Leverage Ratio (including the impact of any applicable temporary exemption of central bank reserves)**	24.93%	27.91%
25a	Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)	24.93%	27.91%
26	CBUAE minimum leverage ratio requirement	3.00%	3.00%
27	**Applicable Leverage Buffers**	0.00%	0.00

8. Liquidity Risk Management

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management daily. The Bank's Assets and Liabilities Committee (ALCO) has put in place the policies to manage liquidity risk and monitor the position regularly.

As part of the ICAAP, the Bank assesses the impact on capital adequacy of liquidity risk including concentrations by carrying out stress testing.

Liquidity risk is measured in the Bank using a flow approach and stock approach. Flow approach involves comprehensive tracking of cash flow mismatches. The stock approach involves measurement of critical ratios in respect of liquidity risk. For measuring and managing net funding requirements, the use of maturity ladder and calculations of cumulative surplus or deficit of funds at selected maturity dates are adopted as standard tools.

As per CBUAE guidelines, Bank has adopted the Basel III framework on liquidity standards and ensures daily monitoring of Eligible Liquid Assets Ratio (ELAR) and Advances to Stable Resources Ratio (ASRR). The following table presents the ELAR ratio of the Bank for 31.12.2024, based on simple averages of daily observations over the previous quarter (i.e. the average calculated over a period of 90 days) in AED. The table also presents the breakdown of the Bank's available high-quality liquid assets (HQLA), as measured and defined according to the CBUAE Liquidity Regulations.

The Bank has a liquidity stress testing framework guided by the CBUAE liquidity framework. Liquidity stress testing are conducted under different scenarios at monthly intervals to assess the impact on liquidity to withstand stressed conditions.

The bank has a Board approved Contingency Funding Plan (CFP) guided by the regulatory stipulation that sets out the strategies for addressing liquidity shortfalls in critical stress situations.

8.1. *Template LIQ1: Liquidity Coverage Ratio (LCR)*

This is not applicable to the Bank as our Bank is not a D-SIB Bank.

8.2. *Template LIQ2: Net Stable Funding Ratio (NSFR)*

This is not applicable to the Bank as our Bank is not a D-SIB Bank.

8.3. *Template ELAR: Eligible Liquid Assets Ratio*

		31-Dec-2024	
1	**High Quality Liquid Assets**	**Nominal amount (AED'000)**	**Eligible Liquid Asset (AED'000)**
1.1	Physical cash in hand at the bank + balances with the CBUAE	2,956,180	
1.2	UAE Federal Government Bonds and Sukuks	25,013	
	Sub Total (1.1 to 1.2)	2,981,193	2,981,193
1.3	UAE local governments publicly traded debt securities	54,941	
1.4	UAE Public sector publicly traded debt securities	0	
	Sub total (1.3 to 1.4)	54,941	54,941
1.5	Foreign Sovereign debt instruments or instruments issued by their respective central banks		0
1.6	**Total**	3,036,134	3,036,134
2	Total liabilities		10,555,919
3	**Eligible Liquid Assets Ratio (ELAR)**		**28.76%**

8.4. *Template ASRR: Advances to Stables Resource Ratio*

The table below provides the breakdown of the Bank's Advances to Stable Resource Ratio (ASRR) as per the CBUAE Liquidity Regulations.

		Items	31-Dec-2024 Amount (AED'000)
1		**Computation of Advances**	
	1.1	Net Lending (gross loans - specific and collective provisions + interest in suspense)	7,694,819
	1.2	Lending to non-banking financial institutions	167,409
	1.3	Financial Guarantees & Stand-by LC Issued	294,225
	1.4	Financial Guarantees & Stand -by LCs Received	0
	1.5	Interbank Placements with a remaining life of more than 3 months	1,830,203
	1.6	**Total Advances**	**9,986,656**
2		**Calculation of Net Stable Resources**	
	2.1	Total own funds + general provisions	6,072,492
		Deduct:	
	2.1.1	Goodwill and other intangible assets	0
	2.1.2	Fixed Assets	137,451
	2.1.3	Funds allocated to branches abroad	0
	2.1.4	Treasury shares held / No INPUT required here	0
	2.1.5	Unquoted Investments	50,885
	2.1.6	Investment in subsidiaries, associates and affiliates	252
	2.1.7	**Total deduction**	188,588
	2.2	**Net Free Capital Funds**	**5,883,904**
	2.3	**Other stable resources:**	
	2.3.1	Funds from the head office	0
	2.3.2	Interbank deposits with remaining life of more than 6 months	0
	2.3.3	Refinancing of Housing Loans	0
	2.3.4 (a)	Borrowing from non-Banking Financial Institutions remaining life of more than 6 months	21,992
	2.3.4 (b)	85% of the rest of NBFI Deposits	94,796
	2.3.5 (a)	Customer Deposits with remaining life of more than 6 months	3,665,723
	2.3.5 (b)	85% of the rest of Customer Deposits	6,465,590
	2.3.6	Capital market funding/ term borrowings maturing after 6 months from reporting date	0
	2.3.7	Head Office loans towards meeting Large Exposure Funding	0
	2.3.8	**Total other stable resources**	**10,248,101**
	2.4	**Total Stable Resources (2.2+2.3.8)**	**16,132,005**
3		**Advances TO STABLE RESOURCES RATIO (1.6/ 2.4*100)**	**61.91**

9. Credit risk

9.1. Template CRA: General qualitative information about Credit Risk

The Bank assumes Credit Risk as part of its lending operations, which is identified as the risk that a counterparty will cause a financial loss by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities measured at amortized cost. There is also a credit risk in off-balance sheet financial arrangements such as Letters of Credit, Guarantees and undrawn loan commitments. Credit Risk Management and control are centralized in the Credit Risk Department with the following objectives:

a) To measure, monitor and mitigate risks both at micro as well as macro level.

b) To facilitate building and sustaining a high-quality credit portfolio and minimize losses.

c) Contain non-performing assets through preventive and curative management.

To identify early warning signals and initiate timely corrective action. The Credit Risk Department has various units viz., Portfolio Management unit and Risk Containment Unit. Risk containment unit is functioning to prevent accretion of non-performing assets through timely action

Other credit risk aspects like the following (as required as per pillar 3 report requirements) are already covered in section 3.2 to 3.2.13: -

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

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

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

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

(e) Scope and main content of the reporting on credit risk exposure and on the credit risk management function to the Executive management and to the Board of Directors

9.2. Template CR1: Credit quality of assets

	(AED'000) 31-Dec-2024	a	b	c	d	e	f
		Gross carrying values of		Allowances/Impairments	Of which ECL accounting provisions for credit losses on SA exposures		Net values (a+b-c)
		Defaulted exposures	Non-defaulted exposures		Allocated in regulatory category of Specific	Allocated in regulatory category of General	
1	Loans	320,362	7,640,223	184,915	98,357	86,558	7,775,670
2	Debt securities	0	661,553	2,237	0	2,237	659,317
3	Off-balance sheet exposures	45,788	2,991,667	11,377	330	11,047	3,026,078
4	**Total**	**366,149**	**11,293,444**	**198,528**	**98,687**	**99,841**	**11,461,065**

Non-Performing Advances are defined as advances classified as Substandard, Doubtful and Loss, in which there is loss due to Defaults / past due for more than 90 days. The disclosure reconciled with published FS note # 6, 7 (Only quoted debt instruments figure) & 18. Item 3: Off-balance sheet exposure includes guarantees, LCs, commitments to extend credit, FX forward and acceptances.

9.3. Template CR2: Changes in stock of defaulted loans and debt securities

	(In AED'000)	a 31 Dec 2024
1	**Defaulted loans and debt securities at the end of the previous reporting period**	488,344
2	Loans and debt securities that have defaulted since the last reporting period	32,034
3	Returned to non-default status	-
4	Amounts written off	82,537
5	Other changes	(117,479)
6	**Defaulted loans and debt securities at the end of the reporting period (1+2-3-4±5)**	**320,362**

This amount reconciles with our annual FS disclosure note 6 (stage 3).

9.4. Template CRB: Additional disclosure related to the credit quality of assets.

9.4.1. The scope and definitions of 'past due' and 'impaired' exposures

Past Due: Loans are considered past due if any part of the contractual interest and/or principal payment is not met on time. The number of days past due is non-cumulative, where the most recent payment cures the earliest contractual breach.

Past due but not impaired: Loans and investments for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and /or the stage of collection of amounts owed to the bank.

Restructured Financial Assets: Please refer note 3 on page # 26 of annual financial statement as on 31st December 2024. There is no restructured exposure during the reporting period.

Impaired / Default: Payment of principal is in arrears beyond 90 days or some loss is possible due to adverse factors.

9.4.2. Description of methods used for determining accounting provisions for credit losses.

The Bank recognises loss allowances for Expected Credit Losses (ECLs) on the following financial instruments that are not measured at fair value through profit and loss (FVTPL):

i. Deposits and Balances and due from Banks;
ii. Debt Investment securities carried at amortised cost;
iii. Loans and Advances to customers;
iv. Customer Acceptances and other financial assets;
v. Loan Commitments; and
vi. Financial Guarantees and contracts

ECLs are required to be measured through a loss allowance at an amount equal to:

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

2) Full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

Below is the table, which gives more details on stage and ECL methodology for the Bank.

Quantitative factors

Stage	Corporate and Institutional Banking portfolio	Retail portfolio	Due from banks and Investments portfolio
1 » 2	▪ Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition ▪ Restructured ▪ DPD 31-90 days	▪ Restructured portfolio ▪ DPD 31-90 days (inclusive)	▪ Rating downgrade as per internally defined criteria from the rating assigned at the initial recognition ▪ External credit rating of Caa1 to Caa3 to be classified as Stage 2 ▪ B3 credit rating is assigned for unrated investments
1 » 3 2 » 3	▪ Credit impaired portfolio ▪ DPD greater than 90 days	▪ Credit impaired portfolio ▪ DPD > 90 days	External credit rating of C and below to be classified as Stage 3

9.4.3. <u>***Loans & Advances Exposure by Industry Sectors:***</u>

AED 000	**31-Dec-2024**			
By economic sector	**Gross O/s**	**Impaired**	**Stage 3 (ECL)**	**Write-off**
Wholesale and retail trade	1,502,640	1,021	284	607
Real Estate	2,830,709	208,845	80,984	
Construction	49,219	12,338	2,256	
Personal Loans and others	375,831	6,004	7,092	2,055
Manufacturing	490,493	19,054	0.001	2,680
Agriculture and allied activities	-	-	-	-
Transport and communication	340,628	96	91	96
Financial institutions	775,838	-	-	-
Government	147,373	-	-	-
Other services	707,682	73,004	7,651	77,099
Individual loans for business	740,172	-	-	-
Total	**7,960,585**	**320,362**	**98,357**	**82,537**

This gross outstanding, impaired and stage 3 (ECL) reconcile with our FS disclosure note 06.

9.4.4. Loans & Advances Exposure by Residual Maturity Buckets:

	31-Dec-24
Residual Maturity Buckets	**AED 000**
Sight	153,477
2 to 8 days	587,520
9 days to 1 month	99,638
1 months to 3 months	396,582
3 months to 6 months	460,440
6 months to 1 year	489,209
1 year to 3 year	2,763,383
3 year to 5 year	1,193,518
5 year to 10 year	1,570,593
Above 10 years	246,224
Total	**7,960,585**

9.4.5. Template CRC: Qualitative disclosure requirements related to credit risk mitigation techniques.

Credit Risk Mitigation Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigants are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are Land and Building, listed equity shares, Fixed Deposits under lien, vehicles etc. Other comforts - Personal Guarantees and Corporate Guarantees are also taken as comfort, wherever deemed essential. The bank does not have any credit products related to netting agreements.

The market value of collaterals is monitored, and wherever necessary the Bank requests additional collaterals in accordance with the underlying agreement, and considers collaterals obtained during its review of the adequacy of the allowance for impairment losses. Estimates of Fair Value are generally assessed on a periodic basis in accordance with the respective credit policies, an estimate of fair value of collateral and other security enhancements held against the loans & advances portfolio. The CR3 table below discloses collateral securing loans and debt securities only.

The Bank uses a simple approach under Basel III for risk mitigation.

9.4.6. ***Template CR3: Credit Risk Mitigation Technique - Overview.***

		31-Dec-2024						
		a	b	c	d	e	f	g
	AED 000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	7,903,857	56,728	56,728				
2	Debt securities	661,553	0	0				
3	**Total**	**8,565,410**	**56,728**	**56,728**				
4	Of which defaulted	320,362	0	0				

		31-Dec-2023						
		a	b	c	d	e	f	g
	AED 000	Exposures unsecured: carrying amount	Exposures secured by collateral	Exposures secured by collateral of which: secured amount	Exposures secured by financial guarantees	Exposures secured by financial guarantees, of which: secured amount	Exposures secured by credit derivatives	Exposures secured by credit derivatives, of which: secured amount
1	Loans	6,913,701	258,863	258,863				
2	Debt securities	463,879	0	0				
3	**Total**	**7,377,580**	**258,863**	**258,863**				
4	Of which defaulted	488,488	0	0				

The above is prepared in accordance with the “Standardized approach of Basel” III which recognizes Cash as primary collateral, otherwise the actual collateral held by the Bank significantly high and 65% of our loan book portfolio is secured. Exposure secured by collateral amount reduced compared to last year due to change in the mitigation approach from comprehensive to simple.

9.4.7. Template CRD: Qualitative disclosure on bank's use of external credit rating under the Standardised Approach of Credit Risk

Standardised Approach risk weights corresponding to the Credit Ratings assigned by External Credit Assessment Institutions (ECAIs) have been prescribed by CBUAE for different asset classes as detailed below and the Bank follows the same.

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.

If there are two assessments by External Credit Assessment Institutions (ECAIs) chosen by a bank, which map into different risk weights, the higher risk weight will be applied.

If there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights will be applied.

	ASSESSMENT				RISK WEIGHTS			
						Banks (Credit Assessment Method Option 2)		
Risk Grade	S&P	Fitch	Moody's	Capital Intelligence	Corporate	Maturity > 3 Mths	Maturity 3 months or less (Domestic currency only)	Sovereign
1	AAA to AA-	AAA to AA-	Aaa to Aa3	AAA	20%	20%	20%	0%
2	A+ to A-	A+ to A-	A1 to A3	AA to A	50%	50%	20%	20%
3	BBB+ to BBB-	BBB+ to BBB-	Baa1 toBaa3	BBB	100%	50%	20%	50%
4	BB+ to BB-	BB+ to BB-	Ba1 to Ba3	BB	100%	100%	50%	100%
5	B+ to B-	B+ to B-	B- to B3	B	150%	100%	50%	100%
6	CCC+ and below	CCC+ and below	Caa1 and below	C and below	150%	150%	150%	150%
7	Unrated	Unrated	Unrated	Unrated	100%	50%	20%	100%

9.4.8. ***Template CR4: Standardised approach - credit risk exposure and Credit Risk Mitigation (CRM) effects***

31-Dec-2024		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	2,880,796	-	2,880,796	-	203,636	7.07%
2	Public Sector Entities	1,250,896	38,520	1,250,896	19,260	997,266	77.34%
3	Multilateral development banks	-	-	-	-	-	0.00%
4	Banks	5,597,050	1,392	5,597,050	1,392	2,634,405	47.06%
5	Securities firms	-	-	-	-	-	0.00%
6	Corporates	3,455,214	2,733,243	3,420,011	1,763,052	4,293,517	69.38%
7	Regulatory retail portfolios	359,540	49,373	356,086	27,710	345,778	84.56%
8	Secured by residential property	14,495	367	14,495	184	14,474	97.39%
9	Secured by commercial real estate	2,636,641	169,248	2,615,694	76,080	2,666,631	95.04%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	0.00%
11	Past-due loans	369,478	45,788	225,212	45,457	332,842	80.15%
12	Higher-risk categories	31,498	-	31,498	-	47,248	150.00%
13	Other assets	1,328,311	-	1,328,311	-	783,269	58.97%
14	**Total**	**17,923,919**	**3,037,931**	**17,720,049**	**1,933,134**	**12,319,065**	

CRWAs increased by the AED 1.928bn in Q4’24 compared to Q4’23, due to increase in the loan book size and placements.

31-Dec-2023		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	2,564,759	-	2,564,759	-	182,177	7%
2	Public Sector Entities	325,890	146,072	325,890	73,036	285,415	60%
3	Multilateral development banks	-	-	-	-	-	0%
4	Banks	3,829,871	650	3,829,871	650	1,557,132	41%
5	Securities firms	-	-	-	-	-	0%
6	Corporates	3,105,131	1,676,255	2,862,533	1,195,321	3,636,218	76%
7	Regulatory retail portfolios	387,168	818,110	384,849	799,400	366,930	30%
8	Secured by residential property	16,582	-	16,582	-	16,466	99%
9	Secured by commercial real estate	2,779,061	216,630	2,760,281	87,208	2,823,857	94%
10	Equity Investment in Funds (EIF)	-	-	-	-	-	0%
11	Past-due loans	606,241	70,111	392,174	69,968	649,597	96%
12	Higher-risk categories	3,758	-	3,758	-	5,636	150%
13	Other assets	1,272,695	-	1,272,695	-	867,940	68%
14	**Total**	**14,891,155**	**2,927,828**	**14,413,391**	**2,225,583**	**10,391,368**	

9.4.9. ***Template CR5: standardised approach- exposure by asset classes and risk weights***

	31 Dec 2024 (AED'000)	a	b	c	d	e	f	g	h	i
	Risk weight / **Asset classes**	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposures amount (post CCF and post-CRM)**
1	Sovereigns and their central banks	2,677,160					203,636			2,880,796
2	Public Sector Entities		341,112				929,044			1,270,156
3	Multilateral development banks									
4	Banks	232	1,070,020		4,215,771		312,416	2		5,598,441
5	Securities firms									
6	Corporates	759,562					3,556,947		866,553	5,183,063
7	Regulatory retail portfolios	5,295				130,889	247,611			383,796
8	Secured by residential property					818	13,860			14,679
9	Secured by commercial real estate	25,143					2,666,631			2,691,774
10	Equity Investment in Funds (EIF)									
11	Past-due loans	2,707					138,205	129,758		270,670
12	Higher-risk categories							31,498		31,498
13	Other assets	545,369					782,287	654		1,328,311
14	**Total**	**4,015,469**	**1,411,132**	**-**	**4,215,771**	**131,707**	**8,850,638**	**161,913**	**866,553**	**19,653,183**

The column I total of this table reconciles with the above table total of On+Off BS post CRM & CCF exposure total. The major changes come in the 50%, 100% & 150% buckets where exposure increased due to lending book size and placement. However, past-dues exposure reduced.

	31 Dec 2023 (AED'000)	a	b	c	d	e	f	g	h	i
	Risk weight / Asset classes	0%	20%	35%	50%	75%	100%	150%	Others	Total credit exposures amount (post CCF and post-CRM)
1	Sovereigns and their central banks	2,382,582					182,177			2,564,759
2	Public Sector Entities		141,889				257,038			398,926
3	Multilateral development banks									
4	Banks		1,454,343		2,220,480		155,695	2		3,830,521
5	Securities firms									
6	Corporates	301,075					2,953,036		803,743	4,057,854
7	Regulatory retail portfolios	780,852				145,865	257,531			1,184,249
8	Secured by residential property					464	16,118			16,582
9	Secured by commercial real estate	23,632					2,823,857			2,847,489
10	Equity Investment in Funds (EIF)									
11	Past-due loans	2,758					78,959	380,425		462,142
12	Higher-risk categories							3,758		3,758
13	Other assets	405,126					866,828	741		1,272,695
14	**Total**	**3,896,025**	**1,596,232**	**-**	**2,220,480**	**146,330**	**7,591,238**	**384,926**	**803,743**	**16,638,974**

10. Counterparty Credit Risk

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

		a	b	c	d	e	f
	31-Dec-2024 AED 000	Replacement cost	Potential future exposure	EEPE	Alpha used for computing regulatory EAD	EAD post-CRM	RWA
1	SA-CCR (for derivatives)	16	324		1.4	476	95
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							
6	**Total**						

10.2. Template CCR2: Credit Valuation Adjustments (CVA) Capital Charge (CCR2)

Sno.	Description	EAD Post-CRM	RWA
1	All portfolios subject to the Standardised CVA capital charge*	-	-
2	All portfolios subject to the Simple alternative CVA capital charge	476	95

10.3. *Template CCR3: Standardised approach - CCR exposures by regulatory portfolio and risk weights*

AED 000	a	b	c	d	e	f	g	h
Risk weight / **Regulatory portfolio**	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Total credit exposure**
Sovereigns								
Public Sector Entities (PSEs)								
Multilateral development banks (MDBs)								
Banks		95						95
Securities firms								
Corporates								
Regulatory retail portfolios								
Secured by residential property								
Secured by commercial real estate								
Equity Investment in Funds (EIF)								
Past-due loans								
Higher-risk categories								
Other assets								
Total		**95**						**95**

10.4. Template CCR5: Composition of collateral for CCR exposure

	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	0	0	0	0	0	0
Cash - other currencies						
Domestic sovereign debt						
Government agency debt						
Corporate bonds						
Equity securities						
Other collateral						
Total	0	0	0	0	0	0

10.5 Template CCR 6: Credit derivative exposures

Not applicable

10.6 Template CCR 8: Exposure to Central Counterparties

Not applicable

10.7 SECA: Qualitative disclosures related to securitisation exposures.

Not applicable

10.8 SEC1: Securitisation exposures in the banking book

Not applicable

10.9 SEC2: Securitisation exposures in the trading book

Not applicable

10.10 SEC3: Securitisation exposures in the banking book and associated regulatory capital requirements - bank acting as originator or as sponsor.

Not applicable

10.11 SEC4: Securitisation exposures in the trading book and associated capital requirements - bank acting as investor.

Not applicable

11. Market risk

11.1. Table MRA: General qualitative disclosure requirements related to market risk

Market risk for the Bank refers to the risk wherein the value of its on and/or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and equity prices. The changes impact the Bank's earnings & capital and can have ramifications on the Bank's liquidity and profitability.

Market Risk department of the Bank appraises these risks to ALCO on a regular basis based on the stipulated norms for Asset Liability Management and Investments. The ALCO reviews the liquidity positions, interest rate risk metrics, investment portfolio positions and ensures adherence to regulatory and internal guidelines. ALCO takes corrective measures as per the Bank’s internal market risk policies and strategic business directions.

The bank has board approved risk appetite limit for various metrics, including Liquidity risk, interest rate risk, investments and the market risk department reports the current positions of these metrics to Board Risk Committee on quarterly basis.

The Market Risk (MR) Department monitors the investment positions of the bank related to the equity, debt, forex and derivatives positions. It conducts the stress testing on liquidity, interest rate, equity and forex positions and present the results to ALCO and Board Risk Committee on periodical basis. It also monitors the VaR, stressed VaR and DV01 limits for assessing the risk on the investment portfolio.

The Bank uses Standardized Approach to calculate Risk Weighted Assets (RWAs) for market risk as per the CBUAE guidelines. The computed Risk Weighted Assets using the Standardized Approach for market risk for reporting period 31/12/2024 are given in the table below:

11.2. Table MR1: Market risk under the standardised approach (SA)

The purpose of this template is to provide the components of the capital requirement under the SA for Market Risk.

		a
	31-Dec-2024	**RWA (AED’000)**
1	General Interest rate risk (General and Specific)	576
2	Equity risk (General and Specific)	49,225
3	Foreign exchange risk	1,805
4	Commodity risk	0
	Options	
5	Simplified approach	0
6	Delta-plus method	0
7	Scenario approach	
8	Securitisation	0
9	**Total**	**51,606**

11.3. Interest rate risk in the banking book

Interest Rate Risk in Banking Book (IRRBB) is the potential risk, where changes in market interest rates affect bank’s capital and earnings. The change in interest rates alters the interest income and expenses of the bank, impacting the Net Interest Income. Changes in interest rates also impact a bank’s Economic Value of

Equity through changes in the present value of future cash flows from Rate Sensitive Assets, Rate Sensitive Liabilities and Off-Balance Sheet positions. The interest rate risk, when viewed from these two perspectives, is known as “earnings perspective” and “economic value perspective” respectively.

11.4. Table IRRBBA: IRRBB risk management objectives and policies

The IRRBB measures the impact on the banks capital and earnings due to the adverse movement of interest rate in the market. The interest rate may move in various ways as per the movement in the interest rate curve like parallel up, parallel down, steepener, flattener, short rate up and short rate down. The two different perspectives of IRRBB methodology are mentioned below

• Earning perspective: The impact on the bank’s earning due to change in interest rate is measured through Net Interest Income (NII). In IRRBB context the impact on bank’s earning (NII) is a short-term analysis due to upward and downward parallel shifts in interest rate across all time buckets over a one-year horizon. It is assumed that interest rate changes take place at the mid-point of each time bucket.

• Economic value perspective: It analyzes the impact of change in interest rate on economic value of equity measured using the net present value of future cashflows from Rate Sensitive Assets (RSA), Rate Sensitive Liabilities (RSL) and Off-balance sheet items. It assesses the long-term impact on the economic value of equity of the Bank. The bank estimates the change in the economic value of equity for upward and downward parallel rate shocks and other scenarios as per CBUAE guidelines. The details of impact are mentioned in the table below as per CBUAE format.

Under non-maturing Current Deposits, only such portion is treated as rate sensitive on which the interest is paid. Significant portion of non-maturing Savings Deposits is bucketed in “over 1year – 3 years”. Entire Call Deposits are treated as rate sensitive. Rate Sensitive Current Deposits and Call Deposits are bucketed “over 1 month – 3 months” bucket for repricing. Non-rate Sensitive Liabilities and assets primarily comprise of Capital, Reserves & Surplus, other Liabilities, Cash and Balances with CBUAE (other than ODF and MBs), Current Account balances with banks, Fixed Assets and other assets. Bank has negligible exposure of assets and liabilities in foreign currencies (other than USD and GCC pegged currencies).

The Banking book is calculated by excluding the trading book from the total book.

The Group manages it’s interest rate sensitivity position based on the timing differences in the maturity or repricing of assets and liabilities. The Group measures the impact of interest rate movement on capital and earnings by using the Economic Value of Equity (EVE) and Net Interest Income (NII) methodology mentioned above. The impact on EVE and NII are computed on a monthly basis for various scenarios and the results are presented to ALCO. The Group has in place a set of Risk Appetite and Management Actions Triggers based on above IRRBB measures, and the quarterly positions are presented to Board Risk Committees.

11.5. Table IRRBB1: Quantitative information on IRRBB

The purpose of this template is to provide information on the bank's changes in Economic Value of Equity and Net Interest Income under the prescribed interest rate shock scenarios. This also requires commentary on the significance of the reported values and an explanation of any material changes since the previous reporting period.

(Amount in AED'000)

In reporting currency (AED)	ΔEVE		ΔNII	
Period	**T(2024)**	**T-1(2023)**	**T(2024)**	**T-1(2023)**
Parallel up	(148,992)	(222,313)	97,319	88,796
Parallel down	177,248	226,352	(94,295)	(88,231)
Steepener	(77,879)	135,616		
Flattener	45,276	(185,636)		
Short rate up	(25,511)	(259,707)		
Short rate down	26,591	264,425		
Maximum	177,248	264,425		
Period	**T(2024)**		**T-1(2023)**	
Tier 1 capital	4,815,819		4,916,934	

Reason for decrease in EVE under various scenarios : - The computation methodology for EVE has been changed from the Modified Duration Approach to Net Present Value of future cash flows method.

1. Average repricing maturity assigned to NMDs: - 1- 3 months
2. Longest repricing maturity assigned to NMDs: - 1-3 Years

12. Operational Risk

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

12.1. Table ORA: General qualitative information on a bank's operational risk framework

The purpose is to describe the main characteristics and elements of a bank's Operational Risk management framework.

1. The policies, frameworks and guidelines for the management of Operational Risk:

NBQ has Operational Risk framework and policies in place to identify, assess, controls, mitigation, monitoring and reporting of Operational risk matters to the Risk Committee. The Operational Risk framework is fully integrated to the Bank's overall risk management governance, framework and processes.

Operational Risk Management follows the three lines of defence approach:

i. The first line of defence is by the Business Unit, which identifies and reports operational risks that are inherent in the products, services and activities within the business unit.

ii. The second line of defence is Operational Risk management function reporting to Chief Risk Officer and Risk Committee. All are collectively responsible for operational risk management and compliance.

iii. The third line of defence is by the Internal Audit, who independently assesses the effectiveness and efficiency of operational risk management and provides assurance to Audit Committee.

Below are the sections on Operational Risk Appetite, Operational Risk Management Framework and Business Resiliency & Continuity.

a. Operational Risk Appetite:

Risk Appetite: Board of Directors have approved and reviewed risk appetite and tolerance statement for operational risk that articulates the nature, types, and levels of operational risk that the Bank is willing to assume. Processes are established to monitor the set Risk Appetite and tolerance limits on an ongoing basis.

b. Operational Risk Management framework:

The management of Operational Risk Framework in NBQ includes standards for risk that are based on best practice and policies are codified with core governing principles of operational risk management that ensures identification, evaluation, control, measurement, monitoring and reporting operational risks that are consistent across the Bank. Currently the tools implemented for the identification and assessment of operational risk includes but not limited to: -

a) Regular Risk and Control self-assessment (RCSA) to assess key risks and controls in each business units.

b) Review of incident management reports by reviewing the processes to identify, assess, record, report and manage operational events that has occurred. The data is used to strengthen processes and controls.

c) Issue management processes to identify, assess, record and report and manage any weaknesses or gaps in controls.

d) Establishment of key risk indicators to monitor movements in risk exposures.

Risk identification and assessment involves material and process changes, which include new initiatives, new products, and outsourcing arrangements. Risk assessment methodology employs more granular and objective assessment of operational risk exposures for material risks identified through the risk identification processes, which enable the Bank to prioritise risks and related actions. The reporting of issues and events is a critical component for the Bank's Operational Risk Management process. The escalation process is enhanced to ensure relevant information is conveyed to the decision makers in a timely manner so that appropriate actions are taken.

Monitoring and reporting processes are in place for periodic monitoring of key operational risks. The reports are submitted to the Board as part of Chief Risk Officer updates note to the Risk Committee.

c. Business Resiliency & Continuity:

The Bank has a robust business continuity and disaster recovery plan and strategies in place to ensure Bank's ability to continue business operations and limit losses in the event of an unexpected business disruption. The plan identifies the team and list critical processes and systems, evacuation procedures and the respective recovery sites where the teams will report to, in the event of a disaster. Emergency response procedures contain evacuation guidelines, response measures and roles and responsibilities in dealing with various threats.

The plans involve mobilizing staff from a primary site to a recovery site and enabling them to carry out critical activities. Periodic testing of DR for IT critical systems is in place and Business Continuity Plan (BCP) invoked successfully during the COVID 19 contingencies.

2. The structure and organisation of their Operational Risk Management and control function:

Board assumes an overall responsibility of Operational Risk Management in the Bank, which includes approval of the Operational Risk Management Framework, oversight of senior management to ensure that strategies, policies and processes are implemented effectively at all levels and review and approval of Risk Appetite for Operational Risk. Operational Risk Management unit, reporting to the Head of Risk

Management coordinates ongoing management of operational risks. Risk is overviewed and monitored by Risk Committee.

Internal Audit function provides independent review of the Bank's operational risk management processes, systems and controls and reports independently to the Board.

3. The operational risk measurement system.

a. Basic Indicator Approach (BIA):

Basic Indicator is currently in place for computation of regulatory capital. This is the most basic approach, which provides for capital charge for Operational Risk at 15% of the average positive gross income of the previous three years.

b. Operational Risk Management system:

Currently Operational Risk Management activities are monitored manually and with support of MS Excel software. In the coming year, we are intending to procure a robust Operational Risk Management system.

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

The Bank has a clear reporting framework aligned to the Operational Risk Management policies and framework. Operational Risk Management unit collects details of risk incidents in the prescribed format and maintain a list of Operational Risk incidents. The risk incident log is reviewed by Manager Operational Risk periodically and submits the high and medium risk/ prioritized events for the Chief Risk Officer (CRO) review and direction towards reporting to the Risk Committee. Any incident requires Board approval or direction for the remedies submit via Risk Committee. The Internal Audit function provides independent review of the Bank's operational risk management processes, systems and controls and reports independently to the Board.

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

Incidents relating operational risk/loss across Bank functions are timely reported to Operational Risk Management department, and if the given risk/loss is significant are escalated to the Senior Management simultaneously. RCSA is conducted by each critical functions/departments periodically and when reported a particular incident or risk profile associated with any specific product, services, process etc. Operational Risk quantitative measurement been performed by the KRI questionnaires. Reported incidents have been classified and prioritized based on the risk and impact for the appropriate remedial and risk mitigation plan. The Bank has procured sufficient insurance policies to transfer financial impact. Operational Risk Management reviews the policies for evaluating adequacy of coverage, reasonable nature of terms and conditions and the ability of the Bank to comply with the same. However, adequacy of insurance is not viewed as a mitigating factor for operational risk.

13. Remuneration Policy

13.1. Table REMA: Remuneration policy

13.1.1. Main elements of the remuneration system:

Bank's Nominations and Remunerations Committee ("NRC") is mandated to handle all the functions related to Board Nominations, their remuneration and fixing remunerations of Senior Management staff and other HR related strategic decisions. This committee constitutes Vice Chairman and two Board of Directors.

We have considered senior management mentioned as part for CB corporate governance standards. Bank defines material risk takers who are taking investment decisions, which can lead to risk for the bank. We have set up control and mitigations through polices and limits which are approved at the board level.

13.1.2. Information related to design and structure of remunerations process:

Key features of the remuneration policy:

a. Equitable Remuneration commensurate with the qualification, experience and capabilities.
b. Bank does not discriminate based on genders, race, religion and nationality. Bank treats all the individuals equally.
c. Performance is appraised frequently with the maximum period of 1 year and suitable decisions are taken on the pay package, other benefits and promotions.
d. Grade wise salary slabs are fixed for easy adoption.

Objectives of the remuneration policy:

a. To promote Emiratization and retention of the UAE Nationals.
b. To achieve Emiratization target points as required by the regulator.
c. Motivate capable and highly performing staff with suitable benefits and remunerations.
d. To promote succession planning within bank (Rotating staff duties, Strategic achievements and career planning).

Remuneration related matters were discussed this year in NRC meeting and the relevant changes have been communicated to the relevant authorities for the necessary execution.

Other Related information:

a. Risk, compliance and governance departments are discharging their duties independently and no business targets are provided to them. They provide consultancy and assurance services for improving the internal control of the Bank.
b. Control Functions include Risk Management, Compliance & Internal Audit, and the heads of those control functions are subject to the same bonus deferral arrangements as Senior Management.

13.2. Template REM1: Remuneration awarded during the financial year

31-Dec-2024	AED'000	
		Senior Management /Other Material Risk Takers
Fixed Remuneration	Number of Employees	6
	Total fixed remuneration (A)	**4,800**
	Of which cash based	**4,800**
	Of which deferred	
Variable Remuneration	Number of Employees	
	Total variable remuneration (B)	
	Of which cash based	
	Of which deferred	
Total Remuneration (A+B)		**4,800**

13.3. Template REM2: Special payments

Special Payments	Guaranteed Bonuses (AED'000)		Sign on Awards		Severence Payments	
31-Dec-2024	**Number of employees**	**Total amount**	**Number of employees**	**Total amount**	**Number of employees**	**Total amount**
Senior Management/Material risk takers	6	210				

13.4. Template REM3: Deferred remuneration

Not applicable